



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**BELIZE**

**Report No. 1162**

**Issue Date: 20 December 2013**

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## Report on the audit of UNDP Belize 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 sub-office in Belize (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 \$3 million. This was the first audit of the Office.

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 “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, specifically with regard to the organizational structure of the Office, and weaknesses in finance. Ratings per audit area and sub-areas are summarized below.

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
<b>1. Governance and strategic management</b>				
1.1 Organizational structure and delegations of authority	Partially Satisfactory			
1.2 Leadership, ethics and values	Satisfactory			
1.3 Risk management, planning, monitoring, and reporting	Satisfactory			
1.4 Financial sustainability	Satisfactory			
<b>2. United Nations system coordination</b>				
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			
<b>3. Programme activities</b>				
3.1 Programme management	Satisfactory			
3.2 Partnerships and resource mobilization	Partially Satisfactory			
3.3 Project management	Partially Satisfactory			
<b>4. Operations</b>				

4.1	Human resources	Satisfactory
4.2	Finance	Unsatisfactory
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*	Satisfactory
4.8	Leave management*	Satisfactory
4.9	Global Environment Facility*	

\* Cross cutting themes

### Key issues and recommendations

The audit raised 12 issues and resulted in 12 recommendations, of which 2 (17 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

The high priority recommendations are as follows:

**Finance (Issue 5)**      Insufficiently justified cost recovery. The review of the 2012 cost recovery showed that the Office opted to charge Implementation Support Services based on actual costs. However, OAI identified cost recovery charges amounting to \$71,000 without proper justification. OAI recommends that the Office ensure that the basis for charging cost recoveries to projects in its portfolio is duly justified and documented.

**Procurement (Issue 9)**      Weaknesses in procurement business function. OAI identified a number of weaknesses in the procurement business function of the Office, specifically: non-submission of the Office procurement plan to UNDP El Salvador as required; not organizing submissions to the external procurement committees; non-review of contracts by the Operations Manager prior to approval; no Atlas access for project personnel thus preventing project managers from raising requisitions; and decentralized procurement function. OAI recommends that the Office improve its procurement function by enhancing its procurement planning, (b) timely submission to the external procurement committees; and (c) implementing adequate segregation of duties.

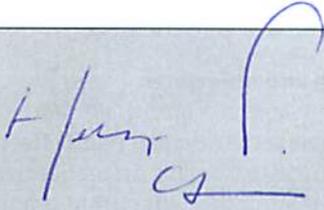
### Cross-cutting themes

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 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 that the mid-term evaluation of the project Strengthening National Capacities for the Operationalization, Consolidation and Sustainability of Belize’s Protected Areas (Atlas Project ID 00059614) had not been conducted as agreed, which had caused approval of the requested project extension to be postponed (refer to Issue 12).

**Management comments and action plan**

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



Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## **I. Introduction**

From 8 to 19 April 2013, OAI conducted an audit of UNDP Belize. 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 \$3 million. This was the first separate audit of the Office. Previous audits of the Office were conducted as a component of an audit of the UNDP El Salvador Country Office. The last such audit was conducted by OAI in 2009.

## **II. About the Office**

The Office, located in Belmopan, Belize (the Country), is a sub-office of UNDP El Salvador. The United Nations Resident Coordinator and UNDP Resident Representative (residing in El Salvador) is responsible for both UNDP El Salvador and the Office. The Office Assistant Resident Representative has delegated authority over the Office's day-to-day activities. The Office also has four national staff members, 11 service contract holders and a Peace Corps Response Volunteer.

The total programme expenditure for 2012 was \$2.8 million, of which \$1.5 million related to the Global Fund project for which the Office was the Principal Recipient.

### III. Detailed assessment

#### 1. Governance and strategic management

Satisfactory

##### 1.1 Organizational structure and delegations of authority

Partially Satisfactory

In assessing this area, OAI reviewed the Office's Balanced Scorecard, organizational structure, internal reporting lines, and delegations of authority.

The Office is a sub-office under the responsibility of UNDP El Salvador. In order to carry out its responsibility, UNDP El Salvador conducts monitoring and oversight activities remotely through daily communication and periodic visits by the Resident Representative to the Office.

Due to this arrangement, the Office did not have its own Atlas business unit identifier, but rather shared the business unit identifier (SLV10) with UNDP El Salvador. The lack of a unique business unit identifier complicated the analysis of data in Atlas as well as other corporate reporting systems, such as the Balanced Scorecard for the Office and UNDP El Salvador. At the time of the audit mission, the Office had initiated the creation of a separate business unit identifier (BLZ10), which was finally created in May 2013, but remained not operational yet at audit report time. However, even after obtaining a separate Atlas business unit identifier, the Office's organizational structure as a sub-office of UNDP El Salvador remained the same.

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

##### **Issue 1**      Weaknesses in organizational structure due to unclear roles and responsibilities of Office staff

To hold staff accountable for the tasks assigned to them, staff members need to have clear roles and responsibilities aligned with the provisions of UNDP's Internal Control Framework.

UNDP El Salvador conducted various operational activities for the Office. Specifically, UNDP El Salvador was responsible for human resource activities and processed the pay cycle for the Office. For such a structure to function properly, roles and responsibilities must be clearly defined. However, OAI noted that this was not the case, as evidenced by the following:

- There was lack of clarity regarding the Assistant Resident Representative's line of authority, as his job description was modified to a matrix management scheme with reporting lines to the Resident Representative as well as the Deputy Resident Representative, but without clearly stating which parts of the job description would be for the Resident Representative and which parts would be for the Deputy Resident Representative.
- The newly recruited Procurement Assistant was reporting to the Programme Analyst instead of the Operations Manager. OAI's review of the Procurement Assistant's job description developed by the UNDP El Salvador Human Resource Analyst showed dual reporting lines to the Operations Manager and Programme Analyst. OAI considers this to be an undesirable arrangement due to the confidentiality and sensitivity of the procurement function, which must be segregated from the programme function.
- The Office did not have a Human Resource Associate. Instead, the Operations Manager served as the human resource focal point whose responsibilities and functions were not clearly defined or adequately communicated to Office personnel. The Operations Manager was the human resource focal point and the designated leave monitor but did not have access to the Atlas Human Resource Module. Instead,

the Finance Associate had the Atlas leave monitor profile and had been granted access to the Atlas Human Resource Module, further exacerbating the lack of clarity regarding the role of the human resource focal point within the Office.

- The Atlas job codes for the Programme Analyst and the Assistant Resident Representative posts were not aligned with the corresponding job descriptions.

Unclear roles and responsibilities of personnel can lead to inefficient and ineffective business processes and a lack of accountability, increasing the risk of irregular practices that could lead to possible negative reputational consequences for the Office.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve its organizational structure by: (a) clarifying the lines of authority regarding the Assistant Resident Representative post; (b) reconsidering the dual reporting lines of the procurement assistant post; and (c) clearly defining and communicating the task of the Human Resource focal point.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Based on the comments received OAI had revised the recommendation accordingly.	
The Office has taken following actions:	
<ul style="list-style-type: none"> <li>▪ The job description of the Assistant Resident Representative was revised to specify the primary reporting line being the Resident Representative, and the secondary being the Deputy Resident Representative.</li> <li>▪ The Terms of Reference of the Procurement Assistant was revised to clearly specify the Assistant's direct reporting line to the Operations Manager.</li> <li>▪ The job description of the Human Resource focal point was reviewed to more clearly flesh out his Human Resource responsibilities.</li> <li>▪ The process for correcting the job codes for the Programme Analyst and the Assistant Resident Representative is ongoing.</li> </ul>	
<b>OAI Response:</b> 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**

During the audit mission, OAI met with the Resident Representative and Deputy Resident Representative of the Office, both located in El Salvador and subsequently met with Office staff in Belmopan. The topics discussed included the outcome of the recent Office retreat and the Office's path forward, taking into account the Work Plan.

OAI identified a potential conflict of interest in which a staff member approved the travel of a family member, who was a senior government official. Also, a review of project documents showed that this government official attended the Local Project Appraisal Committees for projects relating to the ministry the official was working for. The family relationship was not declared by the staff member nor had the staff member opted out of approving

a financial transaction involving the family member. After the audit mission, the Assistant Resident Representative informed OAI that an Ethics Workshop had been conducted for all Office personnel which explained the proper way to handle situations like the ones described above. Therefore, OAI did not raise an audit issue.

No other reportable issues were identified.

### 1.3 Risk management, planning, monitoring, and reporting

**Satisfactory**

This area was assessed to be low risk during the planning stage of the audit and no reportable issue was noted.

### 1.4 Financial sustainability

**Satisfactory**

OAI reviewed the extrabudgetary reserve and compliance with the cost recovery policies. The Office had an estimated 27 months of extrabudgetary reserve, well above the corporate threshold of 18 months. However, issues were noted with regard to compliance with the policies governing cost recovery (refer to Issue 6, section 4.2 - Finance).

No other reportable issues were identified.

## 2. United Nations system coordination

**Satisfactory**

The United Nations Country Team consisted of the following resident and non-resident agencies: FAO, IAEA, ILO, PAHO/WHO, OHCHR, UNAIDS, UNDP, UNEP, UNESCO, UNFPA, UNHCR, UNICEF, UNODC, UN Women, of which only PAHO/WHO and UNICEF had representation in the Country. The Resident Coordinator, who covered both El Salvador and the Country and who was located in El Salvador, travelled on a bi-monthly basis to the Country to conduct the United Nations Country Team meetings.

### 2.1 Development activities

**Satisfactory**

For the period under review, the Office was operating under the United Nations Development Assistance Framework 2007-2011, which was extended to 2012 in order to align with the Country Development Programme. A new United Nations Development Assistance Framework covering the period 2013-2016 had just begun when the audit fieldwork was conducted.

No reportable issues were identified.

### 2.2 Resident Coordinator Office

**Satisfactory**

The Resident Coordinator Office was composed of a United Nations Coordinator Officer and an Associate to the Resident Coordinator under a service contract. The latter was assigned to this function part-time due to other responsibilities in support of the Information and Communication Technology functions within the Office.

Meetings with United Nations agencies provided positive feedback on the Resident Coordinator's role and responsibilities related to the Resident Coordination function. The United Nations agencies expressed appreciation for the coordination efforts carried out by the Resident Coordinator.

OAI reviewed the minutes of the United Nations Country Team meetings as well as the Resident Coordinator Office Work Plan.

No reportable issues were identified.

**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 to the audit.

**2.4 Harmonized Approach to Cash Transfers**

**Partially Satisfactory**

OAI reviewed the implementation of the Harmonized Approach to Cash Transfers (HACT) and noted that one United Nations agency had reached an agreement with the University of the West Indies to provide capacity development training for the implementing partners on the Harmonized Approach to Cash Transfers; OAI considers this a good practice that UNDP might wish to follow.

Only one medium priority issue was identified, but due to its relevance, 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 and its 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. HACT compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system, (b) micro-assessments of implementing partners; (c) agreement with the Government on HACT implementation; and (d) development and execution of an assurance and audit plan for implementing partners.

At the time of the audit, the HACT modality was not fully implemented. Micro-assessments had been prepared, however they were not in line with the guidelines. In general, the micro-assessments focused on the capacity assessment of a particular project rather than on the implementing partner's general capacity as required by the HACT guidelines

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.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
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:**     Agreed     Disagreed

The Office committed to pursue the full implementation of the HACT as part of the common country programming and the United Nations Country Team.

The Office, as chair of the United Nations Operations Management Team, has taken the initiative to spearhead discussions about HACT compliance and elaborate a possible plan with United Nation Agencies to ensure HACT compliance within the entire United Nations Country Team.

### 3. Programme activities

Partially Satisfactory

#### 3.1 Programme management

Satisfactory

OAI reviewed the Country Programme Document for 2013-2017 and found that Fast Track was added to the Country Programme Document as another implementation modality and that the wording of the document was results oriented.

In the absence of a project coordinator, the Global Fund project was included in the poverty portfolio and the Programme Officer for the portfolio had recently assumed the programme responsibilities of the project.

No reportable issues were identified.

#### 3.2 Partnerships and resource mobilization

Partially Satisfactory

OAI reviewed the Office Resource Mobilization Strategy, issued in January 2011 and the Partnership Survey results. In addition, OAI met with government counterparts, implementing partners and donors. Improvements were needed to ensure effective partnerships and an enhanced resource mobilization strategy.

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

##### **Issue 3**        Outdated and inadequate resource mobilization strategy

The financial sustainability of UNDP country offices depends on their ability to mobilize resources and develop partnerships. The UNDP Programme and Operations Policies and Procedures require offices to establish an effective partnership and resource mobilization strategy.

The Office's resource mobilization strategy issued in January 2011 summarized the funding priorities and guiding principles of resource mobilization taking into account the difficult environment for fundraising in Belize. However, the document focused on the Global Fund and European Union grants and environmental funding modalities and did not address relationships with bilateral and multilateral development partners or how to access funding. The strategy also did not address the issue mentioned by one of the donors, namely that it would rather use its limited programming resources available for the Country to fund projects executed through specialized United Nations agencies instead of through UNDP. Furthermore, the strategy was not updated to address the consequences of the 2012 electoral year; a lack of new project initiatives on the part of the Government.

The lack of an up-to-date and adequate resource mobilization strategy may jeopardize the Office's ability to sustain its long term operations. Furthermore, there is a risk that insufficient financial resources may adversely affect the programme objectives.

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should update its resource mobilization strategy, taking into consideration relationships with bilateral and multilateral development partners and its current project portfolio.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is finalizing its new Resource Mobilization strategy taking into consideration relationship with bilateral and multilateral development partners and aligning it to the new Strategic Plan.	

### 3.3 Project management

**Partially Satisfactory**

The overall rating for this section takes into account the results of the audit of Global Environment Facility projects described in 4.9.

OAI selected five projects for review, which had \$2.4 million in 2012 expenditures, representing 85 percent of total programme delivery. Of these five projects, one project, i.e., Strengthening Capacities for Protected Areas Management (Atlas Project ID 00059614) was reviewed as part of the cross-cutting area on Global Environment Facility.

UNDP's Financial Regulations and Rules state that financial closure of projects should take place within 12 months of their operational closure. OAI noted that out of 14 projects, 5 projects were operationally closed for more than 12 months, but had not yet been financially closed. The Office indicated that immediate action was being taken to financially close these projects. As such, OAI did not raise an audit issue.

One medium priority issue was identified, described in sub-section 4.9 pertaining to the Global Environmental Facility (a cross-cutting theme for OAI's 2013 Work Plan).

## 4. Operations

**Partially Satisfactory**

### 4.1 Human resources

**Satisfactory**

At the time of the audit, the Office had 4 staff members, consisting of 4 international staff, 2 national officers and 1 General Service staff. In addition, there were 11 service contract holders. In what OAI considers a good practice, the Office had availed itself of a Peace Corps Response Volunteer with a health background to support the monitoring and evaluation function of the Global Fund project.

UNDP El Salvador was responsible for the Office's human resources function and payroll related activities. At the Office level, the Operations Manager was the focal point for human resources related issues.

Since only one medium priority issue was identified, this section was assessed as “satisfactory.”

**Issue 4**      Performance bonus paid to service contract holders prior to service quality assessment

According to the Service Contract User Guide, the performance bonus for service contract holders is governed entirely through the service quality assessment. The decision to grant a performance bonus is not automatic or an entitlement.

Performance bonuses, amounting to \$2,494, for three service contract holders working for the Global Fund project (Atlas Project ID 00060888) were paid in January 2013, before their service quality assessments had been completed.

By not conducting the service quality assessment prior to payment of the performance bonus, the Office runs the risk of awarding future contracts to non-performing service contract holders and thereby not receiving value for money.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should ensure that the payment of the service contract holder performance bonus is made only if justified by a duly completed service quality assessment.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will ensure that service contract evaluations are completed prior to the payment of bonuses.	

**4.2 Finance**

**Unsatisfactory**

OAI reviewed the Office's financial management processes and controls. The Office processed about 1,500 vouchers during the period under review with a value of \$3 million. OAI reviewed a sample of 30 vouchers, totalling \$750,000, as well as the Office's payment and bank reconciliation processes.

The Office could not provide OAI with the bank agreement or evidence that the Office had conducted a market assessment of bank services to ensure best value for money with respect to banking charges and the quality of services. According to the Office, the bank used by the Office could not provide e-banking services. However, OAI met with bank officials who indicated that e-banking services were available to the Office. The use of e-banking might allow the Office to start using electronic funds transfers and could facilitate monitoring its bank account. Subsequent to the audit mission, the Office followed-up with the bank regarding the services provided; and as a result OAI did not raise an audit issue on banking services.

OAI's review of the Office's payment and bank reconciliation processes identified a lack of segregation of finance duties. This occurred because the Finance Unit consisted of only one staff member who recorded payment vouchers, prepared documentation to the bank for payments (e.g. letters requesting bank transfers), authorized payments (as bank signatory) and performed the bank reconciliation. This issue was discussed with Office management who immediately took action by removing the bank reconciliation duties from the Finance Associate and assigning them to staff in the Finance Unit of UNDP El Salvador.

Since one high and three medium priority issues were identified, this section was rated as “unsatisfactory.”

**Issue 5**      Insufficiently justified cost recovery

According to the UNDP Programme and Operations Policies and Procedures, all project units can recover the cost for providing Implementation Support Services on the basis of actual costs or based on the Universal Price List, a pre-established processing fee by type of transaction.

OAI's review of 2012 cost recoveries showed that the Office opted to charge Implementation Support Services based on actual costs. OAI identified project related cost recovery amounting to \$71,000 of which \$40,000 was charged to the Atlas Project ID 00068453, resulting in cost recovery charges of 25 percent of the total project expenditures for 2012. The Office was not able to justify the amount of cost recovery charged to its various projects.

Cost recovery charges that are not sufficiently justified could lead to a dispute and/or misunderstanding.

<b>Priority</b>	High (Critical)
<b>Recommendation 5:</b>	
The Office should ensure that the basis for charging cost recoveries to projects in its portfolio is duly justified and documented.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
Based on the comments received OAI had revised the observation and recommendation accordingly.	
The Office agrees with the recommendation and will ensure that all projects will recover costs for providing implementation support services. Cost recovery charges will be explicitly mentioned in project documents, along with the criteria behind their determination.	

**Issue 6**      Incorrect use of accounts

Proper accounting for financial transactions dictates the use of the correct account codes when recording transactions in Atlas. The 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 had used some accounts incorrectly or not at all, specifically:

Value Added Tax account (Atlas account code 14056) - According to instructions issued by the Office of Financial Resources Management regarding the use of balance sheet accounts (the latest of which was issued as part of the year-end instructions for 2012), Atlas account code 14056 (Value Added Tax account) is to be debited for the Value Added Tax paid on purchases made in a country that charges Value Added Tax and credited for refunds received.

The Office was obliged to pay Value Added Tax (referred to as General Sales Tax) on its invoices, which could subsequently be claimed for reimbursement from the Government. In 2012, the total amount of General Sales

Tax claimed amounted to approximately \$20,000. OAI noted that the applicable General Sales Tax was recorded as part of the total expense of the related purchase and was not charged to the applicable Value Added Tax account. Furthermore, the General Sales tax claims which could take about three months to be reimbursed were done irregularly. As a result, the completeness of the recovery of General Sales Tax was not ensured.

Moreover, the Office processed the General Sales Tax reimbursements amounting to \$20,000 as an increase to the Office's extrabudgetary funds by crediting the Sundry account of the Office's management project instead of crediting the original account of the development project where the expenditure had been incurred. Consequently, development project expenditures were overstated by the amount of sales tax incurred.

Sundry account (Atlas account code 74525) - In 2012, expenses recorded by the Office in the Sundry account amounted to \$10,000, consisting of \$130,000 in credit entries (equivalent to reimbursement, income, etc.) and \$140,000 in debit entries (equivalent to expenditures). Based on the voucher descriptions, transactions with a value of around \$50,000 should have been accounted for as either Daily Subsistence Allowance, hospitality, or personnel cost. OAI also noted that cost recoveries for expenses not related to the Sundry account, specifically Value Added Tax reimbursement, in the amount of around \$20,000 had been credited to the account.

Government Contributions to Local Office Costs (Atlas account code 51015) - The Office had requested Government Contributions to Local Office Cost, in excess of the target calculated by the Office of Financial Resources Management. Specifically, the Office solicited and received \$60,000 instead of the target amount of \$35,000, representing a \$25,000 increase (71 percent higher). The remittances of the Government Contributions to Local Office Cost were initially recorded as a negative expenditure against the Sundry account. At year-end 2012, an adjustment was made to move the target amount of \$35,000 from the Sundry account to record it as revenue in the applicable account for Government Contributions to Local Office Cost. Hence, the excess collection of Government Contributions to Local Office Cost by \$25,000 remained misrecorded and was not readily identifiable in the books.

Finally, the account for Service Contracts-Individuals (Atlas account code 71405) was incorrectly used to record payments for individual contracts rather than the payroll expenditure of service contracts.

The improper use of account codes leads to unreliable financial reporting, mislead decision-making and/or cause misunderstanding with stakeholders. More importantly, it also allows irregularities to go undetected.

<b>Priority</b>	Medium (Important)
<b>Recommendation 6:</b>	
The Office should take measures and implement controls to ensure that financial transactions are accurately recorded in its books using accounts codes that are consistent with the nature of the transactions being recorded.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will ensure that account codes are accurately recorded through the use of direct payment requests and deposits. The Finance Associate will review the transactional chart of accounts to ensure compliance; including a monthly review at the programme level to ensure that chart of accounts is aligned to transactions and budgets.	

**Issue 7**      Incorrect use of manual payments in local currency

Manual payments are defined as payments made outside of Atlas and then subsequently recorded in Atlas. Offices are authorized to issue up to five manual cheques per month; the circumstances for making such manual payments must be documented. If this maximum number is inadequate, the Head of Office must request prior authorization from the Comptroller to exceed the limit.

The paycycle of the Office was run by UNDP El Salvador. However, payments to be made by the Office in local currency (Belizean dollars) were executed by sending a letter to the bank requesting that these payments be processed either by bank transfer or by cheque. As a result, all payments in local currency, totalling \$2 million in 2012, were excluded from the paycycle and therefore did not benefit from a cross-check at the level of UNDP El Salvador, and were reflected in Atlas as manual payments. According to the Office, this payment procedure was suggested and implemented by UNDP El Salvador in 2003. OAI was informed that continuation of this procedure after Atlas implementation in 2004 occurred because the bank used by the Office did not allow a link between Atlas and the banking system. However, OAI did not consider this a valid justification since it was possible to run the pay cycle without having a link between Atlas and the banking system.

Managing payments outside Atlas could lead to unauthorized or duplicate payments and ultimately increase the risks of irregularities.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
The Office should, in collaboration with UNDP El Salvador, process all of its payments through the Atlas system irrespective of the currency of the payment.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office is already recording all payments through the Atlas pay cycle and complies with the provisions of the Internal Control Framework (ICF) 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 the pay cycle as well. In accordance with the Internal Control Framework, only bank charges will continue to be recorded as manually.	
<b>OAI Response:</b> OAI acknowledges the action taken by the Office, which will be reviewed as part of the standard desk follow-up process of OAI.	

**Issue 8**      Improper use of project funds

Expenditures need to be based on project activities included in the approved work plan and must be in line with the approved project budget, demonstrating the appropriateness and relevance of expenditure in relation to the planned outcomes of the project.

OAI identified cash funds that were donated by the Office to entities contrary to UNDP Financial Regulations and Rules. Specifically, during 2012, two payments totalling around \$3,000 had been recorded as donations. In both cases, there was no evidence that these donations, which were paid out of project funds, had been foreseen in the Annual Work Plan and budgets for the projects. The Office had recorded these payments as donations to: (a) a ministerial committee; and (b) a sporting association.

In one case, the donation was made in cash and to facilitate the payment, the Office issued a cheque in the amount of \$1,000 on behalf of the Programme Analyst who proceeded to cash the cheque and provide the funds to a designee of the ministry.

In the other case, a donation in the amount of \$2,000 was made to a sports association to support activities carried out in 2012. OAI's review of the payments processed by the Office showed that the association had received donations from the Office totalling \$3,350 for the period 2011 through 2012.

Using project funds outside of the approved work plan and/or budget may negatively affect the achievement of project objectives and outcomes, and may result in negative reputational consequences for UNDP. In addition, issuing cheques on behalf of staff for third party payments obscures the audit trail and accountability, and could lead to fraudulent or irregular payments.

<b>Priority</b>	Medium (Important)
<b>Recommendation 8:</b>	
The Office should ensure that: (a) project funds are used only for activities included in the approved work plan and budget; and (b) third party payments are not made by raising a cheque issued to a staff member.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The Office will continue to provide adequate training to Approving Managers, Associates and Finance personnel on the financial rules and regulations to ensure that work plans and budgets are aligned and to further ensure payments are only made to individuals through an approved business transaction with UNDP. Memos were issued to all staff regarding the use of project funds for donations.	

### 4.3 Procurement

**Partially Satisfactory**

During the review period, the Office issued around 130 purchase orders valued at \$1.7 million. OAI reviewed a sample of six individual contracts, valued at around \$160,000 and five procurement processes, valued at around \$420,000. The low number of procurement processes reviewed was due to the fact that more than half of the procurement processes, amounting to around 88 percent of the total procurement value, related to Global Fund projects, which were included in the audit of the Global Fund projects conducted by OAI in 2012. The total of all individual contracts and procurement processes reviewed represented 52 percent of the value of purchase orders for the period.

Since one high priority issue was identified this section was rated as “partially satisfactory”.

**Issue 9**      Weaknesses in procurement business function

Procurement functions are to be carried out under the responsibility of the delegated authority. Further, they need to be conducted in a fair and transparent manner, in the interest of UNDP, and provide best value for money through a competitive process.

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

- UNDP El Salvador was responsible for review and approval of all of the Office's procurement processes in excess of \$30,000. However, the Office's procurement plan had not been submitted to UNDP El Salvador. This was a contributing factor in the delays encountered by the Office in obtaining UNDP El Salvador approval of Global Fund related procurements.
- Submissions by the Office to the Contracts, Assets and Procurement Committee and the Regional Advisory Committee on Procurement were not properly organized, which also contributed to the delays.
- A direct contracted civil works project valued at \$64,566 approved and awarded in August 2012 had not been submitted to the Advisory Committee on Procurement.
- Contracts were not reviewed at the supervisory level, i.e. by the Operations Manager, prior to contract approval.
- Project personnel had not been granted external access to Atlas, thus preventing project managers from raising requisitions.
- The Office's Contracts, Assets and Procurement Committee had the Procurement Assistant and the Operations Manager as members; a potential conflict of interest due to the supervisory hierarchy.
- The Procurement Assistant, who headed the Procurement Unit and performed core procurement functions, was working under a service contract whereas such functions should be performed by a staff member.
- Procurement functions were not centralized within the Procurement Unit and the Programme Unit was also involved in conducting some procurements. For example, the selection and contracting of a consultant, under an individual contract for a mid-term project evaluation was conducted by the Programme Analyst. A further review of this process showed that the selection was done solely on the basis of the price. A technical proposal was not requested and the experience of the consultant in relation to the terms of reference of the mid-term evaluation was not assessed. Awarding on price only introduces the risk that the contractor might not be able to perform the work as requested.
- Purchase orders were raised on the day payments were processed, and not when the contract was signed, contrary to UNDP Financial Regulations and Rules.

Procurement is a core function that is critical to programme/project delivery. Weaknesses in the procurement function could jeopardize the achievement of development project outcomes. In addition, these weaknesses increase the risk of non-compliance with UNDP Financial Regulations and Rules.

<b>Priority</b>	High (Critical)
<b>Recommendation 9:</b>	
The Office should improve its procurement business function by:	
<ul style="list-style-type: none"> <li>(a) enhancing its procurement planning;</li> <li>(b) timely submission to the external procurement committees; and</li> <li>(c) implementing adequate segregation of duties.</li> </ul>	

**Management comments and action plan:**     Agreed     Disagreed

The Office has implemented the use of a consolidated Procurement Plan for the first time in 2013 as the tool to properly plan all major purchases and procurements. This allows the Office to better coordinate with the UNDP El Salvador Office in reviewing the necessary cases by external committees. Furthermore, the Office has access to the Advisory Committee on Procurement online tool which it utilizes as the vehicle for this process. The Office is also in the process of reviewing its Internal Control Framework to ensure proper segregation of duties. A matrix supported by a business process workflow table to inter alia map the procurement process with proper segregation of duties is being contemplated.

**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.

#### 4.4 Information and communication technology

**Partially Satisfactory**

OAI reviewed the Office’s Information and Communication Technology structure, as well as hardware and software management and the mechanisms for disaster recovery.

OAI noted that the information and communication technology function of the Office was managed by a service contract holder.

Only one medium priority issue was identified, but due to its relevance, this section was rated as “partially satisfactory.”

**Issue 10**      Lack of Disaster Recovery Plan

According to the UNDP 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 did not have a Disaster Recovery Plan. Moreover, at the time of the audit mission, the hard drive used for backing-up information was located on the Office premises rather than in an offsite location. In addition back-up restoration procedures were not documented.

Without a proper and regularly tested Disaster Recovery Plan it would be difficult for the Office to recover its information systems in the event of an Information and Communications Technology systems failure or disaster.

<b>Priority</b>	Medium (Important)
<b>Recommendation 10:</b>	
The Office should prepare and implement a Disaster Recovery Plan in line with the latest template issued by the Office of Information Systems and Technology, and test the plan regularly.	

**Management comments and action plan:**     Agreed     Disagreed

The Office will draft and implement the Disaster Recovery Plan, including testing the plan once per year.

#### 4.5 General administration

**Satisfactory**

OAI reviewed general administration activities, including international travel, vehicle management and hospitality. Financial records storage was also reviewed.

A review of a sample of five international travel vouchers showed that travel was managed in accordance with the UNDP Programme and Operations Policies and Procedures. A one-time exception was the approval of a travel voucher by an individual that could be perceived as a conflict of interest (refer to section 1.2 - Leadership, Ethics, and Values). The Office ensured that staff members who travelled submitted their travel claims in a timely manner and with appropriate supporting documentation.

OAI's review of vehicle management showed that the Office was recovering costs from projects for using vehicles. However, rather than basing cost recovery on a mileage rate, recovery was based on a percentage of fuel usage. OAI encourages the Office to re-assess the cost recovery scheme, ensuring that all costs associated with vehicle usage are recovered based on actual mileage

No other reportable issues were identified

#### 4.6 Safety and security

**Satisfactory**

At the time of the audit mission, the PAHO representative was the United Nations Designated Official; therefore, the audit was limited to UNDP responsibilities regarding safety and security. The Office was assessed as 98 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security.

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

##### **Issue 11**      Outdated Business Continuity Plan

The Business Continuity Plan is an important resource to ensure that the office can continue to perform essential operations under all conditions.

The Business Continuity Plan issued in June 2011 had not yet been signed by the Resident Representative, and OAI found the plan to be outdated. For instance, the individual responsible for Business Continuity Management was no longer assigned to the Office. The Office stated that the Business Continuity Plan had been replaced by an Emergency Continuity Plan, which would address the issues raised by OAI. While OAI noted that the Emergency Continuity Plan was more recent, the plan had been issued in March 2012, and had indeed been approved, it was also noted to still contain outdated information.

An outdated Business Continuity Plan might negatively affect the Office's ability to perform essential operations under disaster and/or emergency conditions.

<b>Priority</b>	Medium (Important)
<b>Recommendation 11:</b>	
The Office should improve preparation for disasters and/or emergencies and its ability to maintain essential services and operations by keeping its Business Continuity Plan up-to-date.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The additional information provided by management had been reflected in the audit observation.	
The Office updates its Emergency Continuity Plan which also includes the Business Continuity Plan in June of each year. The last plan was updated as of June 2013. The Office will test the Business Continuity Plan periodically.	
<b>OAI Response:</b> OAI acknowledges the action taken by the Office subsequent to the audit and following this considers the recommendation to be fully “implemented”, which will be reflected as such in OAI’s Comprehensive Audit Report and Recommendations Database.	

**4.7 Asset management** **Satisfactory**

OAI reviewed asset management. The Office had two vehicles and 13 other assets consisting of information and communication technology equipment, valued at \$65,848 at the time of the audit. OAI physically verified the existence of assets by sampling 10 assets valued at \$57,549.

A review of the list of assets disposed of during the review period showed that seven assets were disposed of in accordance with the asset disposal and write off policy found in the UNDP Programme and Operations Policies and Procedures.

No reportable issues were identified.

**4.8 Leave management** **Satisfactory**

OAI reviewed leave management and found no reportable issues.

**4.9 Global Environment Facility**

As part of the OAI 2013 Annual Work Plan, the Global Environment Facility as a cross-cutting theme was selected to be reviewed in more depth. No rating is presented for this section as the rating has been included in section 3.3 of this report.

The project portfolio of the Office included two Global Environment Facility projects and OAI reviewed one of these: Strengthening National Capacities for the Operationalization, Consolidation and Sustainability of Belize’s Protected Areas (Atlas Project ID 00059614, Output ID 00074617).

**Issue 12**      Mid-term evaluation not performed

As stated in the Monitoring and Evaluation plan of the Project Document, project Strengthening National Capacities for the Operationalization, Consolidation and Sustainability of Belize’s Protected Areas (Atlas Project ID 00059614, Output ID 00074617).was scheduled to undergo a mid-term evaluation, in compliance with a donor requirement.

Delays in project implementation were observed. For example, out of 11 activities planned for 2012, only 9 were partially completed, resulting in a request for project extension. However, the approval of the project extension was on hold by the Environment and Energy Group as the mid-term evaluation results were considered a requirement to approve an extension. At the time of the audit, the mid-term evaluation, scheduled for November 2012, had not been performed nor had the consultants who were to perform the review been appointed. In response to the draft report, Office management informed OAI that the process to finalize the project evaluation had been initiated in a timely manner, but due to the unavailability of a suitable consultant in consultation with the Regional Service Centre Panama, the mid-term review had been delayed.

Delays in project implementation and non-compliance with Project Documents and donor requirements might negatively impact project results and cause reputational damage.

<b>Priority</b>	Medium (Important)
<b>Recommendation 12:</b>	
In order to achieve agreed upon project objectives and schedules, the Office should perform the mid-term review of project in a timely manner.	
<b>Management comments and action plan:</b> <input checked="" type="checkbox"/> Agreed <input type="checkbox"/> Disagreed	
The additional information provided by management had been reflected in the audit observation.	
The Office has completed the mid-term evaluation.	
<b>OAI Response:</b> OAI acknowledges the action taken by the Office subsequent to the audit and following this considers the recommendation to be fully “implemented”, which will be reflected as such in OAI’s Comprehensive Audit Report and Recommendations Database.	

## 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.