



AUDIT

OF

UNDP COUNTRY OFFICE

IN

EL SALVADOR

Report No. 1161

Issue Date: 20 December 2013

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Report on the audit of UNDP El Salvador Executive Summary

From 8 to 19 April 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in El Salvador (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 \$42 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 inadequate project management (specifically with regard to nationally implemented projects), non-compliance with the Internal Control Framework regarding processing of project personnel payroll, and deficiencies in procurement processes for nationally implemented projects. 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	Satisfactory			
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	Partially Satisfactory			
3.3 Project management	Partially Satisfactory			
4. Operations				

4.1	Human resources	Satisfactory
4.2	Finance	Partially Satisfactory
4.3	Procurement	Partially Satisfactory
4.4	Information and communication technology	Partially Satisfactory
4.5	General administration	Satisfactory
4.6	Safety and security	Satisfactory
4.7	Asset management*	Partially Satisfactory
4.8	Leave management*	Satisfactory
4.9	Global Environment Facility*	Not Applicable

* Cross cutting themes

Key issues and recommendations

The audit raised 9 issues and resulted in 9 recommendations, of which 1 (11 percent) was 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 recommendation is as follows:

Procurement (Issue 7) Deficiencies in procurement processes for nationally implemented projects. The following deficiencies in the procurement for nationally implemented projects were identified:

- Procurement cases passing the various thresholds were not submitted to the applicable UNDP review committees.
- No purchase orders were created for procurement processes over \$5,000, as required.
- The procurement process was not undertaken in its entirety by the same entity as mandated by the National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures
- The Office signed contracts with vendors before it had received the funds to cover the contractual obligation.

OAI recommends that the Office improve its procurement processes for nationally implemented projects by ensuring that: (a) procurement conducted by the Office on behalf of the project is being done in full compliance with UNDP Programme and Operations Policies and Procedures; and (b) the complete procurement activity from sourcing to contract signing and contract management is undertaken by the same entity (government or UNDP).

The implementation status of previous OAI audit recommendations (Report No. 636, covering all of the Office’s activities, dated 21 August 2009, and Report No. 902, covering the Global Fund activities of the Office, dated 2 November 2012) was also validated. All 15 recommendations from Report No. 636 and 2 of the 3 recommendations from Report No. 902 were fully implemented.

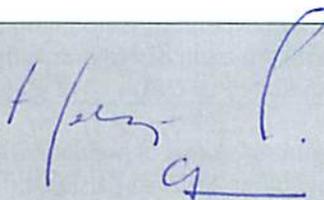
Cross-cutting themes

As part of the 2013 OAI 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.** Partially Satisfactory. OAI noted some weaknesses in asset management. Assets of directly implemented projects located outside of the Office's premises were not recorded in Atlas and the tagging system used by the Office was ineffective and inefficient, since it was based on the location code instead of the asset ID (refer to Issue 9).
- **Leave management.** Satisfactory. No reportable issues noted.
- **Global Environment Facility.** No reportable issues noted.

Management's comments and action plan

The Resident Representative accepted all nine recommendations and is in the process of implementing them.



Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 8 to 19 April 2013, OAI conducted an audit of UNDP El Salvador. 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.

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 \$42 million. The last audit of the Office was conducted by OAI in 2009 (Report No. 636). An audit of five grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund) was conducted by OAI in 2012 (Report No. 902).

The implementation status of previous OAI audit recommendations (Report No. 636, 21 August 2009 and Report No. 902, 2 November 2012) was also validated. All 15 recommendations from Report No. 636 and 2 of the 3 recommendations from Report No. 902 were fully implemented.

II. About the Office

The Office, located in San Salvador, El Salvador (the Country) consists of the main office that supports the development needs of the Country. Responsibility has also been delegated to the United Nations Resident Coordinator and UNDP Resident Representative of El Salvador, for the Sub-office located in Belmopan, Belize, even though the countries were neither bordering countries nor culturally and linguistically alike. While the Belize Sub-office is not a full-fledged office, it supports the development needs in Belize. For this report, all references to the Office actually refer to the main office located in San Salvador, and not the Sub-office located in Belize, which is covered by a separate audit (Report No. 1162).

The Office had 36 staff members and 65 service contract holders. Most projects in the Office's portfolio were directly implemented. In addition, the Office had two important nationally implemented projects, which together contributed to 27 percent of the total 2012 delivery. The Office's programme delivery increased from \$35.8 to \$37.6 million in the last two years and was expected to reach \$68 million by the end of 2013. At the time of the audit, the Office was preparing to implement Delivering as One.

The Country has a population of about 6 million. Further, it was ranked medium (107) on the most recent Human Development Index, and within the Americas, was one of the 10 countries with the lowest Human Development Index. Development priority areas for the new programmatic cycle (2012-2015) are: equity, social inclusion and poverty reduction; inclusive economic development and decent employment; democratic governance; citizen security and prevention of violence; and environmental sustainability.

III. Detailed assessment

1. Governance and strategic management

Satisfactory

OAI noted that the Office was using a management report which measured not only the standard corporate indicators, but additional ones, such as resource mobilization, capacity development and the contributions of resources by practice area. By having additional indicators to measure, other aspects of operations and activities allowed senior management to make more informed decisions. OAI considered this to be a **good practice**.

1.1 Organizational structure and delegations of authority

Satisfactory

The Office's organizational structure had undergone various changes during the last couple of years. Changes included the creation of the Policy and Knowledge Management Unit and redefining the functions of the Management Support Unit in an effort to facilitate knowledge building and strategic management, and to address the fact that the Office increased the number of directly implemented projects. This process had been gradual and lengthy, and at the time of the audit, the revision of functions of the Management Support Unit was still ongoing.

The Office had enough staff members to comply with the Internal Control Framework requirements and to perform the required tasks of both programme and operations. However, it was noted that two staff members with senior manager approval rights, also had vendor approval rights, creating a potential conflict regarding the segregation of duties. Since this issue was immediately addressed by the Office, OAI has not raised an issue.

The Regional Bureau for Latin America and the Caribbean recognized UNDP Belize as a Sub-office of the Office. The Country Profile developed in May 2010 for the appointment of the Resident Coordinator established that the United Nations Resident Coordinator and UNDP Resident Representative for El Salvador was also responsible for the supervision of the UNDP Sub-office in Belize, and was the designated Resident Coordinator of the United Nations System in Belize. The Resident Representative's responsibilities for monitoring and oversight were carried out remotely through regular communication and periodic visits from the Resident Representative to the Sub-office. OAI noted a lack of clarity with regard to the responsibilities of the Office for operational processes of the Sub-office, which could increase the risk that the Sub-office might not operate in compliance with UNDP policies and procedures. OAI discussed this issue with the Office's management and advised them to improve clarity regarding responsibilities for operational processes by providing clear instructions to Office and Sub-office staff involved in conducting tasks related to the Sub-office. Office management took note of this advice and informed OAI, subsequent to the audit, that they had issued a new standard operating procedure outlining roles and responsibilities to complement the already existing instructions and standard operating procedures. Therefore, OAI did not raise an audit issue.

Since only one medium priority issue was identified this section was rated as "satisfactory".

Issue 1 Job descriptions not aligned to staff functions

A job description defines the key functions, responsibilities and expected results of a position. OAI noted that the job descriptions of a number of staff did not mirror the functions that they were actually performing; specifically:

- The Chief Economist and Assistant Resident Representative was also appointed as Chief of the Policy and Knowledge Management Unit, which was created in 2012. However, the new functions and

corresponding responsibilities had not been added to his job description. In addition, his position title in the existing Staffing Table was “Programme Specialist.”

- The Management Support Analyst’s job description had not been updated since 2004 and indicated her position as being that of a “Project Administrator.” Her position title in the existing Staffing Table was “Project Management Analyst.” At the time of the audit, her existing functions as Management Support Analyst were still under review.
- The Management Support Associate’s job description of 2009 indicated her position was that of a Programme Associate. However, her position title in the Staffing Table was “Human Resources Associate.” At the time of the audit, her current functions as Management Support Associate were still under review.
- While the Human Resources Officer supervised the General Service staff and also performed the Learning Manager functions, these functions were not indicated in the most recent job description.

Outdated job descriptions and inconsistencies in the Office’s Staffing Table could cause discrepancies in expectations between management and staff, which could negatively affect assessment of the staff member’s performance of functions and responsibilities. In addition, this situation could put the Office at risk of inadequate coverage of key business areas, since staff might not be aware that certain areas or functions are part of their responsibility.

Priority	Medium (Important)
Recommendation 1:	
The Office should ensure that roles and responsibilities are clearly defined for all staff by: (a) updating job descriptions and the Staffing Table; and (b) finalizing the revision of the positions under review, and once completed, formalizing the changes through clear communication to staff.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office has taken the following actions to implement the recommendation:	
<ul style="list-style-type: none"> (a) All job descriptions and the organizational chart have been updated in line with the Office’s Financial Sustainability and Effectiveness Exercise. (b) The revision of the positions under review has been completed and related changes communicated to staff. (c) The Office sought the assistance of the Regional Bureau for Latin America and the Caribbean to correct the Staffing Table, due to the fact that the Office itself does not have the authority to change information in Atlas for core positions. The Office expects this to be resolved soon. 	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

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 course. Furthermore, interactions between senior management and staff members were reviewed through discussions with both staff members and management. OAI noted that 16 out of 36 staff members had not completed the Ethics training. This issue was discussed with management, who agreed to strongly encourage staff to complete the mandatory courses by December 2013. As this was rated low risk, OAI did not raise an audit issue. No other reportable issues were identified.

1.3 Risk management, planning, monitoring, and reporting

Satisfactory

OAI reviewed the information entered into corporate tools, such as the Integrated Results Based Management Platform (where the Integrated Work Plan and its risks are entered and monitored) and Atlas for individual projects, and found both to be adequate. In addition, the Office organized a two-day workshop on Results Based Management with the help of the Operations Support Group to strengthen knowledge and to improve on planning for future years. The workshop had broad participation from management, programme and operations staff, with a total of 55 individuals trained. The Office had a focal point in charge of monitoring the achievement of the Integrated Work Plan and the preparation of the Results Oriented Annual Report.

No reportable issues were identified.

1.4 Financial sustainability

Satisfactory

OAI reviewed the programme delivery rate and cost recovery policy compliance. The extrabudgetary reserve at the end of 2012 was equivalent to 22 months, which was well over the corporate defined minimum threshold of 12 months. In addition, the Office had implemented a strong cost recovery strategy, ensuring sustainability and sufficient funds to meet the operating requirements of the Office.

No reportable issues were identified.

2. United Nations system coordination

Satisfactory

The United Nations system has presence in the Country with the following resident agencies: FAO, ILO, IOM, PAHO/WHO, UNAIDS, UNDP, UNDSS, UNFPA, UNICEF, UNOPS, WFP and the World Bank.

OAI met with the Resident Coordinator, who mentioned that the Country had requested to be a Delivering as One self-starter, and that this request had been approved by the United Nations Development Group in March of 2013.

2.1 Development activities

Satisfactory

The Common Country Assessment and the United Nations Development Assistance Framework for the period 2012-2015 were reviewed and found to be aligned with the development results stipulated in the Five Year National Development Plan 2010-2014.

During meetings with the main government counterparts and three United Nations agencies, OAI was able to determine that the formulation of the Common Country Assessment, the United Nations Development Assistance Framework for the period 2012-2015 and related country programmes were conducted in a participatory process which involved major stakeholders.

No reportable issues were identified.

2.2 Resident Coordinator Office

Satisfactory

The Resident Coordinator Office was comprised of a Coordination Officer, a Monitoring and Evaluation Officer and an Advisor to the Resident Coordinator (who worked closely with the Resident Coordinator), and one Executive Associate who was in charge of the operational aspects of the Resident Coordinator Office.

OAI reviewed the minutes of United Nations Country Team and thematic group meetings, the work plans of the Resident Coordinator's Office for 2012 and 2013 and the existing joint programmes which were scheduled to finish by 30 June 2013. In response to the new programmatic cycle which started in 2012, and given the new operating context brought on by the recent approval of the Country as a Delivering as One self-starter (which will require more joint activities), the Resident Coordinator and the United Nations Country Team were exploring new areas for joint programmes and joint efforts. This information was confirmed during interviews OAI held with the United Nations agencies, government counterparts and the Resident Coordinator.

No reportable issues were identified.

2.3 Role of UNDP - "One UN"

Not Applicable

The Country was not a pilot for One UN, but at the Government's request the United Nations Development Group approved the Country to be a Delivering as One self-starter. However, as the approval for Delivering as One was granted during the United Nations Development Group meeting in March 2013, it was not applicable for the period under review. Nevertheless, OAI noted that the Office had drafted the initial roadmap for Delivering as One and had discussed it with the staff of the Resident Coordinator Office who were actively working on it.

2.4 Harmonized Approach to Cash Transfers

Partially Satisfactory

A joint working group on the Harmonized Approach to Cash Transfers (HACT) consisting of representatives of three Executive Committee agencies (UNDP, UNFPA and UNICEF) is responsible for HACT implementation and reports to the United Nations Country Team. According to the Balanced Scorecard, the Office had completed three out of four steps in order to be fully compliant with HACT. However, due to inaction by the Office in the last couple of years, no progress had been made in regard to HACT implementation. OAI interviewed the agencies involved in the implementation and found that only UNICEF was using the HACT modality.

One medium priority issue was identified, but due to its importance, this section 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 to build assurance mechanisms into the design of country programmes at the planning stage. HACT compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system, (b) micro-assessment of Implementing Partners; (c) agreement with the government on HACT implementation; and (d) an assurance and audit plan concerning Implementing Partners has been developed and implemented.

At the time of the audit, HACT was not fully implemented. A macro-assessment performed by the World Bank and integrated micro-assessments for common Implementing Partners of UNDP, UNFPA and UNICEF was conducted in 2009 under the prior United Nations Development Assistance Framework cycle. OAI noted that no further actions had been taken until 2012 when additional micro- assessments were conducted by some United Nations agencies, with additional micro-assessments being planned. However, these were not the integrated micro-assessments as defined in the HACT modality, benefitting all agencies.

At the time of the audit, as a result of the new United Nations Development Assistance Framework in place for 2012-2015, and as a result of the Office being a Delivering as One self-starter, the need to speed up the implementation of HACT arose. In view of this, the Office's Operational Management Team was going to take the lead in the HACT implementation process and had already initiated some coordinated actions in support of implementation.

The objectives of harmonizing practices among United Nations agencies and lessening the burden of multiplicity of United Nations procedures will not be achieved unless HACT requirements are duly implemented.

Priority	Medium (Important)
Recommendation 2:	
In coordination with its other partners, the Office should pursue the implementation of the Harmonized Approach to Cash Transfers modality and ensure that its related requirements are duly adhered to.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is already using the Funding Authorization and Certificate of Expenditures form and is validating a risk assessment exercise for quality assurance and an audit plan compliant with policy. The UNCT's Operation Management Team has engaged in the Harmonized Approach to Cash Transfers implementation process and already initiated coordination actions for implementation.	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

3. Programme activities

Partially Satisfactory

3.1 Programme management

Satisfactory

OAI reviewed the Country Programme Document for 2012-2015, which was approved by the Executive Board of UNDP during its first regular session of 2011. The Country Programme Document was found to be aligned with the United Nations Development Assistance Framework 2012-2015, which in turn was aligned with the results of the Five Year National Development Plan. OAI also reviewed the Country Programme Action Plan 2012-2015

outputs and compared them with Atlas and noted that there were no clear alignments between the defined outputs, since not all Atlas outputs were included in the Country Programme Action Plan. Nevertheless, no issue was raised since the Office was already working on the review of the Country Programme Action Plan to ensure that all outputs were included.

No other reportable issues were identified

3.2 Partnerships and resource mobilization

Partially Satisfactory

OAI met with government counterparts, Implementing Partners and donors. All parties expressed their appreciation of the Office as a development partner. OAI reviewed the Country Programme Action Plan 2012-2015 resources and partnerships sections and found them to be adequate and in line with the proposed plan.

The Office uploaded all locally approved contribution agreements to the centrally managed Document Management System, as required. Nevertheless, OAI noted that three important nationally implemented projects had no contribution agreements signed (refer to Issue 4).

One medium priority issue was identified, but due to its importance, this section was rated as “partially satisfactory.”

Issue 3 Development projects without required standard contribution agreements

To receive contributions from donors, UNDP signs standard contribution agreements which clearly identify the conditions of the contribution and the applicable rules. For government cost-sharing, the agreement is embedded into the Project Document, while for third party cost-sharing it is through a separate document. In both cases, UNDP agrees to a payment schedule with the counterparts so the project activities can be planned and carried out accordingly.

OAI noted that the Office was implementing projects without having the standard contribution agreements, whether included in the Project Document for the Government’s cost-sharing or separate documents for third party cost sharing as required. Specifically:

- The Project Document of Project 00059394 “Dinamización de economías locales mediante el desarrollo y la reconstrucción de la infraestructura pública”, started in February 2010 and scheduled to finish on December 2014, with a total agreed budget of government cost sharing of \$48.6 million, contained no details about the contribution in terms of currency, payment schedule and total number of instalments.
- Projects 00057145 “Proyecto de Desarrollo y Modernización rural para la región oriental” and 00059195 “Proyecto de Desarrollo y Modernización Rural para las Regiones Central y Paracentral” funded by IFAD (for a total amount of \$16.8 and \$16.4 million, respectively) through a loan to the Government and managed by UNDP did not have contribution agreements.

Without standard contribution agreements that clearly set the conditions and a calendar of contributions, it will be impossible for UNDP to make realistic plans for project implementation and to determine whether a contribution is due or not, thereby exposing UNDP to reputational and possible financial risks by not being able to accomplish agreed results due to late or contributions not received.

Priority	Medium (Important)
Recommendation 3:	
The Office should ensure that contribution agreements are prepared and signed for each project and that each contribution agreement includes a payment schedule as required.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office has already signed the contribution agreement with the relevant government ministry in relation to Project 00059394 "Dinamización de economías locales mediante el desarrollo y la reconstrucción de la infraestructura pública" and is committed to ensuring that all relevant and new projects possess sign contribution agreements with the corresponding schedules of payments.	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

3.3 Project management

Partially Satisfactory

At the time of the audit, the Office was implementing 74 development projects. OAI selected 10 projects for further review, of which 7 were under nationally implemented and 3 were directly implemented. Of the 7 nationally implemented projects, 2 were Global Environment Facility projects, the result of which is presented in section 4.9 of this report. The 2012 expenditure for the projects reviewed was \$26.6 million, representing 71 percent of the total programme expenditure of \$37.6 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.

OAI noted that 6 out of 74 projects with an active status in Atlas had been operationally closed for more than one year. Office management informed OAI that the process of closing old projects was ongoing and that 14 projects were financially closed during 2012. Given that the Office was working on closing projects as part of the Office clean-up, OAI has not raised an audit issue.

OAI also noted that Project Documents used by the Office were not fully aligned with the corporate template and that some sections were missing, such as the section on the Quality Assurance for Activities. In addition, Project Documents were not consistent among the various programme units. This was discussed with the Office and they informed OAI that an updated template was used for new projects and that during the Pre-Project Appraisal Committee meetings, consistency and compliance with the template were verified. Therefore, OAI has not raised an issue.

Two medium priority issues were identified and therefore this section was rated as "partially satisfactory."

Issue 4 Nationally implemented projects with inadequate management arrangements

According to the Programme and Operations Policies and Procedures, a nationally implemented project can have one of two possible scenarios: (a) full national implementation, in which the national Implementing Partners directly assume responsibility for the related output(s) and carry out all activities towards the achievement of those output(s); or (b) national implementation, in which the national Implementing Partner

assumes full responsibility for the related output(s) but where, at the request of the government through a standard letter of agreement for support to national implementation, UNDP as a responsible party undertakes specific, clearly defined activities for the Implementing Partner.

The Office had agreed to specific management arrangements that were not in alignment with either of the two scenarios for nationally implemented projects. Specifically:

- Project 00059394 “Dinamización de economías locales mediante el desarrollo y la reconstrucción de la infraestructura pública”, created to support major infrastructure construction such as rural roads and bridges with a total agreed budget of \$48.6 million, had management arrangements stipulating that all purchases above \$2,500 were to be carried out by UNDP. These were without the required letter of agreement for support to national implementation.
- Projects 00057145 “Proyecto de Desarrollo y Modernización rural para la región oriental” and 00059195 “Proyecto de Desarrollo y Modernización Rural para las Regiones Central y Paracentral” funded by IFAD (for a total amount of \$16.8 and \$16.4 million, respectively) wherein the Office was acting as the responsible party but without the required letter of agreement and was applying IFAD procedures as opposed to UNDP policies and procedures. Furthermore, both projects were subject to audit principles agreed to between the Government and IFAD, which had not been approved by OAI, as required.

Entering into non-standard management arrangements exposes not only the Office, but also UNDP, to reputational risks. Further, it introduces challenges to the Internal Control Framework as some tasks relating to a given procedure might not be performed by the Implementing Partner or by UNDP, leading to ineffective controls.

Priority	Medium (Important)
Recommendation 4:	
The Office should implement the new corporate guidelines for national implementation as required and sign a standard letter of agreement, clearly describing the tasks to be carried out by the Office when providing support to national implementation.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is implementing the new corporate guidelines for national implementation, as required, and is decisively moving towards having the standard letter of agreement signed with national partners, and rectifying the situation when it comes to ongoing projects.	

Issue 5 Projects being implemented without authorization from the Director of the Regional Bureau for Latin America and the Caribbean

According to the Programme and Operations Policies and Procedures, the Resident Representative does not have the authority to approve a Project Document when support to an infrastructure project is proposed. This refers to construction or other major infrastructure development or large equipment components where it exceeds 50 percent (including cost-sharing) of the budget, or costs more than \$1 million. Projects with such characteristics need to be authorized by the Regional Bureau Director and the Office needs to comply with specific reporting requirements.

OAI noted that the Office implemented projects for which it had not received the necessary authorization from the Director of the Regional Bureau for Latin America and the Caribbean, specifically:

- For Project 00059394 “Dinamización de Economías Locales”, a project to support major infrastructure construction such as rural roads and bridges, the Office had been in communication with the Regional Bureau regarding approval of the project, but the approval was never formalized. The only approval the Office had was the approval from the Regional Bureau’s Deputy Director to continue the negotiations with the Government. In the same document, the Deputy Director also asked that the Office submit the final Project Document to the Legal Support Office for review prior to submission to Regional Bureau for final approval. However, neither submission was done when the Office started its implementation.

Project 00061024 “Fortalecimiento del Instituto de Bienestar Magisterial”, which procured equipment for \$987,997 and had budgets to procure equipment in current and future years for over \$1 million, was approved at the Office level, but not by the Regional Bureau, as required.

Implementing projects without the required authorization from the Regional Bureau Director constitutes non-compliance with the Programme and Operations Policies and Procedures and may result in governance risk.

Priority	Medium (Important)
Recommendation 5:	
The Office should obtain the formal authorization from the Director of the Regional Bureau for Latin America and the Caribbean before engaging in projects to support infrastructure or with large equipment components. And for Projects 00059394 and 00061024, the Office should seek guidance from the Regional Bureau for Latin America and the Caribbean on how to address the lack of authorization by the Director.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office sought guidance from the Regional Bureau for Latin America and the Caribbean on how to address the lack of formal authorization by the Bureau Director for Projects 00059394 and 00061024. The Office has taken note that obtaining this authorization is a requirement before engaging in projects to support infrastructure development or involving large equipment components.	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

4. Operations

Partially Satisfactory

4.1 Human resources

Satisfactory

At the time of the audit, the Office employed 36 staff members, consisting of 5 international staff, 16 National Officers and 15 General Service staff. In addition, there were 65 service contract holders and 4 United Nations Volunteers.

OAI reviewed the processes and documentation related to the following: recruitment of staff members and service contract holders; separations from service; learning; career development; and payroll. OAI also reviewed the benefits and entitlements of staff members, such as salary advances and home leave travel, to ensure compliance with relevant policies and procedures.

No reportable issues were identified.

4.2 Finance

Partially Satisfactory

OAI reviewed the Office’s financial management processes and controls, including cash advance payments, accounts payable and disbursements, payment of payroll, hospitality expenses, and banking and cash management. The Office processed 10,367 vouchers during the period under review with a value of \$40.7 million. OAI took a sample of 22 non-purchase order vouchers, totalling around \$6.7 million, for detailed review and testing.

One medium priority issue was identified, but due to its importance, this section was rated as “partially satisfactory.”

Issue 6 Non-compliance with the Internal Control Framework regarding processing of project personnel payroll

The Internal Control Framework 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 action. OAI noted that the Office was making payments outside of Atlas related to processing of the payroll for project personnel of two nationally implemented projects (Atlas Outputs 00070494 and 00073968), totalling approximately \$75,000 monthly. The Office had created a “master” vendor account in Atlas, under the name of “National Personnel” followed by the number of the project, to manually record the monthly consolidated payments. In doing so, the Office was in breach of the provisions of the Internal Control Framework, since the payroll payment did not fall under any of the cases stipulated in the Framework. 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, accurate accounting for related expenditures) were bypassed.

Managing payments outside of the Atlas system also 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.

Priority	Medium (Important)
Recommendation 6:	
The Office should manage all payments through Atlas and comply with the provisions of the Internal Control Framework regarding manual payments.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is already recording all payments through Atlas paycycle and is complying with the provisions of the Internal Control Framework regarding manual payments. As of 30 July 2013 for UNDP El Salvador, and 30 September 2013 for UNDP Belize, no payments for payroll accounts payable vouchers or other vouchers are being done manually. Additionally, for UNDP Belize, the Office is currently working with other Atlas agencies	

on performing the needed changes to record those payments via paycycle as well. In accordance with the Internal Control Framework, only bank charges will continue to be recorded as manually.

OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.

4.3 Procurement

Partially Satisfactory

During the review period, the Office issued around 1,100 purchase orders valued at \$8.7 million. OAI reviewed a sample of 27 purchase orders, with a total value of \$1.9 million, representing 22 percent of the value of all purchase orders issued during the review period. Where applicable, OAI reviewed the entire procurement process, from the sourcing of suppliers to contract management.

OAI noted that for 6 out of the 27 purchase orders reviewed, the Office used limited shortlists of vendors when soliciting quotations or proposals. Of these six procurement cases, four received only one acceptable quotation or proposal, thereby negatively affecting the competitiveness of the process. OAI discussed this issue with management, and advised them to improve the competitiveness of its procurement process by either increasing the number of shortlisted vendors when soliciting quotes or advertising its procurement needs. Office management took note of this and informed OAI that it would proceed to make all efforts to increase the number of shortlisted potential vendors and/or use other procurement tools to avoid receiving a limited number of acceptable responses, thus OAI did not create an audit issue.

One high priority issue was identified, so this section was assessed as “partially satisfactory.”

Issue 7 Deficiencies in procurement processes for nationally implemented projects

According to the National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures, in case a Country Office is expected or requested to support national counterparts in the implementation of projects, the support services rendered by UNDP must be in full compliance with UNDP’s Financial Regulations and Rules and using UNDP’s policies and procedures and not those of the government. Furthermore, in case of procurement services, both the government and UNDP must ensure that every procurement activity is undertaken by the same entity (government or UNDP), from sourcing to contract signing and contract management.

OAI reviewed procurement processes conducted by the Office for the nationally implemented Projects 00059394 “Dinamización de economías locales mediante el desarrollo y la reconstrucción de la infraestructura pública”, 00057145 “Proyecto de Desarrollo y Modernización rural para la región oriental” and 00059195 “Proyecto de Desarrollo y Modernización Rural para las Regiones Central y Paracentral” with procurement activities of around \$4.2 million, \$1.2 million, and \$1.7 million, respectively, and identified the following deficiencies:

- Procurement cases passing the various thresholds were not submitted to the applicable UNDP review committees (Contracts, Assets and Procurement Committee or the [Regional] Advisory Committee on Procurement) for review and approval as required.
- No purchase orders were created for procurement processes over \$5,000, as required. By not creating a purchase order, the necessary funds needed to honor the contractual obligation were not encumbered,

and thereby introducing the risk those funds would not be available at the time when payments are to be made. Finally, the Office significantly weakens the controls regarding the payment of procurement actions since the control process of three-way matching will not take place for these cases.

- With regard to Project 00059304, the procurement process was not undertaken in its entirety by the same entity, as required, given that the procurement activity was conducted by the Office but the contracts were signed by the National Project Director.
- With regard to Projects 00057145 and 00059195, the Office signed contracts with vendors before it had received the funds to cover the contractual obligation. Entering into commitments before receipt of funds exposes the Office to financial risk and possible reputational damage, in case funds are not received when payments are due.

Priority	High (Critical)
Recommendation 7:	
The Office should improve its procurement processes for nationally implemented projects by ensuring that: (a) procurement conducted by the Office on behalf of the project is being done in full compliance with UNDP Programme and Operations Policies and Procedures; and (b) the complete procurement activity from sourcing to contract signing and contract management is undertaken by the same entity (government or UNDP).	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is striving to implement the new corporate guidelines for national implementation, as required. Furthermore, it is decisively and gradually moving to ensure that the standard letters of agreement are signed for ongoing projects, and that these clearly describe the tasks to be carried out by the Office when providing support to national implementation, particularly when procurement is conducted on behalf of the projects, by: (a) moving forward with changes necessary to ensure that all procurement is conducted by the Office on behalf of the project and that this is done in full compliance with UNDP Programme and Operations Policies and Procedures; and (b) that the complete procurement process from sourcing to contract signature and contract management is undertaken by the same entity (government or UNDP). This process has not been completed yet.	

4.4 Information and communication technology

Partially 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.

One medium priority issue was identified, but due to its relevance, this section was rated as "partially satisfactory."

Issue 8 Lack of a Disaster Recovery Plan

According to the Programme and Operations Policies and Procedures, the Disaster Recovery Plan should *inter alia* include information about business requirements, back-up arrangements, and recovery procedures. In addition, Country Offices need to ensure that the plan is kept up-to-date and is regularly tested.

OAI noted that the Office had no Disaster Recovery Plan as prescribed by the Programme and Operations Policies and Procedures.

Without a proper and regularly tested Disaster Recovery Plan, it might be difficult for the Office to recover its information systems in the event of an Information and Communications Technology system failure, and puts business continuity at risk.

Priority	Medium (Important)
Recommendation 8:	
The Office should prepare a Disaster Recovery Plan, in line with the latest template issued by the Office of Information Systems and Technology, and once complete, test the plan regularly.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office prepared a Disaster Recovery Plan, in line with the latest template issued by the Office of Information Systems and Technology, and will engage in routine testing of the plan.	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

4.5 General administration

Satisfactory

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

A review of a sample of 16 international 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 and vehicles 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 the responsibilities with regard to safety and security of UNDP personnel. The Security Management Team was functioning well.

The Office was assessed as being 91 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security.

OAI reviewed the Business Continuity Plan of the Office and noted that the Plan had not been updated since 31 January 2011. Since then, changes in staffing of the Office had taken place (e.g. the Deputy Resident Representative had been replaced), and as such, the Business Continuity Plan did not reflect the existing personnel organizational chart. This issue was discussed with management, who immediately took action by drafting an updated Business Continuity Plan, and therefore OAI did not raise an audit issue.

No other reportable issues were identified.

4.7 Asset management

Partially Satisfactory

OAI reviewed asset records, asset disposal processes and the Office's 2012 mid and year-end certifications. The certified assets as of 31 December 2012 consisted of 122 assets valued at \$710,000.

One medium priority issue was raised, but due to its relevance, this audit area was rated as "partially satisfactory."

Issue 9 Weaknesses in asset management

The Programme and Operations Policies and Procedures require all assets under use and control of UNDP to be capitalized. For this purpose, offices need to maintain complete and accurate records of all assets bought from the biennium support budget or institutional budget, as well as assets acquired for directly implemented projects, which must be tagged and recorded in the Atlas Assets Module. This module captures the relevant information for each asset, such as, description, value, chart of accounts, serial number, location and tag number, if applicable.

OAI's review of the Office's asset management identified the following weaknesses:

- Only the assets purchased for management projects and directly implemented projects located at the Office's premises had been recorded in the Atlas Asset Management Module, while assets purchased for directly implemented projects located outside the Office had not been recorded. As a result, the value of the assets the Office was responsible for was understated.
- During a physical verification of 12 assets, OAI noted that the Office had developed a tagging system based on the asset location code instead of using the asset ID generated by Atlas. This could result in different assets having the same tag number, for instance, when multiple assets are located in the same room. OAI also noted that the asset tags did not match those of the Asset In-Service Report. Furthermore, not all assets selected for physical verification could easily be found by OAI, since they had been relocated without updating the location of the assets.

At the time of the audit, none of the staff were responsible for the management and control of directly implemented project assets.

Inadequate asset management may result in the misappropriation of assets. There is also a risk that the Office's assets may be over or understated in the organization's accounts.

Priority	Medium (Important)
Recommendation 9:	
The Office should improve its asset management by: (a) appointing an asset focal point for its directly implemented projects and ensuring proper, complete and timely recording of all directly implemented project assets under use and control of UNDP, including those assets currently not recorded in Atlas; and (b) implementing the tagging system provided in the Programme and Operations Policies and Procedures.	
Management comments and action plan: <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office has improved its asset management by: (a) appointing asset focal points for its directly implemented projects and ensuring proper, complete and timely recording of all directly implemented project assets under use and control of UNDP, including those assets currently not recorded in Atlas; and (b) even though the Office's tagging procedure followed 2010's guidelines, the Office agrees that overall updating is necessary to strengthen asset management, and therefore has fully implemented the tagging system provided in the Programme and Operations Policies and Procedures.	
OAI Response: OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

4.8 Leave management

Satisfactory

OAI reviewed leave management and found that leave balances recorded by the Leave Monitor reconciled with Atlas and that they had been certified at the time of the audit. However, even though Atlas e-Services was used to process leave requests, it was noted in one case that leave was approved after the staff member had actually taken leave. However, since immediate action was taken by the Office to address this situation, OAI has not raised an audit issue.

No other reportable issues were identified.

4.9 Global Environment Facility

Not Applicable

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

OAI reviewed the following Global Environment Facility projects in detail:

- Integración de la Biodiversidad en Pesca y Turismo (Atlas Project 00061339)
- Energy Efficiency in Public Buildings (Atlas Project 00060180)

In general, OAI noted overall good management of the Global Environment Facility portfolio. Project risk logs were regularly updated as required by the Programme and Operations Policies and Procedures and reports were issued as required by the Global Environment Facility.

No reportable issues were identified.

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.