UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

PARAGUAY

Report No. 1339

Issue Date: 28 August 2014

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Report on the audit of UNDP Paraguay
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Paraguay (the Office) from 9 to 20 June 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, asset management, leave management).

The audit covered the activities of the Office from 1 January 2013 to 31 May 2014. The Office recorded programme and management expenditures totalling $19.4 million in 2013 and $3.8 million in 2014 as at 31 May. The last audit of the Office was conducted by OAI in 2010.

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 financial sustainability of the Office being at risk, and the implementation of a project extending beyond the recommended maximum duration.

Key recommendations: Total = **11**, high priority = **2**

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:

Financial sustainability of Office at risk (Issue 1)	The financial sustainability of the Office had been a concern at the senior management level, both at the Office and the Regional Bureau. As a result, the Office engaged UNDP's Management Consulting Team to conduct a functional analysis. This evaluation resulted in a Transformation Plan. Despite the structural changes, the Office's financial sustainability continued to be a matter of concern, due to: (a) increased operational costs; (b) reduced inflow of core resources; and (c) limited possibilities for mobilizing resources from traditional donors. <u>Recommendation</u>: Implement actions contained in the Transformation Plan by:

(a) finalizing the action plan to translate the Resource Mobilization Strategy into action; (b) negotiating with the Government/project counterparts in order to keep unused funds at year end so as to facilitate project delivery; and (c) pursuing negotiations with the Government to collect the outstanding Government Contribution to Local Office Costs, considering input from the Regional Bureau, as well as in-kind contributions as an option.

Project implementation beyond recommended maximum duration (Issue 6)	The Office signed a Project Document in 1997 to support the Supreme Court of Justice (*Desarrollo de los Centros de Justicia*); the project has been active for 17 years. Within the past four years, the Office was able to negotiate some of the clauses of the Project Document in order to enhance cost recovery and its role in project monitoring. Nevertheless, OAI noted the following weaknesses: (a) the project's duration was not aligned with UNDP's programmatic cycle or corporate national implementation guidelines; (b) three staff members whose posts were fully funded by the project were only dedicating 20 percent of their time to project tasks; and (c) Implementation Support Services were charged on a percentage basis, instead of actual costs. Recommendation: Strengthen project implementation by: (a) redesigning the project so that its duration is within UNDP's programmatic cycle and aligning it to the corporate national implementation guidelines; (b) ensuring that the three staff members dedicate their full-time functions to the project or otherwise modify the job descriptions/contracts to reflect their tasks; and (c) complying with UNDP policy on cost recovery, which may require renegotiating the project agreement so that Implementation Support Services are charged based on actual costs.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had 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 Asunción, Paraguay (the Country) had 22 staff members, 23 service contract holders and 24 individual contractors. The Office was in the process of finalizing its 'Country Programme' for the period 2015-2019. Due to major changes in the development context in the Country, including the impeachment of the President and his subsequent removal from office in 2012, the implementation of the '2007-2011 Country Programme' was extended until 2014.

II. Audit results

Satisfactory performance was noted in the following area:

(a) Human resources. Adequate records for all human resource processes were retained as stipulated in UNDP regulations and rules, staff benefits and entitlements were administered in Atlas in accordance to the appropriate contractual guidelines, and recruitment and separation procedures were found to be adequate. No reportable issues were identified.

(b) Information and communication technology. The ICT systems managed by the Office, including hardware, software, systems security, and disaster recovery mechanisms were adequately operating.

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) Implement actions contained in the Transformation Plan (Recommendation 1).
(b) Strengthen project implementation (Recommendation 6).

Medium priority recommendations, arranged according to significance:

(a) Discontinue the use of the 2004 national execution guide, and implement and comply with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' (Recommendation 7).
(b) Refrain from manually calculating General Management Support fees (Recommendation 8).
(c) Comply with applicable policies and procedures related to individual contracts (Recommendation 9).
(d) Strengthen the monitoring function (Recommendation 2).
(e) Negotiate with the Government a change in regulations in order to implement the Harmonized Approach to Cash Transfers (Recommendation 3).
(f) Focus the 'Country Programme Action Plan 2015-2019' on projects that are nationally implemented (Recommendation 4).
(g) Adhere to prescribed procedures for project appraisal and substantive revisions (Recommendation 5).
(h) Comply with the International Civil Service Commission instruction in order to ensure the correct calculation of Daily Subsistence Allowance (Recommendation 10).
(i) Recruit a new Local Field Security Associate (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Financial sustainability

Issue 1 Financial sustainability of Office at risk

In accordance with corporate requirements, the Office maintained operational reserves of 12 months or higher over the course of the past three years. Nonetheless, the financial sustainability of the Office had been a concern for senior management, both at the Office and the Regional Bureau, mainly due to its inability to mobilize resources from sources other than the Government. In addition, the Office continued to be financially dependent on one project - *Desarrollo de los Centros de Justicia*, which exacerbated the sustainability risk for the Office. The Office faced challenges similar to those confronted by any middle - high income country, which included: (a) increased operational costs; (b) reduced inflow of core resources; and (c) limited possibilities for mobilizing resources from traditional donors.

In November 2012, the Office engaged UNDP's Management Consulting Team to conduct a functional analysis. This evaluation was meant to: (a) identify gaps and review business processes; (b) realign operations and programme areas to focus on the provision of high quality advisory services; (c) seek out new partnerships to reduce government cost-sharing; and (d) support negotiations with the host Government to collect the Government Contribution to Local Office Costs and consider in-kind contributions as a mechanism to settle the Government's debt.

The evaluation resulted in a Transformation Plan that began in early 2013 and was still ongoing at the time of the audit. Despite the structural changes that resulted in the abolishment of four core posts, the Office's financial sustainability continued to be a matter of concern, due in part to the following:

- The Office's inability to secure income from sources other than the Government, which was the result of the reduced number of donors working in the Country.
- The Government's delay in paying the $2.3 million balance in Government Contribution to Local Office Costs owed to the Office.
- The administration of the Government's national budget requires that the balance of project cost-sharing funds unspent as at 31 December of each year be returned to the project counterpart and recorded. At the beginning of the following year, these funds are to be re-deposited in the Office's bank account for project execution (around March or April). This process can result in funding gaps of up to four months in some cases. The delays can result in financial commitments not being met, which can have an impact on project delivery.

The Office developed a Resource Mobilization Strategy in an effort to move towards providing substantive contributions to the Government. However, the Office did not have a plan in place to implement the Strategy

Priority	High (Critical)
Recommendation 1: Implement actions contained in the Transformation Plan by: (a) finalizing the action plan to translate the Resource Mobilization Strategy into action; (b) negotiating with the Government/project counterparts in order to keep unused funds at year end so as to facilitate project delivery; and (c) pursuing negotiations with the Government to collect the outstanding Government Contribution to Local Office Costs, considering input from the Regional Bureau, as well as in-kind contributions as an option.	
Management action plan: The financial structure and legislative regulations of the Government establish that unspent funds by 31 December of each year have to be returned to the Government before 15 March of the following year. If agreed, such funds can be returned to the non-governmental organization at the beginning of the next year to continue the financing of ongoing projects. The Office will continue to raise awareness among government counterparts on the difficulties and negative impact that these regulations have on project activities and results, and will advocate for the change in the legislation. However, the Office cannot assure that all these efforts will have positive results in the short term. On the other issues, the Office will implement the recommendation by (a) making all possible efforts to diversify the portfolio, incorporating new partners to finance new projects/programmes, and (b) continuing to negotiate the payment of the overdue Government Contribution to Local Office Costs with the Government. **Estimated completion date:** December 2014	

2. Risk management, planning, monitoring and reporting

Issue 2 Inadequate monitoring procedures

UNDP uses the 'Integrated Work Plan' to capture risks and mitigating actions at the Office level and Atlas is used to record all project information reflecting the same structure, as defined in the 'Country Programme Action Plan'. The 'Programme and Operations Policies and Procedures', along with the 'Managing for Development Results' guidelines, stipulate that monitoring and tracking progress must be done through the use of SMART (specific, measurable, achievable, realistic and time-bound) indicators, baselines and targets, in relation to planned results contained in the 'United Nations Development Assistance Framework' and its related 'Country Programme' and 'Country Programme Action Plan'.

The Office updated its risk register in the 'Integrated Work Plan' in November 2012, which included a forecast of risks for 2013, along with the descriptions, probability, potential impact and corresponding risk rating. However, there was no evidence that the Office was using the risk register as a decision-making tool to manage risks in its operational and programmatic activities. In particular, there was no periodic update of the status of risks in the risk register, nor were the mitigating actions taken by the Office recorded in the 'Integrated Work Plan'. Office management indicated that the critical risks had been escalated to the Regional Bureau verbally.

In addition, other monitoring activities at the project level were not carried out or updated in a timely manner, as required. For instance, risks identified at the project level were not consistently updated in Atlas, and in approximately 50 percent of the cases, risks identified in 2011 were only updated in 2013.

A review of the information in Atlas on the project annual work plans showed that the indicators used were not based on SMART indicators. Specifically, annual work plans did not include baselines and output targets. The minutes for visits to implementing partners and projects were not results-oriented, but were narrative and lacked a results-based approach.

The lack of adequate risk management practices may result in risks not being identified and addressed in a timely manner. In addition, the failure to meet expected results may negatively affect the reputation of UNDP, and may reduce donor interest in funding future projects.

Priority Medium (Important)

Recommendation 2:

Strengthen the monitoring function by:

(a) using the corporate tools to capture and update the identified risks resulting from risk assessments of the Office and related projects;
(b) formulating SMART indicators, baselines and targets; and
(c) adopting a results-oriented approach when documenting the field visit reports.

Management action plan:

The Office will implement this recommendation by:

(a) promoting the contracting of a Junior Professional Officer that can take on the monitoring and evaluation function and responsibility;
(b) using corporate tools to capture and monitor the risks related to the Office and projects;
(c) using SMART project indicators and baselines; and
(d) documenting project field visits with a results-oriented approach.

Estimated completion date: December 2014

B. United Nations system coordination

Issue 3 Harmonized Approach to Cash Transfers not 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. In addition, according to the 'Framework for Cash Transfers to Implementing Partners', United Nations agencies will adopt a risk management approach and will select specific procedures for transferring cash on the basis of the joint assessment of the financial management capacity of implementing partners.

At the time of the audit, the Harmonized Approach to Cash Transfers had not been implemented and was being discussed among United Nations agencies. Existing legal regulations allow the use of bank accounts by government entities exclusively for the management of government resources directly transferred by the relevant government ministry. This makes it difficult to provide advances to government entities when such resources are considered to be from UNDP.

A waiver was sought in 2010 to the United Nations Development Group that granted an extension to the United Nations Country Team in Paraguay until the end of 2013 for the planning and preparation of a new 'United Nations Development Assistance Framework', including the implementation of the Harmonized Approach to Cash Transfers. Despite the extension, the Harmonized Approach to Cash Transfers was not implemented due to the inability by project counterparts of opening bank accounts to manage project funds. Instead, the Office started using Funding Authorization and Certification of Expenditures forms to report project expenditures on an ad-hoc basis.

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	Medium (Important)
Recommendation 3: Negotiate with the Government a change in regulations in order to implement the Harmonized Approach to Cash Transfers. If the negotiations are not successful request of a waiver from the Regional Bureau for delaying Harmonized Approach to Cash Transfers implementation.	
Management action plan: We will continue to negotiate with government counterparts the flexibility to change the regulations so that the transfer of funds becomes legal and manageable by government counterparts. On the other hand, a macro-evaluation and several micro-evaluations were carried out during 2008-2009, which showed lack of capacities in the government institutions to manage development funds. Based on the above, the Office will also consider a request to the Regional Bureau to waive the Harmonized Approach to Cash Transfers implementation in the Country until conditions are met. **Estimated completion date:** December 2014	

C. Programme activities

Issue 4 <u>Large number of directly implemented projects in project portfolio</u>

According to the 'Programme and Operations Policies and Procedures', the 'Country Programme' is implemented through the 'Country Programme Action Plan' or the 'United Nations Development Assistance

Framework Action Plan', which is nationally executed under the overall coordination of the Government. National implementation is the norm for UNDP programme activities and direct implementation by UNDP is an option when national institutions, United Nations agencies or civil society organizations have limited capacity to implement the programme activities, or when the host Government requests it. Direct implementation should ensure that governments have full ownership of the project and should support capacity development needs. The '2007-2011 Country Programme' as well as the 'Country Programme Action Plan' were extended to 2014 mainly due to the political instability during the preceding years that did not allow for the implementation of the 'United Nations Development Assistance Framework'. During that time, the programme implementation shifted from national implementation to direct implementation as a result of the Presidential impeachment in 2012. At the time of the audit, the Office was formulating the new 'Country Programme' for the period 2015-2019 containing a proposed project portfolio where more than 60 percent of the projects were categorized as direct implementation.

Having a large number of directly implemented projects hinders the capacity development of national counterparts.

Priority	Medium (Important)
Recommendation 4: Focus the 'Country Programme Action Plan 2015-2019' on projects that are nationally implemented and reduce the number of directly implemented projects.	
Management action plan: This issue is closely related to Issue No. 3. By the time the national capacities were evaluated during 2008 and 2009, it was ascertained that government institutions had very little, or no capacity to implement development projects. This evaluation determined, in a number of cases, the need to directly implement projects by UNDP. The Office will implement this recommendation by (a) trying to limit the number of new directly implemented projects to those institutions with no capacity to manage development resources, and (b) negotiating within new projects capacity development components that can impact the ability of counterparts to implement project activities. **Estimated completion date:** December 2014	

Issue 5 <u>Social and environmental screening procedure checklist and project substantive revisions not submitted to Project Appraisal Committee</u>

According to the 'Programme and Operations Policies and Procedures', as part of the project appraisal process, UNDP representatives and stakeholders shall ensure that projects are designed with clear and measurable results, following standard templates. All projects and substantive revisions should be reviewed by a Project Appraisal Committee to ensure that outputs are aligned with the planned results contained in the 'Country Programme' and that a proper project management structure is in place to monitor and evaluate results.

OAI reviewed a sample of 7 development projects and found that 3 of the 7 projects had more than 10 substantive revisions that were not submitted to the Project Appraisal Committee for review. In addition, the rationale for the substantive revisions was not always justified, which undermined the project design effort. In addition, excessive revisions created a burden for programme personnel, and shifted the focus away from critical programme issues that required interventions. The budget and substantive revisions made to the selected projects were as follows:

Project	Number of budget revisions	Number of substantive revisions	Number of years of implementation	Project Appraisal Committee minutes available for substantive revisions
00014311	24	11	17	Only for 1 done in 2010
00041278	21	23	8	No
00050039	7	26	6	No
00050832	20	3	6	No
00060839	2	-	3	N/A
00061786	2	-	3	N/A
00076849	-	1	1	No

In 2012, UNDP launched a new project-level environmental and social screening procedure applicable to projects submitted to the Project Appraisal Committee with a budget of $500,000 or more. OAI noted that only one project (out of seven) was subjected to the social and environmental screening procedure following a request from the donor. For other projects with a budget of $500,000 or more, the Office did not comply with the required screening procedure, as projects submitted to the Project Appraisal Committee did not include the required checklist.

Weaknesses in the review of project designs, substantive revisions and social screening procedures 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 5:

Adhere to prescribed procedures for project appraisal and substantive revisions by:

(a) having all substantive revisions reviewed by the Project Appraisal Committee;
(b) refraining from revising projects unnecessarily; and
(c) submitting the environmental and social screening procedure checklist for projects with a budget of $500,000 or more to the Project Appraisal Committee.

Management action plan:

The Office will implement this recommendation by:

(a) limiting the number of project financial and substantive revisions ;
(b) reviewing all substantive revisions in the Project Appraisal Committee; and
(c) submitting all new projects with a budget above $500,000 to the Project Appraisal Committee with the required social and environmental screening checklist.

Estimated completion date: October 2014

Issue 6 Project implementation beyond recommended maximum duration

The Project Document outlines the project scope, expected outputs that contribute to the outcomes of the 'Country Programme' in the form of a completed results and resources framework, management arrangements, and a project approach incorporating capacity development.

According to the principles for harmonized programming, the outputs of a project should not last more than five years (under exceptional circumstances, it may last up to seven years) as this is the timeframe usually set for any programmatic cycle. The Office signed a Memorandum of Understanding in 1996 and a Project Document in 1997 to support the Supreme Court of Justice (*Desarrollo de los Centros de Justicia*) in the construction of buildings at different locations throughout the Country. The Project Document was signed under the national implementation modality for an estimated duration of 61 months and a total budget of $2.3 million. Due to the successful results and outcomes of the project, the project was extended until 2014. This resulted in the Project being active for 17 years. The project has undergone 11 budget revisions. The cumulative project budget has exceeded $100 million.

Over the past four years, the Office was able to renegotiate some of the clauses of the project as a way to enhance cost recovery and its role in project monitoring. For instance, a substantive revision in 2010 allowed for the Implementation Support Services fees to be charged to the project; the revision of 2012 incorporated a schedule of field visits by the Office to the construction sites in order to strengthen the Office's monitoring activities. Nevertheless, the Office continued using the original Project Document.

The 'Programme and Operations Policies and Procedures' stipulate that all projects, Regular and Other Resource-funded projects alike, are required to recover the cost for providing Implementation Support Services on the basis of actual costs or transaction fees. Implementation Support Services are paid based on a fixed amount agreed upon with the donor when the Project Document is developed and signed. The Office was charging Implementation Support Services to this project on a percentage basis, rather than on actual costs or transaction fees in accordance with the signed terms contained in the Project Document.

OAI conducted a field visit of two construction sites and concerns were expressed by the project counterpart on the lack of monitoring/field visits by the Office, specifically in the past year. In addition, the project received several letters from contractors, engaged in different phases of the construction process, requesting that their contracts be terminated due to delays by the Office in effecting payments. Delays in payments processed by the Office were attributable to the untimely provision of resources by the Supreme Court of Justice, as a result of the administration of the national budget (see Issue 1).

The project has been implemented following outdated policies issued in 2004 (e.g. national execution modality guidelines issued locally never approved at the corporate level) as opposed to the corporate national implementation modality guidelines contained in the 'Programme and Operations Policies and Procedures'. OAI noted the following weaknesses in the implementation of the project:

- According to the 'Programme and Operations Policies and Procedures', the Government and UNDP are required to ensure that every procurement activity is undertaken from sourcing, to contract signing and contract management by the same entity, either the Government or UNDP. However, the national execution guidelines issued locally and being used for this project stipulate procurement thresholds and indicate that procurement processes greater than $10,000 will be carried out by the project in conjunction with support of the Office.

- The Project Document, specifically the substantive revision of November 2012, stipulated the individual tasks and roles that would be carried out by the Office in an administrative and operational support role, in conjunction with the project. However, the Office fully engaged in performing these tasks, as opposed to providing a supporting role to the project.

- In order to carry out the project tasks, three staff members (one of which was an international professional) were assigned to this project. However, OAI noted that these staff members, who were fully funded by the project, were only dedicating approximately 20 percent of their time to project tasks.

- The project was signatory to contracts with vendors and suppliers, yet some of the procurement tasks performed by the Office should have been conducted by the project (i.e. receipt of offers, dissemination of procurement processes, and notification of award).

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.

In addition, insufficient oversight can limit the Office's ability to ensure that agreed-upon results with implementing partners are met and that issues are resolved in a timely manner.

Priority High (Critical)

Recommendation 6:

Strengthen project implementation by:

(a) redesigning the project so that its duration is within UNDP's programmatic cycle and aligning it to the corporate national implementation guidelines;
(b) ensuring that the three staff members dedicate their full-time functions to the project or otherwise modify the job descriptions/contracts to reflect their tasks; and
(c) complying with UNDP policy on cost recovery, which may require renegotiating the project agreement so that Implementation Support Services are charged based on actual costs.

Management action plan:

(a) The project will expire during 2015, and afterwards a new award will be assigned to the project;
(b) The guidelines and terms of reference of personnel will be updated by the time the new award is assigned to the project.
(c) The Office will review and change the Implementation Support Services in accordance with the signed terms contained in the Project Document and will revisit them by the time a restructuring of the project takes place in December 2015.

Estimated completion date: December 2015

Issue 7 Lack of adherence to corporate guidelines for nationally implemented projects

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', such projects are to be implemented following one of two scenarios: (a) full national implementation, in which the national implementing partners directly assume responsibility for the related output(s) and carry out all activities towards the achievement of those output(s); or (b) national implementation, in which the national implementing partner assumes full responsibility for the related output(s) but where, at the request of the Government through a standard Letter of Agreement for support to national implementation, UNDP serves as a responsible party that undertakes specific, clearly defined activities for the implementing partner.

OAI reviewed three nationally implemented projects and found that the Office failed to implement the corporate guidelines regarding Country Office support to national implementation, since:

- 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. The Office indicated that there was a waiver for the continued use of these national execution guidelines rather than the implementation of the corporate national implementation modality guidelines, yet this waiver was not made available to the audit team.

- The Office was using an outdated 2004 national execution guide designed for projects in the Country, which was neither aligned with the corporate guidelines addressed in the 'Programme and Operations Policies and Procedures' nor the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures'.

Non-compliance with the corporate guidelines creates issues of accountability as roles and responsibilities are not 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 7: Discontinue the use of the 2004 national execution guide and implement the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', for all active and new projects by performing capacity assessments before engaging implementing partners and signing the standard Letter of Agreement whenever the Office provides support to national implementation.	
Management action plan: The Office will implement this recommendation by: (a) implementing the corporate national implementation guidelines for all new projects and negotiating with the counterparts the implementation of the new guidelines for each one of the ongoing projects; (b) performing capacity assessments of new partners before engaging with them in project implementation activities; and	

(c) including in the Project Document the information or clauses when engaging in the support to national implementation.

Estimated completion date: December 2014

D. Operations

1. Finance

Issue 8 General Management Support fees charged manually

The 'Programme and Operations Policies and Procedures' stipulate that all projects, Regular and Other Resource-funded projects alike, are required to recover the cost for providing support services 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. In determining costs, the approach is to use actual costs for clearly identifiable transactions. When this is not possible, Country Offices should use the same Universal Price List for transactional services that is used to recover costs from United Nations agencies.

OAI found that the Office was manually charging General Management Support fees to projects based on an approval obtained from the Regional Bureau in 2005 as opposed to automatically charging General Management Support fees through Atlas.

Manually charging management support fees is a time-consuming exercise that may lead to errors. In addition, this process may impact the Office's finances.

Priority Medium (Important)

Recommendation 8:

Refrain from manually calculating General Management Support fees.

Management action plan:

The Office calculates General Management Support fees manually because Atlas charges it quarterly. Since most of the implementation of the project portfolio occurs during the last quarter of the year and the funds are to be returned to the Government by December (according to government regulations), we would run out of funds by the time Atlas charges corresponding to the last quarter take place. As a consequence, the Office would not be in a position to recover the larger amount of General Management Support fees. However, this is not the case for all projects since there are some which are not subject to the government regulation. For this reason, the Office will implement this recommendation partially for those projects that are not subject to government regulations but will not be in the position to implement this recommendation for projects affected by the regulation concerning the return of funds.

Estimated completion date: October 2014

OAI Response

The course of action proposed by the Office is acceptable to OAI. This will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

2. Procurement

Issue 9 Deficiencies in awarding individual contracts

As a general policy, an individual contract should be used for the procurement of services of an individual to perform non-staff functions in clear and quantifiable deliverables (reasonable time and bound services) which must be clearly identified in the contract and directly linked to a payment. Any contract or series of contracts including amendments to an individual or an entity that in aggregate for the last 12 month has a cumulative value of more than $100,000 has to be submitted to the Regional Advisory Committee on Procurement.

For the period audited, OAI reviewed 20 individual contracts, of which 10 were awarded non-competitively. The following deficiencies were noted for one individual contract, awarded to a former United Nations employee:

- The individual contract was awarded without competition as an international consultancy.
- The value of the individual contracts exceeded $50,000 in 2013 and 2014. This was due to the fact that the Daily Subsistence Allowance rate for the Country was added on to the professional fee for the length of the contract period, yet there was no evidence of travel costs associated with the performance of services of the individual contract as the consultant was a resident of the Country.
- The accumulated value of contracts awarded to the individual contractor during the period reviewed exceeded $100,000 (amount awarded $108,915); yet had not been submitted to the Regional Advisory Committee on Procurement. In addition, approval was not obtained from the Regional Bureau on the individual contracts, as the aggregate the length of time of the individual contracts exceeded a 12 month period.

The terms of reference of the individual contract showed that the Office used the international contractual modality to fulfill a resource mobilization requirement that is a core function specific to the Office's management and programme staff. The 'Programme and Operations Policies and Procedures' stipulate that individual contractors shall not perform staff functions related to programmes, projects, operations, or any other areas of UNDP activities.

- A review of the products provided by the individual contract showed that these did not meet the terms of reference; specifically, during 2013, the individual contractor submitted a report on a monthly basis. However, the contents of the report remained the same each month, and only the date had changed.
- The Office incorrectly extended diplomatic accreditation to this individual contractor in the Country, even though such accreditation is only afforded to eligible international staff members. The accreditation allowed the individual contractor to obtain tax exemption status and a diplomatic vehicle registration in the Country. The Office indicated that the individual contractor had been approved for this accreditation in the past, under a previous service contract.

As the individual contractor was contracted non-competitively and performing staff functions the Office did not comply with the individual contract guidelines. Furthermore, contrary to the spirit of the Standard Basic

Agreement, a non-staff member received full accreditation as a United Nations staff member, thereby posing a reputational risk to the Office.

Priority	Medium (Important)

Recommendation 9:

Comply with applicable policies and procedures related to individual contracts by:

(a) procuring services of an individual to perform non-staff functions in clear and quantifiable deliverables (reasonable time and bound services);
(b) ensuring fee payment threshold is met for a United Nations retiree;
(c) submitting the procurement case to the applicable procurement committee(s), upon cumulative value of such contracts; and
(d) refraining from accrediting a non-staff for purposes of obtaining benefits afforded to United Nations staff members by the host Government.

Management action plan:

The Office will:

(a) comply with the procurement procedures and regulations in relation to procurement of individual contracts;
(b) pay fees to retirees according to thresholds established; and
(c) provide accreditation in the Country only to United Nations international staff.

Estimated completion date: December 2014

3. General administration

Issue 10 Misinterpretation of the International Civil Service Commission Daily Subsistence Allowance survey requirements

The International Civil Service Commission is responsible for establishing Daily Subsistence Allowance rates applicable within the United Nations common system. The basis for the Daily Subsistence Allowance rate for United Nations personnel travelling on official business is the average price for a single room and restaurant meals, including service charges and/or taxes, plus 15 percent for incidentals. In order to ensure the adequacy of the Daily Subsistence Allowance rate, a survey is carried out on the basis of information collected by the Office and submitted to the International Civil Service Commission.

A review of the instruction to conduct the 2013 annual survey revealed that the instruction was misinterpreted by the Office. Specifically, the instruction stipulated that the Office was responsible for coordinating the submission of the data to the International Civil Service Commission, including visiting the hotels and restaurants to collect the information and ensure the adequacy of the information. Furthermore, in order for the Daily Subsistence Allowance rates set by the International Civil Service Commission to remain current and result in adequate payment to United Nations personnel, the Human Resource Policy and Compensation Unit provided additional advice on variations of hotel rates for different travelers and requested that any situation that should be taken into consideration by the International Civil Service Commission be properly documented.

The Office collected the information as if the information was for the organization (Office and agencies under a tax exemption scheme) rather than collecting the information related to a United Nations traveller on official mission, whereby service charges and/or taxes plus 15 percent for incidentals should be taken into account. In addition, the Daily Subsistence Allowance survey questionnaire was submitted electronically to hotel/restaurants for responses; yet no on-site visits were conducted by the Office. As a result, responses to the questionnaire were completed by the hotel/restaurant employees and did not include all applicable charges or document any situation related to hotel rates applicable to United Nations personnel, contrary to the International Civil Service Commission instruction and advice of the Human Resource Policy and Compensation Unit.

OAI noted that the Daily Subsistence Allowance rate for Asuncion, Paraguay, was not modified after the last survey conducted in the fourth quarter of 2013, even though the hotels that participated in the survey stipulated hotel rates that were above the amount allocated for accommodations. The percentage of the Daily Subsistence Allowance rate allocated for accommodation resulted in lower hotel rates than the price of hotels frequented by United Nations personnel and recommended by the Office. The misinterpretation of the International Civil Service Commission instructions and incorrect collection of information led to these errors.

Not complying with the International Civil Service Commission instructions results in the incorrect calculation of Daily Subsistence Allowance rates.

Priority	Medium (Important)
Recommendation 10: Comply with the International Civil Service Commission instruction in order to ensure the adequacy of the information submitted and the correct calculation of the Daily Subsistence Allowance rates for the Country, specifically Asuncion.	
Management action plan: The Office will implement this recommendation by complying with the International Civil Service Commission instructions while calculating the Daily Subsistence Allowance rates in the Country. **Estimated completion date:** March 2015	

4. Safety and security

Issue 11 Lack of Local Field Security Associate

The primary responsibility for the safety and security of personnel employed by United Nations organizations, their spouses and other recognized dependents along with the organization's property, rests with the host Government. As an employer, the United Nations has a duty to reinforce and supplement the capacity of the host Government to provide safety and security for personnel. This is particularly true in areas that are considered insecure or high risk.

Due to a lack of funds, there was no Field Security Associate for the United Nations agencies in the Country. As a result, procedures related to security administration, such as obtaining security clearance for local travel, were negatively impacted. The Resident Representative as Designated Officer indicated that a request for the creation of a local position was already made and agreed upon among the United Nations Country Team members, following extensive discussions on funding mechanisms.

Not having a Local Field Security Associate in place may lead to security clearances not being obtained, which may impact operations in the field.

Priority	Medium (Important)
Recommendation 11: Recruit a new Local Field Security Associate.	
Management action plan: The Office will select and contract a new local Field Security Associate. **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>.