UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

UN
DP

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

GABON

Report No. 1418

Issue Date: 5 February 2015

Table of Contents

Report on the audit of Gabon
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Gabon (the Office) from 27 October to 11 November 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 (leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);

(b) United Nations system coordination (development activities, Harmonized Approach to Cash Transfers);

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

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

The audit covered the activities of the Office from 1 January 2013 to 30 June 2014. The Office recorded programme and management expenditures totalling $5.6 million. The last audit of the Office was conducted by OAI in 2009.

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

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 inadequate financial sustainability, as well as weaknesses in financial management and procurement.

Key recommendations: Total = **10**, high priority = **5**

The 10 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 and 7); ; and (c) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 3, 4, 8, 9 and 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:

Financial sustainability of Office at risk (Issue 1)	The Office had 6 months of extrabudgetary reserve as of October 2014, which was below the corporate requirement of having 12 months of reserve. This was due in part to: the Office's inability to secure income from sources other than the host Government; delays by the Government in paying the balance of the Government Contributions to Local Office Costs; staff being paid from the extrabudgetary reserve at the time of the audit; and the untimely recovery of

Value Added Taxes.

Recommendation: Improve financial sustainability by: (a) timely following up with the Government on all outstanding pledges, contributions, and Value Added Tax; (b) limiting the use of extrabudgetary funds for payment of staff salaries by identifying other funding mechanisms; and (c) mobilizing resources to increase the Office's extrabudgetary reserve.

Inadequate supporting documents for substantiating payments (Issue 6)	The Office made payments without adequate justification. These included payments for goods or services without delivery receipts. There were also UNDP payment vouchers drawn on names that were different from those on the cheques. Recommendation: Reinforce oversight and quality control over payments by: (a) substantiating payments with valid supporting documents; and (b) having cheques written in the name of the vendor.
Lack of built-in segregation of duties in electronic bank transfer platform (Issue 7)	The electronic bank transfer platform used by the Office did not guarantee the proper segregation of duties. One staff member could submit, validate and export a payment to the bank. There were no controls that would mitigate the risk of errors or irregularities from the unauthorized transfer of funds. Recommendation: Improve control over electronic banking by: (a) segregating the three functions required for processing a payment, including designating a third person to export data to the bank; and (b) performing more reviews on the bank accounts by validating transactions on a daily basis.
Inappropriate use and lack of monitoring of "miscellaneous revenue" account (Issue 8)	The Office did not record transactions properly and incorrectly used the "miscellaneous revenue" account as a suspense account to record contributions, payments, unused funds, and remaining balances of closed projects. Moreover, this account was not analysed regularly. At the time of the audit, the remaining balance against fund 1 amounted to $367,000, representing long-outstanding transactions. Recommendation: Strengthen financial accountability by: (a) finalizing the analysis of "miscellaneous revenue" account and making adjustments in Atlas as soon as possible; (b) liaising with the Bureau for Policy and Programme Support (for the Global Fund balances) and Office of Financial Resources Management for guidance on the recording of any unspent balances; (c) using the "unapplied deposit" account to record government transfers, pending clarifications on their destination; and (d) timely monitoring and clearing amounts recorded in the "miscellaneous revenue" account.
UNDP procurement principles not adhered to (Issue 9)	Procurement processes worth $71,000 were undertaken using the direct procurement modality without appropriate justification. No supporting documents were available for eight procurement cases worth $70,000. Monitoring of cumulative procurement was not done resulting in non-submission of those procurements that reached the threshold requiring committee review. There was also inappropriate use of Atlas purchase orders. Vendor verification had not been adequately performed.

Recommendation: Comply with policies and procedures on management of procurement by: (a) justifying and documenting the reasoning for direct procurement; (b) not raising purchase orders for procurement activities undertaken by implementing partners; (c) monitoring vendors' thresholds so that vendors are reviewed by the responsible procurement committees; and (d) obtaining and reviewing supporting documents prior to creation of vendor profiles.

Management comments and action plan

The UNDP Resident Representative and Resident Coordinator accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

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

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office is located in Libreville, Gabon (the Country). The Country is considered an upper middle income country.[1] As such, the majority of the programmes in the Country are funded by the Government. The existing United Nations Development Assistance Framework that was signed in June 2011 for the 2012-2016 cycle aligns areas of strategic intervention and results with the Country's development priorities.

At the time of the audit, the Office employed 17 staff members (5 international, 4 national officers, and 8 General Service staff), and 6 service contractors.

II.   Audit results

OAI made five recommendations ranked high (critical) and five recommendations ranked 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)   Reinforce oversight and quality control over payments (Recommendation 5).
   (b)   Strengthen electronic bank transfers (Recommendation 6).
   (c)   Improve financial sustainability (Recommendation 1).
   (d)   Strengthen financial accountability by finalizing the analysis of account 55090 and making adjustments in Atlas as soon as possible and liaising with the respective centralized units for guidance on the recording of any unspent balances; (Recommendation 7).
   (e)   Improve management of the procurement function (Recommendation 8).

Medium priority recommendations, arranged according to significance:
   (a)   Improve the management of common premises (Recommendation 9).
   (b)   Improve project monitoring and closure (Recommendation 3).
   (c)   Adhere to UNDP's recruitment principles (Recommendation 4).
   (d)   Improve the management of travel (Recommendation 10).
   (e)   Fully implement the Harmonized Approach to Cash Transfer (Recommendation 2).

The detailed assessment is presented below, per audit area:

---

[1] "Countries that fall into the middle-income range set by the World Bank's World Development Indicators. They cover a wide income range, with the highest income country having a per capita income 10 times that of the lowest. " - source The World Bank Group Website

A. Governance and strategic management

1. Financial sustainability

Issue 1 — Financial sustainability of Office at risk

In accordance with corporate requirements, all offices are required to maintain a minimum reserve of 12 months of extrabudgetary resources and ensure financial sustainability by securing long-term committed resources.

The Office had 6 months of extrabudgetary reserve as of October 2014, compared to 14 months in 2013, and 19 months in 2012.[2] This was due to the following:

- the Office's inability to secure income from sources other than the host Government. Since the Country is an upper middle income country, it does not appeal to the donor community;
- the outstanding balance of the Government Contributions to Local Office Costs of $42,000;
- outstanding pledges for development projects from national and local governments totalling $2.1 million had not been received;
- the decreasing programme budget and deliveries[3] since 2010, which had negatively affected General Management Services fees;
- the untimely recovery of Value Added Tax of approximately $90,000 since 2012 due to delays in submitting claims to the Government; and
- at least three staff members (including one International) were paid from extrabudgetary reserves during the time of the audit.

Management acknowledged the limited financial resources and explained that discussions with the Government were ongoing for payment of the 2014 pledges that never materialized. They further explained that they would submit claims for reimbursement to the Government for the recovery of the outstanding Value Added Tax. Management further acknowledged the burden of human resources cost on the extrabudgetary resources and explained that the number of staff to be paid out of the extrabudgetary resources in 2015 was expected to be reduced.

Priority	High (Critical)
Recommendation 1:	
Improve financial sustainability by:	
(a) timely following up with the Government on all outstanding pledges, contributions, and Value Added Tax;	
(b) limiting the use of extrabudgetary funds for the payment of staff salaries by identifying other funding mechanisms; and	
(c) mobilizing resources to increase the Office's extrabudgetary reserve.	

---

[2] Source – Office of Financial Resources Management, Financial Management Brief for quarter ending 31 December 2013
[3] Budget 2012 ($6 million), 2013 ($5.8 million), 2014 ($4.8 million) and Deliveries 2012 ($6.4 million) and 2013 ($4.8 million) – source Regional Bureau for Africa Business Intelligence Dashboard

Management action plan:

(a) At the beginning of the year, letters were once again sent to the Government, asking them to pay the Government Contribution to Local Office Costs for 2012 and 2014 and to discuss a plan for the payment of earlier years. A letter was also sent to the relevant government ministry for the payments of outstanding pledges to development projects (2014 and 2015).

(b) The Office will follow up on this on a quarterly basis with government. The Office will limit the use of extrabudgetary funds to finance staffing costs going forward and will follow up with the Regional Bureau for Africa for reimbursement of $110,000 used to finance the Management Specialist post and $25,000 used to pay for the 2014 management support mission.

(c) Notwithstanding the challenges that the Country's economy faces in light of the falling prices of crude oil, the Office will make all possible efforts to boost its delivery with the existing projects to generate extrabudgetary resources.

Estimated completion date: December 2015

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 2   Harmonized Approach to Cash Transfers not implemented

The Harmonized Approach to Cash Transfers (HACT) Framework consists of four processes: macro-assessment, micro-assessment, cash transfers and disbursement, and assurance activities. The HACT aims to: (a) reduce the transaction costs pertaining to the Country Programme of the Executive Committee agencies (UNDP, UNFPA, UNICEF and WFP) by simplifying and harmonizing rules and procedures; and (b) help manage risks related to the management of funds and increase overall effectiveness. In addition, according to the Framework for Cash Transfers to Implementing Partners, United Nations agencies should adopt a common 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.

The Office, along with two other agencies (UNICEF and UNFPA), was involved in the process of implementing HACT. However, at the time of the audit, the Office had not fully implemented HACT nor was it HACT compliant with regard to national implementation modality NGO audits. The micro-assessment was finalized in October 2014 but there was no assurance plan.

The Office explained that the slow implementation of HACT was mainly due to the lack of coordination between the agencies in 2013. In 2014, along with the micro-assessment, two training sessions on capacity-building for the implementing partners were carried out. Further, in 2014, the International Monetary Fund completed the Public Expenditure Framework and Accountability report. The report, which will be used as the macro-evaluation document, had been submitted to the Government for endorsement before general publication and distribution.

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

Priority	Medium (important)
Recommendation 2: Fully implement the Harmonized Approach to Cash Transfers by preparing an assurance plan and defining the assurance activities.	
Management action plan: In the Country, three of the UN agencies (UNFPA, UNICEF and UNDP) have been able to start the HACT process and have been working together towards developing the approach. The agencies will work at implementing HACT and make sure that it is up and running by mid-2016. **Estimated completion date:** Late 2015 and 2016	

C.   Programme activities

1. Project management

Issue 3   Weaknesses in project monitoring and closure

The 'Programme and Operations Policies and Procedures' provide specific guidance on how to implement and monitor projects, including: (a) using Atlas (enterprise resource planning system of UNDP) for substantive monitoring by updating the issues, risks and monitoring logs; (b) preparing Combined Delivery Reports on a quarterly and annual basis; and (c) financially closing projects within 12 months of their operational closure.

OAI reviewed the Office's project list and the status of projects in Atlas and tested 5 out of the 34 ongoing or operationally closed projects. The following weaknesses were noted:

- Atlas was only used in a limited manner as a project monitoring tool. For Project Nos. 12662, 28123, and 77804, there had been no update of issues, risks and monitoring logs since the inception of the projects. For Project Nos. 52549 and 72575, the last updates were made in 2008 and 2009, respectively.
- Combined Delivery Reports were not prepared regularly, or at least quarterly as project monitoring tools. The Office stated that it issued these reports for audit purposes only.
- Delays were noted in closing projects. Three projects (44070, 72992 and 73797) had been operationally closed since 2012; however, at the time of the audit, they had not been financially closed.

The deficiencies noted were due to lack of oversight, limited knowledge of UNDP's procedures in terms of project management, as well as a weak command of Atlas.

Weaknesses in project monitoring and evaluation may result in the non-delivery of expected outputs, which could negatively affect UNDP's reputation.

Priority	Medium (Important)

Recommendation 3:

Improve project monitoring and closure by:

(a) strengthening staff capacity through training sessions on how to use Atlas as a project management tool;
(b) reinforcing the project oversight mechanism to ensure that staff members comply with the requirements of "implementing a project" guidelines of the 'Programme and Operations Policies and Procedures'; and
(c) expedite the financial closure of projects that are operationally closed for more than 12 months.

Management action plan:

(a) The Office will organize internal training sessions for the Programme and Operations Units on how to use the 'Programme and Operations Policies and Procedures' more efficiently. The Office will seek support from the Regional Bureau for Africa in Addis Ababa and in New York as well as that of other offices to provide training to office staff. Furthermore, the Office will work at strengthening the capacity of national partners on UNDP procedures and project management tools.

(b) The Office will implement an oversight system with tools that will allow it to check that procedures have been followed. Additionally, the Office will introduce checklists for each operation and designate an implementation committee to oversee the process.

(c) All operationally closed projects have been financially closed, with the exception of the two Global Fund projects for which the Office must still reimburse $72,000. Action is being taken to ensure these two projects are closed.

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.

D. Operations

1. Human resources

Issue 4   Staffing

The Office conducted a financial sustainability exercise (review) in 2014 which was expected to result in a reduction of its staffing strength by 29 percent (5 out of 17) by year end. The financial sustainability exercise was a review done in response to the organization's drive to improve efficiency and resulted in decisions by the Office to take advantage of the strategy to cluster functions such as procurement and human resources. As of November 2014, the clustering strategy had not been implemented; yet, the staff responsible for the human resources and procurement functions in the Office had separated from the organization. Consequently, a

number of staff members were accountable for incompatible functions, especially the Operations Manager, who was responsible for procurement, asset management and human resources.

> **Comment:**
>
> The Office explained that it completed its financial sustainability exercise review with the expectation that the clustering of the human resources and procurement functions in regional hubs would have been in place. Senior management further added that the Office was in the process of advertising the positions of human resources and procurement assistant to meet the needs of the Office. Hence, OAI is not issuing a recommendation.

Issue 5   Weaknesses in recruitment process

According to the UNDP 'Recruitment and Selection Framework', recruitment shall be guided by the principles of competition, objectivity, transparency, diversity and accountability. Fairness of the competition requires the shortlisting of candidates who meet the job profile. United Nations rules and regulations require committee members to be at a comparable professional level as the position under review. Further, the diversity principle requires at least one female candidate to be shortlisted for interview. In case this requirement cannot be met, a waiver should be obtained from the Director of the Office of Human Resources after documenting efforts made to identify qualified female candidates.

OAI reviewed the recruitment process of 1 international staff, 3 national officers, 2 General Service staff, and 2 service contractors and found that the organization's guiding principles were not always met.

 Illustrative examples are described below:

- In two of the cases reviewed, the selected candidate competed with other candidates who did not meet the job description requirements in terms of academic credentials or experience; and
- In another three instances, the selected candidates either did not have the education/certification or the relevant experience specified in the job description.

In both examples above, the Office did not re-advertise the positions to attract/reach out to candidates that were more suitable.

In one case related to the recruitment of a Project Coordinator at the national officer level, the Evaluation Committee consisted of three members, of which two had a lower grade than the position under review.

Further, for the recruitment of two national officers, no female candidates were shortlisted, yet a waiver was not requested from the Office of Human Resources.

These exceptions were the result of weak oversight over recruitment processes and could result in the selection of individuals who might not meet the highest standards of competence. This could negatively impact the Office's performance and reputation.

Priority	Medium (Important)
Recommendation 4:	
Adhere to UNDP's recruitment principles by:	

(a) compiling a sufficient pool of qualified candidates prior to proceeding with the recruitment process;
(b) establishing an evaluation panel commensurate to the level of positions advertised; and
(c) shortlisting at least one female candidate and documenting any exception to this requirement.

Management action plan:

(a) The Office has developed a 2015 recruitment strategy that takes into account gender and qualifications before proceeding with the recruitment process. If a sufficient pool of candidates is not available, the post will be re-advertised.

(b) All recruitment committees and panels will be reviewed according to UNDP rules and procedures. Management will ensure that panels are in line with the level of the post and include at least one female staff member.

(c) The Office will endeavor to shortlist at least one female candidate for each post.

Estimated completion date: March 2015

2. Finance

Issue 6   Inadequate documents for substantiating payments

UNDP Financial Regulations and Rules (Rule 122.02) define conditions under which verifying officers may approve a voucher for payment. This rule dictates the need for the verifying officer to ensure that the payment "is supported by documents which confirm that the goods or services for which payment is claimed have been received or rendered in accordance with the terms of the contract and the related commitment." The UNDP policy on project cash advances limits advances to service contractors to $1,000.

OAI reviewed 70 vouchers totalling $1 million (18 percent of payments) processed during the period under review and noted several instances where payments were made without adequate justification, as described below.

For six payments, totalling $48,000, there were no delivery receipts or certifications for services rendered. Final invoices were missing in four cases where payments totalling $7,190 were made on the basis of pro-forma invoices or delivery orders. From these payments, OAI noted a case of double payment that resulted in a credit balance for the vendor. The credit ($170) was subsequently inappropriately used to purchase personal goods.

The cash advances policy was circumvented on two occasions for payments totalling $37,000. The Office made payments in the names of staff members who signed the payment vouchers, acknowledging receipt of the cheques, whereas, the cheques were in the names of service contractors. Based on discussions with staff, OAI noted this was a common practice in the Office. Management acknowledged the issue and explained that the practice was carried out because of the difficulties in making advances for project activities to non-staff.

These exceptions were mainly a result of poor oversight and control over payments, which could lead to errors and fraud.

Priority	High (Critical)

Recommendation 5:
Reinforce oversight and quality control over payments by:
(a) substantiating payments with valid documents; and
(b) having cheques written in the name of the vendor;
(c) exploring the possibility of using mobile payment services for expenses covered by project cash advances.

Management action plan:
(a) Specific attention will be given to files that are submitted to the Finance Unit for payments to ensure that rules and procedures are followed and that requests comply with UNDP regulations. Validity and accuracy of supporting documents will be double-checked.
(b) The Office discontinued the practice of manually writing cheques to payees, other than those named on Atlas vouchers.
(c) The Office will continue to work with the bank to adopt mobile cash payments.
Estimated completion date: May 2015

Issue 7   Lack of built-in segregation of duties in electronic bank transfer platform

Effective internal control requires that incompatible tasks be properly segregated to minimize the occurrence of errors or fraud and to help detect such occurrence. Therefore, a single person should not be able to initiate, approve and finalize the same transaction. The Country Office electronic-banking guide allows offices to acquire systems (platforms) from local banks to prepare and submit electronic bank transfers. The specifications of the system (platform) provided by the bank should not allow the same person to perform the entire process (submission, validation and exportation) on their own.

An electronic banking platform was installed in the Operations Manager and Finance Associate's computers. OAI reviewed and tested the electronic bank transfers workflow and noted that it did not guarantee the proper segregation of duties. The Operations Manager was able to submit a transfer, validate it and export it, meaning that individuals assigned the Operations Manager role could undertake the entire payment process on their own. Management was unaware of the loophole of the platform and as such, there were no controls to immediately alert them of any unauthorized fund transfers. Further to the Office acknowledging this weakness, OAI informed the bank of the anomaly and requested them to make the necessary changes to ensure adequate segregation of duties, but had not received any feedback.

The lack of built-in mechanisms to ensure the adequate segregation of duties in the platform increases the risk of unauthorized and fictitious payments that would not be detected in a timely manner.

Priority	High (Critical)

Recommendation 6:
Strengthen electronic bank transfers by:

(a) requesting the bank to segregate the submission, validation, and export functions and to send an automatic notification to designated staff after each transfer is completed and designating a third person to export data to the bank; and
(b) performing more reviews on the bank account by validating transactions on a daily basis and ensuring that all direct bank account transfers are substantiated, pending technical corrections on the platform.

Management action plan:

(a)   Management met with representatives from the bank, who agreed to add a third level of validation for the transferring of funds. A letter will be done to the bank to make sure that this is implemented.
(b)   The current staffing levels in the Office do not allow for designating a staff member for exporting data to the bank. However, the Office expects to recruit more personnel, which would allow for the implementation the recommendation.
(c) Action will be taken.

Estimated completion date: February 2015

Issue 8   Inappropriate use and lack of monitoring of "miscellaneous revenue" account

As per the UNDP 'Programme and Operations Policies and Procedures,' financial statements are a statutory report produced by UNDP. For this report to be accurate, it is important that all transactions are recorded in the appropriate account and project and reflected in the financial statements. Accounts should be analysed regularly. Moreover, outstanding government contributions should be recorded in the "unapplied deposit" account until the purpose of the funds is established.

The Office was not recording transactions properly in account 55090 "miscellaneous revenue" and used it as a suspense account to record contributions, payments, unused funds, remaining balances of closed projects, etc. Moreover, this account was not analysed regularly and at the time of the audit, the remaining balance against fund 1 (voluntary contributions) amounted to $367,000, representing long-outstanding transactions. The most important of these transactions are presented below:

▪ Government contributions of $104,000, dated November 2011. The Office explained that the funds, when received, were deposited for an unspecified purpose and therefore they were booked in the General Ledger account 55090 until clarification on their intended use. There was no evidence that the Office made adequate enquiries to clarify the destination of these funds to properly record them.

  A payment voucher of $119,000 was raised in July 2010 under the closed Round 8 Global Fund project to purchase maternal milk. During the closure of the project, the voucher was cashed and reversed into account 55090, with a view to purchase the milk later and make payments through this account. However, the local supplier had not been able to deliver the entire order. Therefore, there was a balance of $ 74,000 from this transaction in the account, which should have been returned to the Global Fund after the financial closure of the grants.

▪ An amount of $56,000 corresponding to 39 payments dated between 5 December 2005 and 11 September 2008 was not cashed by their beneficiaries. The Office cancelled these payments and reversed them into account 55090.

- The reimbursement of Value Added Tax totalling $26,000 was recorded in account 55090. The Office made an error trying to account for this amount and in the process, it recorded it twice.

Management explained that they were aware of the issue and a staff member was tasked with analysing the account by year end.

This situation arose from a lack of follow-up and proper oversight of this account, as staff were aware of the correct usage of the account and the error could result in inaccurate financial information.

Priority	High (Critical)
Recommendation 7: Strengthen financial accountability by: (a) finalizing the analysis of account 55090 and making adjustments in Atlas as soon as possible; (b) liaising with the Bureau for Policy and Programme Support (for the Global Fund balances) and Office of Financial Resources Management for guidance on the recording of any unspent balances; (c) using the "unapplied deposit" account to record government transfers, pending clarifications on their destination; and (d) timely monitoring and clearing amounts recorded in account 55090.	
Management action plan: (a) The analysis of account 55090 has been completed. Adjustments will be made in Atlas as soon as possible. The Office will need guidance on where to post some of the expenses to avoid incorrect posting. (b) The Office has started liaising with the Bureau for Policy and Programme Support for the Global fund balances and is waiting for advice. The same is being done for unspent balances with the Office of Financial Resources Management. (c) Note taken. (d) Note taken. **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.	

3. Procurement

Issue 9   UNDP procurement principles not adhered to

The 'Programme and Operations Policies and Procedures' require procurement activities to be aligned with UNDP's procurement principles: best value for money; fairness, integrity, transparency; effective international

competition; and protecting the interests of UNDP. Direct contracting (sole-source or single source) may only be used when it is not feasible to undertake a competitive bidding process. In all cases, proper justification for the direct procurement must be made and archived for review. To sustain financial control of public funds and compliance with the UN's regulations and guidelines regarding anti-terrorist financing practices, the UNDP Internal Control Framework requires business units to: (a) conduct a review of the entity's profile (i.e., background, financial reports, annual statements); (b) confirm business registration with government authorities; and (c) verify the entity against the United Nations Security Council 1267 Committee's list of terrorists and terrorist financiers.

OAI selected a sample of 38 purchase orders totalling $535,000 (or 41 percent of all orders) and 49 direct payment vouchers totalling $558,000 (or 75 percent of transactions processed during the period under review) for testing. The following weaknesses were noted:

- Unjustified direct contracting and missing supporting documentation

Seven procurement processes worth $71,000 were undertaken using the direct procurement modality without appropriate justification. In another eight procurement cases worth $70,000, there were no supporting documents to show how the vendors were selected. OAI was therefore unable to assess if the procurement principles of UNDP were adhered to.

- Lack of monitoring of vendors' threshold

The 'Programme and Operations Policies and Procedures' require that any contract or a series of contracts including amendments to be awarded to a vendor in a calendar year that have a cumulative value of $50,000 or more should be submitted to the Contracts, Assets and Procurement Committee or the Regional Advisory Committee on Procurement.

Monitoring of cumulative procurement to detect vendors who had reached the threshold for procurement review was not undertaken. As a result, two vendors in 2013 and one vendor in 2014 were not reviewed by the relevant procurement body, even though the cumulative value of the procurement transactions were $72,000 (vendor 1816), $60,000 (vendor 2343), and $60,000 (vendor 2584), respectively.

- Inappropriate use of Atlas purchase orders

Purchase orders represent legally binding commitments entered into with third parties for the delivery of goods and services procured by UNDP. As such, UNDP purchase orders may not be raised for procurement activities undertaken by implementing partners.

Two purchase orders worth $26,000 were issued to contractors for procurement undertaken by government partners. The use of purchase orders in this manner increased the Office's potential liability, since the procurement activity was not within its control.

- Due diligence on vendor verification not adequately performed

Five vendors were created in 2013 based on an email from a former Project Manager without supporting documents, including signed vendor forms. Another 12 vendors were created in 2014 based on unsigned vendor forms and without any additional supporting documents. As such, no due diligence had been performed prior to the creation of the vendors in Atlas. The vendor approver was aware of the verification requirement; however, OAI was not able to determine why the verification was not undertaken. Management acknowledged

the weaknesses raised and indicated that the Office would seek for a roving training officer to review transactions on a quarterly basis.

Without adequate due diligence on vendor verification, fictitious vendors could be created and approved, which could lead to fraud risks.

The lack of oversight and monitoring over procurement activities could lead to financial and fraud risks.

Priority	High (Critical)

Recommendation 8:

Comply with policies and procedures on management of procurement by:

(a) justifying and documenting the reasoning for direct procurement;
(b) not raising purchase orders for procurement activities undertaken by implementing partners;
(c) monitoring vendors' thresholds so that vendors are reviewed by the responsible procurement committees; and
(d) obtaining and reviewing supporting documents prior to creation of vendor profiles.

Management action plan:

(a) Action will be taken as recommended.
(b) Programme and project staff have been briefed and trained on this issue and understand that they cannot raise purchase orders when national partners carry out the procurement process or activities.
(c) A review of purchases and services provided during 2014 will be done. It will allow the Office to determine the service providers that have reached the threshold of $30,000 and therefore have to go through Contracts, Assets and Procurement Committee.
(d) Supporting documents will be obtained before a vendor profile is created. The vendor form will also be accompanied with the ID documents of the suppliers of the specific form for companies.

Estimated completion date: March 2015

4. General administration

OAI reviewed the management of premises and international travel, which includes the purchase of air tickets and payment of daily subsistence allowance.

Issue 10   Inadequate management of common premises

According to the 'Programme and Operations Policies and Procedures' for effective management of common premises, participating agencies should sign a Memorandum of Understanding. The Memorandum should set out the details and the types of services to be rendered, and the basis of apportionment of all the related costs. Regular reporting on the status of actual expenditures, billing and collection from participating agencies facilitates the timely clarification of any queries or the resolution of any disagreements. According to the common premises Memorandum signed by UNDP and the agencies, the Office was expected to establish a common premises committee and to maintain a reasonable reserve for unforeseen expenses. This reserve should have been disclosed and agreed upon by participants.

The Office rented an office building in the capital city, which was used in a common premises arrangement with other UN agencies including UNAIDS, UNFPA as well as various UNDP projects. Prior to November 2013, a common premises committee did not exist and key decisions were made unilaterally by the UNDP Operations Manager. As such, the common premises budget for 2013 and prior years was unilaterally set without participation of the partner agencies. In addition, a cumulative $181,000 reserve fund identified by OAI was never disclosed to the participants.

Services in the common premises budget including telephone services, satellite link, and information and communications technology services had not been rendered for long periods of time as mentioned below and yet the Office continued to collect fees. Illustrative examples are shown below:

- Data back-up services were not in place, while telephone services had not been functional since mid-2013 when the automatic telephone switching system failed. Internet connection had also been unreliable to the extent that agencies had opted to purchase their own alternate wireless network connections, thereby forcing partners to incur double expenditure (common service account and internet service provider).

- The back-up electrical power provided by a diesel powered generator had not been functional, leading to unnecessary downtime during power failures. During the audit, a power loss on the evening of 10 November 2014 left the Office without power, as the back-up generator did not start automatically. As a result, the magnetic door locks that require electric power were frozen, and as a result, staff and visitors were left stranded in the Office.

- Contractual services for the management of premises were never reviewed by participating agencies to determine the level of satisfaction for services provided prior to renewal of the contract. Service contracts had not been provided to partner agencies for them to have an understanding of the services expected.

Failure to deliver the services committed to in the common services budget is a breach of contractual arrangements that could result in disagreements and breakdown of the common services arrangement and raising costs for all involved.

Priority	Medium (Important)
Recommendation 9: Improve the management of common premises by: (a) reimbursing agencies for the cost of services budgeted and charged but not rendered; (b) delivering services included in the budget; and (c) communicating the current reserve to the participating agencies and agreeing on the reserve to be maintained.	
Management action plan: (a) Post audit fieldwork, a contribution and expenditure report was discussed with all agencies that contributed to the common premises in 2014. A final report is being finalized. A discussion will be held with all agencies working in the same building to reach an agreement. A final decision regarding the	

reimbursement of overpayments will be made. Agencies will either be reimbursed or funds will be transferred to the 2015 budget. An office building has been offered to the United Nations free of charge. A new system of common premises will be developed for this building.

(b) Note taken.
(c) Note taken.

Estimated completion date: March 2015

Issue 11 Inadequate management of travel

The UNDP travel policy provides guidelines that should be applied with respect to the route, mode and standard of accommodation. This includes: (a) routing - most direct route of travel from the place of origin to the official destination; (b) the preferred mode of transportation (e.g. rail, road, sea/inland water or air); and (c) standard of accommodation (i.e. authorized class of travel). The analysis leading to the decisions on these three elements must be properly documented to eliminate subjectivity.

OAI reviewed 26 travel files and noted that trip analyses were not documented for any of the international travel cases reviewed. In a 6 out of 26 cases, quotations for alternate routes were on file, but there was no analysis to show how a particular itinerary was selected. The staff responsible for travel indicated that alternate routes were considered, but not documented.

Although the Office was aware of the requirement of the travel policy to substantiate the trip analysis, it was not enforced. Failure to undertake a trip analyses could lead to the selection of more costly routes and financial losses for the organization.

Priority	Medium (Important)
Recommendation 10: Improve the management of travel by ensuring that trip analyses considering alternate routes are documented.	
Management action plan: The analysis of itineraries for missions will be done with more thoroughly. A comparative table will be created, indicating the different travel options. Furthermore, a note will be attached to each travel file indicating the reasons behind the choice of an itinerary. **Estimated completion date:** January 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 not included in this report.