UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

DOMINICAN REPUBLIC

Report No. 1290

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Report on the audit of UNDP Dominican Republic
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Dominican Republic (the Office) from 10 to 25 February 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance and strategic management (organizational structure and delegations of authority, leadership, ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – "One UN", Harmonized Approach to Cash Transfers);

(c) programme activities (programme management, partnerships and resource mobilization, project management); and

(d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2012 to 31 December 2013. The Office recorded programme and management expenditures totalling $27 million in 2012, and $20 million in 2013. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall 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: the project delivery being not on target; the Harmonized Approach to Cash Transfers not being fully implemented; a project being implemented without authorization from the Director of the Regional Bureau for Latin America and the Caribbean; and various weaknesses in the management of service contracts.

Good practices

The project team organized quarterly project managers' meetings for the environment projects portfolio. Also the Office implemented a simplified template to monitor and report project activities. (Refer to page 1 for details).

Key recommendations: Total = **14**, high priority = **4**

For high (critical) priority recommendations, 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. All high (critical) priority recommendations are presented below:

Project delivery not on target (Issue 3)	Due to the significantly lower delivery than planned during 2013, the Office was not able to expend a significant part of the revenue collected, which resulted in a balance of $43 million at year-end. As a result, the Office agreed with the Treasury Department of the Bureau of Management to remit $39 million to UNDP's bank account in New York. <u>Recommendation:</u> Review existing delivery targets and project annual work plans to adjust delivery forecasts to more realistic/achievable targets, and explore opportunities to increase programme delivery.
Harmonized Approach to Cash Transfers not fully implemented (Issue 4)	At the time of the audit, the Harmonized Approach to Cash Transfers, which is intended to: (a) reduce transaction costs pertaining to the Country Programmes of the ExCom agencies by simplifying and harmonizing rules and procedures; (b) strengthen the capacity of implementing partners to effectively manage resources; and (c) help manage risks related to the management of funds and increase overall effectiveness, was not fully implemented. One micro-assessment of an implementing partner was still to be performed and the joint audit plan had not been implemented. <u>Recommendation:</u> Implement the Harmonized Approach to Cash Transfers by: (a) completing the micro-assessments of implementing partners; and (b) coordinating with the ExCom agencies to develop a joint audit assurance plan.
Project implemented without proper authorization (Issue 5)	The Office had been implementing project 00073721 "Desarrollo Local Transfronterizo" with a total budget of $3.9 million since August 2012, without authorization from the Regional Bureau for Latin America and the Caribbean. In addition, the project included activities that were to be carried out in Haiti even though UNDP Haiti had not been informed of the project. As a result, the Office committed to achieving results where it did not have jurisdiction. <u>Recommendation:</u> Seek guidance from the Regional Bureau for Latin America and the Caribbean to address: (a) the lack of authorization to directly implement the project 00073721 "Desarrollo Local Transfronterizo" and; (b) the involvement of UNDP Haiti to support project implementation in a way that will ensure the achievement of planned results.
Weaknesses in managing service contracts (Issue 8)	The Office decided to create a higher category (SC-12) than allowed in the 'Service Contract User Guide', which had no remuneration limit, thus allowing for the payment of arbitrary salary amounts. In addition, the Office granted service contract holders 2.5 days of paid annual leave per month rather than the 1.5 days prescribed by the User Guide. Moreover, the Office did not adequately verify the work permit of international candidates. References and academic credentials had not been checked prior engaging service contract holders. <u>Recommendation</u>: Comply with the 'Service Contract User Guide' by: (a) deleting level SC-12 from the salary scale; (b) granting 1.5 days of annual leave per month to service contractors; (c) giving priority to national rather than international candidates when recruiting on service contracts, and verifying work permits when contracting international candidates.

Implementation status of previous OAI audit recommendations: Report No. 742, 28 March 2011.

Total recommendations: 13

Implementation status: 100%

Management comments and action plan

The Resident Representative accepted 13 of the 14 recommendations in the areas of governance and strategic management, programme activities, and operations. OAI will assess the remaining recommendation as part of the follow-up. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office, located in Santo Domingo, Dominican Republic (the Country), employed 95 personnel consisting of 23 staff members, 63 service contract holders and 9 United Nations Volunteers. The Office was implementing the Country Programme Document/Country Programme Action Plan covering the period of 2012-2016, whose priorities were aligned with the United Nations Development Assistance Framework and the national development plan. The outcomes of the Country Programme Action Plan were as follows: governance; social inclusion and economic growth; women empowerment; and sustainable development and risk management. The total budget for implementing the programme was estimated at $60 million. The Country was ranked 96th in the Human Development Index.

II. Good practices

OAI identified good practices, as follows:

Programme activities/Project management

Quarterly project managers meetings – The Office organized quarterly meetings of Project Managers for the environmental projects portfolio, allowing them to learn from one another's experiences and creating synergies to achieve results.

Quarterly project activity reports – In addition, the Office implemented the practice of issuing quarterly project activities reports for all projects in its portfolio using a simplified template, allowing better tracking of project activities and their contribution to achieving the desired development results.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance and strategic management. Project risk management, planning and reporting in Atlas were well managed.
(b) United Nations system coordination. Key controls were operating properly. Further, there was a common understanding in the United Nations Country Team for improving the relevance and effectiveness of the United Nations development system.
(c) Programme activities. Resource mobilization and partnership strategies contained in the Country Programme Action Plan were adequate. OAI met with government counterparts and implementing partners, who expressed their appreciation of the Office as a development partner.
(d) Operations. No issues were identified concerning information and communication technology managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms.

OAI proposes 14 recommendations that are ranked high (critical) and medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

(a) Comply with the 'Service Contract User Guide' (Recommendation 8).
(b) Seek guidance from the Regional Bureau for Latin America and the Caribbean in regard to project authorization/implementation (Recommendation 5).
(c) Review existing delivery targets and project annual work plans (Recommendation 3).
(d) Implement the Harmonized Approach to Cash Transfers (Recommendation 4).

Medium priority recommendations, arranged according to significance:

(a) Seek the advice of the UN Medical Service on how to proceed with the excessive sick leave taken by the staff member concerned, and enforce the use Atlas for recording leave (Recommendation 1).
(b) Improve controls over the approval of project expenditures (Recommendation 9).
(c) Segregate finance activities and redefine the role and responsibility of the Operations Manager (Recommendation 2).
(d) Implement and comply with the project 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' (Recommendation 6).
(e) Adhere to prescribed procedures for project appraisal and substantive revisions (Recommendation 7).
(f) Improve accounting procedures (Recommendation 11).
(g) Improve the procurement function (Recommendation 12).
(h) Improve the management of individual contracts (Recommendation 13).
(i) Improve vehicle management (Recommendation 14).
(j) Comply with UNDP policies for Implementation Support Services cost recovery (Recommendation 10).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegation of authority

Issue 1 Potential abuse of leave benefits

In accordance to the United Nations Staff Rules and Staff Regulations, a staff member may take up to seven working days of uncertified sick leave in an annual cycle. The 'Absence Management Guidelines' stipulate that without United Nations Medical Service certification, a maximum of 20 certified sick leave days may be taken in a 12-month period. Excess certified sick leave days require certification by the United Nations Medical Service. When these conditions are not met and sick leave is not authorized, annual leave or special leave without pay, as applicable, must be charged.

OAI identified a staff member who recurrently was on certified sick leave, for several years since 2004, and always in excess of the 20 days. For 2013 in particular, the following issues were identified:

- The staff member took 10 days of uncertified sick leave. Even though the three exceeding days were unauthorized, they were not deducted from the staff member's annual leave balance.
- The staff member took 36 days of certified sick leave, of which 22 days were taken before year end. However, the UN Medical Service certified only 6 days. The excess of 16 days that was not certified by UN Medical Service was not charged against annual leave.

- The medical practitioners, who certified the staff member's sick leave requests, were generally not specialist for the medical condition diagnosed. For example, in one instance, "classical dengue" was diagnosed by a plastic surgeon.
- Atlas was not used to follow up and authorize annual leave or sick leave for staff members.

The staff member concerned was a National Officer with a senior level manager position within the Office. By consistently not complying with the rules on entitlements, the staff member was not promoting the highest ethical standards and not was leading by example as is expected of a senior level manager. Hence, this issue is raised under Governance. Managing attendance and leave records of staff members outside of the Atlas system might lead to inaccurate data and incorrect leave balances.

Priority	Medium (Important)
Recommendation 1: Seek the advice of the UN Medical Service on how to proceed with the excessive sick leave taken by the staff member concerned, and accordingly deduct any unauthorized sick leave days from annual leave and amend Atlas system and human resource records. For improved control over attendance and leave, enforce the use of Atlas for recording leave.	
Management action plan: Consultation with the UN Medical Service Unit already took place and we are following their advice. This Office has already established a policy through which attendance is strongly controlled and managed and sick leave is closely monitored, making sure that we apply the related UNDP regulations. The update of absences in Atlas is obligatory and also closely monitored. **Estimated completion date:** Done	
OAI Response OAI acknowledges the actions reported by the Office. OAI already assessed the responses received from the UN Medical Service Unit. The implementation of the second part of the OAI recommendation in regard to enhanced controls over leave management will be assessed as part of a standard desk follow-up by OAI.	

Issue 2 Weaknesses in segregation of duties and delegation of authority

The segregation of duties is necessary in order to implement an appropriate level of checks and balances on the activities carried out by individuals, thereby minimizing the risk of error or fraud. The human resources administrator performs various tasks in the areas of recruitment, human resources and base benefits; while the global payroll administrator performs the payroll functions.

OAI identified inadequate segregation of duties in the Finance and Operations Units.

The Finance Associate selected vouchers to be paid, ran paycycles and performed the bank reconciliation. In addition, she was appointed safe custodian with custody of the Office's checkbook. Some of these tasks violated the segregation of duties principle, which states that processing of payments, custody of checks and payment oversight should not be performed by the same individual.

The Operations Manager was designated as administrator of the e-banking application of the local bank account, which allowed him to change user profiles without prior approval. As e-banking administrator, he could also add/delete new users or signatories. The Office's e-banking system local bank account did not send messages, warnings, or requests for authorization to users/signatories when user profiles changed. Therefore, these changes were not approved by the proper level of authority. Furthermore, due to the limitation of the e-banking system, an audit trail was not retained to track updates to user profiles, thus additions, deletions and updates to user profiles could not be traced.

In addition, the Operations Manager's delegation of authority contained conflicting roles. He was granted the human resources administrator and global payroll administrator roles, which also prevented the adequate segregation of duties.

Unclear roles and responsibilities can lead to inefficient and ineffective business processes and a lack of accountability, increasing the risk of improper practices that could go undetected. In addition, it puts the reputation of the Office at risk.

Priority Medium (Important)

Recommendation 2:

Segregate and monitor functions by:

(a) reassigning the bank reconciliation function to a staff member other than the Finance Associate who runs the paycycle and acts as safe custodian with custody of the Office' checkbook; and
(b) redefining the Operations Manager's roles and responsibilities to avoid potential conflicts in dealing with the e-banking system and by reassigning his human resources responsibilities.

Management action plan:

Management accepted the recommendation and will implement an action plan by:

(a) reassigning bank reconciliation to the Head of the Finance Unit and leaving the paycycle and safe custodian responsibilities with the Finance Associate. As a result, the signature panel functions as well as the authority to approve vouchers and purchase orders will be removed from the Head of the Finance Unit; and
(b) redefining the responsibilities of the Operations Manager by delegating the e-banking management responsibility to the Deputy Resident Representative and by changing the Operations Manager's delegation of authority mainly but not limited to withdrawing his role in human resources management.

Estimated completion date: May 2014

2. Financial sustainability

Issue 3 Project delivery not on target

Sound programme management includes the timely development and implementation of projects in order to ensure achievement of planned outcomes.

For 2012, the Office budgeted approximately $37 million for projects, while actual expenditures only totalled $27 million. About $28 million was budgeted for projects during 2013. However, by December 2013, expenditures totalled $20 million. OAI analysed project implementation rates by programmatic area and found that for poverty, the largest programmatic area in terms of budget allotment, expenditures totalled $11 million, or 68 percent of the $16.5 million budgeted.

Due to the significantly lower delivery than planned during 2013, the Office was not able to expend a significant part of the revenue collected, which resulted in a balance of $43 million at year-end. As a result, the Office agreed with the Treasury Department of the Bureau of Management to remit $39 million to UNDP's bank account in New York, which caused a loss of $0.5 million due to exchange rate fluctuation.

The inability to implement programme delivery can lead to inefficient project management and may prevent the achievement of agreed upon development results, thus jeopardizing contractual relationships with stakeholders.

Priority	High (Critical)
Recommendation 3: Review existing delivery targets and project annual work plans to adjust delivery forecasts to more realistic/achievable targets, and explore opportunities to increase programme delivery.	
Management action plan: Based on poor delivery during 2013, the Office undertook an exercise at the beginning of the year to plan the 2014 delivery target. As a result, all project plans were oriented towards this target. The Office has been closely monitoring delivery and noticed that the trend does not reflect the projected figures. The Office is requesting the project team to review and update project plans in order to readjust the year delivery target. In addition, the Office is currently in the process of recruiting an Operations Specialist with strong capacity in procurement to improve and speed up procurement, thereby increasing project delivery. **Estimated completion date:** October 2014	

B. United Nations system coordination

Issue 4 Harmonized Approach to Cash Transfers not fully implemented

The Harmonized Approach to Cash Transfers aims to: (a) reduce transaction costs pertaining to the Country Programmes of the ExCom agencies by simplifying and harmonizing rules and procedures; (b) strengthen the capacity of implementing partners to effectively manage resources; and (c) help manage risks related to the management of funds and increase overall effectiveness.

The harmonized approach is an integral part of the common country programming processes. Its 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 the Country Programme at the planning stage. The Country is considered as being in compliance with this approach when four steps have been completed: (a) a macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing Harmonized Approach to Cash Transfers; and (d) an assurance and audit plan concerning implementing partners has been developed and implemented.

At the time of the audit, this harmonized approach was agreed upon with the Government in the United Nations Development Assistance Framework. The macro-assessment was expected to be carried out for each programmatic cycle, although the macro-assessment used by the Office was dated 2010, while the new programmatic cycle was 2012-2016. At the time of the audit, the Office organized micro-assessments of three of the four implementing partners, but was not able to organize joint audit assurance plans, as required.

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

Priority	High (Critical)
Recommendation 4: Implement the Harmonized Approach to Cash Transfers by: (a) completing the micro-assessments of implementing partners; and (b) coordinating with the ExCom agencies to develop a joint audit assurance plan.	
Management action plan: The Office is not in a position to comply with this recommendation at this time since it primarily finances its operation with government funds. A macro-evaluation was carried out by the UN system at the beginning of Harmonized Approach to Cash Transfers implementation in 2010, and it was found that the governmental institutions were lacking the capacity to manage resources efficiently. Based on the above, we will communicate this situation and request a waiver from the Regional Bureau for Latin America and the Caribbean to not implement Harmonized Approach to Cash Transfers in the Country until conditions are met. **Estimated completion date:** December 2014	

OAI Response:

While OAI acknowledges the comments provided by management, OAI is retaining the issue and recommendation and will wait for the response from the Regional Bureau of Latin America and the Caribbean. The recommendation will be assessed in view of the response from the Regional Bureau as part of the follow-up. OAI is of the view that the Harmonized Approach to Cash Transfers could be implemented and would be beneficial for the Country and the Office.

C. Programme activities

Issue 5 Project implemented without proper authorization

According to the 'Programme and Operations Policies and Procedures', projects to be directly implemented by UNDP need to be authorized by the Regional Bureau Director and the Office needs to comply with specific reporting requirements.

OAI noted that the Office started implementing project 00073721 "Desarrollo Local Transfronterizo", with a total budget of $3.9 million, in August 2012, although authorization from the Director, Regional Bureau for Latin America and the Caribbean had not been sought. Also, the project envisioned the implementation of certain activities in Haiti, but UNDP Haiti was never informed or involved in the formulation and had not signed off on the project. As a result, the Office committed to achieving results in a country where it had no jurisdiction. Furthermore, the project started as part of a different project (00049506 "ART GOLD") in Atlas, making it difficult to identify transactions pertaining to each project, and misrepresenting the projects' financial data. In May 2013, the Office opened a new project in Atlas to correct this situation (00073721 "Desarrollo Local Transfronterizo").

As result of donor concerns regarding results not being achieved in Haiti, the Office engaged in a dialogue with UNDP Haiti in 2013. However, at the time of the audit, none of the project results expected in Haiti were met because the agreement to define roles and responsibilities between the two offices was still under discussion.

Implementing projects without the required authorization from the Regional Bureau constitutes non-compliance with the 'Programme and Operations Policies and Procedures', and in this case, may impact project governance. Implementing this project in two countries required the involvement of the Regional Bureau and the participating offices to ensure that results agreed upon with the donor are achievable. The Office may encounter reputational risk by not achieving such results.

Priority	High (Critical)

Recommendation 5:

Seek guidance from the Regional Bureau for Latin America and the Caribbean to address: (a) the lack of authorization to directly implement the project 00073721 "Desarrollo Local Transfronterizo" and; (b) the involvement of UNDP Haiti to support project implementation in a way that will ensure the achievement of planned results.

Management action plan:

The lack of authorization for the directly implemented project was due to the fact that by the time the project was signed, it was under the Atlas umbrella of the "ART GOLD" which was already authorized by the Bureau. The Office will comply with this recommendation by requesting: (a) the authorization for the project from the Bureau; and (b) guidance and recommendations from the Bureau.

The Office already contacted UNDP Haiti, which expressed interest in supporting implementation of the project.

Estimated completion date: August 2014

Issue 6 Corporate guidelines for nationally implemented projects not fully adhered to

In accordance with guidelines and procedures for 'National Implementation by the Government of UNDP Supported Projects', such projects are to be implemented following one of two scenarios, as follows: (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); and (b) national implementation, in which the national implementing partner assumes full responsibility for the related output(s) but where, at the request of the government through a standard Letter of Agreement for support to national implementation, UNDP as a responsible party undertakes specific, clearly defined activities for the implementing partner. Furthermore, regarding procurement services, both the Government and UNDP must ensure that every procurement activity is undertaken from sourcing to contract signing and contract management by the same entity, either the Government or UNDP.

OAI reviewed five nationally implemented projects and found that in all cases the Office failed to implement the corporate guidelines regarding Country Office support to national implementation, specifically:

- The required capacity assessments of implementing partners were not carried out.
- Country Office support to national implementation was provided on the basis of the management arrangements agreed to in the Project Document but without the standard Letter of Agreement. Due to the fact that almost all project activities relating to procurement were delegated to the Office without the standard Letter of Agreement, projects implementation modality shifted from national to direct implementation, contrary to the implementation modality originally agreed upon.
- Service contracts signed by the implementing partners were not in line with the standard template and included clauses that should only be present in contracts signed by the Office.

Failure to implement the corporate guidelines results in non-compliance with the 'Programme and Operations Policies and Procedures' and creates issues of accountability as roles and responsibilities are not clearly defined for the Office and/or the implementing partners. Furthermore, there is no clarity as to which regulations, rules, policies and procedures govern project activities.

Priority	Medium (Important)
Recommendation 6: Implement and comply with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', for all ongoing and new projects by: (a) performing capacity assessments before engaging implementing partners; (b) signing the standard Letter or Agreement whenever the Office provides support to national implementation; and (c) ensuring that implementing partners use the standard service contract template for hiring.	
Management action plan: The Office will implement this recommendation by undertaking an analysis/evaluation of the capacities of new counterparts before engaging in any activity with them, and signing a standard Letter of Agreement with the Government and any other partner participating in the project. The Office already shared the standard service contract template with all partners and colleagues in the Office and instructed them that no changes will be allowed. **Estimated completion date:** December 2014	

Issue 7 Project Appraisal Committee 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 a clear focus on agreed upon results, and the Project Document conforms to the standard template. All projects and substantive revisions should be reviewed by a Project Appraisal Committee 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 eight development projects identified the following weaknesses:

- none of the substantive revisions made to the sampled projects were reviewed by the local Project Appraisal Committee as required;
- five projects were approved using non-standard Project Document formats, which were not questioned by the Project Appraisal Committee;
- one Project Document was not reviewed or recommended for approval by the Committee;
- one Project Document was reviewed through a virtual Committee meeting contrary to prescribed procedures; and
- the minutes of two Committee meetings concerning Project Documents did not include the required minimum content, such as description of activities or management arrangements.

A proper review by a Project Appraisal Committee might have spotted weaknesses, which could have been immediately addressed during project design.

Weaknesses in the review and approval of projects increase the risk of not achieving expected results. Failure to meet expected results can negatively affect UNDP's reputation and could reduce donor interest in funding future projects.

Priority	Medium (Important)
Recommendation 7: Adhere to prescribed procedures for project appraisal and substantive revisions by: (a) ensuring that all substantive revisions are reviewed by the Project Appraisal Committee; (b) ensuring that each project is reviewed with respect to its Project Document structure; and (c) including all relevant areas of discussion in line with the 'Programme and Operations Policies and Procedures' in the minutes of Committee meetings.	
Management action plan: The Office accepted the recommendation and agreed to strengthen the project review process by: distributing a standard format for Project Documents to project personnel; improving the Project Appraisal Committee minutes to incorporate detailed discussions; and ensuring that all substantive project revisions are reviewed carefully by the pre- Project Appraisal Committee, the Project Appraisal Committee mechanisms and by the Monitoring and Evaluation, Programme, Finance, and Management Units. **Estimated completion date:** December 2014	

D. Operations

1. Human resources

Issue 8 Weaknesses in managing service contracts

Country Offices are expected to comply with the 'Service Contract User Guide' in the management of service contracts. Also, Country Offices are primarily responsible for creating a service contract remuneration scale containing 11 levels and related pay ranges to ensure objective and non-arbitrary payments. Service contract holders will accrue 1.5 days of paid annual leave per month. The 'Service Contract User Guide' established that an improper use of the contractual modality is to hire international personnel.

OAI noted the following weaknesses and non-compliance with the 'Service Contract User Guide':

- In March 2012, the Office created a higher level pay scale (SC-12) than prescribed in the User Guide. Level SC-12, which was approved by the former Resident Representative, had no limit on the amount of remuneration, raising concerns about arbitrary salary payments. OAI identified one service contract holder hired under this new level, who received a monthly salary $7,000, while the maximum monthly salary at SC-11 was $5,800. In addition, there was no evidence that this individual had been competitively selected for the post.

- The Office was granting the same number of days of annual leave for staff to service contractors, as it granted 2.5 days (instead of 1 day) per month of annual leave to service contract holders, resulting in 12 extra days of paid annual leave per year;
- Out of 15 service contracts reviewed, 2 had been awarded to international staff. Moreover, the Office did not adequately verify the work permit status in the Country for these two individuals. OAI found that one of them had been working without a work permit since November 2013.
- The Office failed to check references and academic credentials prior to hiring a new service contract holder.

By failing to comply with the 'Service Contract User Guide', the Office risked paying arbitrary and unauthorized salaries and granting excessive leave. The non-verification of service contractors' work permits can lead to a regulatory risk with a potential reputational impact.

Priority High (Critical)

Recommendation 8:

Comply with the 'Service Contract User Guide' by:

(a) deleting level SC-12 from the salary scale;
(b) granting 1.5 days of annual leave per month to service contractors;
(c) giving priority to national rather than international candidates when recruiting on service contracts, and verifying work permits when contracting international candidates.

Management action plan:

Management accepted the recommendation and will implement the action plan by: issuing a new service contract scale in accordance with the corporate format; amending all service contracts to incorporate 1.5 days of annual leave per month; and giving priority to national candidates when contracting personnel and verifying work permits when contracting international candidates.

Estimated completion date: December 2014

2. Finance

Issue 9 Project utilized to make payments to a government staff member

According to the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', UNDP is to adhere to the policy of the Joint Consultative Group on Policy on contracting government personnel, which disallows direct payments to government staff for their additional work on donor-supported development projects. Government officials cannot be funded by UNDP projects since this would undermine national ownership and sustainability.

OAI identified salary payments made to a government staff member through project 00084525 "Gestión Presupuestaria y Financiera del Estado" totalling $136,000 since January 2013, at a monthly salary rate of $9,500. OAI also found that this individual held a service contract for the post of Project Coordinator from November 2012 to October 2014, while holding a top position within the Government.

Implementing projects without adhering to corporate guidance constitutes non-compliance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', which could have a negative impact on UNDP's reputation in the Country and could create an accountability issue for the Office.

Comment:

In response to the draft report, management advised OAI that they had met with the government staff member who agreed to cancel all payments to him through the Office, and resigned from his post as Project Coordinator. OAI reviewed the documentation provided by the Office and considered the recommendation as implemented.

Issue 10 Payments made for non-budgeted activities

Project costs should be properly reflected and adhere to project objectives and activities. Project activities should be translated into payments in line with the annual work plan.

The Office processed the following direct payments for non-budgeted activities for nationally implemented projects:

- A building valued at $850,000, meant to be used by a government ministry was purchased using funds from two projects. Expenditures charged to project 00060312 "Fortalecimiento UNAPS/MSP" amounted to $250,000, while for project 00061279 "Políticas sociales" they totalled $600,000. However, the purchase had not been budgeted for in either project.
- The remodeling of a parking space within a government building totalling $93,000 was charged against project 00061279 "Políticas sociales" under activity 1.1 identified as design of a monitoring system to evaluate impact of social policies.
- Catering services were charged against project 00065937 "Tribunal constitucional". The activity paid for a daily meal for staff working for that organization, an activity that was not stipulated in the annual work plan. Moreover, the supporting documentation did not identify who was provided with daily meals. Since the beginning of the contract in November 2012, payments to the supplier amounted to $133,000.

Although these projects fell under the nationally implemented modality and the project team requested payments to be made directly by the Office, OAI noted that the Programme Associate failed to provide adequate oversight and approval of project direct payment requests.

By paying for project activities that are not budgeted, there is a financial risk that project costs could be disallowed by external auditors. This increases both financial and reputational risks to UNDP.

Priority Medium (Important)

Recommendation 9:

Improve controls over the approval of project expenditures that should be made for budgeted activities in line with Project Documents and annual work plans.

Management action plan: Management accepted the recommendation and noted that the action plan consists of instructing Project Officers of their responsibility for closely verifying payments by ensuring that payment requests correspond to the budget lines within the Project Document or revised budget lines. The Office also instructed Atlas payees about this issue. **Estimated completion date:** December 2014

Issue 11 Implementation Support Services charges not in line with existing policy

The 'Programme and Operations Policies and Procedures' require Country Offices to recover the costs of providing Implementation Support Services to projects on the basis of actual costs or transaction fees. These costs are an integral part of project delivery, and hence should be charged to the same budget line as the project input itself. Costs can be determined by using actual costs for clearly identifiable transactions, or when this is not possible, using the same Universal Price List for transactional services that is used to recover costs from United Nations agencies, as a reference.

No criteria existed in the Office among programmatic areas for charging Implementation Support Service costs, and existing practices were not in line with the 'Programme and Operations Policies and Procedures'. Each programmatic area recovered the costs based on different schemes: either 2 percent of delivery or based on a bulk amount agreed upon with counterparts.

During 2012, costs for Implementation Support Services were recovered twice yearly, totalling $395,000. In 2013, the Office recovered Implementation Support Services once during the year, totalling $145,000. The decrease in recovery was due partly to the lower delivery in 2013 and partly due to lack of budget. For instance, out of a sample of six projects tested, three did not recover Implementation Support Services costs in 2013 due to lack of budget. In addition, two projects recovered Implementation Support Services at a rate lower than 2 percent.

Inadequate cost recovery will require the Office to use its limited resources as a subsidy to cover transaction costs of other parties, thereby impacting the Office's financial sustainability.

Priority	Medium (Important)
Recommendation 10: Comply with UNDP 'Programme and Operations Policies and Procedures' for Implementation Support Services cost recovery by: (a) correctly calculating fees to charge projects; and (b) creating a standard frequency or time-schedule for billing and recovering these charges.	
Management action plan: The recommendation will be implemented by issuing a new local policy on the management of Implementation Support Services contributions. **Estimated completion date:** December 2014	

Issue 12 Misuse of general ledger manual adjustments

Accounting transactions must be consistently identified, tracked against the correct donor code, and charged against the appropriate project code in order to ensure a true and fair presentation of financial data.

A large number (2,500) of manual entry adjustments amounting to $10 million were identified for 2012 and 2013.

Out of 20 adjustments reviewed (totalling $5 million), weaknesses were identified in 12 adjustments, which included the following:

- two adjustments were made to correct prior transactions where the Office made project payments by borrowing funds from another project, due to the insufficient availability of cash;
- two adjustments were prepared to process the transfer of funds between projects, although there was no evidence of donor approval; and
- eight adjustments were made to correct erroneous entries related to improper use of donor or project codes.

Paying the expenses of projects lacking sufficient resources may create a financial risk for the Office. The improper use of accounting codes impacts financial reporting, thus leading to financial as well as reputational risks.

Priority Medium (Important)

Recommendation 11:

Improve accounting procedures to minimize the use of general ledger manual adjustments by:

(a) refraining from paying the expenditures of projects lacking sufficient funds; and
(b) booking adjustments when properly authorized either by the Office or by donors, and in line with project and donor codes.

Management action plan:

An instruction was issued under which all budget adjustments have to be fully justified and approved by the Office's management before they are registered in Atlas. Office management will review adjustments periodically to ensure they are properly approved.

Estimated completion date: October 2014

3. Procurement

Issue 13 Procurement function weaknesses

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 civil works for successful project implementation. In addition, all procurement actions are to be conducted in a fair and transparent manner and in the interests of UNDP, in order to provide best value for money through a competitive process.

For the two-year period reviewed, the Service Center had managed approximately $4 million and $3.8 million, respectively, for the procurement of goods and services. The Service Center was also managing all of the Office's travel requirements and those of the projects.

The following procurement weaknesses were noted:

- The Service Center had not prepared a consolidated procurement plan, and as a result, it was not possible to determine the amount of planned versus actual procurement conducted by the Office. By adequately planning its procurement requirements, the Office could rapidly disseminate procurement requests, have adequate time to solicit and evaluate offers, identify economies of scale for better use of resources to ensure transparency, and assure best value for money.
- The Office had not developed a cost recovery strategy for failed or abandoned procurement processes for its projects. For United Nations agency procurement processes, the Service Center used the Universal Price List whenever it carried out a procurement process, but not for failed or abandoned procurement processes.
- Contract management is the post award phase of the procurement cycle, and as such, must be centralized within the unit conducting the procurement process, however, it was decentralized through the Office´s Programme Unit.
- Review of the online Contracts, Assets and Procurement Committee minutes showed that there was only minimal recording of discussions among members and very little evidence of discussions led by the Chairperson. Contracts, Assets and Procurement Committee members are responsible for conducting a thorough review of the procurement process and evidence of a substantive review of the procurement processes.
- The Head of the Service Center had not attained the level 2 procurement certification. As the most senior procurement practitioner, this certification should be pursued. The Operations Manager, who is Chairperson of the Contracts, Assets and Procurement Committee, had obtained the level 2 procurement certification.

Without addressing the weakness described above, the Office is at risk of not conducting its procurement business function in a fair, competitive and transparent manner, or in the interest of UNDP, with best value for money.

Priority	Medium (Important)

Recommendation 12:

Improve the procurement function by:

(a) preparing and implementing a consolidated procurement plan for the achievement of economies of scale;
(b) establishing a cost recovery strategy for failed or abandoned procurement processes;
(c) ensuring that contract management is carried out as a post award phase in the procurement cycle;
(d) substantiating the independent review of a procurement process online by the Contracts, Assets and Procurement Committee by ensuring that discussion points are recorded online and the quality of the supporting documents contain evidence of the online review process; and
(e) ensuring the Head of the Service Center attains the level 2 procurement certification.

Management action plan:

The Office will implement the recommendations as follows:

(a) prepare a consolidated procurement plan according to the expected delivery for the year;
(b) issue a local policy on cost recovery related to abandoned or failed procurement processes;
(c) delegate the responsibility for follow-up of contracts to the Procurement Office, and making the activity part of the procurement process;
(d) instruct the members of the Contracts, Assets and Procurement Committee to improve their participation in the procurement process by documenting their comments and decisions; and
(e) confirm that the Procurement Officer completes the level 2 procurement certification by the September 2014 deadline.

Estimated completion date: December 2014

Issue 14 Improvements required in managing individual contracts

The individual contract modality is used for the procurement of time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs, which must be clearly identified in the contract and directly linked to payment. The engagement of individuals as contractors under the individual contract modality is subject to the UNDP procurement policies.

OAI noted the following weaknesses regarding individual contract management:

- During the period reviewed, 36 individual contractors were engaged non-competitively. This was primarily due to the practice of reviewing three candidates for each contract, one of whom was usually disqualified, and the short-listed selection was based on an evaluation of only two candidates. All individual contractsshould be awarded through a competitive selection process.
- Minutes of the Evaluation Committee did not provide sufficient details on how it reached its decision for qualifying candidates.
- Payments for individual contract holders were based on monthly percent disbursements in equal installments, rather than the required lump sum scheme. Travel expenditures were not included in the paid installments. Instead, the Service Center processed travel expenditures separately.
- The Office was not conducting performance evaluations of its individual contract holders prior to final payment. The 'Individual Contract Performance Evaluation Form' must be attached to the 'Certification for Payment Form' when processing final payment.
- Contract holders were misclassified as vendors in Atlas, which made it impossible to quantify the number of individual contracts. The misclassification was due classifying individual contracts as service contracts, and vice-versa. This situation impacted the ability to monitor individual contract holder performance and payments.

By not complying with UNDP procurement policies on individual contracts, the Office runs the risk of increased costs and not obtaining best value for money.

Priority	Medium (Important)
Recommendation 13: Improve the management of individual contracts by: (a) awarding individual contracts on a competitive and transparent process; (b) addressing in the Evaluation Committee minutes of all relevant information to sufficiently substantiate the selection of an individual contractor; (c) paying individual contractors with a lump sum, output-base remuneration scheme; (d) conducting individual contractor performance evaluations to confirm compliance with individual contractor milestones; and (e) ensuring the correct classification of contract holders in Atlas.	
Management action plan: The Office will comply with these recommendations by: (a) coordinating with the Regional Procurement Unit, and sending a memorandum to the new Procurement Office instructing them on the minimum requirement of having three candidates involved in the selection process performed under the public advertisement or direct solicitation; (b) improving the minutes of Evaluation Committee meetings to document their discussions. A quality check of these minutes will be done randomly by management; (c) making payments by a lump sum output-based remuneration scheme; (d) documenting the individual contract evaluation processes through certification by the Programme Officers prior to final payment; (e) classifying individual contracts correctly in Atlas to allow better control of the number of individual contracts issued. **Estimated completion date:** December 2014	

4. General administration

Issue 15 Deficiencies in vehicle management

The UNDP 'Vehicle Management Policy' stipulates that vehicles will be used only for UNDP official business. 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; and (b) possess a driving license valid for the country. Any use of an official vehicle for non-official purposes must be on a cost recovery basis.

OAI noted deficiencies in managing official vehicles, specifically:

- An incident occurred involving the total loss of an official vehicle (valued at $25,000). The vehicle was being used for non-official business by the former Deputy Resident Representative. The Office's comprehensive insurance policy reimbursed the total loss value of the vehicle, contrary to the UNDP 'Vehicle Management Policy', which stipulates that a staff member is required to obtain comprehensive

vehicle insurance coverage or assume full responsibility for damages that may be incurred during the period of non-official business use.
- The terms and conditions of the personal use of the official vehicle were not complied with by the staff member. In addition, the level of negligence was not adequately assessed by the Contracts, Assets and Procurement Committee.
- Responsibility for monitoring official vehicles was not centralized. Rather, the Office’s vehicles were managed by the Executive Assistant and directly implemented project vehicles were managed at the project level. The Operations Manager did not have oversight responsibility for directly implemented project vehicles, but only for the Office's vehicles.

Consequently, the management of directly implemented project vehicles merited significant improvement, and OAI noted the following:

- During the review period, a directly implemented project vehicle was involved in an accident after official hours, but project personnel had not notified the United Nations Department of Safety and Security of the extended driving hours of an official mission. The Office's comprehensive insurance policy was used to cover the total loss of the vehicle. Even though a preliminary investigation was conducted, negligence was not assessed.
- Official vehicles were used by directly implemented project personnel for non-official business, but a cost recovery scheme had not been implemented for such use. Specifically, OAI noted the use of official vehicles by directly implemented project personnel to drop off and pick up individuals on official business, at the airport. The Office was not advised of these travel arrangements. As a result, full terminal expenses were paid but no travel claim form was submitted to justify that travel was had taken place.
- Vehicle logs were not properly maintained. Specifically, non-official use of vehicles by directly implemented project personnel was not adequately documented in the vehicle logs. The name, title and purpose of the trip were not clearly identified.
- Six directly implemented project vehicles were not recorded in the Atlas Assets In Service Report as at 31 December 2013. Therefore, the Statement of Assets was understated by approximately $200,000.

Non-compliance with the applicable UNDP ‘Vehicle Management Policy’, including non-official use of an official vehicle, particularly by senior staff members and project personnel puts UNDP's reputation at risk. Furthermore, lack of an effective cost recovery regarding non-official use of an official vehicle leads to financial losses for the Office.

Priority	Medium (Important)

Recommendation 14:

Improve vehicle management by:

(a) complying with the UNDP ‘Vehicle Management Policy’, particularly with respect to the non-official use of official vehicles;
(b) recovering costs relating to non-official use of official vehicles;
(c) maintaining complete vehicle logs, including non-official usage; and
(d) recording all directly implemented project vehicles in the Atlas Assets In Service Report.

Management action plan:

The Office planned to implement this recommendation by: delegating the management of vehicles to one staff member – the Operations Manager; sharing the corporate regulation of vehicle management to staff in the Office and at the projects; and recording the six vehicles that were not previously included in the Atlas Assets In Service Report.

Estimated completion date: December 2014

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>.