UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

ARGENTINA

Report No. 1402

Issue Date: 5 December 2014

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Report on the audit of UNDP Argentina
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Argentina (the Office) from 19 August to 5 September 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, Global Environment Facility).

The audit covered the activities of the Office from 1 January 2013 to 30 June 2014. The Office recorded programme and management expenditures totalling $399 million. The last audit of the Office was conducted by OAI in March 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 annual work plans not being aligned to the 'Programme and Operations Policies and Procedures'; monitoring function weaknesses related to nationally implemented projects; the lack of adherence to corporate guidelines for nationally implemented projects; and implementing partner's procurement capacity assessment not carried out as required.

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:

Annual work plans not aligned to 'Programme and Operations Policies and Procedures' (Issue 1)	The level of detail in the annual work plans was not sufficient and had no linkage between inputs and project activities. In particular: implementing partners used their own annual work plan format; annual work plans were not results-oriented, exceeded the recommended number of outputs, and lacked annual output targets, indicators and baselines; the annual work plans did not contain a

sufficient breakdown of project budgets, making it difficult to assess the appropriateness of expenses of the project; and project outputs were not fully aligned to Country Programme Action Plan and Atlas.

Recommendation: Align project annual work plans to the requirements set forth in the 'Programme and Operations Policies and Procedures,' specifically by: (a) using standardized annual work plan format/templates; (b) making the work plans more results-oriented with targets, indicators and baselines; and (c) aligning the project annual work plans to the Country Programme Action Plan.

Monitoring function weaknesses related to nationally implemented projects (Issue 2)

Given the size of the portfolio of projects, project budgets and the volume of procurement processes involved with most projects, monitoring activities were found to be insufficient. Weaknesses noted included: risk assessments not carried out or updated; baselines and indicators not "SMART" (i.e., Specific, Measurable, Attainable, Relevant, and Time-bound); indicators not used to measure the progress towards the agreed targets; infrequent field visits and visit reports not results oriented; project steering committee meeting reports not properly addressing results; inadequate resources for Monitoring and Evaluation unit; and lack of awareness throughout the Office on the roles and responsibilities of the monitoring function.

Recommendation: Strengthen the monitoring function, specifically by: (a) formulating SMART indicators, baselines and targets; (b) adopting a results-oriented approach when documenting the field visit and project progress reports; (c) reviewing the portfolio of projects, and according to budget size and volume of procurement involved, schedule the frequency of the monitoring activities; (d) assessing staffing requirements and workload of the unit; and (e) enhancing the awareness of monitoring responsibilities of senior management and programme unit staff.

Lack of adherence to corporate guidelines for nationally implemented projects (Issue 4)

OAI found that the Office was using an outdated national execution manual, which was not aligned to the guidelines for nationally implemented projects effective since January 2012. OAI identified the following discrepancies: the required procurement capacity assessments of implementing partners were not conducted as required; a non-standard project document template was being used; non-standard contracts were used by projects for the recruitment of project personnel (the Office had processed 2,400 contracts in 2014 with an estimated value of $26.5 million). In addition, the UNDP logo was inappropriately used in project procurement solicitation documents, contracts and business cards of project personnel, even though the solicitation was conducted by the national partner.

Recommendation: Implement the valid guidelines for nationally implemented projects for all new and ongoing projects, as required. In addition, discontinue the use of the UNDP logo in project documentation.

Implementing partner's procurement capacity assessment not carried out as required (Issue 12)	The Office did not undertake procurement capacity assessments of implementing partners as required by the guidelines, despite the fact that most implementing partners received over $100,000 per year on projects that were procuring goods and services. Furthermore, the role of the Procurement Unit in regard to the national implementation modality was not adequately clarified. Despite the procurement experience of the staff, the Procurement Unit mainly undertook ex-post verifications on some questionable procurement processes without proactively engaging in additional oversight activities. This was the result of the lack of a strategy on how to best use the Procurement Unit's capacity to provide assurance to the Office management on project procurement and vendor management. Recommendation: Strengthen oversight of procurement activities by: (a) performing detailed capacity assessments of implementing partners; and (b) developing a strategy to strengthen the procurement function for national implementation modality that should include the provision of procurement advisory services to projects, adequate monitoring, contract management for project procurement activities, and procurement training for government counterparts and vendors.

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.

Digitally signed by Helge S. Osttveiten

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the Office

The Office is located in Buenos Aires, Argentina (the Country). At the time of the audit, it had 49 staff members, 2 service contract holders and 19 individual contractors. The Office was working on drafting a new United Nations Development Assistance Framework together with the United Nations system of agencies for the period 2016-2020 and was in the process of drafting its Country Programme for the period 2016-2020. In order to align the programming cycle with the country planning cycle, the implementation of the 2010-2014 Country Programme was extended until 2015.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) United Nations system coordination. Key controls were in place and adequate. The United Nations Country Team shared the common goal of improving coordination within the United Nations system.

(b) Programme activities. Resource mobilization and partnership strategies were adequate. OAI met with government counterparts, implementing partners and donors, who expressed their appreciation of the Office as a development partner. No reportable issues were identified.

(c) 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 (the enterprise resource planning system used by UNDP) in accordance with the appropriate contractual guidelines, and recruitment and separation procedures were found to be adequate. No reportable issues were identified.

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

OAI made 14 recommendations 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) Strengthen oversight of procurement activities (Recommendation 12).
(b) Align annual work plans to the requirements set forth in the 'Programme and Operations Policies and Procedures' (Recommendation 1).
(c) Strengthen the monitoring function (Recommendation 2).
(d) Implement the valid guidelines for nationally implemented projects for all new and ongoing projects and discontinue use of the UNDP logo in project documentation (Recommendation 4).

Medium priority recommendations, arranged according to significance:

(a) Align policies and guidelines regarding direct payments and clarify the type of documentation required (Corporate Recommendation 7).
(b) Request original supporting documents to process direct payments until the Office has completed the implementing partners´ capacity assessments (Recommendation 9).

(c) Pursue the implementation of the Harmonized Approach to Cash Transfers modality (Recommendation 3).
(d) Improve the use of Atlas (Recommendation 5).
(e) Apply the environmental and social screening procedure to all new projects that meet the criteria (Recommendation 6).
(f) Comply with the cost recovery policy for Implementation Support Services (Recommendation 8).
(g) Grant cash advances to projects only when at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated (Recommendation 10).
(h) Use extrabudgetary income in line with the purpose for which it was earned (Recommendation 11).
(i) Comply with UNDP 'Programme and Operations Policies and Procedures' for travel management (Recommendation 13).
(j) Assess suitability of the Office's premises and carry out refurbishment tasks, as necessary (Recommendation 14).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Risk management, planning, monitoring and reporting

Issue 1 <u>Annual work plans not aligned to 'Programme and Operations Policies and Procedures'</u>

The 'Programme and Operations Policies and Procedures' stipulate that in order to achieve project outputs, each project should have an approved annual work plan. The plan to achieve outputs for a given year is articulated in the annual work plan, which details the targets, indicators and baselines of the outputs to be achieved during the year. The outputs are produced through a set of activities, which in turn use inputs to produce the agreed upon deliverables.

OAI noted that the level of detail in the annual work plans was not sufficient and had no linkage between inputs and project activities. In particular:

- implementing partners used their own annual work plan format;
- annual work plans were not results-oriented, exceeded the recommended number of outputs, and lacked annual output targets, indicators and baselines;
- the annual work plans did not contain sufficient breakdown of project budgets, making it difficult to assess the appropriateness of expenses of the project; and
- project outputs were not fully aligned to the Country Programme Action Plan and Atlas.

The above issues were the result of the Office not enforcing the use of the annual work plan template as prescribed in the 'Programme and Operations Policies and Procedures.'

Not using the standardized annual work plan templates could have a negative impact on project implementation, as it could affect the Office's ability to adequately monitor project expenses.

Priority	High (Critical)
Recommendation 1: Align project annual work plans to the requirements set forth in the 'Programme and Operations Policies and Procedures,' specifically by: (a) using standardized annual work plan format/templates; (b) making the work plans more results-oriented with targets, indicators and baselines; and (c) aligning the project annual work plans to the Country Programme Action Plan.	
Management action plan: The corporate annual work plan template will be implemented in new projects and updated in ongoing projects through substantive project revisions. An internal workshop with Headquarters support will be held in order to improve the use and definition of outputs, targets, baselines, indicators, and the alignment to the Country Programme Action Plan. A detailed budget breakdown will be reflected in Atlas in the corresponding cases. Internal quality assurance mechanisms will be strengthened in order to improve project document design. **Estimated completion date:** March 2015	

Issue 2 Monitoring function weaknesses related to nationally implemented projects

Monitoring is driven by the need to account for the achievement of intended results and provide a factual base for decision making. It is an essential management tool to support UNDP's commitment to accountability for results, resources entrusted to it, and organizational learning. Monitoring relates to pre-identified results in the development plan that are achieved through project implementation, where baselines, indicators, targets and measurements of results are clearly defined and regularly monitored.

During the18 months prior to audit fieldwork, the Office had implemented measures to enhance its monitoring function as a response to weaknesses identified in the annual national implementation audit exercise corresponding to 2012, such as spot checks on project transactions and ad-hoc audits in order for the audit firms to be engaged.

OAI reviewed a sample of 9 out of 78 nationally implemented development projects. Given the size of the portfolio of projects, the project budgets and the volume of procurement processes involved, monitoring activities were found to be insufficient for most projects. Despite the efforts made by the Office, as acknowledged by OAI, management of the development results function should comprise of more than spot checks and audits. OAI noted the following weaknesses:

- risk assessments were not carried out or updated as required by the 'Programme and Operations Policies and Procedures';

- baselines and indicators found were not "SMART" (i.e., Specific, Measurable, Attainable, Relevant, and Time-bound), and projects were not using the indicators to measure the progress towards the agreed targets;
- field visits took place once a year and visit reports were activity-oriented and narrative rather than results-oriented;
- project steering committee meeting reports did not properly address results, as baselines, indicators and targets were not consistently assessed;
- the Monitoring and Evaluation Unit was insufficiently staffed (one person), considering it had a portfolio of 79 projects in 2014, with a total budget of over $300 million;
- senior management and programme unit staff were not sufficiently involved in substantive monitoring activities, as monitoring was exclusively the responsibility of the Monitoring and Evaluation Unit; and
- there was a lack of awareness among Office staff on the roles and responsibilities of the monitoring function.

The lack of effective monitoring could have a negative impact on the reputation of the Office, as it makes it difficult to determine whether intended results are being achieved, and whether corrective actions are necessary to ensure the delivery of intended results.

Priority	High (Critical)

Recommendation 2:

Strengthen the monitoring function by:

(a) formulating SMART indicators, baselines and targets;
(b) adopting a results-oriented approach when documenting the field visit and project progress reports;
(c) reviewing the portfolio of projects, and according to budget size and volume of procurement involved, schedule the frequency of the monitoring activities;
(d) assessing staffing requirements and workload of the unit; and
(e) enhancing the awareness of monitoring responsibilities of senior management and programme unit staff.

Management action plan:

An internal workshop with Headquarters support will be held in order to enhance the awareness of monitoring responsibilities of senior management and programme unit staff and especially to improve the formulation of SMART indicators, baselines and targets (31 January 2015).

Mechanisms to report field visits and project progress will be changed in order to adopt a results-oriented approach (31 January 2015).

The Office is implementing a Monitoring Plan that defines priorities and frequency of field visits with a risk assessment approach, including budget size, volume of procurement involved and the results of different monitoring and auditing activities (31 December 2014).

A project balanced scorecard will be created to have comprehensive information for senior management decision making (31 March 2015).

The Monitoring and Evaluation Unit will be strengthened by incorporating staff and redefining roles and responsibilities. The newly recruited international Operations Manager will manage the contracts for nationally implemented project audits. (30 November 2014).

Estimated completion date: March 2015

B. United Nations system coordination

Issue 3 Harmonized Approach to Cash Transfers not implemented

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. As such, the objective of the Harmonized Approach to Cash Transfers among United Nations agencies is to lessen the burden of using multiple procedures in the management of funds.

At the time of the audit, the Harmonized Approach to Cash Transfers had not been implemented, in part due to a lack of interest by the Government. It was being discussed among United Nations agencies in view of the preparation of the new United Nations Development Assistance Framework, which was scheduled to be launched in 2015. The United Nations Development Group, at the request of the Government, officially granted the United Nations Country Team in Argentina a waiver, allowing it to defer the initiation of the implementation of the Harmonized Approach to Cash Transfers until the beginning of the next programming cycle in January 2016.

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

Priority Medium (Important)

Recommendation 3:

Pursue the implementation of the Harmonized Approach to Cash Transfers modality in 2015 and ensure that related requirements are duly adhered to.

Management action plan:

The Office will ensure that the Harmonized Approach to Cash Transfers is implemented according to recently released guidelines.

Estimated completion date: December 2015

C. Programme activities

Issue 4 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' (guidelines for nationally implemented projects), 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 outputs and carry out all activities towards the achievement of those outputs; or (b) national implementation, in which the national implementing partner assumes full responsibility for the related outputs, 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.

The Office was using an outdated national execution manual agreed upon with the Government to guide project execution, which was not aligned to the existing guidelines effective since January 2012.

OAI identified the following discrepancies in the use of the outdated manual to guide national execution, which were contrary to the guidelines for nationally implemented projects:

- Procurement capacity assessments of implementing partners were not conducted as required (refer to Issue 12 for further details).
- A non-standard project document template was in use.
- Non-standard contracts were used by projects for the recruitment of project personnel. The contracts used by projects did not consider entitlements such as annual leave, maternity leave or sick leave. The Office had processed 2,400 contracts in 2014 with an estimated value of $26.5 million.
- The UNDP logo was used in project procurement solicitation documents, contracts and business cards of project personnel, even though the solicitation was conducted by the national partner.

Not using the appropriate guidelines for nationally implemented projects may result in unclear roles and responsibilities among the Office's staff and implementing partners. In addition, incorrect use of the UNDP logo could have legal implications for the organization.

Priority	High (Critical)
Recommendation 4: Implement the valid guidelines for nationally implemented projects for all new and ongoing projects, as required. In addition, discontinue the use of the UNDP logo in project documentation.	
Management action plan: A meeting with the Government Coordinating Agency will be held to agree upon changes for full implementation of the guidelines for nationally implemented projects (30 November 2014). The corporate model for contracts of project staff and procurement capacity assessment for new projects as well as a guideline to formulate a more comprehensive internal control framework of nationally implemented projects will be implemented (31 March 2015).	

Use of the UNDP logo will be redefined and the project document template will be updated (31 March 2015). **Estimated completion date:** March 2015

Issue 5 Weaknesses in the use of Atlas

Atlas is the UNDP management information system used to process financial and operational data for reporting to donors and other stakeholders and as such, users are required to make good use of the system.

OAI noted the following weaknesses in regard to the use of Atlas:

- The number of outputs specified in project documents did not correspond to the number of outputs in Atlas (output IDs).
- An implementing partner code (00085) was used as a generic code to refer to projects implemented by the Government, instead of creating a code for each implementing partner, thereby impacting the ability to identify projects by the implementing partner.
- The risks, issues and monitoring items were not entered consistently for all projects.
- Output targets, baselines and indicators were not entered or updated on a yearly basis, as required.
- Key documents such as annual project progress reports and annual work plans were not uploaded for all projects.
- Generic vendor profiles were created for granting cash advances to projects, and as a result, the name of the implementing partner was not reflected in Atlas.
- There was incorrect classification of vendors (e.g. a vendor was classified as a consultant rather than a supplier).
- Purchase orders were used incorrectly. One contract awarded for the audit of 80 projects resulted in raising a requisition, a purchase order and a voucher for each project audit. Some project documents only referred to the local naming convention, e.g. ARG/XX/XXX, making it difficult to relate it to Atlas data.

The weaknesses noted above are the result of the limited knowledge of some Office staff in the use of Atlas.

The incorrect use of Atlas can impact the accuracy and completeness of project management reporting.

Priority	Medium (Important)
Recommendation 5: Improve the use of Atlas by: (a) aligning project documents/annual work plans outputs to the Atlas structure; (b) creating and using implementing partner codes as required; (c) updating and correcting Atlas data with regard to project information and monitoring; (d) no longer using and creating generic vendor profiles; and (e) adequately training staff members in Atlas, according to the user profiles assigned to them.	

Management action plan:

Changes introduced in the project document design will be reflected in Atlas in the corresponding cases with the aim of providing more detailed information and homogenization in the definition of outputs and activities (31 March 2015).

Implementing partner codes will be used as required (31 January 2015).

The Project Management Module will be considered as the main tool for project administration.

The Office will carry out comprehensive training in order to ensure that all staff using Atlas will be trained according to their user profiles.

Regarding the use of generic vendor profiles and the classification of vendors, the Office takes note of the observation and will update the information set up in Atlas for active vendors.

Additionally, the vendor profile for nationally implemented projects will be set as: "Implementing partner – Project ID XXXXX – ARGXXXXX- Name of the project." To ensure that the correct data is entered in Atlas, new protocols/guides are being prepared for internal use.

Estimated completion date: March 2015

Issue 6 Environmental and social screening procedure not implemented

Environmental and social sustainability, including climate change resilience, is fundamental to the achievement of development outcomes, including the Millennium Development Goals, and must be systematically streamlined with UNDP's programme and project management cycles. Potential adverse impacts and risks need to be avoided or minimized, and mitigated where possible. In 2012, UNDP launched a new project-level environmental and social screening procedure applicable to projects submitted to a Project Appraisal Committee with a budget of $500,000 or more.

At the time of the audit, the Office was unaware of this requirement and therefore had not implemented the screening procedure for 27 projects that were approved after 1 January 2012.

By not implementing the use of the environmental and social screening procedure, opportunities to strengthen environmental and social sustainability, including climate resiliency, can be missed.

Priority	Medium (Important)

Recommendation 6:

Apply the environmental and social screening procedure to all new projects that meet the respective criteria for submission to the Project Appraisal Committee.

Management action plan:

Environmental and social screening procedures will be incorporated into the assessment process.

Estimated completion date: March 2015

D. Operations

1. Finance

Issue 7 Corporate Issue: Contradictory information among internal policies regarding direct payments on nationally implemented projects

Policies and procedures are key elements of the internal control environment of an organization. OAI identified contradicting requirements among UNDP policies and procedures for dealing with direct payment requests from implementing partners on nationally implemented projects. This was due to different requirements to process direct payments by the Country Offices as described in the 'Programme and Operations Policies and Procedures,' and in the Internal Control Framework. The guidelines for nationally implemented projects refer to the Internal Control Framework to deal with direct payment requests.

Under the direct payment modality, the implementing partner is responsible for project expenses and carries out the procurement activity, but requests UNDP to execute the disbursements. The Country Office makes the payment as long as the request is properly authorized and provides accounting and banking services to the implementing partner.

According to the 'Programme and Operations Policies and Procedures,' requests for direct payments by the implementing partner must include any necessary background documentation/information, such as duly completed Funding Authorization and Certification of Expenses forms or Request for Direct Payment forms, original invoices, purchase orders, quotations and goods received notes, vendor names and addresses, and vendor banking details. On the other hand, the Internal Control Framework stipulates that the implementing partner is responsible for maintaining all supporting documentation for commitments and expenses. Upon discretion, the Office may require the implementing partner to submit supporting documentation for the payment so that the Office can monitor project activities on a transactional basis. The Internal Control Framework further stipulates that the implementing partner should only send copies and should retain original documents so that they are available for audit at the implementing partner's premises (refer to Issue 9 for further details).

Contradictory policies and procedures impact the internal control environment of the organization and could be misleading for Country Offices when dealing with direct payment requests from implementing partners. Contradictory information could also result in the incorrect implementation of existing policies.

Priority	Medium (Important)

Recommendation 7:

Align policies and guidelines regarding direct payments and clarify the type of documentation required.

Responsible HQ bureau: Office of Financial Resources Management

Management action plan:

According to the Office of Financial Resources Management, this issue will be addressed when the new 'Programme and Operations Policies and Procedures' go through the final rounds of clearance. The Office of Financial Resources Management is also expecting a response from the United Nations Board of Auditors on the audit section prior to its submission to the Executive Office.

Estimated completion date: March 2015

Issue 8 Cost recovery from projects not in line with UNDP 'Programme and Operations Policies and Procedures'

The 'Programme and Operations Policies and Procedures' stipulate that offices are required to recover the cost for providing Implementation 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, offices should use the same Universal Price List for transactional services that is currently in use to recover costs from United Nations agencies, as reference.

OAI reviewed the Office's compliance with the corporate cost recovery policy and found that it was not recovering direct costs for activities/tasks performed on behalf of projects. Instead, it was only charging General Management Support costs to projects. For example, the Office was processing payments, issuing Value Added Tax certificates, and managing and granting access to two locally developed IT applications for these activities, all without recovering costs for such activities. For instance, OAI estimated that the Office processed 3,400 direct payment requests for nationally implemented projects during the audit period estimated at $93,000, from which costs could have been recovered.

Not recovering costs for Implementation Support Services may have a negative impact on the financial sustainability of the Office.

Priority	Medium (Important)

Recommendation 8:

Comply with the UNDP 'Programme and Operations Policies and Procedures' in regard to cost recovery for Implementation Support Services provided to projects.

Management action plan:

This recommendation will be discussed and agreed upon with national authorities during the next programming cycle.

Estimated completion date: December 2015

Issue 9 Direct payments not effected according to UNDP 'Programme and Operations Policies and Procedures'

According to UNDP's 'Programme and Operations Policies and Procedures,' the direct payment modality for nationally implemented projects must be based on a respective request that encloses all necessary background documentation/information, such as a Request for Direct Payment form, original invoices, purchase orders, quotations and notes on goods/services received. Direct payment modality for nationally implemented projects is possible only when the Office has carried out an assessment of the internal controls of the executing agency and determined that they are adequate. The Internal Control Framework mentions that the processing of direct payments can be based on copies of supporting documents only following an assessment of internal controls at the implementing partner level to determine that capacity is adequate.

OAI noted that all payments related to direct payment requests for projects processed by the Office were based on copies of supporting documents (3,400 transactions) and that the respective assessments of implementing partners' internal controls had not been performed (refer to Issue 12). The project teams uploaded scanned copies of invoices on an in-house developed web application and the Office processed payments based on that information. The same web application was also used by the Office to issue Value Added Tax certificates, hence, these certificates were also based on copies of invoices paid by projects.

Making direct payments without reviewing original invoices presents the risk that payments may be made to unauthorized or non-existent suppliers for goods or services not received.

Priority	Medium (Important)

Recommendation 9:

Request original supporting documents when processing direct payments until the Office has completed the implementing partners´ capacity assessments.

Management action plan:

A meeting with the Government Coordinating Agency will be held to agree upon changes for full implementation of the guidelines for nationally implemented projects (30 November 2014).

The process of direct payments will be revised to request original supporting documents (31 March 2015).

Estimated completion date: June 2015

Issue 10 Incorrect granting of cash advances to projects

The 'Programme and Operations Policies and Procedures' stipulate that the granting of a cash advance to a project in order to carry out project related activities should occur when at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated. Cash advances are usually granted and liquidated on a quarterly basis.

OAI observed that there were outstanding cash advances exceeding three months. As of 31 August 2014, the total value of unliquidated advances amounted to $26.1 million, while overdue advances not yet recovered (between four and six months) amounted to $1.6 million. In addition, overdue advances in excess of six months amounted to $250,000.

OAI noted the following:

- Advances were granted before 80 percent of the previous advance and/or before 100 percent of all earlier advances had been fully liquidated. Thus, the monthly advance of cash to projects did not entail the prior liquidation of 80 percent of the previous advance and the liquidation of 100 percent of earlier advances. Since the Office was following an outdated policy, it was instead granting cash advances when 80 percent of all previous advances were recovered, contrary to the existing policy.

- In some cases, the Office was processing cash advances as monthly installments, yet the liquidation of expenses was performed on a quarterly basis only. This was done in order to avoid quarterly advances of large sums of cash to projects.

Cash advances that remain outstanding for extended periods may result in financial losses for the organization, and may result in funds not being used for their intended purposes.

Priority Medium (Important)

Recommendation 10:

Grant cash advances to projects only when at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated.

Management action plan:

A meeting with the Government Coordinating Agency will be held to agree upon changes for full implementation of the guidelines for nationally implemented projects (30 November 2014).

The management of cash advances will be strengthened (31 March 2015).

Estimated completion date: March 2015

Issue 11 Incorrect use of extrabudgetary income

The 'Programme and Operations Policies and Procedures' state that extrabudgetary income should be spent in line with the purpose for which it was earned. As an example, extrabudgetary income may not be used to fund other resources, programme and/or project expenditures.

Extrabudgetary resources were temporarily recorded to cover an exchange rate difference, valued at approximately $5.9 million at year-end 2013, caused by the following reasons:

- restrictions imposed by the Government, which prevented the conversion of local currency received from projects to US dollars;
- significant depreciation of the value of the Country's currency against the US dollar; and
- due to low delivery of some projects, high amount of local currency was kept idle at local bank account.

The total value of extrabudgetary funds used for other resources and non-project expenditures amounted to $11 million in 2013.

The improper use of extrabudgetary income to execute project operations may jeopardize the relationship of the Office with its donors and impact the Office's financial position.

Priority	Medium (Important)
Recommendation 11: Use extrabudgetary income in line with the purpose for which it was earned and charge the differences generated by the exchange rate fluctuations to each project in a timely manner.	
Management action plan: In 2013, there were exceptional exchange rate fluctuations in the Country's currency, resulting in very high financial losses. The extrabudgetary account was used exceptionally in 2013 pending finalization of negotiations with the Government on temporarily reclassifying the exchange losses to the relevant projects. This was based on guidance from the Office of Financial Resources Management/Bureau of Management. The Office reclassified to relevant project accounts the majority of the 2013 losses (80 percent+) from the extrabudgetary account to the projects and is working to finalize the rest of the reclassification. In 2014, the Office has already processed General Ledger Journal Entries to credit back a total of US $497,050 and rebook the 1st quarter exchange losses. Going forward, the Office will rebook exchange losses on a quarterly basis following the issuance of the Project Delivery Reports. The extrabudgetary account will not be used. **Estimated completion date:** April 2015	
OAI Response OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

2. Procurement

Issue 12 Implementing partner's procurement capacity assessment not carried out as required

The guidelines for nationally implemented projects require that financial and other specific capacity assessments be carried out for partners that receive or are expected to receive over $100,000 in grants from UNDP per year. Other additional assessments, as needed or required, of procurement and recruitment capacities should be carried out to identify specific problem areas.

Despite the fact that most implementing partners received over $100,000 per year on projects that were procuring goods and services, the Office did not undertake procurement capacity assessments of implementing partners. The Office indicated that since 2007, pre-evaluations of new projects were carried out. These evaluations, however, did not replace the capacity assessments since they did not cover their mandatory requirements. OAI also noted the following weaknesses:

- conflicting roles, where government officials were assigned as Project Directors;
- procurement review committees did not ensure transparency and competitiveness;
- lack of due diligence of vendors;
- insufficient project procurement oversight; and
- limited access to project information;

The lack of capacity assessments was mainly due to the use of an outdated national execution manual that did not include assessing the capacity of implementing partners to undertake procurement in a cost-effective manner while managing and mitigating business risks (refer to Issue 4).

Engaging implementing partners without the required procurement capacity assessments exposes the Office and projects to potential operational gaps, which in turn can impact the achievement of agreed upon outputs. Without an adequate strategy for the Procurement Unit that considers oversight, technical support and capacity development of implementing partners, the risk of failure at project implementation and the risk of financial losses increases.

Furthermore, the role of the Procurement Unit in regard to the national implementation modality was not adequately clarified. Despite the procurement experience of the staff, the Unit mainly undertook ex-post verifications on some questionable procurement processes without proactively engaging in additional oversight activities. This was the result of the lack of a strategy on how to best use the Procurement Unit's capacity to provide assurance to the Office management on project procurement and vendor management.

The national implementation modality as applied by the Office could present financial risks due to improper use of financial resources. The Office could also be exposed to reputational risks due to its fiduciary role.

Priority	High (Critical)

Recommendation 12:

Strengthen oversight of procurement activities by:

(a) performing detailed capacity assessments of implementing partners; and
(b) developing a strategy to strengthen the procurement function for national implementation modality that should include the provision of procurement advisory services to projects, adequate monitoring, contract management for project procurement activities, and procurement training for government counterparts and vendors.

Management action plan:

The Office will immediately initiate actions to proceed with the recommendation. A meeting with the Government Coordinating Agency will be held to agree upon changes for full implementation of the guidelines for nationally implemented projects (30 November 2014).

A procurement capacity assessment for new projects as well as a guideline to formulate a more comprehensive internal control framework of nationally implemented projects will be implemented (31 March 2015).

The Office is aware that the national implementation modality requires a reassessment of specific mechanisms and practices in order to mitigate vulnerabilities and to strengthen capacities. In this context, in early 2014, a procurement training plan was developed in order to improve the projects' capacities and as of today, 18 training sessions have been conducted. In addition, in early 2014, seven Procurement Advisors were given the task of providing technical assistance and procurement advisory services to personnel of nationally implemented projects.

The Government is not only aware of this strategy defined to strengthen their capacities, but is committed to supporting these initiatives in order to improve local capacities.

The Office is reassessing the Procurement Unit and is in the process of defining the actual structure, roles and responsibilities.

Estimated completion date: March 2015

OAI Response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

3. General administration

Issue 13 Deficiencies in travel management

The 'Programme and Operations Policies and Procedures' stipulate that daily subsistence allowance shall be paid for official travel away from the duty station. Daily subsistence allowance is only paid upon arrival at the traveller's destination. It is not paid for the last day of travel or for overnight travel. Travel claims must be accompanied by proof of travel, including boarding passes.

OAI identified that daily subsistence allowance was paid in excess of the travel itinerary, including in some cases, unnecessary weekend layovers at travel destinations. Specifically, in six of the eight international travel cases reviewed, OAI found that daily subsistence allowance was paid for one or even two additional days, due to a misinterpretation of the existing travel policy and use of an outdated policy. Specifically, the allowance was paid even for days when the traveller was not on official duty, including travel time and nights spent outside the traveller's place of residence. In addition, the travel claims did not always include proof of travel.

These deficiencies in travel management and non-compliance with the 'Programme and Operations Policies and Procedures' regarding travel may lead to abuse of entitlements when travelling.

Priority Medium (Important)
Recommendation 13: Comply with the 'Programme and Operations Policies and Procedures' regarding travel management by: (a) correctly calculating the rate of daily subsistence allowance to be paid, and recover any overpaid amounts; and (b) requiring staff to submit travel claims along with adequate supporting documentation.
Management action plan: The Office has taken note of the observations made regarding travel management and will strengthen the controls to avoid miscalculation of daily subsistence allowance and to ensure that travel claims and supporting documents are submitted. **Estimated completion date:** December 2014

4. Safety and security

Issue 14 Non-compliance with building safety

The United Nations defines the Minimum Operating Security Standards as a fundamental policy document for all United Nations field operations to ensure that minimal essential security practices are established and maintained in the delivery of security support to United Nations staff. As per the standards, buildings occupied by the United Nations should comply with international building safety and fire regulations or the applicable laws of the host country, as appropriate.

OAI conducted a physical verification of the Office's premises and found deficiencies regarding building safety, as follows:

- exposure of electrical wires in more than one area of the premises, creating a risk of electrical discharge for the staff or visitors;
- inoperable heating device which required staff to use pliers to turn-it on and off, exposing them to electrical hazards;
- malfunctioning of bathrooms exposing staff to health risks; and
- service elevator out of order for a significant period of time.

Without the adequate maintenance to comply with the Minimum Operating Security Standards, staff as well as visitors can be exposed to safety and health related risks.

Priority Medium (Important)
Recommendation 14: Assess suitability of the Office's premises and carry out refurbishment tasks, as necessary.
Management action plan: This is a 40 year-old building that has been used by several non-United Nations organizations. Due to environmental reasons, some shared appliances are not permitted to be used anymore, such as the central heating device. Replacing these has not been feasible as of today due to other owners' budgetary constraints. On the other hand, several refurbishing tasks have been carried out since the building was acquired by UNDP and presently, a procurement process for bathrooms and kitchen refurbishment is being carried out. These tasks are expected to be completed by December 2014. **Estimated completion date:** March 2015

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>.