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Office of Audit and Investigations

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AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE (PAPP)

SUPPORT TO THE OFFICE OF THE QUARTET REPRESENTATIVE

(Directly implemented projects under Award No. 47872)

Report No. 1107

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Report on the audit of UNDP PAPP Award No. 47872, Support to the Office of the Quartet Representative
Executive Summary

From 19 November to 4 December 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of six projects under Award No. 47872, Support to the Office of the Quartet Representative (OQR), which were directly implemented by the UNDP Programme of Assistance to the Palestinian People (PAPP). The audit covered operational activities during the period from 1 January 2010 to 30 September 2012. The role of UNDP is limited to providing operational and logistical support to OQR. This was the first OAI audit of the six projects.

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

Audit rating

OAI assessed PAPP's management of the projects as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to inadequate human resources and asset management activities that were not fully consistent with UNDP policies and procedures. Ratings per audit area and sub-areas are summarized below.

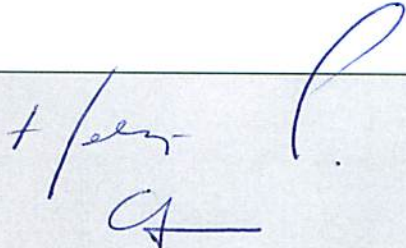| Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
2. United Nations system coordination				
3. Programme activities				
4. Operations				
4.1 Human resources — Partially Satisfactory 4.2 Finance & cash management — Satisfactory 4.3 Procurement — Satisfactory 4.4 Asset management — Partially Satisfactory 4.5 Information systems — Not Applicable 4.6 General administration — Partially Satisfactory 4.7 Safety and security — Not Applicable				

Key issues and recommendations

The audit raised 4 issues and resulted in 4 recommendations, of which 2 (or 50 percent) were ranked high (critical) priority, meaning "Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level."

The high priority recommendations are as follows:

Human resources (Issue 1)	Inadequate documentation justifying individual contract appointments. The documentation supporting the process and justifying the selection of five individual contract holders was inadequate. OAI recommends that PAPP: (a) ensure that documentation regarding the selection of advisers provides full justification supporting the selection prior to issuing the contracts; and (b) consult with OQR with a view to establishing a roster of valid candidates for other generic positions to allow for engaging personnel on short notice.
Asset management (Issue 2)	Inadequate asset management. PAPP had not implemented asset management procedures for the project. The list of assets was incomplete and physical verification was not performed. OAI recommends that PAPP: (a) design and implement an asset management process in coordination with OQR to enable appropriate recording and custody of assets; and (b) ensure that assets are physically verified twice a year.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   Introduction

From 19 November to 4 December 2012, OAI conducted an audit of six projects under Award No. 47872, Support to OQR (57773, 58778, 61591, 62844, 77164, and 81332), which were directly implemented by UNDP PAPP. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit scope and objectives

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

The role of UNDP is limited to providing operational and logistical support to OQR. Therefore, this audit reviewed the extent to which PAPP adhered to UNDP policies and procedures in providing such operational and logistical support. The audit covered the operational activities during the period from 1 January 2010 to 30 September 2012. This was the first OAI audit of the six projects.

II.   About the Office of the Quartet Representative

The Quartet, set up in 2002, consists of the United Nations, the European Union, the United States and Russia. Its mandate is to help mediate Middle East peace negotiations and to support Palestinian economic development and institution-building in preparation for eventual statehood. The Quartet Representative is charged with implementing a development agenda in line with OQR's mandate: promoting economic growth and job creation in the West Bank and the Gaza Strip and supporting the institution-building agenda of the Palestinian Authority (PA). The goal is to promote transformative economic change on the ground, underpinning the top-down political process aiming to promote a final settlement of the Palestinian-Israeli conflict and the establishment of an independent and viable Palestinian state living side by side in peace and security with the State of Israel. OQR consists of a team of policy advisors based in Jerusalem, either seconded or supported by partner countries and organizations or employed directly by OQR. A variety of donors provide budget support to OQR, including the Governments of the United States, Canada, and Norway as well as the European Commission. All funds for OQR run through UNDP PAPP through Grant Agreements or Contribution Agreements.

Following requests from the Secretary-General of the United Nations through the United Nations Security Council, UNDP agreed to provide OQR with necessary operational and logistical support in accordance with the applicable UNDP regulations, rules, directives and procedures through a Letter of Understanding between PAPP and OQR signed in November 2007. The Letter of Understanding has been renewed annually, with the most recent renewal expiring in December 2014. The UNDP agreed-upon support services include:

1.   Procurement of goods, works, services, and expertise
2.   Project management
3.   Fund management
4.   Asset management

5. Personnel recruitment and broader human resources management
6. Logistical and administrative support
7. Financial support
8. Project management-related financial and substantive reporting

OQR recognized the coordinating role and authority of the Secretary-General of the United Nations in matters relating to safety and security. The United Nations Truce Supervision Organization and the United Nations Department of Safety and Security provide security services to OQR.

UNDP has, on an exceptional basis, reduced the General Management Support fees from the corporate standard of 7 percent to 5 percent effective from July 2011. The 2 percent reduction was deemed a contribution by UNDP to OQR. The reduction was also reported by UNDP to its Executive Board through the annual financial reporting in line with the Board's decision on reporting waivers from the General Management Support policy.

III.   Detailed assessment

1. Governance and strategic management	Not Applicable

This area was not applicable to the audit as the role of UNDP was limited to providing operational and logistical support to OQR.

2. United Nations system coordination	Not Applicable

This area was not applicable to the audit as the role of UNDP was limited to providing operational and logistical support to OQR.

3. Programme activities	Not Applicable

This area was not applicable to the audit as the role of UNDP was limited to providing operational and logistical support to OQR.

4. Operations	Partially Satisfactory

4.1 Human resources	Partially Satisfactory

During the audit period, PAPP appointed, at the request of OQR, 11 service contract holders for administrative positions and 24 individual contract holders for advisory positions. It was agreed that the appointment of administrative positions would be carried out in accordance with UNDP recruitment processes. In the specific case of advisers, OQR was responsible for carrying out and documenting the recruitment and selection process. This arrangement took into account the political role and core mandate of OQR. PAPP agreed to accept only such requests for contracting advisers identified by OQR when the documentation included "strong justification and explanation of the role, and how the candidate in question provides the service required."

Issue 1   Inadequate documentation justifying individual contract appointments

PAPP requested OQR to provide strong justification for the selection of each adviser identified before issuing individual contracts. OAI reviewed 11 individual contracts for advisers and noted the case of a person providing his services on a pro bono basis and another case pertaining to a person on secondment, whose services were cost-shared with the releasing organization. In both cases, there was insufficient documentation with PAPP to support the agreed upon terms and conditions of the pro bono and the cost-sharing arrangements to cover aspects such as insurance, benefits or entitlements that might be applicable. In two other cases of contracts with advisers, there was insufficient documentation with PAPP to duly support the selection process.

In addition, for the recruitment of one administrative position for which PAPP should have been fully responsible, PAPP accepted OQR's justifications and issued the contract even though they were not for advisers, but had done so mainly because the positions had to be filled on short notice.

Priority	High (Critical)
Recommendation 1: PAPP should: (a) ensure that documentation regarding the selection of advisers provides full justification supporting the selection prior to issuing employment contracts; and (b) consult with the Office of the Quartet Representative with a view to establishing a roster of valid candidates for other generic positions to allow for engaging personnel on short notice.	
Management comments and action plan: __√__ Agreed ____ Disagreed UNDP will formulate a revised working arrangement with OQR to ensure that proper documentation regarding the selection of advisers is maintained prior to issuing contracts, as appropriate, which will also include suitable mechanisms to ensure confidentiality and due process. PAPP recognizes the need for OQR to identify highly specialized and high-level expertise in very narrowly specified strategic areas of expertise, which at times may render the regular utilization of a roster mechanism impractical. PAPP will nevertheless discuss this with OQR with a view to identifying opportunities to utilize the mechanism of a roster of valid candidates, as applicable.	

4.2 Finance & cash management   Satisfactory

PAPP recorded 581 vouchers with a value of $4.2 million in 2010, 892 vouchers valued at $5.2 million in 2011, and 542 vouchers valued at $2.7 million in the first nine months of 2012. OAI reviewed 81 disbursement vouchers with a total value of $7.1 million, representing about 59 percent of the value of vouchers during the audit period.

Implementation Support Services fees are paid by OQR to UNDP for providing operational and logistical support services, such as conducting financial transactions, recruiting personnel, procuring goods and services and managing travel. PAPP failed to charge for Implementation Support Services provided to OQR in 2010. While no calculation of the 2010 services existed at the time of the audit, the amount is estimated to be lower than in 2011 when extra services were provided and charged by PAPP in connection with the relocation of premises by

OQR. Implementation Support Services charged to OQR in 2011 totalled $67,000 and $22,000 during the first nine months of 2012.

4.3 Procurement	Satisfactory

PAPP issued 138 purchase orders valued at $4 million in 2010, 327 valued at $5.3 million in 2011 and 200 valued at $2.3 million during the first nine months of 2012. OAI reviewed the procurement process by interviewing PAPP staff and testing a sample of 48 purchase orders valued at $5.9 million from 16 vendors, representing about 51 percent of the total value of items procured during the audit period, and noted general compliance with UNDP policies and procedures. Procurement expenditures were higher in 2011 due to the renovation of the new premises of OQR and other modifications needed to comply with safety and security requirements. PAPP was working with OQR to strengthen its procurement documentation justifying the competitive selection of vendors for hospitality events.

4.4 Asset management	Partially Satisfactory

Issue 2   Inadequate asset management

OQR agreed in the Letter of Understanding signed with UNDP that property provided by PAPP remained UNDP property and shall be returned back after the end of the project (termination of Letter of Understanding). UNDP requires project assets to be recorded accurately and completely in Atlas. OAI conducted a physical verification of project assets procured for OQR by sampling 18 assets valued at $0.6 million of the $0.9 million total project asset value, as at September 2012. Due to security measures, OAI was not able to verify the existence of assets located on the floor of the apartment of the Quartet Representative.

PAPP had not implemented formal asset management procedures for the projects. Also, a list of OQR's assets that had been prepared solely for insurance purposes was incomplete and had not included vehicles valued at about $0.4 million. PAPP had also not carried out a physical verification of the assets twice a year, as required.

Priority	High (Critical)
Recommendation 2: PAPP should: (a) design and implement an asset management process in coordination with the Office of the Quartet Representative to enable appropriate recording and custody of assets; and (b) ensure that assets are physically verified twice a year.	
Management comments and action plan: __√__ Agreed ____ Disagreed PAPP keeps operational evidence of all items purchased through the Office for insurance purposes. The evidence also includes information on vehicles in a separate listing showing the chassis number, insurance policy expiration dates, and license expiration dates. The assets have been registered in Atlas using the UNDP catalogue only from 2011. PAPP is working on the new asset management system for the project and expects high commitment from OQR for successful implementation.	

4.5 Information systems	Not Applicable

This area was not applicable to the audit as information systems are not part of the operational and logistical support provided to OQR, since it was responsible for its own information technology systems and infrastructure.

4.6 General administration	Partially Satisfactory

UNDP was not responsible for providing security services for OQR, except for static security staff (local security guards), as the United Nations Truce Supervision Organization and United Nations Department of Safety and Security in Jerusalem provided these services. PAPP, however, occasionally provided logistical support, such as vehicles and drivers when it was requested in writing by OQR.

During the audit period, travel expenditures totalled $0.4 million, or about 3 percent of the total expenditures of $12 million. OAI reviewed 18 vouchers relating to travel and subsistence allowance. OQR was not using the travel agency that PAPP currently had a Long Term Agreement with, but was using the services of one of the travel agencies with which an agreement had been established in the past.

Issue 3   Inadequate controls over vehicle usage

PAPP provided OQR with seven vehicles with a total value of $400,000. OAI verified the existence of all the vehicles, but PAPP did not have available formal daily logs to record vehicle and fuel use as required by UNDP vehicle management guidelines. Without the appropriate records, PAPP cannot review the effective and efficient use of vehicles for officially intended purposes.

Priority	Medium (Important)
Recommendation 3: PAPP should, in coordination with the Office of the Quartet Representative, implement the vehicle management guidelines, ensuring that the use of vehicles is properly authorized and recorded.	
Management comments and action plan: __√__ Agreed ____ Disagreed OQR implemented a new standard operating procedure for vehicle management in 2013 after the PAPP review. Still, the main controls over the vehicles and overtime sheets of the drivers rest with OQR. PAPP will monitor the situation through the Transportation Unit to ensure compliance with transportation rules.	

Issue 4   Inadequate travel authorizations

The UNDP travel guide requires that official business travel shall be authorized before it is undertaken. In exceptional cases when travel is authorized verbally, the travel authorization shall be created and duly approved as soon as possible. The Atlas procurement module should be used for travel authorization.

In three out of nine cases of international travel reviewed, there was no travel authorization approved in Atlas and the payments to travellers were processed as non-purchase order vouchers. PAPP, without the appropriate system of authorization in place before travel is undertaken, cannot ensure that only authorized travel is undertaken and that the traveller is covered by travel insurance.

Contrary to UNDP official travel policies and procedures, which require staff and other personnel to use economy class for flights that are shorter than nine hours, OQR allowed two senior project personnel to travel in business class. The justification was that these personnel were seconded and held contracts with institutions that allowed staff to travel in business class. However, PAPP did not seek approval of the Chief of the Administrative Services Division of the Office of Financial Resources Management, Bureau of Management, which is authorized to approve exceptions to the standard accommodation for air travel.

Priority	Medium (Important)
Recommendation 4: PAPP should: (a) ensure that a traveller obtains, in line with the UNDP travel policies, a duly established travel authorization before travel is undertaken, which includes itinerary, purpose and method of travel; and (b) seek approval from the Chief of the Administrative Services Division of the Office of Financial Resources Management, Bureau of Management for any exceptions to the standard accommodation for air travel.	
Management comments and action plan: __ √__ Agreed ____ Disagreed With a view to improve the travel-related processes under the project, PAPP will formulate a comprehensive and feasible mechanism with OQR regarding the travel component of the project in line with United Nations and UNDP travel policies and in full consultation with the respective Headquarters units. In this connection, PAPP will fully operationalize its standing procedures on travel, in particular provisions governing lump sum arrangements for International Consultants.	

4.7 Safety and security	Not Applicable

This area was not applicable to the audit as the role of UNDP was limited to providing operational and logistical support to OQR.

ANNEX.   Definitions of audit terms - Ratings and Priorities

A.   AUDIT RATINGS

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

- **Satisfactory**

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

- **Partially Satisfactory**

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

- **Unsatisfactory**

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

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

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

- **High (Critical)**

  Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.

- **Medium (Important)**

  Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP.

- **Low**

  Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.