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

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**COLOMBIA**

**Report No. 1147**
**Issue Date: 25 October 2013**

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**Report on the audit of UNDP Colombia**
**Executive Summary**

From 28 January to 8 February 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme conducted an audit of the UNDP Country Office in Colombia (the Office). The audit covered the activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $67 million. The last audit of the Office was conducted by OAI in 2009.

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 the Office as **partially satisfactory**, which means that "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 weaknesses in governance and strategic management, project management and finance. 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** | | | ▮ | |
| | 1.1  Organizational structure and delegations of authority | Unsatisfactory | | | |
| | 1.2  Leadership, ethics and values | Satisfactory | | | |
| | 1.3  Risk management, planning, monitoring, and reporting | Satisfactory | | | |
| | 1.4  Financial sustainability | Satisfactory | | | |
| **2.** | **United Nations system coordination** | | | | ▮ |
| | 2.1  Development activities | Satisfactory | | | |
| | 2.2  Resident Coordinator Office | Satisfactory | | | |
| | 2.3  Role of UNDP – "One UN" | Not Applicable | | | |
| | 2.4  Harmonized Approach to Cash Transfers | Partially Satisfactory | | | |
| **3.** | **Programme activities** | | | ▮ | |
| | 3.1  Programme management | Satisfactory | | | |
| | 3.2  Partnerships and resource mobilization | Satisfactory | | | |
| | 3.3  Project management | Partially Satisfactory | | | |
| **4.** | **Operations** | | | | ▮ |
| | 4.1  Human resources | Satisfactory | | | |
| | 4.2  Finance | Satisfactory | | | |
| | 4.3  Procurement | Partially Satisfactory | | | |
| | 4.4  Information and communication technology | Satisfactory | | | |
| | 4.5  General administration | Satisfactory | | | |
| | 4.6  Safety and security | Satisfactory | | | |
| | 4.7  Asset management* | Satisfactory | | | |
| | 4.8  Leave management* | Satisfactory | | | |
| | 4.9  Global Environment Facility* | Not Applicable | | | |

* Cross cutting themes

**Key issues and recommendations**

The audit raised 8 issues and resulted in 7 recommendations, of which 2 (29 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."

There also was one issue requiring action by the Bureau of Management (Issue 5), referred to as a "corporate issue").

The high priority recommendations are as follows:

| | |
|---|---|
| Organizational structure and delegations of authority (Issue 1) | <u>Non-compliance in handling non-standard contracts with project personnel</u>. The Office issued and signed contracts with project personnel (under national implementation modality), however, the contracts were not consistent with UNDP standards for either service contracts or individual contracts and the Office had not obtained a prior authorisation to this effect. In addition, the payments made by the Office to these project personnel were processed outside of UNDP's Enterprise Resource Planning System (Atlas).The payments totalled approximately $15 million in 2012. OAI recommends that the Office review and revise its procedures for providing support services related to contracting and paying project personnel under national implementation modality by: (a) discontinuing the practice of signing non-standard UNDP contracts without having proper clearance from the Legal Support Office; (b) processing all of its payments through the Atlas system; and (c) complying with the provisions of the Internal Control Framework regarding payments made outside of Atlas. |
| Procurement (Issue 7) | <u>Weaknesses in procurement business function</u>. The following weaknesses with regard to the procurement business function were noted: |

- The Office had prepared a consolidated procurement plan, but not all entities (projects and/or agencies) had provided input for the plan. OAI noted that for 2012, the Procurement Unit procured in excess of 125 percent over the 2012 procurement plan. The variance was most significant in the categories of services ($13.2 million planned versus $22. 9 million procured) and individual contracts ($1.4 million planned versus $5 million procured).

- OAI noted that a significant volume of procurement was conducted as direct contracting for the period reviewed; 65 for services valued at $5.3 million and 169 for individual contracts valued at $1.2 million. For each of the direct contracts, the Office provided a written justification with extensive background information, yet not necessarily adequate reasoning for the direct contracting.

OAI recommends that the Office improve its procurement business functions by: (a) ensuring that all projects submit their procurement plans in a timely manner and by regularly evaluating its consolidated procurement plan, updating the plan when needed; and (b) ensuring that the use of direct contracting procurement is limited to exceptional circumstances, particularly in the case of contracts for services and individual contracts.

The implementation status of previous OAI audit recommendations (Report No. 655, 6 July 2010) was also validated. All 16 recommendations were noted to be fully implemented. Nevertheless, OAI noted that the issue regarding the timely closure of projects (refer to Issue 5 of Report No. 655) reappeared after having been implemented, since the Office had again a significant number of projects that were pending closure (refer to Issue 3 under section 3.3 - Project management).
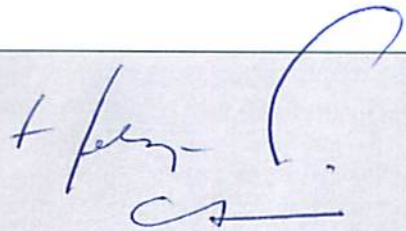
**Cross-cutting themes**

As part of OAI's 2013 Annual Work Plan, all Country Office audits will include specific areas to be reviewed in more depth. Results from all audits will be compiled and analysed at the corporate level, and thereafter, a consolidated report will be issued separately. For this particular audit, the following were noted:

- **Asset management**. Satisfactory. No reportable issues noted.

- **Leave management**. Satisfactory. No reportable issues noted.

- **Global Environment Facility**. OAI noted suboptimal reporting on results. The reporting was often found to be too broad and technical and was activity-oriented as opposed to results-oriented (output/outcome). Refer to Issue 8.

**Management's comments and action plan**

The Resident Representative and the Director of the Bureau of Management accepted all of the recommendations and are in the process of implementing them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

## I.    Introduction

From 28 January to 8 February 2013, OAI conducted an audit of UNDP Colombia. 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's 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.

Specifically, this audit reviewed the following areas of the Office: governance and strategic management, United Nations system coordination, programme activities and operations. The audit covered relevant activities during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded programme and management expenditures totalling $67 million. The last audit of the Office was conducted by OAI in 2009.

The implementation status of previous OAI audit recommendations (Report No. 655, 6 July 2010) was also validated. All 16 recommendations were noted to be fully implemented. Nevertheless, OAI noted that the issue regarding the timely closure of projects (refer to Issue 5 of Report No. 655) reappeared after having been implemented, since the Office had again a significant number of projects that were pending closure (refer to Issue 3 under section 3.3 - Project management).

## II.       About the Office

The Office, located in Bogota, Colombia (the Country) had 46 staff members, 225 service contract holders and 7 United Nations volunteers. At the time of the audit, more than half of its project portfolio was being directly implemented.

The Office managed to reverse a negative trend in programme delivery and in 2012 had the fourth largest programme delivery in the Latin American and the Caribbean region, with a total of $62.9 million, resulting in an estimated 23 months of extrabudgetary reserves.

Due to the nature of the programme in the Country, which not only required development projects but also humanitarian ones, more than half of the projects were directly implemented. The Office successfully managed to articulate its presence in areas of conflict or areas with higher development needs through the establishment of 11 project offices in various parts of the Country, such as Nariño, Antioquia and Cundinamarca to name a few, which was appreciated by all partners interviewed by OAI.

During the last year, the Office played an important and successful role in assisting the Government with organizing a consultation process towards the peace talks with the Fuerzas Armadas Revolucionarias de Colombia.

The Office was operating under Fast Track Procedures for the entire period under review. The reason the Office invoked the Fast Track Procedures related to the highly complex development context that the Office was operating in.

## III.    Detailed assessment

| 1.    Governance and strategic management | Partially Satisfactory |
|---|---|

| 1.1  Organizational structure and delegations of authority | Unsatisfactory |
|---|---|

For the last three years the Office's organizational structure was stable and experienced only minor changes due to separations or movement of staff. As indicated by the Office, the positions that were vacant (e.g. the positions of the Deputy Country Director and the Monitoring & Evaluation Associate which were vacant for more than a year) were not filled, allowing the Office to save financial resources and to achieve a sustainable level of reserves. To cover the gaps created by these vacancies, the workload associated with them was adequately re-distributed among staff to ensure compliance with the corporate Internal Control Framework.

One reportable issue was noted, but due to its critical relevance, this area was rated as "unsatisfactory".

**Issue 1**        <u>Non-compliance in handling non-standard contracts with project personnel</u>

According to the Programme and Operations Policies and Procedures, non-staff are individuals that are hired by UNDP to perform duties under a non-staff contract, which should either be a service contract or an individual contract.

OAI noted that the Office was involved in the recruitment and hiring of project personnel (non-staff) to work on nationally implemented projects. However, the contracts subsequently issued and signed by the Office were not consistent with UNDP standard terms and conditions for either service contracts or individual contracts. This deviation from established standards would have required prior authorization from the Legal Support Office, which the Office had not sought or obtained.

During 2012, there were 750 project personnel paid under the non-standard contract modality, of which 650 were employed under the project "Control, vigilancia y evaluación de impacto de las regalias" (Atlas Award ID 00058906/Project ID 73393), a project that had been ongoing since 2009. Another 100 project personnel were employed under 18 other projects, 6 of which had started in 2012.

According to the Office management, the existing process was a continuation of previous arrangements with the Government, which had not been questioned before by any UNDP entity and which were therefore assumed to be acceptable. In response to the draft version of this report, Office management emphasized that having to replace the non-standard contracts with service contracts would add significant costs to the projects, possibly affecting their continuation, and would have negative consequences on the working relationship between the Office and the Government. Office management also added that in the case of project "Control, vigilancia y evaluación de impacto de las regalia", which is one of the Government's top priorities in its partnership with the Office, ending the project would have a significant impact on the financial sustainability of the Office, as it was the largest project, representing around 30 percent of the Office delivery.

OAI understands the potential financial consequences for the Office in case the projects were to be discontinued. However, OAI considers that the use of non-standard contracts for hiring personnel could have

legal consequences and potential reputational risks for UNDP. OAI also considers that, in consultation with the Legal Support Office, it might be possible to align existing contracts with established standard terms and conditions without resulting in the negative consequences that are of concern to the Office.

The Office also processed the related payments for the contracted personnel, but these personnel had not been added to Atlas, as either service contract holders in the Human Resources module or as vendors in the Finance module. As a result, the Office could not use Atlas to facilitate the contractually agreed upon payments to these project personnel. Instead, the Office used an in-house developed system to calculate and generate the payments which amounted to around $1.2 million per month, for a total of approximately $15 million for 2012. The Office had created a 'master' vendor account in Atlas to manually record the total monthly consolidated payments. In doing so, the Office was in breach of the provisions of the Internal Control Framework, which states that Offices may only make payments outside of Atlas when there are unavoidable system issues or in case of an emergency situation that requires immediate payment, neither of which was the case here. Another more serious risk as a result of processing payments outside of Atlas is that all of the systems' built-in controls (e.g. budget check and three-way matching) were bypassed.

The signing of non-standard UNDP contracts and the processing of monthly payments outside of Atlas, have significantly increased the Office's risks of: (a) legal actions against the Office; and (b) irregular and/or fraudulent practices that could lead to possible negative reputational consequences. In addition, managing contracts as well as payments outside of Atlas seriously undermines the ability of corporate units (e.g. the Regional Bureau for Latin America and the Caribbean and the Bureau of Management) to exercise their oversight functions over the Office's activities.

| Priority | High (Critical) |
|---|---|
| **Recommendation 1:**<br><br>The Office should review and revise its processes and procedures for providing support services related to contracting and paying project personnel hired on nationally implemented projects. To this effect, the Office should:<br><br>(a) discontinue the practice of signing non-standard UNDP contracts without having proper clearance from the Legal Support Office;<br>(b) process all of its payments through the Atlas system; and<br>(c) comply with the provisions of the Internal Control Framework regarding payments outside of Atlas. | |
| **Management comments and action plan:**     __√__ Agreed     ____ Disagreed<br><br>Corrections provided by management had been reflected in the audit observation.<br><br>With regard to part (a) of the recommendation, the Office, with support from the Regional Bureau for Latin America and the Caribbean, will work with the Legal Support Office to request a waiver for the current contract format being used by the Office to reflect national operational needs. Current contracts may need to be adjusted. Regarding parts (b) and (c) of the recommendation, the Office already took the proper actions in order to manage all payments through Atlas and comply with the provisions of the Internal Control Framework. | |

| 1.2  Leadership, ethics, and values | Satisfactory |
|---|---|

OAI reviewed compliance with the financial disclosure policy, the policy regarding reporting of outside activities as well as the completion of the mandatory ethics training. Furthermore, interaction of senior management with staff members was discussed with all parties involved, including the Staff Association. All parties mentioned that regular staff meetings took place.

OAI noted that 20 percent of staff had not completed the ethics training. However, since immediate corrective action was taken by the Office management, OAI did not raise an audit issue.

No reportable issues were identified.

| 1.3  Risk management, planning, monitoring, and reporting | Satisfactory |
|---|---|

OAI reviewed the information entered into corporate tools, such as: (a) the Integrated Results Based Management platform where the Integrated Work Plan and its risks are entered and monitored; and (b) Atlas, where the risks for individual projects are recorded and maintained.

OAI noted that although the risk management practices were in place, some risks were not entered into Atlas (refer to Issue 3, section 3.3 - Project management).

The planning and reporting practices of the Office were found to be adequate.

No other reportable issues were identified.

| 1.4  Financial sustainability | Satisfactory |
|---|---|

OAI reviewed the extrabudgetary reserve and compliance with the cost recovery policies. OAI found the Office to be financially stable, with an estimated 23 months of extrabudgetary reserve and in compliance with the applicable cost recovery policies.

OAI noted that since 2008, the Government Contributions to Local Office Costs had not been paid in full, leading to a total outstanding amount of $1.9 million, as follows:

|  | GLOC Target | GLOC collected by the Office | Balance |
|---|---|---|---|
| 2008 | $728,063 | $549,997 | $178,066 |
| 2009 | $643,499 | $461,962 | $181,537 |
| 2010 | $688,603 | $580,000 | $108,603 |
| 2011 | $762,416 | $10,000 | $752,416 |
| 2012 | $814,411 | $150,000 | $664,411 |
|  |  | **Total** | **$1,885,033** |

The Office had sent letters to the Government requesting payment of the outstanding amounts in 2012 as well as in previous years, but had continued to receive only partial payments. OAI has performed a review of UNDP

overall policies, procedures and practices for the management of Government Contributions to Local Office Costs. The related report (Report No. 758) was issued on 14 July 2011 and included a number of recommendations for improvement at the corporate level. OAI is already following up on the implementation of those recommendations. Therefore, no recommendation about this issue was made in this report.

No other reportable issues were identified.

| 2. United Nations system coordination | Satisfactory |
|---|---|

The United Nations system had a strong presence in the Country with the following resident agencies:  ECLAC, FAO, ILO, IOM, OCHA, UN AIDS, UN-HABITAT, UN Women, UNCRD, UNDP, UNDSS, UNESCO, UNFPA, UNHCHR, UNHCR, UNIC, UNICEF, UNIDO, UNMAS, UNODC, UNOPS, UNV, WFP, WHO/PAHO and the World Bank.

OAI met with the Resident Coordinator, who indicated that the development context in the Country had changed over the last couple of years due to changes in the Government, introducing new challenges as well as opportunities for the role of the United Nations in the Country in regard to both development and humanitarian aspects.

OAI noted that the Operations Management Team of the United Nations Country Team identified the need to develop a consolidated vendor database to improve the sourcing of suppliers; however, this had not been accomplished pending receipt of each agency's vendor database. The Office already had submitted its vendor data to the Operations Management Team and indicated that it would advocate for the creation of a combined vendor database. OAI considered this to be a good practice and encouraged the Office to continue supporting the efforts of the Operations Management Team to develop the consolidated vendor database.

| 2.1  Development activities | Satisfactory |
|---|---|

The Common Country Assessment and the United Nations Development Assistance Framework (UNDAF) for the period 2008-2012 were reviewed and found to be aligned with the development results stipulated in the National Development Plan 2010-2014. However, the period covered by the UNDAF and that of the National Development Plan were not aligned, which was the reason the Government requested an extension of the UNDAF to 2014, in order to better align it with the National Development Plan.

During the meetings with main government counterparts and three United Nations agencies, OAI was able to determine that the extension of the UNDAF and related country programmes was a participatory process which involved the major stakeholders.

No reportable issues were identified.

| 2.2  Resident Coordinator Office | Satisfactory |
|---|---|

The Resident Coordinator Office was comprised of one National Officer and one Peace & Development Advisor, both of whom worked closely with the Resident Coordinator, and one Executive Associate who was in charge of the operational aspects of the Resident Coordinator Office. The Peace & Development Advisor also worked closely with the United Nations Country Team thematic group dealing with peace and development issues. The Resident Coordinator Office was facing financial challenges in funding its operations. However, the Resident Coordinator managed to obtain contributions from three resident agencies and to come to an agreement with

the Office to co-finance the National Officer position, which ensured adequate funding of the Resident Coordinator Office Work Plan.

OAI reviewed the minutes of United Nations Country Team and thematic group meetings, the Resident Coordinator Office Work Plan for 2012 and 2013 and the existing joint programme.

No reportable issues were identified.

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|---|---|
| **2.3  Role of UNDP - "One UN"** | **Not Applicable** |

Since the Country was not a pilot for One UN or a Delivering as One self-starter, this area was not applicable.

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|---|---|
| **2.4  Harmonized Approach to Cash Transfers** | **Partially Satisfactory** |

The implementation of the Harmonized Approach to Cash Transfers (HACT) was led by the interagency HACT focal points group composed of UNICEF, UNFPA, UNDP, WFP and the Resident Coordinator Office. The focal points scheduled regular meetings, however with low participation rate. The Resident Coordinator Office had developed and maintained a web page for the HACT implementation in Colombia, which OAI considered to be a good practice. The website contained information about HACT processes and policies.

One reportable issue was noted, but due to its importance, this area was rated as "partially satisfactory".

**Issue 2**     Harmonized Approach to Cash Transfers not fully implemented

HACT is an integral part of the common country programming processes. HACT implementation involves a series of steps, taken together with partners, to assess financial management risks, identify capacity development needs, and build assurance mechanisms into the design of country programmes at the planning stage. There are three key elements that offices need to be compliant with: (a) assessment of financial management practices (macro-assessment of the public financial system and micro-assessment of Implementing Partners); (b) assurance activities; and (c) common format to request funds before HACT can be considered fully implemented.

At the time of the audit, HACT was not fully implemented. The macro-assessment was prepared in 2008. Micro-assessments had been prepared, however, they were not in line with the guidelines. In general, the micro-assessments focused on the capacity assessment done by project teams of the Implementing Partner in relation to a particular project rather than on the Implementing Partner's general capacity.

Furthermore, a lack of assurance activities was identified, as a joint audit plan for Implementing Partners was not in place, and spot checks on Implementing Partners were neither planned nor coordinated.

Lack of full implementation of HACT could lead to unwanted additional burdens for UNDP's partners.

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

**Recommendation 2:**

The Office should pursue its efforts to implement the Harmonized Approach to Cash Transfers modality by: (a) completing the micro-assessments for Implementing Partners in line with the applicable guideline; and (b) coordinating with the United Nations agencies the process of establishing a joint audit plan and conducting spot checks and audits on Implementing Partners.

**Management comments and action plan:**      __√__ Agreed      ____ Disagreed

The Office considers it important to highlight that since none of the countries in the Latin America and Caribbean region is fully compliant with the Harmonized Approach to Cash Transfers, this could indicate that in some way, this may be more of a corporate issue than a Country Office one. Especially, considering the "corporate" key barriers for an effective implementation identified in the draft proposed revision to the Harmonized Approach to Cash Transfers Framework prepared for the United Nations Development Group by KPMG Consultancy.

**OAI Response:** OAI is cognisant that possible improvements may be made to the Harmonized Approach to Cash Transfers Framework. At the time of finalizing the audit report, no final decisions had been made about this subject. OAI expects that its recommendation will remain applicable as and when such improvements are agreed upon and come into effect.

| 3.  Programme activities | Partially Satisfactory |
|---|---|

| 3.1  Programme management | Satisfactory |
|---|---|

OAI reviewed the Country Programme Document (CPD) for 2008-2012 which was approved by the Executive Board of UNDP during its second regular session of 2007. The CPD was found to be aligned with the United Nations Development Assistance Framework 2008-2012 which in turn was aligned with the results of the National Development Plan but not aligned in duration.

Since the harmonized programming cycle was not aligned with the National Development Plan 2010-2014, the Government requested the extension of the CPD until 2014. The Office followed the standard procedures of involving the Regional Bureau for Latin America and the Caribbean in the extension of the CPD. In addition, the Government requested a mid-term review of the CPD to ensure that the extended outcomes were aligned to the National Development Plan for 2010-2014. One of the results of the mid-term review was to assess the progress towards the eight outcomes and to determine how aligned they were to the National Development Plan and, where applicable, introduce changes for better alignment. The whole review and alignment exercise was considered a good practice by the Government, as mentioned in its meetings with OAI.

No reportable issues were identified.

| 3.2  Partnerships and resource mobilization | Satisfactory |
|---|---|

OAI met with government counterparts, Implementing Partners and donors. All parties expressed their appreciation of the Office as a development partner and of the fact that the Office had established 11 project offices in various parts of the Country, such as Nariño, Antioquia and Cundinamarca to name a few, allowing a better interaction with beneficiaries and local governments.

The Office was in compliance with the Office of Financial Resources Management requirement to upload all locally approved contribution agreements to the centrally managed Document Management System.

No reportable issues were identified.

| 3.3  Project management | Partially Satisfactory |
|---|---|

At the time of the audit, the Office was implementing 139 development projects. OAI selected 10 projects for further review, of which 5 were nationally implemented and 4 were directly implemented. In addition, OAI reviewed one joint programme. Of the five nationally implemented projects reviewed, three were Global Environment Facility projects, the result of which is presented in section 4.9 - Global Environment Facility of this report. The value of the total number of projects reviewed was $31.4 million, representing around 50 percent of the total programme delivery of $62.9 million for the review period. The projects were reviewed with respect to their document structure, appraisal, approval, monitoring and evaluation, annual reporting on results, lessons learned log and donor reporting.

Three medium priority issues were identified, two described below and one described in sub-section 4.9 pertaining to Global Environmental Facility (a cross-cutting theme for OAI's 2014 Work Plan).

**Issue 3**    Weaknesses in the use of Atlas for project management

Atlas is used in reporting activities to donors and other stakeholders and, hence, Atlas users need to have proficient knowledge of the system in order to be able to record and update all necessary information in a correct and timely manner.

OAI noted the following deficiencies in the Office's use of Atlas with regard to project management:

- The number of outputs specified in project documents/annual work plans did not correspond to the number of outputs (Project IDs) recorded in Atlas, as prescribed in the UNDP Programme and Operations Policies and Procedures.
- Several different project documents were linked to one single Atlas project (Award ID).
- The Implementing Partner code was used to identify the main counterpart and not the Implementing Partner.
- Out of 139 active Atlas projects (Award IDs), 30 had an empty purpose field, making reporting more difficult.
- The Risks, Issues and Monitoring items were not entered consistently in Atlas for all projects.
- Key documents were not uploaded in Atlas.
- Output and deliverable information was not consistently entered/updated
- Naming convention was not aligned to UNDP standards since the Office used the output (Project ID) to refer to the project instead of using the project number (Award ID).

The deficiencies noted above highlighted the lack of or limited knowledge by Office staff in the use of Atlas for project management, which not only affected reporting at the Office level but also at the UNDP corporate level.

Without adequate knowledge and the correct use of Atlas by staff, the Office is at risk of not being able to provide correct information to UNDP Headquarters, donors, government counterparts and other stakeholders. In addition, the Office runs the risk of basing its decisions on erroneous or insufficient information.

| Priority | Medium (Important) |
|---|---|
| **Recommendation 3:**<br><br>The Office should improve its use of Atlas by:<br><br>(a) ensuring that staff members are properly trained in Atlas, taking into consideration the user profiles assigned to them;<br>(b) updating and correcting Atlas data with regard to project information; and<br>(c) aligning project documents/annual work plan outputs to Atlas structure. | |
| **Management comments and action plan:** \_\_√\_\_ Agreed \_\_\_\_ Disagreed<br><br>The Office will seek support from the organization in order to improve Atlas management, organize training sessions on this module, and develop periodic evaluations to know what improvements are being achieved. | |

### Issue 4      Significant number of projects pending closure

UNDP's Financial Regulations and Rules state that the financial closure of projects should take place within 12 months of their operational closure.

In December 2011, preceding the implementation of the International Public Sector Accounting Standards, the Office operationally closed 56 projects. However, at the time of the audit, more than 12 months later, these projects were still pending financial closure. One of the reasons for the delay in closing projects was caused by the project closing process followed by the Office, which was not in line with the UNDP Programme and Operations Policies and Procedures, as semi-final reviews were prepared by the project team, which were no longer required. After the audit, the Office took action by eliminating the semi-final reviews and financially closing 12 projects, resulting in a total of 44 projects remaining to be closed. In addition, OAI noted that 15 projects recorded no expenses in 2012 and could be eligible for closure.

The issue of projects pending closure was also noted in the audit of the Office performed by OAI in 2009, and following this audit, the Office took action to address this issue. However, given the current status of projects that are pending closure, it was evident that the process of monitoring the timely closure of projects that had been put in place by the Office was not effective.

Failure to financially close projects within 12 months after their operational closure constitutes non-compliance with UNDP's Financial Regulations and Rules. In addition, failure to financially close projects in a timely manner will result in the omission of a key project management step to ensure that all financial obligations have been met.

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

| **Recommendation 4:** |
|---|
| The Office should ensure the timely closure of its projects by: (a) conducting financial closure of projects in line with UNDP Programme and Operations Policies and Procedures; and (b) regularly monitoring project status and closing projects that are no longer active. |

| **Management comments and action plan:**      __√__ Agreed      ____ Disagreed |
|---|
| The Office has already taken action to implement it. The Office is no longer requiring a semi-final revision as a requisite for closing projects, and subsequently to the audit has already financially closed 18 projects, which is 32 percent of the projects pending closure. With regard to monitoring of projects, the Office had adopted and developed tools that allowed the Office's monitoring day by day projects' closure status. |

| **4.   Operations** | **Satisfactory** |
|---|---|

| **4.1 Human resources** | **Satisfactory** |
|---|---|

At the time of the audit, the Office had 46 staff members, consisting of 10 international staff, 12 National Officers and 24 General Service staff. In addition, there were 225 service contract holders and 7 United Nations Volunteers. The human resources function was performed by a Human Resources Analyst and two assistants. The Office provided human resource services to other United Nations agencies.

OAI reviewed the overall management of the human resources functions, and specifically all separations (4) of staff members during the audited period. There were no recruitments conducted during the audited period. OAI also reviewed the benefits and entitlements of staff members such as annual leave, home leave travel (4) and salary advances (1) to ascertain compliance with the relevant policies and procedures. In addition, OAI reviewed the Office's learning plan and compliance with UNDP mandatory courses and observed that not all staff had completed the mandatory training, e.g. 50 percent of staff had not taken the legal framework training. Since immediate action was taken by Office management to address this issue OAI did not raise an audit issue.

No other reportable issues were identified.

| **4.2  Finance** | **Satisfactory** |
|---|---|

OAI reviewed the Office's financial management processes and controls. The Office processed around 31,500 vouchers during the period under review with a value of $75.4 million. OAI reviewed a sample of 21 non-purchase order vouchers, totalling approximately $5 million as well as a sample of 10 vouchers booked against the sundry account (Atlas account code 74525) totalling approximately $120,000 out of $1.7 million.

OAI also reviewed the Office's payment and bank reconciliation processes. A lack of segregation of duties relating to payment processing was observed as the Finance Associate selected vouchers to be paid, ran payment cycles, uploaded information in the e-banking application and performed the bank reconciliation. This issue was discussed with the Office management who immediately took action by removing the bank reconciliation activities from the duties of the Finance Associate.

**Issue 5**       Corporate Issue:  Lack of corporate guidelines regarding cash advances for project activities

UNDP implements projects in different locations and, in many instances, in remote areas where bank facilities are non-existent. To facilitate project activities in remote locations, Offices might have to provide cash advances. However, no clear corporate guidelines are in place to deal with cash advances to projects. The Office of Financial Resources Management indicated that it was working on developing guidelines for this type of transaction but this had not been finalized yet.

During the period under review, the Office granted around 400 cash advances to projects conducting activities in remote areas for a total amount of around $1 million. These advances were paid to UNDP staff as well as non-UNDP staff. The advance amounts paid to UNDP staff were for amounts of up to $50,000 while the amounts paid to non-UNDP staff were for amounts up to $10,000. Moreover, cash advances were granted to projects for both nationally and directly implemented projects. In cases where large amounts were to be disbursed, the Office arranged for extra security by having the UNDP Security Officer and/or representatives of the National Police escort the persons carrying the advances. However, given the total amount granted in 2012 and the number of disbursements made, security risks for the persons entrusted with these advances remained. Furthermore, this procedure introduced financial risks for the Office due to possible loss or incorrect disbursement of the advances.

Lack of corporate guidelines with regard to project cash advances can lead to deficient controls with an increased potential for misuse and/or fraud.

OAI noted that the on-line version of the Programme and Operations Policies and Procedures needed to be updated as different links about cash management lead the user to different pages with different content.

Having outdated information in the Programme and Operations Policies and Procedures can lead to confusion as well as incorrect implementation of current policies.

**Comment**

OAI is not making a recommendation with regard to this issue since subsequent to the audit mission, but before issuance of the audit report, the issue was addressed by the Bureau of Management through issuance of corporate guidelines relating to project cash advances and updating the on-line version of the UNDP Programme and Operations Policies and Procedures.

**Issue 6**       Incorrect use of accounts

Proper accounting for financial transactions requires the use of correct account codes when recording transactions in Atlas. The very nature of the transaction itself, with the use of the Chart of Accounts, should guide the creator of the accounting entries, as well as the approver, prior to posting the transaction in Atlas.

OAI observed that the Office used some accounts incorrectly or not at all, specifically:

Sundry account (Atlas account code 74525)

In 2012, the Office recorded expenses in the sundry account for $1.7 million. Based on the voucher descriptions, many of these transactions should have been accounted for as premises expenses, local Daily Subsistence Allowance, and project and office supplies. Moreover, OAI also noted that cost recoveries for expenses not

related to the sundry account were credited to this account. As of 31 December 2012, such cost recovery amounted to $640,000.

<u>Value Added Tax (VAT) account (Atlas account code 14056)</u>

According to instructions issued by the Office of Financial Resources Management regarding use of balance sheet accounts Atlas account code 14056 (VAT account) is to be debited for the (VAT) paid on purchases made in a country that charges VAT and credited for refunds received.

The Office was obliged to first pay the VAT, and claim its reimbursement from the Government. OAI was informed that VAT claims could only be submitted every two months and that it could take around six months to recover the VAT reimbursement. In the period from January to October 2012, the total amount of VAT claimed amounted to $0.7 million. OAI noted that VAT expenditures were recorded as part of the total expenses for purchases and were not charged to the applicable VAT account. Moreover, VAT reimbursements were very often charged against the sundry account and not against the account where the expenditure was originally charged. For 2012, 74 percent of the VAT reimbursements were charged against the sundry account.

In their response to the exit meeting notes, Office management indicated that since the VAT account did not affect the Atlas Commitment Control module, all VAT payments made by the Office on behalf of projects would not be reflected as expenses or as cash use, in the project budgets. The Office management explained that since VAT payments impact the actual cash position of the Office, the result would be that in the period between VAT payment and recovery, the Office would be subsidizing project payments, exposing the Office to financial risks. The Office management considered that the VAT recovery process in place during the period under review guaranteed a correct and complete VAT reimbursement process without exposing the Office to unnecessary financial risks. OAI took note of these comments, but remained of the opinion that by not using the VAT account, the completeness of the recovery of VAT was not ensured and project expenditures were temporarily overstated.

<u>Local consultants (Atlas account code 71305)</u>

Following the detailed review of Global Environment Facility projects (refer to section 4.9 - Global Environment Facility), OAI noted that for two of the three projects reviewed the local consultants account was used for recording the cost of both local consultants and project personnel. The portion of the 2012 expenditures incurred under account 71305 relating to project personnel was around $100,000 (24 percent) for project 58096 and around $250,000 (78 percent) for project 59499.

The improper use of account codes leads to incorrect accounting of transactions and misleading financial reports both for the Office and project operations and contributes to inaccurate cost recovery, thereby undermining decision-making and jeopardizing the relationship between the Office and its donors.

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

**Recommendation 5:**

The Office should ensure a correct and complete recording of its financial transactions by:

    (a)  using the sundry account only for expenses that cannot be classified in other accounts;
    (b)  recording cost recoveries in the same account where the related expenses were previously charged;
    (c)  using the Value Added Tax account to monitor complete recovery of such expenditures and related claims; and
    (d)  using the Local consultants account only for expenses related to local consultants.

**Management comments and action plan:**    __√__ Agreed    ____ Disagreed

With regard to parts (a), (b) and (d) of the recommendations, the Office has already instructed projects to use the correct account codes for each particular expense category as well as for cost recovery transactions.

With regard to part (c) of the recommendation, the Office will use the Value Added Tax account to monitor complete recovery of such expenditures and related claims. However, and taking into account the associated risks for the Office in doing so, close monitoring of Value Added Tax payments and reimbursements will continue to be done and the Office jointly with the Regional Bureau for Latin America and the Caribbean will bring to the attention of the Office of Financial Resources Management any financial losses the Office may incur as a consequence of implementing this recommendation.

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| **4.3  Procurement** | **Partially Satisfactory** |
|---|---|

During the review period, the Office issued around 6,700 purchase orders valued at $35.7 million. OAI reviewed a sample of eight individual contracts, valued at around $270,000 and 21 procurement processes, valued at $5.8 million. The total of all individual contracts and procurement processes reviewed represented 17 percent of the purchase order value. OAI reviewed the pre-award, award and post-award phases of the procurement processes selected for review.

OAI noted that the contract management functions were dispersed amongst procurement and programme staff. Separate contract management functions were not established within the Procurement Unit to ensure adequate segregation of duties and compliance with the requirements for confidentiality regarding the sourcing, selecting and contract management phases of the procurement process. Subsequent to the audit mission, the Office indicated that the contract management functions of the procurement process would be segregated from the sourcing and contracting phases, with one procurement staff dedicated to contract management functions. Therefore, OAI did not raise an audit issue.

OAI noted that the Procurement Unit engaged in several good practices which were highlighted to Office management, specifically, the Procurement Unit, as follows:

- conducted several procurement trainings for project, agency and Office personnel during the audit period;
- made ample use of the 'Track My Vendor' Atlas tool;
- encouraged United Nations agency staff, who were engaged in procurement, to become procurement certified;

- developed the terms of reference for the 'supervisor' role, a contract representative on site; and
- developed a checklist for each type of procurement award, to ensure the adequacy of the supporting documentation.

A review of selected procurement processes showed that even though a competitive process had been conducted, the number of qualified responses was limited in the procurement processes reviewed. Of the 10 high value procurement processes reviewed (valued at more than $100,000 with one process having a value of around $1 million), 3 processes totalling $452,908 received 2 bids and 3 other processes totalling $539,817 received only 1 bid, an issue that was also commented on by the Advisory Committee on Procurement. The lack of responsive bids may be due to the way the Office advertised its procurement requirements and sourced its suppliers. OAI noted that the Office advertised in Spanish on the Office website, the UNDP corporate website, the United Nations Global Market Place and local media, yet did not advertise in English or make use of specialized media or other mechanisms to increase the dissemination of procurement requirements. This issue was discussed with Office management and as a better practice OAI advised the Office to increase the dissemination of its procurement requirements. The Office and the Regional Bureau for Latin America and the Caribbean advised OAI that action has already been initiated in this regard, thus OAI did not raise an audit issue.

Given that one high priority issue was identified, this area was assessed as "partially satisfactory".

**Issue 7**        Weaknesses in procurement business function

The Programme and Operations Policies and Procedures indicate that during the definition stage of the project cycle, consideration must be taken for the acquisition of goods, services and works for the successful implementation of the project. Therefore, a requisition plan based on estimates of the procurement needs has to be prepared; while some procurement needs may not be anticipated, a requisition plan based on estimates is better than no plan at all. Even though it is not mandatory for United Nations agencies that rely on the Office to provide them with procurement services, it is advisable for these agencies to submit a procurement plan. A consolidated procurement plan provides the Office an opportunity to identify economies of scale and better use of resources. Furthermore, by adequately planning its procurement requirements, the Office can improve the competitive process by taking into account all the mechanisms for adequate dissemination of procurement requests. In addition, all procurement processes need to be conducted in a fair and transparent manner, in the interest of providing best value for money which is gained through a competitive process.

The following weaknesses with regard to the procurement business function were noted:

- The Procurement Unit had prepared a consolidated procurement plan, using input provided by the Office, 2 agencies and 20 projects. However, not all entities (projects and/or agencies) had submitted their procurement requirements. OAI noted that for 2012, the Procurement Unit procured in excess of 125 percent over the 2012 procurement plan. The variance was significant in the categories of services ($13.2 million planned versus $22. 9 million procured) and individual contracts ($1.4 million planned versus $5 million procured). The significant variance between planned procurement and the actual amounts procured in these two categories (services and individual contracts) highlighted the incompleteness of the consolidated procurement plan, due to the lack of submission of all procurement requirements. As procurement is not an isolated business function, rather a core function critical to programme/project delivery, the lack of proper procurement planning could jeopardize achieving development project outcomes.

- The Country Director issued a circular in October 2011 that described the limited circumstances for endorsing and approving a direct contract specifically as an exceptional procurement method, which

was supported by a solid justification. However, what was to be an exceptional procurement method became almost the norm for the procurement of services and individual contracts. OAI noted that a significant volume of procurement was conducted as direct contracting for the period reviewed, each with a written justification providing extensive background information, yet not necessarily adequate rationale for the direct contracting. There were 65 direct contracts awarded for services, valued at $5.3 million and there were 169 individual contracts awarded through direct contracting, valued at $1.2 million. Procuring through direct contracting increases the risk of non-transparent procurement and of not receiving best value for money.

In response to the draft version of this report, Office management explained that the frequent use of the direct contracting method was partly due to the Country context, which experienced more than 50 years of an internal armed conflict, and was the only country with this type of situation in Latin America.

| Priority | High (Critical |
|---|---|
| **Recommendation 6:** <br><br> The Office should improve its procurement business functions by: <br><br> (a) ensuring that all projects submit their procurement plans in a timely manner and by regularly evaluating its consolidated procurement plan, updating the plan when needed; and <br> (b) ensuring that the use of direct contracting procurement is limited to exceptional circumstances, particularly in the case of contracts for services and individual contracts. | |
| **Management comments and action plan:** ___√___ Agreed _____ Disagreed <br><br> With regard to part (a) of the recommendation, the Office has already started making adjustments to its local intranet to facilitate procurement planning for programs, projects and agencies. An interface will be developed linking procurement plans with real requirements. If a real requirement is not linked with a procurement plan, the request will be rejected until the procurement plan is updated (except for those requests that are unexpected and justified). <br><br> With regard to part (b) of the recommendation, the Office has taken action to reduce the use of direct contracting. The approval of written justifications for direct contracting will be limited to Office management, ensuring that written justifications provide adequate reasoning for direct contracting. | |

## 4.4 Information and communication technology                                         Satisfactory

OAI reviewed the Office's information and communication technology structure, as well as hardware and software management, systems security, information management plan and the mechanisms for disaster recovery.

OAI noted that the Information and Communication Technology Section, comprising of one General Service staff member and one service contract holder, was well organized and functioning. At the time of the audit, the Office had 42 licenses to access corporate services such as Microsoft SharePoint and Exchange, but the total number of computers, including those for direct implementation modality projects hosted in UNDP premises were around 100. The Information and Communication Technology Section took immediate action when informed about this

and placed an order through the Office of Information Systems Technology to reach a total number of 102 licenses, thereby solving the issue.

No other reportable issues were identified.

| 4.5 General administration | Satisfactory |
|---|---|

OAI reviewed general administration activities, including local and international travel, common premises, vehicle management and hospitality.

A review of a sample of 30 international and 10 local trips showed that travel management was in accordance with the Programme and Operations Policies and Procedures. The Office ensured that staff members submitted their travel claims on time with appropriate supporting documentation, including back-to-office reports where required.

OAI's review of common premises, vehicles, as well as hospitality management, found them to be in line with applicable policies and procedures.

No reportable issues were identified.

| 4.6 Safety and security | Satisfactory |
|---|---|

The Resident Representative, who was also the United Nations Designated Official, was well aware of responsibilities with regard to safety and security of UNDP personnel. The Security Management Team was functioning well.

The Office was assessed as being 98 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security.

No reportable issues were identified.

| 4.7 Asset management | Satisfactory |
|---|---|

OAI reviewed asset management. The Office had 6 vehicles (3 at the office, 2 in the field and 1 that had not yet been delivered) and owned other assets, information and communication technology equipment and furniture, valued at $805,992 at the time of the audit. OAI physically verified the existence of assets by sampling 11 assets valued at $161,068.

No reportable issues were identified.

| 4.8 Leave management | Satisfactory |
|---|---|

OAI reviewed leave management and found that leave balances reconciled with Atlas and that they were certified at the time of the audit. OAI also noted that Atlas e-Services was used to process leave requests in accordance with the applicable policies and procedures.

No reportable issues were identified.

| **4.9  Global Environment Facility** | **Not Applicable** |

As part of the OAI 2013 Annual Work Plan, Global Environmental Facility is a cross-cutting theme to be reviewed in more depth.

OAI reviewed the following Global Environment Facility projects in detail:

- Incorporacion Biodiversidad en el Paisaje Cafetero (Atlas Award ID 00058096)
- Conocimiento Tradicional Asociado (Atlas Award ID 00059499)
- Sistema de Areas Marinas Protegidas (Atlas Award ID 0005996)

In general, OAI noted overall good management of the Global Environment Facility portfolio. A positive assessment of partnership with the Office was also provided by the national counterpart – the Ministry of Environment. The role of the Office as an independent broker was particularly important in regions affected by conflicts.

The analysis of the Global Environment Facility portfolio indicated a total of six projects (out of a total of 41) that should have been completed two to five years earlier (refer to Issue 3, section 3.3 - Project management). This was discussed with Office management who agreed to continue its efforts to close all projects pending closure during 2013.

Project risk logs were not updated as required by the Programme and Operations Policies and Procedures. Office management agreed to update the risk logs for all projects within the first quarter of 2013 upon completion of project progress review meetings.

OAI noted that the budget line 71300 (Local consultants) was used for recording the cost of both local consultants and project personnel (see Issue 6, section 4.2 - Finance).

| **Issue 8** | Suboptimal reporting of results |

UNDP results-based reporting seeks to shift attention away from activities to communicating important results that a programme or project has achieved at the output and outcome levels. Quality criteria for results reporting are: (1) completeness; (2) balance; (3) consistency; (4) substantiveness and reliability; and (5) clarity.

OAI reviewed annual results (achievements) as reported in Atlas by the projects selected for detailed testing and some weaknesses were noted as follows:

- Links between annual targets and annual achievements were not clear.
- In the case of 2 projects, it was expected that a total of 8 targets would be achieved while only 3 results were reported. No explanation was provided as to why five of eight targets had not been met.
- Reporting on results was often too broad and technical, mainly copied from the Annual Project Reports.
- Reporting was activity-oriented, i.e. stating number of workshops attended, participation in conferences or study tours, considering disbursements as annual achievement, as opposed to results-oriented.
- Project indicator data was not providing clear and accurate information regarding project progress towards target results.

Suboptimal results reporting, including reporting on activities rather than outcomes, increases the risk of not achieving expected results since it provides insufficient information regarding the progress made by the project.

Furthermore, since the progress to achieve the agreed outputs and outcomes might be unclear, this can become a reputational issue, which could limit interest among the donor community in funding future projects.

| Priority | Medium (Important) |
|---|---|
| **Recommendation 7:**<br><br>The Office should: (a) improve its results reporting by properly formulating the project results (achievements) in the form of a describable or measurable change in state which would better communicate and demonstrate the effectiveness of UNDP intervention; and (b) report the results systematically through Atlas and the Results Based Management platform. | |
| **Management comments and action plan:**    __√__ Agreed    ____ Disagreed<br><br>The Office will improve its use of the different platforms in terms of compliance and quality assurance of the information uploaded and will perform periodic evaluations to know what improvements are being achieved. | |

## ANNEX I.  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 not included in this report.