UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

GUATEMALA

Report No. 1182

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United Nations Development Programme
Office of Audit and Investigations

Report on the audit of UNDP Guatemala
Executive Summary

From 10 to 21 June 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of the UNDP Country Office in Guatemala (the Office). The audit covered the activities of the Office during the period from 1 January 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $57.5 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 "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 non-compliance with UNDP's overall standards for organizational behavior, non-implementation of the Harmonized Approach to Cash Transfers (HACT), weaknesses in management of a directly implemented project, inadequate financial controls, and weaknesses in procurement. 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	Unsatisfactory			
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	Partially Satisfactory			
4.2 Finance	Partially Satisfactory			
4.3 Procurement	Partially Satisfactory			
4.4 Information and communication technology	Satisfactory			
4.5 General administration	Satisfactory			
4.6 Safety and security	Satisfactory			
4.7 Asset management*	Satisfactory			
4.8 Leave management*	Satisfactory			
4.9 Global Environment Facility*	Not Applicable			

* Cross-cutting themes

Key issues and recommendations

The audit raised 15 issues and resulted in 15 recommendations, of which 5 (33 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."

The high priority recommendations are as follows:

Leadership, ethics and values (Issue 1)	Non-compliance with UNDP's overall standards for organizational behavior. A senior staff member requested that benefits from corporate contracts and privileges and immunities that are granted by the Government to the Office be extended to him. Specifically this individual asked that his dependent spouse be included in the Office's cellular phone contract in order to benefit from the preferential rates and upgraded equipment granted to the Office. Although this request was denied, the staff member had his spouse added to the contract. The staff member also requested a general sales tax exemption. Although this request was denied, the staff member used the Office's general tax exemption by having invoices for personal expenditures improperly made out to the Office. In addition, there was extensive unofficial use of Office vehicles by Office senior management contrary to the UNDP Vehicle Management Policy. These issues had been referred to OAI's Investigation Section for assessment and consideration of follow-up action. OAI recommends that the Office enforce staff compliance with UNDP's overall standards for organizational behavior and ensure that staff do not use advantages from corporate contracts and privileges and immunities granted by the Government for their personal benefit.
HACT (Issue 3)	HACT not fully implemented. Only one agency had prepared the required micro-assessments. As a result the joint audit plan and spot check plans for Implementing Partners had also not been prepared. OAI recommends that the Office fully pursue the implementation of HACT and ensure that its related requirements are duly adhered to.
Project management (Issue 6)	Weaknesses in the directly implemented project Comisión Internacional Contra la Impunidad en Guatemala (CICIG). The following deficiencies concerning project CICIG were identified: (a) the initial project was not appraised by the local Project Appraisal Committee; (b) project audits had been conducted without consultation with OAI and without following any of the OAI prescribed audit modalities; (c) the project was extended twice, without updating the original objectives, which at the time of the second extension were no longer valid since by then they had already been accomplished; (d) donor reporting was done directly by CICIG without involvement of the Office, despite that the Office had signed the donor contribution agreements and had management authority over the Trust Fund established to manage CICIG funds; and (e) the use of the direct implementation modality for the project might no longer be warranted since the CICIG carried out the majority of the activities over which the Office had no control. OAI recommends that the Office improve management of the directly implemented project with the CICIG by: (a) adhering to relevant policies of UNDP Programme and Operations Policies and Procedures; and (b) reviewing the project in coordination with CICIG to clarify different roles, update project objectives and, if applicable, change the

	implementation modality to non-governmental.
Finance (Issue 12)	Local bank account used as vendor to facilitate payments to third parties. The Office had setup its local bank account as a generic vendor in Atlas and used it to make payments to third parties. The amount paid under this modality totalled $2.4 million or around 4 percent of total payments during the review period. The Office explained that these payments were made primarily to vendors that did not have a bank account with a local bank. Using a generic vendor to record payments instead of using the name of the actual recipient obscures the identity of the final recipient and negatively affects control over the payment process. OAI recommends that the Office discontinue the use of its local bank as a generic vendor account to facilitate payments to third parties by: (a) creating a separate vendor account for each individual recipients of funds; and (b) making payments to the actual beneficiary.
Procurement (Issue 14)	Weaknesses in the procurement function. The following weaknesses with regard to the procurement were identified: (a) lack of a consolidated procurement plan; (b) extensive use of direct contracting; specifically, with regard to contracts for services and individual contracts; (c) lack of vendor performance evaluations; and (d) lack of a cost recovery strategy for failed or abandoned procurement processes. OAI recommends that the Office improve its procurement function by: (a) preparing and implementing a consolidated procurement plan; (b) ensuring that the use of direct contracting as a procurement modality is limited to exceptional circumstances, particularly in the case of contracts for services and individual contracts; (c) conducting periodic vendor performance evaluations; and (d) establishing and adopting a cost recovery strategy for failed or abandoned procurement processes.

Cross-cutting themes

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

- **Asset management**. Satisfactory. No reportable issues noted.
- **Leave management**. Satisfactory. No reportable issues noted.
- **Global Environment Facility**. No reportable issues noted.

Management comments and action plan

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. Introduction

From 10 to 21 June 2013, OAI conducted an audit of UNDP Guatemala. 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 2012 to 31 March 2013. During the period reviewed, the Office recorded programme and management expenditures totalling $57.5 million. The last audit of the Office was conducted by OAI in 2009.

II. About the Office

The Office, located in Guatemala City, Guatemala (the Country) had 36 staff members, 83 service contract holders and 3 United Nations Volunteers. The project portfolio focused on judicial reform, security and rule of law, with two projects being responsible for more than 50 percent of the total programme delivery for the last two years. At the time of the audit, the Resident Representative position was vacant and the Office was headed by the Country Director who was functioning as Resident Representative ad interim.

The United Nations, in agreement with the Government, created a commission known as the Comisión Internacional Contra la Impunidad en Guatemala (CICIG) to identify and dismantle powerful clandestine armed groups. Although the commissioner of the CICIG was appointed by the United Nations Secretary-General, the commission was neither a United Nations entity nor a governmental entity, making it, according to the Secretary-General, a unique mechanism in the world. The Office supported the implementation of CICIG through a directly implemented project. The support project, which started in 2007 and had total budget of $124 million, has been managed as a very sensitive project, adding complexity to the project portfolio and to the Office's day to day operations.

The Country had a population of about 15 million and was ranked medium (133 out of 187) on the last Human Development Index which was below the medium human development level and below world and regional index averages.

III. Detailed assessment

1. Governance and strategic management — Partially Satisfactory

1.1 Organizational structure and delegations of authority — Satisfactory

During the audit mission, the Country Director was the Resident Representative ad interim. The Resident Representative position had been vacant since 5 November 2012. The new Resident Representative assumed office on 1 July 2013 subsequent to the audit mission.

OAI reviewed the Office's Atlas profiles and identified misalignments with the Internal Control Framework, specifically: (a) the Operations Manager had senior manager approval rights and also vendor approval rights which was a breach of the segregation of duties; (b) the Office had only one user with vendor approval rights, which could delay the approval of new vendor accounts; and (c) the Office had seven staff members with bank signatory rights, contrary to the Internal Control Framework which states that bank account signatories should be kept to a minimum. Subsequent to the audit mission, the Office took immediate corrective measures to mitigate these misalignments with the Internal Control Framework, thus OAI did not raise an audit issue.

No other reportable issues were identified.

1.2 Leadership, ethics and values — Unsatisfactory

OAI reviewed compliance with the policies on financial disclosure and reporting of outside activities as well as the completion of the mandatory ethics training. The Human Resources Analyst had received specific ethics training and advised staff members as necessary. Staff members who were conducting outside activities had solicited guidance from the Ethics Office.

Interaction of senior management with staff members was discussed with all parties involved, including the Staff Association. All parties mentioned that regular staff meetings took place since the arrival of the Country Director in November 2012.

One high priority issue was noted, but due to its importance this section was rated as "unsatisfactory".

Issue 1 <u>Non-compliance with UNDP's overall standards for organizational behavior</u>

UNDP operates under a set of six values that define the overall standards for organizational behavior: integrity, transparency, mutual respect, professionalism, accountability and results orientation. These standards provide clear principles on how staff members interact with their clients and stakeholders, with each other, and in fulfilling their work responsibilities. These standards are based on the United Nations Code of Conduct and are supported by a number of regulations, rules, policies and procedures as prescribed *inter alia* in the UNDP Legal Framework for Addressing Non-compliance with UN Standards of Conduct, Staff Rules - Staff Regulations of the United Nations, Standards of Conduct for the International Civil Service, and the UNDP policy on fraud and other corrupt practices ("UNDP Anti-fraud policy").

OAI noted a number of issues that constitute non-compliance with the standards for organizational behavior; specifically:

- A senior staff member requested that benefits from corporate contracts and privileges and immunities that are granted by the Government to the Office be extended for his personal benefit. Specifically:
  - The senior staff requested that his dependent spouse be included in the Office's cellular phone contract in order to benefit from the preferential rates and upgraded equipment granted to the Office. The Office denied the request after soliciting advice from the Ethics Office. However, the senior staff member went ahead and had his dependent spouse added to the contract.
  - The staff member also requested an exemption from paying general sales taxes (IVA) on personal expenditures. However, the Government only extended this benefit to the Office, as an international organization, and to the Resident Representative, as the Secretary-General's representative in the Country, and not to other international staff members. The Office declined this request but the staff member used the general exemption granted to the Office by having invoices for personal expenditures made out to the Office.

- Office staff extensively used official vehicles for unofficial purposes, which was not in line with the applicable policies (refer to Issue 17).

This issue has been referred to OAI's Investigation Section for assessment and consideration of follow-up action.

Claiming benefits and / or privileges granted to the Office for personal purposes in clear contradiction with prevailing policies and arrangements is an abuse of authority and a violation of the privileges granted by the host government. This could lead to reputational damage to the Office and UNDP. It is also sets a very poor example for the staff and adversely affects the Office's work and control environments.

Priority High (Critical)
Recommendation 1: The Office should enforce staff compliance with UNDP's overall standards for organizational behavior and ensure that staff do not take advantage of corporate contracts and privileges and immunities granted by the Government for their personal benefit.
Management comments and action plan: __√__ Agreed ____ Disagreed The Office committed to take all measures to enforce staff compliance with UNDP's overall standards for organizational behaviour and to ensure that staff do not take advantage of corporate contracts and privileges and immunities granted by the Government for their personal benefit.

1.3 Risk management, planning, monitoring and reporting — Satisfactory

OAI reviewed the information recorded in the corporate tools such as the Integrated Results Based Management platform where the Integrated Work Plan and its risks are entered and monitored and Atlas concerning individual projects. One issue was identified and is described below. The Office's planning and reporting practices were also reviewed and found to be adequate.

Issue 2 Insufficient monitoring of the Integrated Work Plan

According to the Programme and Operations Policies and Procedures, when preparing the Integrated Work Plan Country Offices are required to update their programme portfolio and enter annual development output targets, set targets for the Balanced Scorecard indicators, and assess risks to achieve these results. Once the Integrated Work Plan is approved by the Regional Bureau, the targets are considered a commitment and thus achieving them is critical for the Office. Quarterly monitoring of the Plan is needed to assess progress and make necessary adjustments in order to achieve the targets.

The Office did not update the status of target achievements in the Integrated Work Plan quarterly, and thus all outputs showed no progress. In addition, several information regarding output targets for 2013, indicators and baselines, risks, monitoring items and evaluation plans were not entered in Atlas. As a result, there were no target indicators that are used to measure performance, affecting the ability to adequately monitor progress against the Integrated Work Plan.

By failing to monitor the Integrated Work Plan, the Office runs the risk of being unable to determine the status of achievement of its targets and take corrective actions and/or implement strategic changes, if necessary, to achieve the agreed upon development results.

Priority	Medium (Important)
Recommendation 2: The Office should improve its monitoring of the Integrated Work Plan by: (a) updating target status quarterly as required; and (b) entering the output information, targets, indicators and baselines, risks, and other related information into Atlas.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office started updating the information missing in the Atlas outputs and information from the first quarter in the Integrated Work Plan. The Office also committed to monitor and ensure that the information is regularly updated.	

1.4 Financial sustainability — Satisfactory

OAI reviewed the programme delivery rate and cost recovery policy compliance. The Office had been experiencing a negative trend in programme delivery which affected its extrabudgetary reserves, which decreased from 39 months at the end of 2011 to 33 months by the end of 2012. However, this level was still well over the corporate defined minimum of 12 months.

Since 2004, payments made by the Government relating to Government Contributions to Local Office Costs were not in line with the target amounts, leading to a total outstanding balance of $332,645 at the end of 2012. OAI has performed a review of UNDP's policies, procedures and practices for managing Government Contributions to Local Office Costs. The related report - number 758 was issued on 14 July 2011 and included a number of recommendations for improvement at the corporate level. OAI is already following up the implementation status of these recommendations. Therefore, no recommendation about this issue was made in this report.

No other reportable issues were identified.

2. United Nations system coordination — Satisfactory

The United Nations system had a strong presence in the Country with the following resident agencies: FAO, IFAD, IOM, OHCHR, UN AIDS, UN Women, UNDP, UNDSS, UNESCO, UNFPA, UNICEF, UNOPS, UNV, WFP, WHO/PAHO and the World Bank.

At the time of the audit, the UNFPA Resident Representative was acting as the Resident Coordinator ad interim covering the transition period between the departure of the previous Resident Coordinator on 5 November 2012 and the arrival of the new Resident Coordinator on 1 July 2013.

OAI met with the Resident Coordinator ad interim and with the Resident Representative of UNICEF to discuss the coordination function.

2.1 Development activities — Satisfactory

The Common Country Assessment and the United Nations Development Assistance Framework for the period 2010-2014 were reviewed and found to be not aligned with the Government's four year cycle (2007–2011/2012-2016). According to the two United Nations agency representatives interviewed this non-alignment created challenges with regard to implementing, reviewing and evaluating the United Nations Development Assistance Framework.

OAI noted that the mid-term evaluation of the United Nations Development Assistance Framework (UNDAF) 2010-2014 was not carried out as planned. However, subsequent to the audit fieldwork, the Office informed OAI that the UNDAF 2010-2014 was evaluated in October 2013 and a final evaluation is scheduled for December 2014.

2.2 Resident Coordinator Office — Satisfactory

The Resident Coordinator Office was staffed with one national officer, one general service staff member, one service contract holder funded by the United Nations Development Group, one service contract holder funded by UNDP, one international United Nations Volunteer, one consultant funded by UNFPA, and one consultant funded by the Millennium Development Goals Fund. In addition, the Resident Coordinator Office had one communications officer for which UNDP and the Millennium Development Goals Fund each provided 50 percent of the funding.

OAI interviewed two United Nations agency representatives and government counterparts who expressed some concerns about the coordination efforts regarding ongoing joint programmes. Furthermore, the Operations Management Group and the Monitoring and Evaluation Theme groups were only meeting once a year and were not coordinating or collaborating on critical areas such as common services and evaluation of the UNDAF.

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.

2.4 Harmonized Approach to Cash Transfers — Partially Satisfactory

A joint working group on HACT, consisting of representatives of three Executive Committee agencies (UNDP, UNFPA, and UNICEF), was responsible for HACT implementation and reporting to the United Nations Country Team.

One high priority issue was identified so this section was rated as "partially satisfactory".

Issue 3 HACT not fully implemented

HACT is an integral part of the common country programming processes. HACT implementation involves a series of steps taken 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) an assurance and audit plan of Implementing Partners has been developed and implemented.

At the time of the audit, HACT was not fully implemented although the Government agreed to its implementation in the Country Program Action Plan. The macro-assessment was prepared in 2010. However, only UNICEF had prepared micro-assessments. As a result, the joint audit and spot check plans for Implementing Partners had not been prepared.

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

Priority	High (Critical)
Recommendation 3: The Office should fully pursue the implementation of Harmonized Approach to Cash Transfers and ensure that its related requirements are duly adhered to.	
Management comments and action plan: __√__ Agreed ____Disagreed The Office will pursue the implementation of HACT in 2014.	

3. Programme activities — Partially Satisfactory

3.1 Programme management — Satisfactory

OAI reviewed the Country Programme Document for 2010-2014 which was approved by the UNDP Executive Board during its second regular session of 2009. The Country Programme Document was found to be aligned with the United Nations Development Assistance Framework 2010-2014. However, OAI noted that the harmonized programming cycle was not aligned with the four-year Government's presidential cycle complicating alignment with national development plans.

OAI's review of the project portfolio showed that nationally implemented projects had not been audited to cover the period 1 January to 31 December 2012 in compliance with the policy pertaining to the audit of nationally implemented projects. In addition, the Office contracted an audit firm to audit these project for expenditure incurred over the period 1 January to 30 September 2012. These audits were commissioned by the Office without prior consultation with OAI and, in essence, resulted in an unnecessary duplication of efforts and a potential waste of resources. The Office management explained that this was an unusual situation due to the change in government, which requested that all ongoing nationally implemented projects be audited. Nevertheless, OAI advised management that similar situations requires prior consultation with OAI. Since this was an exceptional situation and Office management agreed to consult with OAI, in the event of a similar situation, OAI did not raise an audit issue.

Issue 4 Weak Country Programme Action Plan results indicators

According to UNDP's Handbook on Planning, Monitoring and Evaluating for Development Results, indicators describe how to track intended results. Meaningful results, which are well formulated impacts, outcomes, outputs, activities and indicators of progress, are crucial for proper monitoring and evaluation.

OAI noted that several Country Programme Action Plan indicators were not SMART (Specific, Measurable, Attainable, Relevant, and Time-bound), but were rather descriptions of activities, which did not permit an assessment of progress toward agreed results. Although the original document was signed in 2010 and subsequently reviewed by the Office, the indicators remained the same. The Office management indicated that for the new program cycle starting in 2015, the indicators for the new Country Programme Action Plan would be SMART. Nevertheless, since the current programme runs through 2014, it is necessary to update the current indicators in order to permit adequate assessment of progress.

Without SMART indicators, it is difficult to monitor the progress towards the agreed development results and to make necessary adjustments in a timely manner. Failure to meet expected results can negatively affect UNDP's reputation and could reduce donor interest in funding future projects.

Priority	Medium (Important)
Recommendation 4: The Office should ensure that the Country Programme Action Plan indicators are based on UNDP's Handbook on Planning, Monitoring and Evaluating for Development Results and that they are "SMART" – Specific, Measurable, Attainable, Relevant, and Time-bound.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office is taking the necessary actions to make sure that baseline indicators are developed in the next Country Programme Document and Country Program Action Plan (2015-2019) following the methodology of Result Based Management and SMART outputs and indicators.	

3.2 Partnerships and resource mobilization — Partially Satisfactory

OAI met with government counterparts, Implementing Partners and donors, who expressed their appreciation of the Office as a development partner. In addition, OAI found that the Office had complied with the requirement to upload all locally approved contribution agreements to the centrally managed Document Management System.

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

Issue 5 Inadequate management of contributions

When receiving contributions from donors, UNDP uses standard agreements which clearly set out the terms and conditions of the contribution and the applicable rules. These contributions must then be recorded in the corporate systems such as UNDP’s Enterprise Resource Planning system (Atlas) with the correct donor code.

OAI noted that the Office created a common donor named “basket fund” which was used to record contributions from more than one donor. During 2013, the basket fund amounted to $47,000 and included contributions from the Netherlands and Spain. In addition, instead of using the standard contribution agreements for these contributions to the “basket fund” the Office used a Memorandum of Understanding, which is a type of agreement on collaboration work rather than for receipt of contributions.

Furthermore, some contributions were not received in time and, to be able to continue with project activities, the Office transferred money from fund 11888 (Country Co-Financing) as loans to other funds. Loans made prior to 2013 were all subsequently recovered. For the first half of 2013 the total amount transferred from fund 11888 amounted to around $200,000 of which some $80,000 was still outstanding at the time of the audit. Experience showed that the Office keeps track of outstanding loans and, in particular for fund 11888, all loans had been recovered.

Without standard contribution agreements (which indicate the specific donor, the amount contributed, and the terms and conditions) as well as the inappropriate use of individual donor codes in Atlas, the Office runs the risks of not being able to accurately account and properly report receipt and use of donor contributions. In addition, making inter-fund loans between projects is not in conformity with UNDP financial rules. These violations of procedure will cause loss of donor confidence and put at risk the reputation of UNDP.

Priority Medium (Important)

Recommendation 5:

The Office should improve its management of contributions by:

(a) ensuring that standard contribution agreements are used to engage donors;
(b) discontinuing the use of the generic donor code called basket fund; and
(c) discontinuing the practice of making loans from fund 11888 (Country Co-Financing) or any other source to cover pending contributions.

Management comments and action plan: __√__ Agreed _____ Disagreed

In the future the Office will follow the standard agreement, but in special circumstances where that is not possible, the Office will request from the Bureau of External Relations and Advocacy the corresponding clearance to use the non-standard contribution agreements. Nevertheless, the Office would like to highlight the fact that only two cases out of several dozens were not submitted to the Bureau of External Relations and Advocacy.

The Office has already discontinued using the generic donor code called "basket fund" and use the fund 11888 to cover deficits of Cost Sharing contributions.
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 54 development projects. OAI selected seven projects for further review, of which four were nationally implemented, one was implemented by a non-governmental organization and two were directly implemented by the Office. Of the four nationally implemented projects, two were Global Environment Facility projects. The result of the review of the Global Environment Facility projects is presented in section 4.9. The value of the seven projects reviewed was $33.2 million representing 62 percent of total programme expenditure of $53.2 million during the review period. The projects were reviewed with respect to their compliance with documentation requirements, appraisal, approval, monitoring and evaluation, annual reporting of results, the lessons learned log and donor reporting.

The project documents used by the Office did not conform to the corporate template and some sections were missing, such as the section on the Quality Assurance for Activities. In addition, the project documents used were not consistent between the various programme units. This was discussed with the Office management, which informed OAI that the latest template obtained from the Programme and Operations Policies and Procedures was used for new projects and that during the Pre-Project Appraisal Committee meetings, consistency and compliance with the template were verified, thus OAI did not raise this as an audit issue.

One high and two medium priority issues were identified so this section was rated as "partially satisfactory".

Issue 6 Weaknesses in the directly implemented project Comisión Internacional Contra la Impunidad en Guatemala (CICIG)

The CICIG is an independent international entity, unique in the world, charged with investigating and prosecuting serious crime in the Country. It was created on 12 December 2006, when the United Nations and the Government signed a treaty-level agreement establishing CICIG as an independent body to support the Public Prosecutor's Office, the National Civilian Police and other government institutions in the investigation of a limited number of sensitive and difficult cases. The ultimate goal was that through CICIG's work, the national judicial sector institutions could be strengthened to continue to confront illegal groups and organized crime. At the Secretary-General's request, the Office supported the creation of the CICIG through a directly implemented project. The project started in November 2007 with an end date of January 2014 and a total budget of about $124 million. Project expenditures totalled $15 million during 2012 and $3 million in the first quarter of 2013.

OAI's review, which focused on the project document, agreed results, and management arrangements identified the following deficiencies:

- The initial project was not appraised by the local Project Appraisal Committee.
- CICIG and the Office had arranged for audits of the project. However, these audits were done without consultation with OAI and did not follow any of the OAI prescribed audit modalities.

- The project was extended twice, without updating the original objectives. At the time of the second extension, which took place in 2011, the original objectives were no longer valid since they referred to creating CICIG, which had already been accomplished.
- CICIG handled donor reporting directly without the Office being involved, although the Office had signed the donor contribution agreements and had management authority over the Trust Fund established to manage CICIG funds.
- The rationale for using the direct implementation modality for the project might no longer be valid since the CICIG carried out the majority of the activities over which the Office had no control.

By deviating from standard implementation modality arrangements which are designed to control risks flowing from project implementation and contribution management, the Office and potentially UNDP are exposed to risks, such as the inability to comply with donor and corporate requirements and failure to achieve project objectives, leading to reputational risks not only for UNDP but for the United Nations, it being the signatory to the treaty-level agreement.

Priority High (Critical)
Recommendation 6: The Office should improve management of the directly implemented project with the Comisión Internacional Contra la Impunidad en Guatemala (CICIG) by: (a) adhering to relevant policies of UNDP Programme and Operations Policies and Procedures; and (b) reviewing the project in coordination with CICIG to clarify different roles, update project objectives and, if applicable, change the implementation modality to non-governmental.
Management comments and action plan: __√__ Agreed ____ Disagreed Based on the comments received, OAI has revised the observation accordingly, The Office will ensure that applicable UNDP Programme and Operations Policies and Procedures are applied as well as review the project in coordination with CICIG to clarify roles and update objectives. However, considering that CICIG is a non-United Nations entity approved by the United Nations Secretary-General at the request of the Government and that it is not an official government institution, the Office will consult with the United Nations Department of Political Affairs and the UNDP Regional Bureau for Latin America and the Caribbean to clarify the overall responsibilities of the Office that does not have the same control over the CICIG project as it has over other projects.

Issue 7 <u>Corporate guidelines for nationally implemented projects not fully adhered to</u>

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 Country Office support to national implementation, UNDP provides specific support services. Furthermore, in case of procurement services both the Government and UNDP must ensure that every procurement activity must be undertaken by the same entity (Government or UNDP) from sourcing to contract signing and contract management.

The Office had failed in some instances to implement the corporate guidelines regarding Country Office support to national implementation; specifically:

- The Office had signed a generic Memorandum of Understanding with the Government for support to nationally implemented projects instead of the mandated individual Letter of Agreement.
- The procurement process for nationally implemented projects was not handled in its entirety by either the Implementing Partner or by the Office as required.

Failure to implement the corporate guidelines results in non-compliance and creates issues of accountability as the roles and responsibilities are not clearly defined for either the Office or the Implementing Partner and further, there is no clarity as to which regulations, rules, policies and procedures govern the processes.

Priority	Medium (Important)
Recommendation 7: The Office should comply with the National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures, for all new and extended projects	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office is already undertaking the appropriate actions.	

Issue 8 Project Appraisal Committee meetings not following prescribed procedures

According to the Programme and Operations Policies and Procedures as part of the project appraisal process, UNDP representatives and stakeholders shall ensure that a project is designed with clear focus on agreed results. All projects and substantive revisions should be reviewed in a Project Appraisal Committee meeting to ensure that outputs are aligned with the desired results of the Country Programme and that a proper project management structure is in place to monitor and evaluate results.

OAI's review of seven development projects showed that three were not reviewed or recommended for approval by the Project Appraisal Committee. In addition, most of the substantive revisions made to the sampled projects were not reviewed by the local Project Appraisal Committee as required. For instance, two of the projects not reviewed had indicators that lacked a baseline, source of information, and an interval between readings; resulting in having indicators that were descriptive rather than measurable. This has made the achievement of results prone to subjective analysis. A proper review by a Project Appraisal Committee might have spotted such weaknesses, which could have been immediately addressed during the project design.

Weaknesses in the review and approval of projects increase the risk of not achieving expected results. These results need to be fully aligned with the agreements between the host government and stakeholders through the Country Programme Action Plan. Failure to meet expected results can negatively affect UNDP's reputation and could reduce donor interest in funding future projects.

Priority	Medium (Important)
Recommendation 8: The Office should ensure that all projects and substantive revisions are reviewed and recommended for approval by the Project Appraisal Committee as set out in the Programme and Operations Policies and Procedures.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has already started to implement this recommendation by ensuring that new projects and substantive revisions have been submitted for revision and approval by the Project Appraisal Committee, involving the most relevant participating partners.	

4. Operations — Partially Satisfactory

4.1 Human resources — Partially Satisfactory

At the time of the audit, the Office had 36 staff members, consisting of four international staff, 12 national officers and 20 general service staff. In addition, there were 83 service contract holders and three United Nations Volunteers. The human resources function was performed by a Human Resources Analyst, one Human Resource Associate and two service contract holders.

OAI reviewed the overall management of human resources, including staff recruitment. In addition, OAI reviewed staff benefits and entitlements such as: annual leave, home leave, travel and salary advances to ascertain if these were administered in compliance with the relevant policies and procedures.

Three medium priority issues were identified, so this section was rated as "partially satisfactory".

Issue 9 Incorrect application of Special Post Allowance

The United Nations Staff Rules and Staff Regulations and the UNDP Rank in Post Policy promulgate guidance on the Special Post Allowance. In principle, staff members are expected, as a part of their customary work, to assume temporarily the duties and responsibilities of a higher level post without extra compensation. Nevertheless, a staff member may under certain circumstances be granted a Special Post Allowance while serving at a level higher than his/her regular grade. The Special Post Allowance is temporary, of an 'exceptional' nature and is specific to the post in question.

A senior staff member was granted a Special Post Allowance, which was not in line with the provisions of the allowance. Following a request by the then Resident Representative, the Special Post Allowance granted to the staff member was approved by the Director of the Regional Bureau for Latin America and the Caribbean for a period up to the arrival of the incumbent assigned to the post. However, payment of the Special Post Allowance continued after arrival of the incumbent on 5 November 2012 until 31 July 2013. This continued payment resulted in a payment of Special Post Allowance for nine months (November 2012 through July 2013), totalling about $14,000.

Priority	Medium (Important)
Recommendation 9: The Office should seek guidance from the Office of Human Resources on how to address the payment of Special Post Allowance from November 2012 through July 2013 to a staff member totalling about $14,000.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office contacted the Office of Human Resources and the Regional Bureau for Latin America and the Caribbean to review the case and the Special Post Allowance was duly cleared by the Office of Human Resources on a post facto basis and approved by the Regional Bureau Director until 1 July 2013 (retroactive approval dated 19 July 2013). The Special Post Allowance was duly discontinued as of 1 July 2013. An overpayment did not take place.	
OAI Response: OAI did have some concerns with the Office of Human Resources approval and therefore subsequently contacted the Office of Human Resources for an explanation. The Office of Human Resources informed OAI that they, as per their delegated authority, had made a discretionary decision to exceptionally approve continuation of the Special Post Allowance after the arrival of the incumbent. The justification for this was that the staff member continued to assume the duties and responsibilities of the incumbent's post as the incumbent himself was immediately appointed to perform the duties and responsibilities of the next higher level post. Following the explanation from the Office of Human Resources OAI considers this issue closed and the recommendation to be fully implemented, which will be reflected as such in CARDS.	

Issue 10 Weaknesses in recruitment and selection processes

The UNDP Recruitment and Selection Framework stipulates that recruitment and selection of UNDP staff members will be guided by the following five principles: competition, objectivity, transparency, diversity and accountability.

The recruitment weaknesses identified during the audit period were as follows:

- Staff members, who were designated by job applicants as their professional references also served as members of the Compliance Review Panel, thereby compromising transparency and objectivity of the process.
- No criterion was established for the first step of the evaluation process. A minimum score of 70 points should be established and only candidates meeting or exceeding this score would continue the recruitment process. Establishing such a criterion would help to ensure that the competition is objective equal level playing field.

Failure to comply with the requirements of the recruitment and selection framework could result in a perception that the process was unfair and/or not transparent, which may negatively impact staff morale and the reputation of the Office and UNDP. It may also put at risk that not the right person is selected and recruited.

Priority	Medium (Important)
Recommendation 10: The Office should ensure full compliance with the UNDP Recruitment and Selection Framework by: (a) establishing that individuals being used as references for applications are not involved in the selection process particularly as members of the Compliance Review Panel; and (b) establishing a well-designed scoring methodology to ensure fair and objective assessment of credentials and competencies of candidates.	
Management comments and action plan: __√__ Agreed ____ Disagreed Appropriate actions were taken based on the recommendations.	

Issue 11 Deficiencies in the use and management of service contracts

The service contract guidelines stipulate that Country Offices must ensure that individuals engaged with these contracts are covered under a pension plan, as appropriate. Coverage may be provided through one of the following options and the service contract holder must indicate which option is selected: (a) a private group scheme; (b) a pre-existing private scheme; (c) a national social security scheme if it exists. Individuals working under service contracts are allowed to contribute directly to such a social security scheme. Where no pension scheme is in place or where there is only a national scheme that does not permit direct participation by the service contract holder, a lump sum equivalent of 8.33 percent of monthly remuneration rate can be granted by the Director, Office of Human Resources on an exceptional basis for the period in which no pension scheme is in place. This arrangement is subject to review on an annual basis. The Office had opted to pay the 8.33 percent lump sum but, approval had not been requested from the Director, Office of Human Resources nor had this option been reviewed annually.

The service contract is a modality for hiring individuals under a non-staff contract. On the other hand, an individual contract is a procurement action intended solely to obtain time bound and deliverable services. OAI noted that a number of contracts were issued as service contracts although the relevant terms of reference identified time and deliverable bound services. Thus, an individual contract should have been used.

The incorrect application of lump sum in lieu of pension fund scheme and the inappropriate use of contract modality for the hiring of personnel are practices that circumvent prescribed procedures that may create financial risks for the Office.

Priority	Medium (Important)
Recommendation 11: The Office should improve management of service contracts by: (a) identifying a pension fund scheme for service contract holders and if no scheme exists seeking approval from the Director, Office of Human Resources to pay the lump sum; and (b) ensuring that consultants providing time bound and deliverable activities are hired under the correct contract modality; i.e. individual contract.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office clarified that it did not opt to pay the 8.33 percent lump sum option, but is currently granting	

coverage under the "pre-existing private scheme" option based on a normal and customary amount at the duty station (quetzals 600). However, upon the service contract migration to Atlas, the social security issue of service contracts is being addressed with the Office of Human Resources. The situation will be regularized and approved by the Office of Human Resources by the beginning of 2014.

The Office will take the appropriate measures in order to ensure that consultants providing time and deliverable bound activities are hired under the correct contract modality (Individual Contracts).

4.2 Finance — Partially Satisfactory

OAI reviewed the Office's financial management processes and controls including accounts payable and disbursements, hospitality expenses, and banking and cash management. The Office processed around 9,400 vouchers during the review period with a value of $56.7 million. OAI reviewed a sample of 43 payment vouchers totalling about $3.5 million; a sample of 11 general ledger journal entries and six vouchers related to hospitality expenses, totalling about $2,600 out of $13,600.

Once high and one medium priority issues were identified, so this section was rated as "partially satisfactory".

Issue 12 Local bank account used as vendor to facilitate payments to third parties

To ensure the implementation of proper controls and the creation of a correct and complete audit trail, payments need to be recorded against the final recipient of the payment.

The Office had setup its local bank account as a vendor in Atlas which it used to facilitate payments to third parties with which the Office had done business, but for whom the Office had not set-up a vendor account in Atlas. The amount paid under this modality totalled $2.4 million or around 4 percent of total payments during the review period. The Office explained that these payments were made primarily to vendors that did not have a bank account with a local bank. This was done because the Office had previously encountered difficulties in paying vendors with foreign bank accounts due to incorrect and/or incomplete bank information when creating vendors in Atlas. To avoid these problems the Office had opted to set up its local bank as a vendor, allowing them to pay into the bank and subsequently have the bank pay the final recipient through the foreign bank account of the third party.

Using a generic vendor to record payments instead of using the name of the actual recipient obscures the identity of the final recipient and negatively affects control over the payment process because:

- The total amount paid to a particular vendor cannot easily be tracked, which can lead to non-compliance with UNDP policies and procedures (e.g. vendors for which the total amounts paid surpass the applicable thresholds are not being submitted to the applicable oversight committees for review and approval).
- Corporate control to prevent payments to vendors on the Security Council's 1267 list is not possible.
- Corporate reporting on total payments made to vendors will be inaccurate.

Priority	High (Critical)
Recommendation 12: OAI recommends that the Office should discontinue the use of its local bank as a generic vendor account to facilitate payments to third parties by: (a) creating a separate vendor account for each individual recipient of funds; and (b) making payments to the actual beneficiary.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has already started to create vendor profiles for recipients of funds and process payment to valid vendors instead of generic vendors. The Office is now processing all Electronic Fund Transfers through Atlas to the corresponding vendor.	
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.	

Issue 13 Deficiencies in the management of the Petty Cash Fund for management projects

A Petty Cash Fund is the cash balance kept in the safe in a Country Office's main office or a headquarter unit to meet small expenses for management projects where the use of cheques or electronic funds transfer is inefficient.

The maximum Petty Cash Fund balance is $1,000 and any Country Office with Petty Cash Fund requirements above $1,000 must seek the Treasurer's approval in advance by written request containing detailed justifications.

Expenses qualified to be paid from Petty Cash Fund are small purchases for management operations (not programmes) not to exceed the equivalent of $100.

OAI noted deficiencies in the management of petty cash funds; specifically:

- The Office Petty Cash Fund, established at $1,000, was used to pay or reimburse miscellaneous expenditures which included snacks and meals, provided to office personnel when conducting internal or external meetings. These expenditures were charged to the Sundry Account 74425. The Office indicated that the payment of snacks / meals occurred whenever personnel held meetings during lunch or after hours to accomplish certain tasks that could not be accomplished during normal working hours (inventory, server upgrades, preparation for mission, etc.). However, following the Programme and Operations Policies and Procedures these are not valid reasons for payment of snacks and meals.
- A cash advance for $1,000 was issued to an Office staff member and managed similarly to a petty cash fund. These funds were used to reimburse miscellaneous minor expenditures that were not reimbursed through the Office petty cash fund. In doing so, the Office created de facto a second Petty Cash Fund for which the Office had not obtained approval from the Treasury. Furthermore, the advance was not safeguarded in the Office safe as it was retained in the staff member's personal bank account, contrary to the policy on Petty Cash Fund management.

Non-compliance with the policies and procedures governing the Petty Cash Fund for management projects increases the risk of loss and/or incorrect use of funds and which creates a financial risk for the Office.

Priority	Medium (Important)
Recommendation 13: The Office should improve its management of the Petty Cash Fund by: (a) ceasing the practice of using the Petty Cash Fund to pay for snacks and meals of staff members; and (b) recover the $1,000 cash advance issued to the staff member.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has discontinued this practice and will only use the office's petty cash to make small cash payments.	

4.3 Procurement **Partially Satisfactory**

The Procurement Unit consisted of three staff members and two service contract holders. During the review period, the Office issued around 700 purchase orders valued at $5.5 million. OAI reviewed a sample of nine individual contracts, valued at about $181,000 and 21 procurement processes, valued at some $580,000. The contracts and procurement processes reviewed represented about 14 percent of the value of all purchase orders. OAI reviewed the pre-award, award and post award phases of the procurement processes.

One high priority issue was identified so this section was rated as "partially satisfactory".

Issue 14 Weaknesses in the procurement business function

The Programme and Operations Policies and Procedures indicate that during the definition stage of the project cycle, consideration must be given to the acquisition of goods, services and works for the successful implementation of the project. In addition, all procurement needs are 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:

- The Procurement Unit had not prepared a consolidated procurement plan, and, as a result, it was not possible to determine the amount of planned procurement versus actual procurement conducted by the Office. A consolidated procurement plan provides the Office an opportunity to identify economies of scale and better use of resources. Furthermore, by adequately planning its procurement requirements, the Office can improve the competitive process by timely disseminating procurement requests, having adequate time to solicit and evaluate offers, thereby ensuring transparency of the process and getting better value for money.
- For the period reviewed, around 22 percent of the procurement of goods, three percent of the procurement of services and 11 percent of the procurement of civil works, totalling to around $777,000 or 4 percent of total procurement, was conducted as direct contracting. The Office had for each direct contract a written justification providing extensive background information, but not the necessary rationale for the direct contracting. Procuring contrary to UNDP's general procurement requirements increases the risks of having non-transparent and not competitive procurement decisions and not getting best value for money.
- Vendor performance evaluations were not conducted. By not conducting such performance evaluations the Office runs the risk of not identifying and addressing non-performance by vendors which could lead to increased costs or failed procurement activities.

- The Office had not developed a cost recovery strategy for failed or abandoned procurement processes, which negatively affect the Office's financial position.

Priority	High (Critical)
Recommendation 14: The Office should improve its procurement function by: (a) preparing and implementing a consolidated procurement plan; (b) ensuring that the use of direct contracting as a procurement modality is limited to exceptional circumstances, particularly in the case of contracts for services and individual contracts; (c) conducting periodic vendor performance evaluations; and (d) establishing and adopting a cost recovery strategy for failed or abandoned procurement processes.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has taken the following actions to address the recommendation: (a) Actions have been taken to ensure a consolidated procurement plan (Management Memo). (b) Actions have been taken to ensure exceptionality of direct contracting (Management Memo). (c) As of July 2013, the Procurement Section is now ensuring that vendor evaluations are performed and a data base on SharePoint is being developed for monitoring purposes. (d) As of July 2013, the cost recovery for failed/abandoned processes has been included in the cost recovery strategy for normal procurement processes. This measure is being informed to the Implementing Partners of the corresponding development projects prior to the delivery of services.	
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 — Satisfactory

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

The Information and Communications Technology section, comprised of one national officer and three service contract holders, was found to be well organized and functioning. The staff of the section was complying with the requirements mandated by the Office of Information Systems Technology and was implementing measures such as those relating to disaster recovery and back-up that went far beyond what was mandated, thereby ensuring a high level of system availability.

No reportable issues identified.

4.5 General administration — Satisfactory

OAI reviewed travel purchase orders and payment voucher and found that the management of travel had significantly improved since the last audit. The Office also process travel requirements and activities of United

Nations organizations. However, the Office had not requested them then to use the travel entitlement calculation sheet. The Operations Manager indicated that they will be requesting these organizations to use the travel entitlement calculation sheet in order to harmonize all United Nations personnel travel requests, thus OAI did not raise an audit issue.

Issue 15 Deficiencies in vehicle management

The UNDP Vehicle Management Policy stipulates that vehicles will be used only for UNDP official business. However, the Resident Representative or Head of Office may authorize in writing the use of official vehicles for non-official business for a fixed period of time or for a maximum period of three months (whichever is earlier). A staff member requesting use of a UNDP vehicle for non-official business must: (a) confirm that he/she has taken out comprehensive insurance for the period in question or is willing to meet the full costs of any loss or damage incurred during the period of loan, and (b) possess a driving license valid for the country. The policy also stipulates the maximum number of official vehicles a Country Office is entitled to. Each office will normally be entitled to the Resident Representative's and Resident Coordinator's (where applicable) official vehicles, plus one vehicle for every three (3) professional staff members.

OAI noted deficiencies in the management of the official vehicles, specifically, on the use for unofficial business:

- One senior staff member had exceeded the maximum allowable period of three months for non-official use of an official vehicle.
- The approval granted by the former Resident Representative specifically stated that personal use of an official vehicle was for home-office-home. However, OAI noted that a vehicle was also used for trips to destinations other than home or office.
- The office comprehensive vehicle insurance policy was used to cover vehicle damages incurred during non-official use of an official vehicle. This was contrary to the policy that the staff member authorized to use the vehicle for non-official business must obtain comprehensive vehicle insurance coverage or assume full responsibility for damages that may be incurred during the period of use.
- At the time of the audit mission, the Office had not been reimbursed for all personal use of the official vehicle. Furthermore, the rate used to calculate the reimbursement amount was set in 2009 at 3.5 quetzales (local currency) per km (around $0.5 per km) and had not been updated since.
- In general, vehicle logs were not properly maintained as the non-official use of the Office vehicles was not documented in the vehicle log; specifically the non-official use of the vehicles by Office senior management was not adequately documented in the vehicle logs.
- At least one former senior staff member used the official vehicle on more than one occasion for non-official travel to another country. No security clearance and insurance coverage was obtained by staff member prior to incurring in trans-border travel with an official vehicle.
- The Office had 10 vehicles; however, based on the criteria outlined in the Vehicle Management Policy the Office was only entitled to have a maximum of six vehicles.

Non-compliance with the applicable policies on vehicle management, including non-official use of an official vehicle, particularly by senior officers, is a governance issue and can put at risk the reputation of UNDP. Furthermore, lack of an effective cost recovery regarding non-official use of an official vehicle lead to financial losses for the Office.

Priority	Medium (Important)
Recommendation 15: The Office should improve its vehicle management by: (a) ensuring compliance with the UNDP Vehicle Management Policy; specifically with respect to the non-official use of official vehicles; (b) ensuring complete and adequate cost recovery relating to non-official use of an official vehicle; (c) maintaining complete vehicle logs, including non-official usage; and (d) limiting the number of official vehicles to the maximum of the Office entitlement.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office has taken the following actions to address the recommendation: (a) The Office has taken measures to comply with Vehicle Management Policy with respect to non-official use of official vehicles. (b) The Office has taken measures to ensure quarterly cost recovery procedures. (c) Drivers and staff members have been briefed on the appropriate way to complete vehicle logs. (d) The Office is taking the appropriate actions.	
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.	

4.6 Safety and security — Satisfactory

At the time of the audit mission, the UNFPA representative was also serving as the United Nations Designated Official. Therefore, the audit was limited to UNDP responsibilities and did not include the responsibilities of the Designated Official. The Office was assessed as 99 percent compliant with the Minimum Operating Security Standards by the United Nations Department of Safety and Security on 24 April 2013.

To ensure that offices can continue to perform essential operations under all conditions they must have a Business Continuity Plan that should be kept up to date and tested regularly to ensure that offices retain the capability to properly and efficiently execute the Plan. OAI's review of the Business Continuity Plan showed that it had been kept up to date. However, the last documented test of the Plan was conducted in November 2011. OAI discussed this issue with Office management and suggested that they test the Plan at least once per year. Management agreed with this suggestion and given that the Plan was up-to-date, OAI did not raise an audit issue.

4.7 Asset management — Satisfactory

OAI reviewed asset management. The Office had ten vehicles (six vehicles were over five years old, two vehicles were five years old, one vehicle was a year old and one vehicle was purchased in 2013) and owned other assets, information and communication technology equipment and furniture, valued at $759,393 at year end 2012.

No reportable issues were identified.

4.8 Leave management — Satisfactory

OAI reviewed leave management and found that leave balances reconciled with Atlas and that at the time of the audit they had been certified by the Leave Manager. OAI also noted that Atlas e-Services was used to process leave requests in accordance with the applicable policies and procedures. A number of staff retained high leave balances (between 45 – 60 days), without planning adequate amounts of leave for 2013, yet the Global Staff Survey indicated that there were work life issues in the Office. Since staff could have used their leave days to improve work-life balance OAI questioned the reasons for these high leave balances and whether there were any constraints in the Office preventing staff from taking annual leave. Some staff indicated that due to the uncertainty of the sustainability of the Office, it was a 'practice' in the Office to carry over 60 days as a cushion in case contracts were not renewed. This issue was brought to the attention of Office management for their action and follow-up if need be.

No other reportable issues were identified.

4.9 Global Environment Facility — Not Applicable

As part of the OAI 2013 annual work plan, the Global Environment Facility is a cross-cutting theme to be reviewed in more depth.

OAI reviewed the following Global Environment Facility projects in detail:

- PIMS 3083 BD FULL: Conservation Coffee (Atlas Project 00044021)
- PIMS 3186 Full CC: Productive Renewable Energy (Atlas Project 00043790)

The Office was adequately managing the Global Environment Facility portfolio. Project risk logs were regularly updated as required by the UNDP Programme and Operations Policies and Procedures and reports were issued as required by the Global Environment Facility. Nevertheless, OAI noted long delays in the implementation of the Second National Communication Project which took almost four years to be reactivated. OAI interviewed personnel of the Implementing Partner, the Ministry of Environment, who explained the challenges they faced in implementing the project, including the changes in government authorities. These challenges could not justify such a long delay. However, OAI did not raise this as an audit issue as the Implementing Partner and the Office advised that a new annual work plan was agreed upon and project activities had already started.

No other reportable issues were identified.

ANNEX Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.