UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP PHILIPPINES

SUPPORT TO TYPHOON RECOVERY AND RESILIENCE IN THE VISAYAS

(Directly Implemented Project No. 77295, Output Nos. 88169, 88231, 88305)
(Directly Implemented Project No. 77462, Output No. 88217)

Report No. 1412

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Table of Contents

Report on the audit of UNDP Philippines
Support to Typhoon Recovery and Resilience in the Visayas
(Project No. 77295, Output Nos. 88169, 88231, 88305)
(Project No. 77462, Output No. 88217)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 15 September to 1 October 2014, conducted an audit of Support to Typhoon Recovery and Resilience in the Visayas (Project No. 77295, Output Nos. 88169, 88231, 88305) (Project No. 77462, Output No. 88217), herein referred to as "the Project", which is directly implemented and managed by the UNDP Country Office in the Philippines (the Office). The audit of this Project was not part of the original OAI Work Plan for 2014. In view of the continuous monitoring of emerging risks, and given the inherent high risks involved in the management of relief projects, OAI, in consultation with the Office and the Regional Bureau for Asia and the Pacific, decided to audit the Office's performance in its response to Typhoon Haiyan through the implementation of this particular project.

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) organization and staffing (project organizational structure and delegations of authority, risk management, planning, monitoring and reporting, financial sustainability);

(b) project management (programme management, partnerships and resource mobilization, project management)

(c) operations (human resources, finance, procurement, general administration, asset management).

The audit covered the activities of the Project from 8 November 2013 to 30 August 2014. The Project recorded programme and management expenditures totalling $14.8 million during the audit period. This was the first audit of the Project. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the Project as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in the areas of disaster preparedness, project document and project governance, management of project cash advances, procurement, and fuel management.

Key recommendations: Total = **12**, high priority = **5**

The 12 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendations 5, 6, 7); (c) effectiveness and efficiency of operations (Recommendation 3, 8, 11); (d) safeguarding of assets (Recommendation 12); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 4, 9, 10).

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:

Inadequate disaster preparedness (Issue 1)	As the Office had not made advanced preparations, it was not fully equipped to quickly respond to emergencies. The Office would have benefited from preparatory planning, such as establishing long-term agreements for goods and services designed for crisis response and recovery, preparing a generic project and annual work plan to support responses to probable natural disasters and considering options for operating on a cash basis. Recommendation 1: Undertake preparatory steps to respond to future crisis situations, such as: (a) establishing long-term agreements with providers of goods and services relevant to crisis prevention and recovery; (b) developing a generic project and annual work plan to support response to high probability natural disasters; (c) preparing rosters of competitively selected candidates who can be deployed in a crisis response; (d) identifying a provider to facilitate cash management in crisis situations; and (e) developing an approach to identify non-governmental organizations and other entities that could be engaged in a crisis situation.
Inadequate controls over project cash advances (Issue 5)	During the audited period, the Office used the project cash advance modality to pay $4.4 million as cash-for-work activities to local workers for debris clearance. However, there were inadequate controls over the project cash advances. For example, personnel that received advances did not sign the appropriate forms, project cash advances often exceeded the threshold without the appropriate approval, and there were delays of up to four months in the liquidation of advances. Recommendation 5: Enhance controls over project cash advances and project cash on hand by: (a) ensuring that project cash advances are limited to the stipulated threshold and obtaining advance approval from Treasury for advances that exceed the established thresholds; (b) having the cash custodian forms signed by all recipients of project cash advances and ensuring that project cash advances are liquidated within the timeframe stipulated in the 'Programme and Operations Policies and Procedures'; and (c) ensuring that all payments to beneficiaries have adequate supporting documents.
Inadequate controls over cash payments by third party (Issue 6)	To mitigate the risks associated with making large cash payments, the Office made arrangements with a vendor in December 2013 to make payments for cash-for-work activities. However, there was inadequate justification for entering into a direct contract with this vendor. The Office paid $409,000 to the vendor to distribute cash to beneficiaries through a third party bank, even though the terms and conditions of the contract (including the service charges) did not provide guidance for the specific roles and responsibilities. The arrangements with the vendor ended in April 2014; however, the vendor had not provided the list of beneficiaries paid until the date of the audit. The Office was therefore unable to confirm the amount that was actually distributed to the beneficiaries. Recommendation 7: Enhance controls over cash payments by third parties by: (a)

ensuring there is adequate justification for direct contracting and contract terms and conditions are agreed to before signing the contract and making payments to the vendor; and (b) completing a reconciliation of all amounts paid to the vendor and independently confirming the amounts received by the beneficiaries and recover the balance due from the vendor as soon as possible.

Weaknesses in procurement (Issue 8)	There were weaknesses in the Request for Quotation for the leasing of heavy equipment, as it did not specify the size and capacity of the equipment to be supplied. This led to difficulties in evaluating the bids, due to substantial variations in the equipment available. However, due to the urgency, the Office signed long-term agreements with nine vendors and paid $2.2 million to five vendors for the rental of heavy equipment. In June 2014, the Office agreed to amend the rates of one vendor of heavy equipment by excluding fuel costs (though the original contract included the fuel cost). This amendment was not in compliance with the procurement procedures. Further, there was inadequate justification for continuing with the long-term agreements signed in January 2014 with the heavy equipment vendors several months after the typhoon. Recommendation 8: Enhance controls over procurement by: (a) undertaking a new procurement process for the provision of heavy equipment; and (b) strengthening the bid evaluation process by establishing standard criteria to facilitate the ranking of bidders.
Inadequate controls over management of fuel (Issue 11)	The Office did not have adequate controls over fuel procured valued at $280,000 during the audit period. The Office made arrangements for a fuel vendor to supply fuel directly to the heavy equipment vendors; however, there was no provision for monitoring fuel consumption. Records were also not maintained to confirm the actual fuel delivered by the fuel vendor or the fuel received by the heavy equipment vendors. There was also inadequate segregation of responsibilities for fuel management at the hub office and there was no evidence that invoices paid were in accordance with the appropriate price index as stipulated in the contract. Recommendation 11: Enhance controls over fuel management by: (a) assigning responsibilities for fuel monitoring between the fuel vendor, the Project, and the heavy equipment vendor in the respective contracts; (b) comparing the submitted invoices to the Tacloban Price Index and documenting the results of the comparison; (c) establishing and implementing controls to assess the reasonableness of fuel consumed by having all of the trucks fitted with functional odometers and relating distances covered to fuel consumption records; (d) ensuring adequate segregation of responsibilities for fuel management so that the requisition for fuel, monitoring of fuel, and verification of payments is not carried out by the same individual; and (e) assigning specific personnel authorized to order fuel and communicating these names to the fuel vendor.

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 Project

The Project was developed as an urgent response to Typhoon Haiyan, which struck on 8 November 2013 and led to extensive damage across nine of the Philippines' poorest provinces. The islands of Leyte and Samar were hardest hit: 90 percent of the infrastructure of Leyte's largest urban centre, Tacloban City, was destroyed. More than 6,000 deaths were reported while 4.1 million people were displaced and 1.1 million homes were destroyed. The typhoon left behind a large amount of debris. The United Nations Inter-Agency Standing Committee declared Typhoon Haiyan a system-wide Level 3 emergency[1] on 12 November 2013. The Bureau for Crisis Prevention and Recovery immediately deployed "SURGE" personnel to implement the Project during the first few weeks until other personnel could be recruited. SURGE is a UNDP organizational response to immediate crisis and supports early recovery.

The Project was being directly implemented by the Office, which is located in Manila, Philippines (the Country). The Project was implemented through hub offices in Tacloban, Guiuan, Ormoc and Roxas City (closed in April 2014). The Project's activities were delivered in partnership with local government, non-governmental organizations, and other United Nations agencies in the region. The Office's programme and management expenses were $18 million in 2013 and $20 million as of October 2014. During the audit period, the Project had 35 service contract holders and 19 United Nations Volunteers based in the three hub offices. In addition, 37 SURGE personnel supported the Project during the first seven months (November 2013 to May 2014).

The Project initially focused on debris clearance, waste management and temporary employment that included cash-for-work activities. In January 2014, a project document, 'Support to typhoon recovery and resilience in the Visayas', was prepared with a budget of $65 million and a duration of three years. As of 1 October 2014, $34 million of funding had been mobilized. The Project's activities were shifting towards infrastructure and livelihood development.

II. Audit results

OAI made five recommendations ranked high (critical) and seven recommendations 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) Undertake preparatory steps to respond to future crisis situations (Recommendation 1).
(b) Enhance controls over project cash advances and project cash on hand (Recommendation 5).
(c) Enhance controls over cash payments by third parties (Recommendation 7).
(d) Enhance controls over procurement (Recommendation 8).
(e) Enhance controls over fuel management (Recommendation 11).

[1] Level 3 emergency: refers to the level of organizational response based on the nature and magnitude of a crisis situation, where L3 is defined as a full scale organizational response.

Medium priority recommendations, arranged according to significance:

(a) Establish a project board, which should include a government counterpart, and ensure it meets quarterly to provide adequate governance (Recommendation 2).
(b) Enhance the monitoring process (Recommendation 3).
(c) Adhere to the guidelines stipulated in the 'Service Contract User Guide' (Recommendation 4).
(d) Enhance controls over cash management in the hub offices (Recommendation 6).
(e) Enhance procurement committee review controls (Recommendation 9).
(f) Enhance controls over contract agreements (Recommendation 10).
(g) Ensure compliance with 'Programme and Operations Policies and Procedures' (Recommendation 12).

The detailed assessment is presented below, per audit area:

A. Organization and staffing

In June 2014, the Bureau for Crisis Prevention and Recovery initiated an After Action Review to examine the organization's performance in responding to the typhoon. The draft findings concluded that the immediate organizational response was robust and decisive, that the initial focus on debris clearance and waste management was essential, and that the organization's performance in these areas was widely commended. The report highlighted that due to the nature of the emergency, UNDP was required to respond quickly and within very short timeframes, not always in line with the standard policies including Fast Track Procedures.

Issue 1 Inadequate disaster preparedness

The strategy on crisis response noted in the 'Programme and Operations Policies and Procedures' includes guidance on steps an office can take to be prepared to respond quickly in emergency situations. This readiness is particularly relevant to the Country, which is located on the Pacific 'Ring of Fire', making it vulnerable to natural disasters, especially earthquakes, cyclones and volcanic hazards.

During the first seven months of the Project (November 2013 – May 2014), there were three changes in the Project's leadership. The initial Senior Response Coordinator, as part of the SURGE, was deployed for two months and the replacement was expected to remain throughout the Project's duration. Due to funding uncertainties, the Project Manager left the Project after four months. The third one was a temporary appointment to provide support during the recruitment of a Project Manager, who eventually started in June 2014. The Office had not undertaken the following preparatory steps that would have enabled it to be better prepared to respond quickly to a disaster:

- Long-term agreements were not established with providers for goods and services designed for crisis response and recovery (e.g. rental of heavy equipment, hand tools, personnel protective equipment and warehousing space).
- Generic specifications and terms of references were not established for goods and services required in a crisis (e.g. heavy equipment).
- A generic project and annual work plan was not prepared to support responses to high probability natural disasters.
- The Office had not conducted a bank/financial service review to establish services available during crisis situations. It had also not considered options for operating on a cash basis.

- A capacity assessment of staffing capabilities, including operations, had not been completed, to determine the additional resources that would be required to support expanded operations in the event of a crisis.
- Rosters were not prepared for selected candidates who could be contracted immediately and deployed.
- The Office had not identified non-governmental organizations or other entities that could play a critical role in a crisis situation, nor had it considered to establish an approach to do so.

Since the Office had not taken adequate disaster preparedness steps due to insufficient forward planning, it impacted its programme and operational response to Typhoon Haiyan. There were weaknesses in the project document, inadequate controls over cash-for-work payments, and procurement activities had to be undertaken in compressed timelines, which compromised procurement procedures (as described herein).

Inadequate disaster preparedness directly impacts the efficient and effective utilization of project resources and increases the risk that the organizational response may not be timely and effective.

Priority High (Critical)
Recommendation 1: Undertake preparatory steps to respond to future crisis situations, such as: (a) establishing long-term agreements with providers of goods and services relevant to crisis prevention and recovery; (b) developing a generic project and annual work plan to support response to high probability natural disasters; (c) preparing rosters of competitively selected candidates who can be deployed in a crisis response; (d) identifying a provider to facilitate cash management in crisis situations; and (e) developing an approach to identify non-governmental organizations and other entities that could be engaged in a crisis situation.
Management action plan: In view of the extreme vulnerability to disaster (10 to 20 typhoons a year and potentially occurring in different parts of the Country), comprehensively addressing all preparedness requirements is a continuous process. The Office has been developing several mechanisms for crisis preparedness (including long-term agreements, a Business Continuity Plan, Office-in-A-Box, rosters, etc.), which will need to be continuously updated. The Office will further strengthen its disaster preparedness actions in the areas listed above. **Estimated completion date:** June 2015

B. Project management

Issue 2 Incomplete project documents and inadequate project governance

(a) Incomplete project documents

The Fast Track Policy on project management requires that a project document be created that should include a results and resources framework, a management arrangements section, monitoring and evaluation information, and a risk analysis section. The 'Programme and Operations Policies and Procedures' also require that the project document be revised in response to substantive changes in the development context or flaws in the project design that emerge during implementation.

The Office developed project documents for two outputs of Project No. 77295 (Output Nos. 88169 and 88231), but no project document was developed for the third output (Output No. 88305) or for Project No. 77462 (Output No. 88217). Further, the project document prepared did not include many of the required sections, such as risk analysis and management arrangements.

Office management explained that the project document was created as an umbrella document for all the Typhoon Haiyan projects and included a results and resources framework covering all of the projects. The Office indicated that the SURGE team that prepared the project documents may not have been aware of the standard project document templates.

Comment

As the outputs identified were being closed and new outputs were being created for the development phase of the Project, OAI is not issuing a recommendation in this regard.

(b) Inadequate Project governance

The 'Programme Operations Policies and Procedures' require a project board to be established (including a representative from the Government) in order to provide project oversight, endorsement of annual work plans, and regular reviews of project progress. The project board should meet quarterly to review project progress and to address significant issues.

The project was expected to complete its activities by September 2014. In view of additional resources provided from the European Union in July 2014, the Project's timeframe was eventually extended beyond 2016.

Even though UNDP had established a Crises Board that met regularly until 3 February 2014, the Office did not subsequently establish a project board to ensure adequate governance of the Project. Consequently, the Annual Work Plan for 2014 had not been approved at the time of the audit fieldwork. The oversight over the Project was limited to the Office's management.

Management indicated that with human resources stretched to the limit (both on the Office's side and the Government's side), it was difficult to establish a project board during the emergency. In addition, government agencies were much more focused on the response and delivery of services, and had limited time available to participate in project specific boards.

Without an established project board in place, significant operational and programmatic issues may not be identified and addressed.

Priority	Medium (Important)
Recommendation 2: Establish a project board, which should include a government counterpart, and ensure it meets quarterly to provide adequate governance.	
Management action plan: The European Union-funded recovery project and the project funded by the Republic of Korea have their project boards in place, as stipulated in their project documents, and will convene on a quarterly and as-needed basis. **Estimated completion date:** February 2015	

Issue 3 Weaknesses with project monitoring

The 'Programme and Operations Policies and Procedures' on project monitoring require developing a monitoring plan/framework at the start of each project. Further, monitoring visits should be used to validate results, assess project progress and required follow-up actions. Periodically, each project should report on the achievement of programmatic activities and outputs included within the project document. The project module in Atlas (enterprise resource planning system of UNDP) should be activated to record project monitoring and reporting activities as well as documenting emerging risks. As required within the standard operating procedures on the 'management of crisis and development situations', in July 2014, an After Action Review was completed in regard to UNDP's response to Typhoon Haiyan. The draft report contained a number of significant findings and recommendations.

Even though the Office and the Project had undertaken monitoring of activities, the following weaknesses were noted:

- The project document (dated January 2014) included a section on monitoring and evaluation, which outlined basic information on monitoring, for example stating that field level monitoring should be on a continuous basis. Later in July 2014, a comprehensive monitoring plan was developed, however, this was not followed up on and project monitoring was undertaken on an ad hoc basis instead of being driven by the monitoring plan. There was also no centralized process for the tracking and follow up on issues emanating from the field visits.
- The field monitoring reports were often unclear as to which activity within which output was being validated.

- The Project prepared a monthly report for the Office, which included a list of activities completed, but did not indicate the progress against the planned activities and outputs specified within the results and resources framework or annual work plan.
- The Atlas project management module had not been activated.

As of November 2014, there was no evidence to suggest that the Bureau for Crisis Prevention and Recovery had reviewed the After Action Report or the follow-up action taken.

Without proper monitoring, the Project will not be able to assess progress made and important issues may not be captured and followed up on.

Priority	Medium (Important)

Recommendation 3:

Enhance the monitoring process by:

(a) developing a comprehensive programme monitoring framework to guide all monitoring activities;
(b) linking the field visit reports to the relevant project outputs and activities being reviewed and documenting the progress, key challenges as well as any required actions, and tracking the issues identified and following up as required;
(c) activating the project management module within Atlas and updating it with project reporting information and risks; and
(d) following up with the headquarters advisory group in order to finalize the After Action Review and develop an implementation plan to respond to the recommendations therein.

Management action plan:

Management has been improving the monitoring through the preparation of an activity design which provides specific results targets and monitoring and evaluation actions, per activity.

The Office has been following up with Headquarters on obtaining the final version of the After Action Report.

Estimated completion date: April 2014

C. Operations

1. Human resources

Issue 4 Remuneration of service contract holder exceeded pay scale

According to the 'Service Contract User Guide', remuneration for individuals hired under service contracts is determined by approved remuneration scales. Any exceptions should be referred to the Office of Human Resources for advice.

The Project Manager (hired on service contract modality) received a monthly salary of $6,000, which exceeded the maximum permitted monthly service contract salary of $3,400.

The Office justified the higher salary on the basis that the incumbent was the fourth Project Manager in six months, and the first National Project Manager, as well as on the basis that the salary package offered to her was 50 percent lower than her predecessor's, who was an international staff member. By the time this Project Manager had joined, the Project had tripled in size with funding from the European Union, UNICEF and the Republic of Korea. The Office stated that the Project Manager had previously worked within the United Nations system as an International Programme Manager at the P4 level and that the scope and complexity of the Project Manager position necessitated a higher salary. The Office further clarified that the individual recruited was the only recommended candidate among 46 applications.

Since the Office did not have the authority to pay a salary higher than the maximum salary as stated in the 'Service Contract User Guide', this case should have been referred to the Office of Human Resources for their advice. However, the Office did not seek their approval, nor ask for a waiver, despite the fact that they had enough time to do so, considering that the recruitment took place six months after the start of the Project.

Non-conformity with approved salary scales may have financial implications for the organization and may impact the morale of personnel on similar contracts.

Priority	Medium (Important)

Recommendation 4:

Adhere to the guidelines stipulated in the 'Service Contract User Guide' by:

(a) seeking the approval of the Office of Human Resources for any deviations to standard salary payments; and
(b) informing the Office of Human Resources of the higher salary paid to the Project Manager and take appropriate action, as advised.

Management action plan:

The Office of Human Resources at headquarters will be informed accordingly.

Estimated completion date: March 2015

2. Financial and cash management

Issue 5 Inadequate controls over project cash advances

The 'Programme and Operations Policies and Procedures' stipulate that project cash advances be used for one-time project activities and be accounted for within seven days, following the conclusion of the activity. A project 'Cash advance appointment form' must be completed and signed by personnel receiving advances. The limits for cash advances are $1,000 for service contract holders and $25,000 for staff with fixed-term appointment contracts. Any advances in excess of these amounts require exceptional Treasury approval. All advances must be liquidated in full prior to disbursement of subsequent advances. The Finance Unit is responsible for ensuring proper management of project cash advances.

During the audit period, 30 percent of the Project's expenditure, or $4.4 million related to cash-for-work activities to make cash payments to local workers for debris clearance.

A total of 18 out of 73 project cash advance vouchers were sampled to determine the adequacy of controls over the project cash advances.

The following weaknesses were noted in the management of project cash advances:

(a) Appointment of cash custodians and approval of amounts disbursed to them

- During the audit period, the Office made project cash advances to 3 fixed-term appointment staff and 21 service contract holders amounting to $4.4 million. None of these personnel signed the 'Cash custodian appointment form' to acknowledge that they were aware of their responsibilities of handling the cash entrusted to them.
- The project cash advance threshold was exceeded in 16 (or 89 percent) of the samples reviewed. This included a staff member who received $138,000 in a single payment in January 2014, as well as a service contract holder who received five successive advances over two days totalling $385,000 in March 2014. Another service contract holder received three separate advances totalling $109,000 on the same day (March 2014). There was inadequate justification for making such large cash advances, particularly four months after the initial emergency. The Office indicated that these large amounts were paid based on activity designs prepared and identified by the Project. However, the Project provided no evidence as to why such large payments had to be made in one day, and could not be spread out over a few days to reduce the risks associated with paying such large amounts.
- The required treasury approval for exceeding the advance threshold was not obtained for 31 of the 41 payments vouchers reviewed.

Cash advances in large amounts may create security risks for personnel receiving them, and may increase the risk that funds may be misappropriated or used for purposes other than originally intended.

(b) Liquidation of project cash advances

- In 5 of the 18 cases sampled, there were delays of up to four months in the liquidation of advances. Some personnel received additional advances even though the previous advances had not been liquidated. OAI noted that the Office of Financial Resources Management had also followed up with the

Office in March 2014 for the large outstanding advances (that included outstanding advances of $563,000 and $445,000 to two personnel). The Office of Financial Resources Management advised the Office to ensure that it takes urgent actions to address the exceptions and risks. Though the Office of Financial Resources Management was aware and approved the large amounts of advances, it was not clear if it had increased its oversight given the high risks associated with these cash advances.

- Beneficiaries receiving cash-for-work payments were not required to present identification at the time of cash distribution, and as such, there was no assurance that the correct beneficiaries were paid.
- In the samples reviewed, the liquidation of project advances did not include an independent certification that the planned activities had been completed.
- In two cases sampled, UNDP officials responsible for making cash-for-work payments transferred the advances ($40,000 on 7 February 2014 and $69,000 on 20 May 2014) to local government staff for distribution to the beneficiaries. There was inadequate justification as to why the advances were not distributed by UNDP officials.

While it appeared reasonable to make cash payments to beneficiaries immediately after the typhoon in November 2013, there was limited justification for continuing with these high risk and high cost cash payments in September 2014, almost one year after the typhoon. The Office had made arrangements with a vendor in December 2013 to make cash payments on their behalf, but this option was discontinued for the reasons outlined in Issue 6. The Office had informed the Office of Financial Resources Management on 14 March 2014 that they were working with local banks on the possibility of arranging for bank cash delivery in some areas where normal operations had resumed. There was limited documented evidence that the Office had explored other options to mitigate the risk of making cash payments.

Without independent certification of work completed, and without a requirement to present identification when receiving cash-for-work payments, the Office cannot ensure that work has been completed as planned or that payment has been made to the intended beneficiary.

(c) Weaknesses in cash management at the hub offices

There was inadequate oversight by the Finance Unit over the project cash advances, as discussed below:

- On 22 September 2014, OAI conducted a count of cash on hand with two cash custodians in the sub-office in Guiuan and noted a shortfall of $4,000 for one custodian and $5,000 for the other. The cash custodians were not able to explain the cash shortages.
- A cash count completed by Office staff on 15 April 2014 identified a similar issue when a shortfall of $10,000 was noted. There was no evidence of any action taken by the Office on this cash shortage or of whether the issue had been resolved.
- At the time of the audit, the sub-office in Guiuan did not maintain a cash register to record cash payments. The issue had also been noted earlier in April 2014 during a spot check by the Office but had not been addressed. The Office indicated that staff in the hubs had not received training in the maintenance of cash registers.

Shortfalls identified during cash counts (until fully accounted for) may indicate that funds have been lost or misappropriated.

Priority	High (Critical)

Recommendation 5:

Enhance controls over project cash advances and project cash on hand by:

(a) ensuring that project cash advances are limited to the stipulated threshold and obtaining advance approval from Treasury for advances that exceed the established thresholds;
(b) having the cash custodian forms signed by all recipients of project cash advances and ensuring that project cash advances are liquidated within the timeframe stipulated in the 'Programme and Operations Policies and Procedures'; and
(c) ensuring that all payments to beneficiaries have adequate supporting documents.

Management action plan:

(a) The Office is already complying with the required process and documentation for approval of the 'Cash custodian appointment form' and Treasury approval (as supporting documents to the cash advance voucher).
(b) All cash advances are now being monitored on a regular basis and timely liquidation is ensured. Spot checks were conducted in the past and more frequent spot checks will be conducted in the future, particularly in situations where high amounts of cash advances are issued.
(c) All efforts will be made to enhance the monitoring mechanisms for beneficiary disbursement. Training sessions on the current cash arrangements policies and procedures will be conducted for cash custodians.

In short, all the recommendations are being addressed, and will be fully complied with once the above training sessions will have been completed.

Estimated completion date: April 2015

Priority	Medium (Important)

Recommendation 6:

Enhance controls over cash management in the hub offices by:

(a) maintaining cash registers to record payments; and
(b) identifying the reasons for the cash shortfalls and taking appropriate action.

Management action plan:

(a) The use of cash register has been introduced and implemented in the hubs during the first spot check for proper internal control. Regular spot checks and surprise cash counts will be conducted by the finance staff to ensure cash on hand is equal to the cash register balance.
(b) Immediately after the reported cash shortfalls, the Office sent a spot check mission to identify the reasons for shortfalls. The main reason was incorrect reporting of expenses caused by co-mingling of

funds. The spot check mission was able to reconcile the cash on hand with the cash register and the advances were fully liquidated and closed in the Atlas system.

Estimated completion date: April 2015

Issue 6 Inadequate controls over cash payments by third party

According to the 'Programme and Operations Policies and Procedures', UNDP offices are responsible for maintaining control of cash payments for their activities.

To mitigate the risk associated with large cash payments for cash-for-work activities, the Office made arrangements with a vendor to make cash payments to beneficiaries on its behalf. During the period from December 2013 to April 2014, the Office paid $409,000 to the vendor to distribute cash to beneficiaries through a bank.

The Office discontinued the arrangement with the vendor in April 2014 due to various issues, such as difficulties in establishing individual accounts for each beneficiary; costs incurred and time required for beneficiaries to reach the bank branches; and complaints received from beneficiaries that despite receiving confirmation, they were unable to withdraw the funds.

Out of a sample of four payment vouchers valued at $280,000 paid through the vendor, the following weaknesses were noted:

- There was no documentation to support the selection of the provider. Furthermore, $409,000 was transferred prior to a contract being finalized and signed between the Office and the vendor. The draft contract on which the transfer was based was incomplete, as it did not include the specific responsibilities of each party or the rates to be charged by the vendor.
- At the time of the audit (i.e. six months after the payments), the vendor had not provided the list of the beneficiaries who received payments. The Office was therefore unable to confirm the amounts received by the beneficiaries. Supporting documentation was available for just one of the vouchers reviewed; however, even this was incomplete, as the payment was not supported by an activity plan providing a breakdown of days worked and location. Furthermore, the supporting documentation could not be reconciled to the voucher amount of $70,000.
- The Project was unable to provide evidence on how the Office obtained assurance that the beneficiaries listed in the activity plan had completed the necessary work prior to authorizing payments.
- The vendor invoiced the Office for $7,800 for services provided. In the absence of a final contract, OAI was unable to confirm the validity of this invoice. The Office had written to the bank through which the vendor transferred funds to recover $38,000. However, the Office could not provide any support for how this amount had been determined and why it wrote to the bank (with which it had no agreement) instead of the vendor.

The issues identified were due to the absence of a signed agreement specifying the roles and responsibilities of the Office and the vendor, and inadequate monitoring and follow-up by Office management.

Inadequate controls in managing cash payments through third parties may result in financial losses for UNDP.

Priority	High (Critical)
Recommendation 7: Enhance controls over cash payments by third parties by: (a) ensuring there is adequate justification for direct contracting and contract terms and conditions are agreed to before signing the contract and making payments to the vendor; and (b) completing a reconciliation of all amounts paid to the vendor and independently confirming the amounts received by the beneficiaries and recover the balance due from the vendor as soon as possible.	
Management action plan: The vendor was the only cash transfer mechanism available immediately after the Level 3 disaster. An immediately agreed upon partnership to facilitate payments was critical to maintaining UNDP's reputation and credibility to respond to disasters. Documentation was however prepared and completed only after the start of the agreed cash transfer operation. Furthermore, as explained above, the Office has been selected as one of the countries where the Working Group of Common Treasury Services will be conducting a Request for Proposal of local banking services in 2015. One of the services that will be required is the mobile payments by bank to the remote areas. Simultaneously, a Request for Proposal will be launched for the cash transfer service in different locations. The balance amount will be received from the vendor as soon as possible. **Estimated completion date:** June 2015	

Issue 7 Project expenditures incorrectly charged to other projects

The 'Programme and Operations Policies and Procedures' stipulate that expenditures should be charged to the respective project for which there is available funding. Further, correctly recording expenditures is essential for accurate financial management and donor reporting.

From December 2013 to March 2014, expenditures for the Project were incorrectly charged to non-Haiyan projects (Project Nos. 11888, 84975, 88197, and 86235). The Office resorted to this as there were delays in the receipt of the $5 million from the Bureau for Crisis Prevention and Recovery, as certain funding criteria, including the preparation of an annual work plan could not be completed. The funds were committed in November 2013, but $4.45 million was not received until March 2014.

The Office did not track the Project's expenditures charged to other projects systematically to monitor and facilitate their reversal. The Finance Unit had to manually review and analyse all major projects to identify the expenditures which needed to be reversed. In total, 28 vouchers valued at $640,000 were identified as having been posted to other projects and were subsequently reversed.

There was no evidence of senior management's approval to charge the Project's expenditures temporarily to other unrelated projects and whether the respective donors were kept informed of the temporary use of their project funds.

The SURGE team included a Finance Officer who did not provide appropriate guidance in this regard.

The manual process was not only time-consuming, but also created the possibility that all of the expenditures would not be captured and would remain charged to the incorrect project.

Comment

As the Office conducted a comprehensive reconciliation, and expenses were since classified accurately to the appropriate accounts, OAI is not making a recommendation.

3. Procurement

Issue 8 Weaknesses in procurement

Procurement activities for the Project were undertaken by the Office's Procurement Unit. The Procurement Unit comprised of three staff (1 National Officer and 2 General Service staff) under the supervision of the Operations Manager (at the P4 level). The Fast Track Procedures were in place during the audit period.

During the audit period, 880 purchase orders totalling $7 million relating to the Project were issued. A total of 30 purchase orders with a value of $3.5 million (50 percent in value of all purchase orders) were reviewed. The delegation of procurement authority, management of vendors, segregation of duties and the adequacy of controls were also reviewed. The Bureau for Crisis Prevention and Recovery had activated the Fast Track Procedures for the Project on 12 November 2013, which included an increased procurement delegation authority of $300,000.

(a) Weaknesses in the request and receipt of quotations

The 'Programme and Operations Policies and Procedures' require that Requests for Quotation should include detailed specifications of goods and services to facilitate comparison. In addition, the procurement process should include a ranking, indicating the preferred supplier. In the event that direct contracting is used, this should be adequately justified. The Procurement Unit is designated with the responsibility to solicit and receive quotations.

The Request for Quotation for the leasing of heavy equipment (dated 20 December 2013), did not specify the size and capacity of the equipment to be supplied. This led to difficulties in evaluating the bids due to substantial variations in the equipment available. For example, the Request for Quotation sought prices for four different types of equipment: backhoes, trucks, pay loaders and boom trucks. However, 33 different heavy vehicle types were proposed by the bidders. This included trucks with 6, 10, and 12 wheels and with capacities that varied from 4 to 12 cubic meters. A total of nine vendors submitted bids and all were recommended for long-term agreement contracts without any rankings, even though the bids had different prices for different equipment. For example, the daily price for a backhoe ranged from $159 to $818, while the daily price for trucks ranged from $148 to $327. The Regional Advisory Committee on Procurement had also raised concerns on the lack of comparability of bids (Case 6822). During the audit period, an amount of $2.2 million was disbursed to five of the nine vendors.

The initial procurement process followed may have been justified in the aftermath of the typhoon, when the delivery of timely relief was critical. However, it was not clear why the Office did not initiate a new procurement process for the heavy equipment services following the initial emergency phase that lasted until March 2014. There were similar weaknesses in other procurement activities, such as the fuel contract (refer to Issue 12) and cash payments by a third party (refer to Issue 7). OAI acknowledged the urgent need for these services in the initial months after the typhoon, however, given the procurement weaknesses, it would have been appropriate to review all continuing contracts/procurements to assess whether there was justification for continuing with the existing contracts or initiate new procurement actions.

(b) Incorrect change in procurement terms

Where there is a significant change in an existing contract, UNDP's procurement guidelines call for a new competitive process to be completed.

In January 2014, the Office signed a long-term agreement with a vendor for the supply of heavy equipment. The rates agreed to for the rental of the heavy equipment included fuel costs. In June 2014, the vendor requested, and the Office agreed to amend the rates for the rental of heavy equipment to exclude fuel costs. This amendment was not in compliance with the 'Programme and Operations Policies and Procedures' for the following reasons:

- The revised contract introduced prices that were significantly higher than those of other vendors who were providing similar services. For example, the daily rate of a vendor for a backhoe was $527 compared to the lowest vendor at $227. Similarly, a 10-wheel truck cost $209 compared to the lowest vendor cost of $170.
- The contract amendment was signed by a staff member with delegated authority of up to $30,000, even though the payments to the vendor exceeded $90,000.

The Office indicated that a new competitive process was not undertaken in June 2014, as the marketplace for heavy equipment had not improved. There was no documented evidence that a preliminary market assessment was completed to support this conclusion.

(c) Some procurement activities not undertaken by Procurement Unit

The Procurement Unit is designated with the responsibility to solicit and receive quotations.The procurement process for a number of vendors was not centralized within the Procurement Unit, for example: heavy equipment quotations were received by project staff, the sourcing of the vendor (refer to Issue 7) and the implementing partners were all managed by project staff without the involvement of the Procurement Unit.

The Office was of the view that the field project personnel were in closer contact with suppliers and therefore better suited to identify the most appropriate vendors. However, the Procurement Unit is better suited to ensure the integrity of the procurement process.

Priority	High (Critical)
Recommendation 8: Enhance controls over procurement by: (a) undertaking a new procurement process for the provision of heavy equipment; and (b) strengthening the bid evaluation process by establishing standard criteria to facilitate the ranking of bidders.	
Management action plan: (a) Should there be further need for hiring of heavy equipment, a new procurement process will be conducted. (b) The Office is already in the final stages of formulating its local procurement standard operating procedures and there is a complete section on evaluation processes and procedures, which will be strictly complied with. (c) The Office has a strict policy requiring full justification of all direct contracts issued, but noted that in this particular case (which involved the urgent mobilization of search teams in the areas to be cleared of debris) justification was not provided. The case was subsequently submitted to, and reviewed/approved by, the Contracts, Assets and Procurement Committee. **Estimated completion date:** June 2015	

Issue 9 Weaknesses in managing submissions to procurement review committees

The 'Programme and Operations Policies and Procedures' provide that contracts or series of contracts with a cumulative value above $50,000 must be submitted to the Contracts, Assets and Procurement Committee while those above $300,000 should be submitted to Regional Advisory Committee on Procurement.

During the period under review, a total of 20 project procurement cases were submitted to the review committees. The review of this process highlighted the following weaknesses:

(a) Post facto submission to procurement review committees

A 'post facto' situation arises when a contract that is finalized exceeds the delegated authority without submission to the procurement review committee. The 'Programme and Operations Policies and Procedures' term post facto actions as serious deviations and the official that approves such contracts is solely accountable for the consequences arising from these actions. From May to September 2014, the Office submitted 19 post facto cases, valued at $2.4 million to the procurement review committees.

The Office took a decision not to defer to the relevant committees for all procurement cases exceeding $50,000 until May 2014, as the Senior Response Coordinator deemed this necessary to expedite the procurement of goods and services. The justification was recorded in a Note to File dated 23 November 2013. However, there is no provision for this waiver within the 'Programme and Operations Policies and Procedures' or the Fast Track Procedures.

The largest post facto submission related to a vendor (ID 9104) which included payments of $1.6 million (for heavy equipment rental costs). The payments to this vendor also exceed the enhanced procurement authority limit of $300,000 granted to the head of office. The Office recently submitted the case to the Regional Advisory Committee on Procurement in September 2014 as a post facto review.

When high value procurement cases are not submitted to the relevant procurement committees, there is a risk that best value for money for the organization may not be achieved.

(b) Procurement cases not submitted to the procurement committee

As of 1 October 2014, seven other cases amounting to $1.3 million had not been submitted to Contracts, Assets and Procurement Committee for review.

(c) Delays in review of cases by the Contracts, Assets and Procurement Committee

The Fast Track Procedures require that all cases submitted to the Contracts, Assets and Procurement Committee are reviewed within 48 hours. During the audit period, 20 cases valued at $2.5 million were submitted to the Contracts, Assets and Procurement Committee. The Committee took 13 days on average to review the submissions, with some cases taking 21 days. The delay could not be explained, as most cases were approved on first submission and without requests for clarifications. The Procurement Unit acknowledged that there was a need to improve the turnaround times for cases submitted to the Committee.

In a crisis situation, delays in procurement processes can have serious implications, particularly when there is a need for a swift response.

Priority	Medium (Important)
Recommendation 9: Enhance procurement committee review controls by: (a) referring procurement cases that exceed the procurement threshold to relevant procurement committees for review prior to approval; (b) submitting the remaining seven post facto cases for review to the relevant procurement committee without further delay; (c) having the Contracts, Assets and Procurement Committee complete their review within the required timeframe; and (d) having procurement authorized only by the appropriate delegated authority only.	
Management action plan: (a) On the post-facto submission to the Contracts, Assets and Procurement Committee, the Procurement Unit had obtained, through the Senior Recovery Coordinator (Senior Management), written approval for such deferment of Contracts, Assets and Procurement Committee case submission. This decision was	

based on the recognition that delays in UNDP's response had major reputational risk implications. (It should also be stressed here that the Senior Coordinator was provided the Senior Manager Profile in consideration of his key and strategic role in the management of the response to the Level 3 emergency).

(b) Agreed, action is in progress.

(c) On the procurement cases that were not submitted to the Contracts, Assets and Procurement Committee before the audit, point is well taken and actions have already been taken (see online Contracts, Assets and Procurement Committee submissions).

(d) Point noted on the need for timely review by the Contracts, Assets and Procurement Committee and all efforts will be made to have the review completed in a timely manner.

Estimated completion date: March 2015

OAI Response

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

Issue 10 Weaknesses in selection and use of contract types with service providers

The 'Programme and Operations Policies and Procedures' provide for a variety of contract types that should be entered into with the service providers. Modifications to the general terms and conditions are prohibited and if required, they should be approved by the Legal Support Office.

The Project entered into agreements with implementing partners through a memorandum of agreement. These contracts were signed between December 2013 and March 2014. Six agreements with a contractual value of $1 million were reviewed and the following weaknesses were noted:

- A competitive process was not followed in the selection of these implementing partners and there was limited information to justify direct contracting, except for stating the contract amount was within the available budget.
- These agreements did not follow the corporate contract templates and excluded some clauses, including those relating to security, audit and investigations, and anti-terrorism.
- Four of the contracts included high initial advance payments between (35 and 95 percent); this was inconsistent with standard payment schedules which restrict initial payment to 20 percent. The total value of these contracts amounted to $655,000, out of which $288,000 was paid as advances.
- In one contract, not all of the required activities as per the contract milestone were completed. The contractor had requested a three-month no-cost extension up to June 2014 to complete all of the stipulated contract activities, however, the Office did not provide information on the status, except to say that the final instalment of $47,000 had not been paid.

The Procurement Unit indicated that it was not involved in the preparation and review of these contracts and that due to the exigency of the services, these were instead prepared by project personnel. Two of the contracts were signed in March 2014, after the most critical phase of the emergency had ended.

Failure to adhere to standard templates exposes the organization to a variety of reputational and performance risks.

Priority	Medium (Important)
Recommendation 10: Enhance controls over contract agreements, which should include: (a) appropriate documented justification for direct contracting; and (b) the use of standard contract templates, as well as seeking the approval of the Legal Support office when changes to the standard templates are necessary.	
Management action plan: (a) The Office will document the selection of non-governmental organizations through the project document and the Local Programme Advisory Committee process where the Office has identified that there is an available partner. Where this is not possible, the Office will provide justification during the implementation phase. (b) The Office will follow standard contract templates. **Estimated completion date:** August 2015	

Issue 11 Inadequate controls over management of fuel

The 'UNDP Financial Regulations and Rules' require that offices ensure efficient and economic use of resources. The Office signed a long-term agreement with a vendor to supply fuel to heavy equipment utilized for debris removal. Under this arrangement, the vendor delivered fuel by truck to the heavy equipment operators, based on requisitions raised by project personnel. During the period under review, an amount of $280,000 was paid to the vendor for the supply of fuel. In addition, the Project purchased fuel valued at $180,000 from various vendors prior to the long-term agreement being signed.

The Project did not maintain adequate controls over the procurement and use of fuel, as highlighted below:

- Contracts with both the heavy equipment providers and the fuel vendor did not assign responsibility for monitoring fuel consumption.
- The long-term agreement required that the price of fuel be based on the Tacloban Price Index with a discount of $0.02 per liter; however, the invoices paid were not verified to confirm that the prices charged by the vendor complied with this price index.
- The Office could not provide evidence that other vendors had been considered to provide fuel to ensure that best value for money had been achieved.
- No records were maintained to confirm the actual quantity of fuel delivered by the vendor. The fuel invoices received by the Office were only matched against the requisition raised by project personnel and not the fuel actually received. As such, there was no assurance that the fuel paid for by the Office was delivered.
- While the Project conducted fuel consumption reasonableness tests, the adequacy of this method was compromised by the wide variation in the expected fuel usage parameters provided by the contractors as

well as the lack of odometers on the vehicles. For example, the equipment providers estimated that a bulldozer consumed between 150-200 liters of fuel daily, but this assumption had not been independently verified. Further, some trucks were not fitted with functional odometers that could be used to track mileage for later comparison to fuel consumed.

- There was also inadequate segregation of duties at the hub office. Only one individual was responsible for processes related to fuel management, from raising requisitions and monitoring fuel usage, to verifying the invoices submitted for payment.

The Office's Procurement Unit noted some of the weaknesses during their mission in February 2014; however, no actions had been taken on the issues identified.

Inadequate controls in the management of fuel increases the risk that misuse and overcharging of fuel may go undetected.

Priority High (Critical)

Recommendation 11:

Enhance controls over fuel management by:

(a) assigning responsibilities for fuel monitoring between the fuel vendor, the Project, and the heavy equipment vendor in the respective contracts;
(b) comparing the submitted invoices to the Tacloban Price Index and documenting the results of the comparison;
(c) establishing and implementing controls to assess the reasonableness of fuel consumed by having all the trucks fitted with functional odometers and relating distances covered to fuel consumption records;
(d) ensuring adequate segregation of responsibilities for fuel management so that the requisition for fuel, monitoring of fuel and verification of payments is not carried out by the same individual; and
(e) assigning specific personnel authorized to order fuel and communicating these names to the fuel vendor.

Management action plan:

(a) The field offices have recently introduced controls for the management of fuel. A two-level process for monitoring fuel consumption is now in place and the first check is done by the finance and admin team, while the second level monitoring is done at the project implementation team level.
(b) The long-term agreement rates with the discount provided are now compared with the Government's published rates and are adjusted accordingly on a regular basis.
(c) The Office is developing tools to monitor the vehicles' usage and fuel consumed.
(d) / (e) Duties are now adequately segregated and a specific staff member will be authorized to sign fuel orders.

Estimated completion date: April 2015

4. Asset management

Issue 12 Incomplete asset records

The 'Programme and Operations Policies and Procedures' require a physical count of assets to be completed bi-annually to confirm the existence, location and physical condition of assets. When disposing of assets, the office is required to submit disposal cases to the Contracts, Assets and Procurement Committee and a transfer form should be completed when disposing of assets to a third party. The office is required to keep a register of non-capital assets below the $1,500 threshold.

As of 31 July 2014, the Project reported 23 capital assets ($490,000) and 415 non-capital assets. The audit review included the physical verification of eight capital assets valued at $217,000, conformity with policies on asset disposals and the completeness of records of capital and non-capital assets.

The review of asset management disclosed the following weaknesses:

- The project transferred one capital asset (valued at $64,000) to a local government unit without completing the disposal procedures (e.g. submission to the disposal committee, removal from register, completion of transfer documents). The Office could not provide any supporting documentation whereby the government unit acknowledged receipt of the asset.
- The register of non-capital assets was incomplete as 173 assets (out of 415 assets) did not include a tag number. The shortcoming was due to inadequate oversight by the Office over the project assets.

Lack of adequate controls in the management and physical verification of fixed assets increases the risk that assets may be lost or stolen and remain undetected.

Priority	Medium (Important)

Recommendation 12:

Ensure compliance with the 'Programme and Operations Policies and Procedures' by:

(a) completing asset transfer forms, signed by both parties when transferring assets to a government counterpart, and obtaining clearance from the Contracts, Asset and Procurement Committee; and
(b) maintaining an accurate and up-to-date list of non-capital assets including tag numbers.

Management action plan:

Observation noted and part (a) is already implemented, while part (b) is an ongoing process, and further improvements will be made in the recording and maintenance of the capital assets register.

Estimated completion date: June 2015

OAI Response

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

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>.