UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

EGYPT

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(REDACTED)

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Report on the Audit of Egypt
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Egypt (the Office) from 4 to 14 October 2015. 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).

The audit covered the activities of the Office from 1 January 2014 to 31 August 2015. The Office recorded programme and management expenditures of approximately $127 million. The last audit of the Office was conducted by OAI in 2008.

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 process for renting Office premises not being cost-effective, weaknesses in procurement management, incomplete implementation of HACT and of cost-recovery of direct project costs, inadequate asset certification, weaknesses on human resources and service contracts management, and lack of controls on contracts termination processes.

Key recommendations: Total = **8**, high priority = **3**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2 (corporate)	High
	3, 4	Medium
Reliability and integrity of financial and operational information	8	Medium
Effectiveness and efficiency of operations	5	Medium
	1 (corporate), 6	High
Compliance with legislative mandates, regulations and rules, policies and procedures	7	Medium

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

Process for renting Office premises not cost-effective (Issue 1)	The audit showed that the Office's relocation process did not ensure overall best value for money for UNDP, and this had a significant impact on the Office's operations, working arrangements, and financial resources. At the Office level, there was an incomplete cost/benefit analysis and inadequate planning and monitoring of the relocation. In June 2012, the Office relocated from its premises in the city centre to a new location in a suburb on the basis of security concerns, convenience, cost, and proximity to business partners. A lease agreement for a period of 10 years was signed. The total investment in renovation costs for UNDP amounted to $1,893,400. In July 2013, the Office prepared a new business case, which concluded that the building was neither convenient nor conducive to maintaining and developing good relations with the main counterparts, donors, and other UN agencies. The cost/benefit analysis performed did not reflect the investment costs made in refurbishing the current premises, resulting in excess costs of $304,000. In addition, starting February 2015, the Office was paying rent for two locations resulting in costs of $252,000 due to delays in the interior renovation of the new building. As at the time of the audit fieldwork, the Office had already signed the new contract and the relocation was completed as of November 2015. At the Headquarters level, the UNDP Operational Group in 2010 had abolished the Premises Review Committee and subsequently requested the Bureau for Management Services (formerly the Bureau of Management) to present a proposal on how to deal with premises issues, including the involvement of the Regional Bureaux. This action, however, was not completed and the 'UNDP Programme and Operations Policies and Procedures' still referred to the Premises Review Committee, which continued to hold meetings. The Premises Review Committee deliberated on the relocation case submitted by the Office in February 2014. During the meeting, the Regional Bureau for Arab States assured all members that all investments made in the former building would not be lost, as other agencies that remained would continue using them, and the building would also continue to house the Regional Centre. At the time of the audit, the other agencies had already left the building and the Regional Centre was moved to Jordan at the end of 2014. It was not clear whether the information about the closure of the Regional Centre was available at the time of the deliberations. <u>Recommendation 1 (corporate):</u> The Regional Bureau for Arab States should strengthen its oversight of all relocation initiatives within the region and develop a guidance note on the minimum requirements for when offices can relocate, the governance mechanism, and funding arrangements. <u>Recommendation 2 (corporate):</u> The Bureau for Management Services should enhance the relocation framework by: (a) preparing and submitting to the Organizational Performance Group a proposal on how to deal with premises issues, clarifying the respective roles and responsibilities of all stakeholders,

including the Regional Bureaux; and (b) updating the 'UNDP Programme and Operations Policies and Procedures' section on 'Operational procedures for acquisition renewal and termination of premises' by removing any reference to the Premises Review Committee and including the new process to be designed in response to the Operations Group decision.

Weaknesses s in procurement management (Issue 5)

There were weaknesses in the procurement management and several issues were noted, such as the following: inappropriate use of the direct contracting modality for individual contracts; lack of transparency during the procurement process; weaknesses in the procurement of civil works; insufficient sourcing of offerors; lack of documentation of the evaluation process; and use of a non-UNDP email address for the receipt of offers.

Recommendation 6: The Office should strengthen the Procurement Unit and improve procurement management by: (a) centralizing procurement in the Procurement Unit; (b) using the direct contracting modality only for exceptional cases and when proper justification exists; (c) establishing a transparent procurement process; (d) avoiding changes in the requirements during procurement process, conducting appropriate preliminary examination of bids; (e) assigning a team to evaluate the proposals; (f) ensuring appropriate sourcing is done with a minimum of three qualified offerors; (g) preparing detailed documentation of the procurement cases; and (h) using only the UNDP email address and websites to receive offers.

Management comments and action plan

The Resident Representative and the Directors of the Bureau for Arab States and the Bureau for Management Services accepted all of the recommendations and are 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 Cairo, Egypt (the Country). UNDP has been supporting the Government and population in their efforts to reduce poverty and to promote sustainable human development policies. The current Country Programme covers the period from 2013 to 2017. The Country is rated 'medium human development' on the human development index (0.64) and ranks 113th out of 169 countries on the global index. Recent socio-economic statistics show that 12.6 percent of the population is unemployed, with youth unemployment reaching 77 percent and female unemployment at around 24 percent. While the Country is on track to achieve most of the Millennium Development Goals, there are significant gaps in income levels and living standards in the areas of poverty, employment, and gender, which have been further exacerbated under the current conditions.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Programme management. The Office had made progress in the implementation of the 2013-2017 programme objectives. The Office established adequate mechanisms to monitor project implementation.

(b) Information and communications technology (ICT). The ICT systems managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms were adequately operating.

(c) Safety and security. The Office was compliant with the Minimum Operating Security Standards and all mitigating measures were in place.

OAI made three recommendations ranked high (critical) and five 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) The Regional Bureau for Arab States should strengthen its oversight of all relocation initiatives within the region and develop a guidance note on the minimum requirements for when offices can relocate, the governance mechanism, and funding arrangements (Recommendation 1).
(b) The Bureau for Management Services should enhance the relocation framework (Recommendation 2).
(c) The Office should strengthen the Procurement Unit and improve procurement management (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) The Office should inform the Global Shared Services Centre before commencing with a leasehold improvement project (Recommendation 8).
(b) The Office should implement the new cost-recovery policy on direct project costs (Recommendation 3).
(c) The Office should implement HACT (Recommendation 4).
(d) The Office should reinforce controls over contract management and termination (Recommendation 7).
(e) The Office should strengthen human resource and service contract management (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance and Strategic Management

1. Organizational Structure and Delegations of Authority

Issue 1 Process for renting Office premises not cost-effective

To protect the interests of UNDP and to ensure that value for money is obtained, the 'UNDP Programme and Operations Policies and Procedures' provide guidance on selecting premises to rent, negotiating relevant agreements, and paying for all related costs.

In June 2012, the Office relocated from its premises in the city centre to a new building in a suburb in Heliopolis (or Heliopolis building). The relocation was due to security concerns. The Heliopolis building was found to be the best choice, particularly in terms of security, space, readiness to move, cost, proximity to business partners, and staff well-being. A lease agreement for a period of 10 years was signed. The total investment in renovation for UNDP was $1,893,400 ($1.2 million was paid by the Security Office). A year later (July 2013), the Office prepared a new business case which concluded that the Heliopolis building was neither convenient nor conducive to maintaining and developing good relationships with the main counterparts, donors, and other UN agencies. The Office's management indicated that since moving to Heliopolis (10 km from the city centre), it had been isolated from the majority of its national counterparts and international development partners. A new case was then submitted to the Premises Review Committee in December 2013 proposing to move the Office to the old complex (different building), and to retain the Heliopolis building for the Regional Centre, OCHA and UNCDF. The Premises Review Committee did not object to the new relocation on the basis of the information provided. The new relocation required a total investment of $1.5 million that was paid from the Office's extrabudgetary resources.

The following was noted at the Office level:

(a) Incomplete cost/benefit analysis

In submitting a relocation case, offices use a standardized cost/benefit analysis which was developed by the United Nations Development Group Task Team on Common Premises for the UNDP Premises Relocation Committee. The Office's cost/benefit analysis had the following weaknesses:

- The analysis did not reflect the full cost of all investments incurred during the move to the Heliopolis building, including the costs associated with refurbishing the building. The initial investment of $2 million representing leasehold improvements that was spent between 2011 and 2012 to retrofit the Heliopolis building was not reflected in the cost/benefit analysis and a score of "N/A" was given.
- Most of the scores in the initial technical evaluation that had been assigned in 2012 to justify the selection of the Heliopolis building were reduced without clear justification, bringing the total score from 91.4 points (as reflected in the submission of 2012) to 63 points (as reflected in the submission of 2014).
- The cost/benefit analysis for the selected premises included an estimate of $731,000 for the retrofitting cost. When the procurement process was completed in June 2015, the actual cost was $1,035,000 (of which $100,000 was paid by UNDSS).

(b) Weak planning and monitoring of the relocation project

There was weak planning for the relocation project. In May 2014 and following the UNDP Structural Change, a new organization chart was released which showed that the Regional Centre that was housed in the Heliopolis building would be moved to Jordan. However, this additional information was not factored into the process even though the new lease agreement for the new building had not been signed yet. In August 2014, the Office signed the new lease agreement, which included annual rental fees of $337,000. Starting in February 2015, the Office was paying rent for two locations (the Heliopolis building [$25,421 x 10 months] and the new building [$28,080 x 9 months]), thus incurring extra costs of $225,000. This situation occurred because of delays in the interior renovation of the new building. The contract for the renovation was only signed on 1 September 2015. The move was supposed to be completed by the end of November 2015. The Office indicated that the decision on the number of staff from the Regional Centre in Cairo that were supposed to remain in the Heliopolis building was constantly changing and as a result, the number of staff that would need to be factored in for office space also kept changing. This delayed the finalization of designs and security requirements, which in turn delayed the launch of the procurement process.

Subsequent to the audit, the Office's management indicated that the new move was justified and absolutely essential to conducting business in the most effective manner (proximity to partners). It should have been considered as a corrective measure to the previous move. Proximity to partners was the main reason for the second relocation, as the Heliopolis building was very far from the vast majority of UNDP partners. The short- and long-term impact of the move to the new premises had serious negative implications for the Office. For instance, partners stopped attending meetings, the Resident Coordinator could not host monthly donor meetings, the frequency of interaction with all stakeholders decreased, programme and management staff were only in the office together on average about two to three days per week (due to traffic-related issues), and transportation and drivers' overtime costs increased. In summary, the Office considered that the move to the new building offered more value for money, was endorsed by the various Headquarters units, and therefore, the Office should not be held accountable.

The audit team agreed with the Office, that there may have been a good business case for the relocation from the Heliopolis building to the new building, and that the location was far from the town centre and not conducive to collaborating with the main partners and donors. The main issues of concern, however, were the investment costs made in the Heliopolis building, given the fact that the Regional Centre that was housed there together with other UN agencies eventually moved out of the Country, as well as the double rent payments made by the Office.

The following was noted at the Headquarters level:

The 'UNDP Programme and Operations Policies and Procedures' require Country Offices to submit their relocation cases to the Premises Review Committee, which includes core members from the Security Office, Procurement Support Office, Administrative Services Division, and the Office of Financial Resources Management (formerly the Office of Budget). The Administrative Services Division provides support to the Committee.

- In March 2010, the then Operations Group abolished the Premises Review Committee and requested the Bureau for Management Services to present a proposal on how to deal with premises issues, clarifying when the Regional Bureaux would become involved in the process. However, this action was not completed. Furthermore, the 'UNDP Programme and Operations Policies and Procedures' was not updated accordingly and continued referring to the Premises Review Committee. Though officially abolished, the Committee continued meeting on an *ad hoc* basis.

- During the Premises Review Committee meeting, the Regional Bureau for Arab States assured all members that not all investments made in the Heliopolis building would be lost, as other agencies that remained would continue using them, and the building would continue to house the Regional Centre, OCHA and

UNCDF. However, at the time of the audit, OCHA and UNCDF had already left the building and the Regional Centre had closed at the end of 2014 and moved to Jordan. It was not clear whether the information about the closure of the Regional Centre was available at the time of the deliberations (i.e. in February 2014). Nevertheless, this information was critical in the sense that it if it was known by the Regional Bureau or the Office at that time, and if it had been shared with the Premises Review Committee it would have alerted its key members to the fact that all investments in the Heliopolis building would be lost.

The audit showed that the relocation process did not ensure overall best value for money for UNDP. A total amount of $4 million was spent in less than three years on two relocations and this had a significant impact on the Office's operations, working arrangements, and financial resources.

Priority	High (Critical)
Recommendation 1 (corporate): The Regional Bureau for Arab States should strengthen its oversight of all relocation initiatives within the region and develop a guidance note on the minimum requirements for when offices can relocate, the governance mechanism, and funding arrangements.	
Management action plan: While the Bureau in general agrees with the recommendation, this can be implemented only if there are clear corporate rules and processes set. Otherwise, each Regional Bureau would come up with its own arrangements, which would defeat the purpose. Based on the confirmation from the Bureau for Management Services to OAI that the policy guidance on premises and the Premises Relocation Committee would be amended by December 2016, the Bureau will continue its practice of reviewing relocation plans submitted by the Country Offices based on its own analysis of the political situation, a joint analysis of the security situation with the Security Office, and a financial sustainability analysis, until such time as the revised policy guidance is issued. **Estimated completion date:** July 2017	

Priority	High (Critical)
Recommendation 2 (corporate): The Bureau for Management Services should enhance the relocation framework by: (a) preparing and submitting to the Organizational Performance Group a proposal on how to deal with premises issues, clarifying the respective roles and responsibilities of all stakeholders, including the Regional Bureaux; and (b) updating the 'UNDP Programme and Operations Policies and Procedures' section on Operational Procedures for Acquisition Renewal and Termination of Premises by removing any reference to the Premises Review Committee and including the new process to be designed in response to the Operations Group decision.	

Management action plan:

The Bureau for Management Services agrees with the recommendation and will update the 'UNDP Programme and Operations Policies and Procedures' accordingly.

Estimated completion date: December 2016

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

2. Financial Sustainability

Issue 2 Cost-recovery policy on direct project costs not fully implemented

Direct project costs are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activity or service. Direct project costs are used to recover the costs of activities that fall under the two cost classification categories: (i) programme implementation and implementation support activities, in which costs are incurred by UNDP to support project implementation by operations units, including services related to finance, procurement, human resources, and administration; and (ii) development effectiveness, which includes activities and costs that support programme quality leading to results at country and regional levels. In addition, the 'UNDP Programme and Operations Policies and Procedures' state that the fundamental aim of cost recovery is to achieve proportional funding between regular and other resources for organizational costs. To this effect a workload analysis should be conducted to identify direct project costs incurred that should be recovered.

The audit noted that for programme and implementation support activities the Office recovered $437,000 from January 2014 to June 2015. For the development effectiveness the Office only recovered $116,000 in 2015, which was completed after the audit fieldwork. It had also not yet completed the workload analysis to track the time of the Programme Team Leaders and of the Communications Officer, which would increase the development effectiveness component.

[redacted]

Failure to adhere to the new cost-recovery policy may jeopardize the Office's financial sustainability.

Priority Medium (Important)

Recommendation 3:

The Office should implement the new cost-recovery policy on direct project costs by developing a workload analysis to track the time of the Programme Team Leaders and the Communications Officer and charge it to projects.

Management action plan:

During the transition period, the Office started to implement direct project costs with new donor funds and using TRAC. Initial consultations with the responsible ministries (signatories of all project documents and Country Programme Action Plan/United Nations Development Assistance Framework, respectively) to use government cost sharing to implement direct project costs have not resulted in an agreement. However, it was indeed agreed that TRAC could be used to this effect. It is in this line that the Government is signing all Annual Work Plans that include this arrangement. In order to increase the scope of the direct project costs application, the Office has written to Headquarters to seek advice. At the same time, informal consultations were held with managers in some other offices in the region and elsewhere to see whether the Office can learn from their experience, but it seems that most offices are struggling, hence, hands-on support to ensure its implementation in practice would be needed.

During the preparation of the next programme cycle (early 2017), the Office will undertake consultations with government counterparts to agree on the most appropriate mechanism to fully implement the direct project costs policy in the next programme cycle (2018-2022).

Estimated completion date: June 2017

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.

B. United Nations Coordination

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

1. Harmonized Approach to Cash Transfers

Issue 3 Delays in implementation of Harmonized Approach to Cash Transfers

The revised HACT Framework has been approved by the Associate Administrator for implementation in UNDP effective 1 January 2015. The HACT Framework represents a common operational framework for transferring cash to government and non-governmental implementing partners, irrespective of whether these partners work with one or multiple United Nations agencies. The specific transitional arrangements to be completed by 31 December 2015 by Country Offices included: (i) macro-assessment; (ii) micro-assessment to assess the implementing partners' financial management capacity; (iii) Transitional Micro-Assessment Plan (TMAP) that would indicate the dates by when the micro-assessments would be completed, which should have been no later than 30 September 2015; and (iv)Transitional Assurance Plan (TAP).

The Office scored very low in the HACT readiness dashboard (21 percent as of 10 October 2015), meaning that several actions were not initiated, as follows:

- Key national counterparts and key local donors had not been informed about the transition to HACT.
- The implementing partners list had been not reviewed/certified.

- No country level macro-assessments and implementing partner level micro-assessments were conducted.
- Key personnel did not complete the UNICEF on-line HACT training (with the exception of the Finance Analyst who was the HACT focal point).
- The TMAP was not prepared and submitted through the Regional Bureau.
- The TAP involving programmatic visits and spot checks had not been prepared and signed off by the head of office.

[redacted]

The audit team acknowledged the Office's concerns, however, UN agencies such as UNICEF and UNFPA had made substantial progress in implementing HACT.

Priority	Medium
Recommendation 4: The Office should implement HACT, and complete the macro-assessment and micro-assessments of all implementing partners and develop the Joint Assurance Plan. In case of challenges, the Office should seek guidance and support from the the Regional Bureau for Arab States to determine the appropriate course of action, which will help the Office comply with the HACT guidelines.	
Management action plan: The Office takes note of the audit team's observations and recommendations, but wishes to clarify the following: ▪ The implementing partner list is now completed and certified. ▪ The Office had submitted to the audit team, while on mission in the Country, a copy of the letter shared with the UN Board of Auditors, which was also copied to the UNDP audit focal point in New York, clearly indicating that the Office is relying on the World Bank's Macro-Assessment, which is in line with HACT guidelines. [redacted] ▪ In response to the observation on the lack of micro-assessments, the Office wishes to remind the audit team that it is rating all implementing partners as "high risk" and ensures that proper assurance activities are in place to safeguard UNDP's funds. Moreover, the nationally implemented projects are audited annually with no major observations having been reported. ▪ The Office's HACT Assurance Plan has been prepared and uploaded. ▪ As at 10 January 2016, the Office's HACT readiness dashboard has increased to 63 percent in the overall HACT readiness (from 21 percent) with about 89 percent Office readiness. ▪ As in the case of direct project costs, and due to current challenges, during the preparation of the next programme cycle (early 2017), the Office will undertake consultations with government counterparts to agree on the most appropriate mechanism to implement HACT in the next programme cycle (2018-2022). ▪ All other observations are well noted and the Office is in the process of completing them.	

Estimated completion date: June 2017

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.

C. Operations

1. Human Resources

Issue 4 Weaknesses in human resources, service contract management and oversight

Effective human resources management is critical to ensuring that UNDP employs the most qualified individuals in order to meet its strategic objectives. UNDP personnel management guidelines require that recruitment be competitive, transparent and adequately documented. For the recruitment of service contractors, the terms of reference must clearly highlight the minimum qualifications and experience.

The audit reviewed 7 out of 15 new recruitment cases representing 46 percent of recruitment for the audit period; 6 out of 8 separation cases representing 75 percent of separation cases during audit period; and 4 out of 11 reassignment cases representing 36 percent of reassignments for the audit period. In addition, the audit reviewed 4 out of 9 service contract recruitment cases representing 44 percent of all service contracts issued during the audit period.

The following was noted:

(a) Weaknesses in the recruitment of staff members

- In one case, the job description and vacancy announcement did not include the minimum years of experience required. Furthermore, the vacancy announcement specified *Prince 2* training and certification among required qualifications. None of the shortlisted candidates had the required certificates. This situation potentially discouraged other more qualified candidates from applying because they did not have the required certification.
- In one case, the selected candidate did not meet the minimum number of years of professional experience required.
- There were delays in the finalization of the recruitment process (up to 224 days) for four out of the seven cases reviewed. Due to the delays, initially recommended candidates were no longer available or interested in the position.

(b) Weaknesses in the recruitment of service contractors

- In two cases, the personnel recruited through the service contract modality did not have prior professional experience. Furthermore, there were inconsistencies in the scoring during the evaluation process. For example, the awarded candidate with no professional experience obtained a score of 75 for experience and another candidate with three years of relevant experience obtained a score of 70. In another case, the awarded candidate with no professional experience obtained a score of 80 for experience and another candidate with two years of relevant experience obtained a score of 70.

- In three out of the four cases reviewed, vacancies were not posted on UNDP e-recruit but on the local UNDP website by the programme staff. In addition, longlisting and shortlisting processes were not documented.
- There was a lack of involvement of the Human Resources Unit in the hiring of service contractors (in all nine cases reviewed).

Subsequent to the audit, the Office indicated that it was implementing the e-recruit system in 2015 (initially as a pilot office) and confirmed that all current service contract recruitments were being handled using e-recruit as of June 2015. While the Office was encouraged to use the e-recruit system in Atlas (enterprise resource planning system of UNDP) for all recruitments, in multiple instances, the Compliance Review Panel (based in Copenhagen) experienced difficulties with the e-recruit system in Atlas, and therefore alternative and more traditional methods were used. This also contributed to the slow pace of recruitment as the Office as well as the Compliance Review Panel and the Atlas system itself were experiencing technical issues.

Inadequate oversight of recruitment practices could lead the selection of less qualified candidates. Also, inadequate selection and evaluation of service contract holders could lead to unfair treatment, financial losses, collusion or fraud, which in turn could tarnish the organization’s image.

Priority	Medium (important)
Recommendation 5: The Office should strengthen human resource and service contract management oversight by: (a) preparing clear vacancy announcements and conducting appropriate selection processes; (b) ensuring proper evaluation process during the recruitment of service contractors; (c) advertising and managing the longlisting and shortlisting of service contractors through UNDP e-recruit; and (d) involving the Human Resources Unit in the hiring process of service contractors requested by the projects.	
Management action plan: The Office takes note of the recommendations and will comply accordingly. **Estimated completion date:** June 2016	

2. Procurement

Issue 5 <u>Weaknesses in procurement management</u>

The ‘UNDP Programme and Operations Policies and Procedures’ provide guidance on effective procurement practices. The selection of suppliers should be based on a transparent open competition, and that the evaluation of offers should be fair, consistent and pre-established in the bid documents.

The audit reviewed 24 purchase orders amounting to $5 million, equivalent to 54 percent of the total amount of all purchase orders issued during the audit period. In addition, eight individual contracts were reviewed.

The audit disclosed the following:

(a) Inappropriate use of the direct contracting modality for individual contracts

In one case amounting to $294,100, the project used the direct contracting modality in order to contract an expert in Electoral Law. The rationale for direct contracting was based on the absence of a competitive marketplace. However, previously the project had used a competitive process to procure the same consultant, and the case was rejected by the Regional Advisory Committee on Procurement due to the fact that the Office considered awarding the contract to the consultant having the highest financial proposal, even though two out of the three applications obtained the same technical score.

(b) Lack of transparency during procurement process

In one case amounting to $70,735 and rejected by the Regional Advisory Committee on Procurement related to the selection of a Senior Voters Education Advisor, only one offer was received and accepted during the first procurement process that was conducted in June 2014. The review of the tendering process identified the following issues that may have impacted the number of proposals received:

- The procurement notice did not indicate a number of expected consultancy days and merely stated a nine-month assignment.
- The number of required trips to the duty station was not indicated.
- All proposals were sent to a non-UNDP email (public email account). Consequently, the audit could not determine if all proposals received were accounted for.

The requirements related to the Senior Voters Education Advisor were announced in August 2014 and rejected by the Regional Advisory Committee on Procurement due to "miscalculation of scores and manipulation of financial offers." Out of a total of 64 applications that were received, 14 were longlisted and 3 were shortlisted. The Review Panel proposed to award the contract to the same consultant mentioned earlier based on the highest Combined Weighted Score. The following weaknesses were noted:

- Only two proposals were considered technically qualified. However, during the Regional Advisory Committee on Procurement review, the Office identified a miscalculation of the technical score of one candidate. Upon recalculation, a third candidate was consequently considered technically qualified by the Office.
- During evaluation of the financial proposal, the Office did not consider the travel costs and living allowances. Consequently, the financial scores were incorrectly calculated based only on daily fees quoted by the consultants.
- Following a request from the Regional Advisory Committee on Procurement, the Office proceeded with a reevaluation of the financial offer; however, it failed to aggregate technical and financial scores. This failure impacted the ranking of the offers and the selection process.
- The selected consultant did not quote for the daily subsistence allowance. The project allocated a cost of $293 per day not mentioned in the financial proposal.

Subsequent to the fieldwork, the Office indicated that most of the cases highlighted were related to one project directly implemented by the Office and were initiated back in 2012 and 2013. The directly implemented project was, at the time, working independently, as it had its own staff (including an Operations Manager at the NO-C level). However, the audit team considered that the Office was accountable for the procurement weaknesses noted in the directly implemented project, as per the 'UNDP Programme and Operations Policies and Procedures', and the Office needed to establish appropriate control processes.

(c) Weaknesses in the procurement of civil works

Proper procurement, evaluation and monitoring of civil works are crucial to ensuring the best interests of UNDP. In this regard, the 'UNDP Programme and Operations Policies and Procedures' state the following: (a) the evaluation team may require clarification from the offeror after offers have been evaluated, but this is limited to explaining some aspects of the offer that are not immediately clear to the evaluation panel, and under no circumstances should this event be used by the offeror to cancel, add, or modify the original offer submitted; (b) the preliminary examination of bids determines whether the offers meet the basic procedural and administrative requirements defined in the solicitation documents; and (c) the evaluation team must exercise reasonable judgment in conducting the preliminary examination to avoid unwarranted rejection of bids/proposals for purely trivial or procedural grounds that are not substantive, and could only lead to a vendor protest.

For a civil works case amounting to $1.1 million and relating to interior renovations of the Office's new premises, the following was noted:

- After the bid opening (technical and financial proposals) and during the evaluation process, the Office decided to change some requirements (discarding two items) and sent emails to all bidders to submit revised financial proposals. The process should have been cancelled in light of the changes in specifications and the non-standard practice of seeking revised prices from all bidders after the public bid opening.

- In the second stage of the process, the first-ranked offeror was disqualified by the evaluation team. According to the evaluation report, the offer was valid for 30 days only instead of the required validity period of 120 days. In the same submission package, the supplier had already indicated that the offer would remain valid for 90 days. The Office could have exercised article 21.2 of the invitation to bid, which states, "In exceptional circumstances, prior to the expiration of the Bid validity period, UNDP may request Bidders to extend the period of validity of their Bid. The request and the responses shall be made in writing, and shall be considered integral to the Bid." Further, and in the case where the Office needed to reject the technical proposal based on the non-compliance with the validity criterion, the rejection should have been done during the preliminary examination of bids and not during the second stage of the evaluation process and after the change of the technical requirements, according to established procedures.

Subsequent to the audit, the Office indicated that the procurement process was transparent and that the changes were not in the actual Invitation to Bid scope but rather in two items in the Invitation to Bid that needed urgent modification to avoid major future delays and the incurring of additional unnecessary expenditure. The Office indicated that the lowest bidder in the first round was the one that was selected in the second round. Moreover, the disqualification was based on advice from the Regional Advisory Committee on Procurement and hence there was no deviation from policy for following recommendations issued in good faith by the relevant oversight body.

The audit concluded that the rejection of the most qualified bidder was not based on valid justification. Regarding the issue on weaknesses in the procurement of civil works, even if the change was related to two items, the impact of the change on the financial proposals of the four bidders was significant (average 13 percent of the price for all bids). Furthermore, the Regional Advisory Committee on Procurement qualified this change as "non-standard practice of seeking revised prices from all bidders after public bid opening" and asked for the reasons behind not cancelling the procurement process; however, this was not possible because of the urgency to move to the new premises.

(d) Inadequate evaluation team

The 'UNDP Programme and Operations Policies and Procedures' provide that prior to the evaluation, the requesting unit shall establish an *ad hoc* evaluation team with three members. The number of members may vary according to the complexity of the case, but under no circumstances shall it be less than two members. Furthermore, non-staff members may become voting members of the evaluation team, but the majority of the evaluation team must be comprised of UNDP staff. In two out of eight cases reviewed, the evaluation process was conducted by only one individual (non-UNDP staff member). In all of the eight cases reviewed, the majority of the evaluation team was comprised of non-UNDP staff members.

(e) Insufficient sourcing of offerors

The 'UNDP Programme and Operations Policies and Procedures' provide that where a competitive process is required, a minimum of three qualified offerors must be identified either through an international advertisement of a procurement notice, or by sourcing from an established roster. In four out of the eight individual contract cases reviewed, only one offer was received, evaluated and selected.

(f) Lack of documentation of the evaluation process

The 'UNDP Programme and Operations Policies and Procedures' provide that the evaluation team shall define evaluation criteria as described in the procurement notice, the weighted score allocated to each criterion, and a minimum threshold, as well as a brief indication of why such scores were given. For six out of the eight cases reviewed, OAI noted that the evaluation report described briefly the awarding decision without specifying the scores given to each offeror and to each criterion.

Subsequent to the audit fieldwork, the Office took note of the audit observation and recommendations and indicated that all of the cases in question were initiated in early 2014. It also added that as a result of work improvement measures, a Procurement Adviser and a Head of Procurement of a neighboring office were invited in mid-2015 to provide further guidance and training to the Office staff, focusing on non-operations staff, which was yielding positive improvements in all procurement-related activities. As a result, individual contract selection and contracting had significantly improved.

Cases reviewed by the audit team were not limited to early 2014, but also to cases completed in 2015.

(g) Use of a non UNDP email address to receive offers

The 'Programme and Operations Policies and Procedures' provide that offer(s) responding to the procurement notice may be hand delivered, or submitted by email. In the case of e-mail, a dedicated e-mail account must be used to ensure confidentiality. For three out of the eight cases reviewed, the procurement notice required that the offers be sent to a non-UNDP email address. For two out of the three mentioned cases, only one offer was received according to the evaluation report. The audit could not confirm if all offers received were accounted for.

After the fieldwork, the Office indicated that it was taking note of the audit observation and wished to confirm that as of the date of the exit meeting with the audit team, there were no non-UNDP email accounts being used, and that this was not the practice of the Office but rather an isolated incident.

The above deficiencies were due to weaknesses in controls over procurement carried at the project level and the limited capacity of the Office's Procurement Unit.

Non-compliance with procurement guidelines may result in non-competitive procurement practices. Furthermore, when procurement processes are not competitive or justified, best value for money cannot be ensured.

Priority	High (Critical)

Recommendation 6:

The Office should strengthen the Procurement Unit and improve procurement management by:

(a) centralizing procurement in the Procurement Unit;
(b) using the direct contracting modality only for exceptional cases and when proper justification exists;
(c) establishing a transparent procurement process;
(d) avoiding changes in the requirements during procurement process, conducting appropriate preliminary examination of bids;
(e) assigning a team to evaluate the proposals;
(f) ensuring appropriate sourcing is done with a minimum of three qualified offerors to identify, either through an international advertisement of a procurement notice, or by sourcing from an established roster;
(g) preparing detailed documentation of the procurement cases; and
(h) using only UNDP email addresses and websites to receive offers.

Management action plan:

The Office is aware of the need to enhance procurement capacities, however, in June 2015, the Office consolidated the procurement function in one unit instead of having a Procurement Unit in the Service Centre and another one for the Office. As a result, any procurement request would now be handled by the Unit to allow for more oversight and coordination. As indicated to the audit team, the Unit, despite having experienced staff, is fairly new and occurring problems are only normal. The Office's management recognizes that the procurement team is new and therefore will need the required capacity-building. The Office will implement the recommendations outlined above.

Estimated completion date: December 2016

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.

Issue 6 Weaknesses in contract management and termination

The 'UNDP Programme and Operations Policies and Procedures' provide guidance for contract management and termination. OAI reviewed 15 contracts and noted the following:

(a) Weaknesses in contract management

The 'UNDP Programme and Operations Policies and Procedures' provide the following guidance for contract management: (a) only active contracts may be amended and expired contracts are no longer valid, in which case the obligations of both parties to the other cease to exist; (b) any substantial revision to the terms of reference or deliverables requires a new competitive process; and (c) individual contracts must indicate the schedule of payments, deliverables and milestones.

- Two individual contracts were extended after their expiration.
- In one case, there were substantial revisions to a contract which was extended after its expiration with additional costs in order to include new tasks not previously reflected in the terms of reference.
- In five cases, deliverables were not identified and there were unquantifiable outputs. These contracts indicated only the daily subsistence allowance rates and the travel costs.

Subsequent to the audit, the Office indicated that all contracts extended after expiration date were supported with a Note to File prepared by the Programme Officer who requested the extension and had it approved/signed by the Country Director, justifying the reasons for extension (most of which were due to internal delays by implementing partners). The Office had also requested the details of the other cases and contract details in order to prepare a detailed and accurate response; however, no further feedback was received from the Office. Furthermore, there was no procedure for preparing a Note to File in the 'UNDP Programme and Operations Policies and Procedures'.

(b) Weak controls over contract termination

The 'UNDP Programme and Operations Policies and Procedures' indicate that suppliers are liable for any material breach of their contractual obligations. If a supplier materially breaches an obligation, the Office should provide written notice to the supplier, with a copy to the Procurement Support Office, allowing the supplier a commercially reasonable period of time to resolve the issue. In the event that the supplier fails to address the alleged breach, the Office must inform the Procurement Support Office. Furthermore, a contract can be terminated when there is a material breach of the entire contract, or when the agreement allows for cancellation for the breach. However, the termination of a contract is not a recommended course of action. If the procuring entity still wishes to seek termination, procurement officers should contact the Legal Support Office for guidance and approval.

For one case amounting to EGP 560,360 ($71,000) related to the design of an interactive media campaign, the vendor received a total payment of EGP 242,994 ($30,788) representing 43 percent of the total amount of the contract. During 2014, due to deficiencies in executing some contractual obligations, the project staff reached an agreement with the supplier to terminate the contract. Following rounds of negotiations conducted informally by the project without informing the Office, the supplier received an agreed amount of EGP 158,940 ($20,200). The justification and determination of the mentioned amount were not properly documented, and negotiations with the vendor were not documented.

Inappropriately terminating contracts may lead to claims and disputes with vendors. In addition, not properly documenting the negotiation process may compromise the fairness and transparency of the process, and may put the reputation of UNDP at risk.

Priority	Medium (important)
Recommendation 7: The Office should reinforce controls over contract management and termination by: (a) ensuring that only active contacts are extended, and in cases where there are substantial revision to the deliverables, ensuring that a new competitive process is initiated; (b) clearly scheduling and defining terms of payments, deliverables and milestones in the individual contracts; and (c) documenting any negotiation and breach of contract and providing written notice to the supplier, with a copy to the Procurement Support Office.	
Management action plan: The Office acknowledges the weaknesses in procurement capacity in both the directly implemented project as well as in the Office (high staff turnover in Procurement Unit, etc.) and as a result, the Office has consolidated and strengthened the procurement function since June 2015 and is working towards building staff capacities. The Office will implement the above-mentioned recommendations. **Estimated completion date:** December 2016	

3. General Administration

Issue 7 Incomplete asset certification

Leasehold improvements in UNDP are improvements made to commercially leased premises in cases where the lease agreement is signed by UNDP, the right to use premises is donated to UNDP, or in cases where the premises are not owned by UNDP. Such improvements will only be capitalized if the total cost of improvement exceeds $50,000. Each improvement will be based on an identifiable improvement to the building (e.g. installation of fire safety equipment, renovations to roof etc.) and all the costs associated with the improvement will be consolidated to obtain the total cost of the improvement. For UNDP purposes, all leasehold improvements should be assigned a useful life of 10 years. The Global Shared Services Centre, upon getting such notification, is expected to advise the Office to submit a request via the Document Management System and create an 'Assets Under Construction', track expenses and reverse those expenses to the appropriate account on a quarterly basis, until the renovations have finished, after which an asset is supposed to be created as a 'Leasehold Improvement'. The Global Shared Services Centre should then re-categorize the asset from 'Assets under Construction' to the 'Leasehold Improvement' asset class, where the depreciation cycle will commence.

In 2012, the Office paid over $2 million in leasehold improvements, yet this was never reported to the Global Shared Services Centre. In 2015, the Office initiated a new leasehold improvement project but did not communicate with the Global Shared Services Centre. The total renovation project had a cost of $1,035,000 (refer to Issue 1).

Failing to report leasehold improvements will impact negatively UNDP's Financial Statements by reducing the value of UNDP assets.

Priority	Medium (important)
Recommendation 8: The Office should inform the Global Shared Services Centre before commencing with a leasehold improvement project.	
Management action plan: Well noted and agreed. The Office confirms that the asset focal point has already initiated the process with the Global Shared Services Centre staff in Kuala Lumpur. Updates will be available soon in the Comprehensive Audit and Recommendation Database System (CARDS), once the report is uploaded. **Estimated completion date:** 31 March 2016	

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>.