UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

JAMAICA

Report No. 1430

Issue Date: 24 April 2015

Table of Contents

Report on the audit of UNDP Jamaica
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Jamaica (the Office) from 2 to 13 February 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

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

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

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

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

The audit covered the activities of the Office from 1 January 2013 to 31 December 2014. The Office recorded programme and management expenditures totalling $7.9 million. The last audit of the Office was conducted by OAI in 2008.

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

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to the Office's inadequate organizational structure, its financial sustainability being at risk, and weaknesses in the monitoring function.

Good practices

OAI identified two good practices, as follows:
- The Office installed solar panels which helped reduce the cost of electricity by almost 50 percent.
- The Office scheduled team-building activities, which contributed to improving staff morale.

Key recommendations: Total = **11**, high priority = **3**

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

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:

Corporate Issue: Organizational structure not aligned with Office's strategic requirements (Issue 1)	A Management Change Team mission was carried out in 2013 to support management in reorganizing the Office's structure to strengthen its operational and programmatic functions. The Team recommended changes in 18 existing positions (including abolishing 7 positions) under the assumption that the Office would be serviced through back-office support from UNDP's global and regional service hubs. However, these service hubs did not fully commit to providing the required services and support, mainly due to the absence of Service Level Agreements. Services were thus provided on an ad-hoc basis and without any prioritization. As a result, the Office faced operational and reputational risks when the service hubs did not deliver within expected timeframes. <u>Recommendation</u>: Mitigate the risks associated with the operational and back-office support gaps, as follows: (a) having the Regional Bureau for Latin America and the Caribbean ensure that the Office enter into Service Level Agreements with global and regional service hubs and, as a stop gap measure, provide funding for insourcing or outsourcing; and (b) having the Office ensure that the Management Change Team's transformation plan is fully implemented.
Lack of effective monitoring (Issue 2)	Several monitoring weaknesses were noted: (a) risk assessments were not carried out and field visits were not planned and field visit reports were activity-oriented rather than results-oriented; (b) project board meeting reports did not include risk assessments or review of project issues that might require substantive project revisions; (c) project delivery was below targets and no corrective actions were taken; (d) financial adjustments to project expenses increased due to incorrect accounting entries; (e) senior management and programme unit staff were not sufficiently involved in substantive monitoring activities; and (f) personnel were not aware on the roles and responsibilities of individuals performing monitoring functions. <u>Recommendation</u>: Strengthen the monitoring function by: (a) carrying out risk assessments as required by the 'Programme and Operations Policies and Procedures'; (b) developing and implementing a field visit plan and adopting a results-oriented approach for field visit reports; (c) improving project board meeting reports to ensure they include risk assessments and project issues; (d) determining the reasons for low project delivery and developing action plans to ensure that projects meet delivery targets; (e) increasing financial monitoring to ensure that accounting entries correctly reflect project expenses; (f) involving senior management and programme unit staff in substantive monitoring activities; and (g) enhancing the awareness of monitoring responsibilities among senior management and programme unit staff.
Office's financial sustainability at risk (Issue 3)	While the Office maintained operational reserve of at least 12 months in the past three years, financial sustainability had become a concern to the Office senior management and the Regional Bureau primarily due to: (a) insufficient revenue collection to cover annual expenditures resulting in a decrease in the number of

months of operational reserve; (b) reduced possibility for mobilizing resources from traditional donors in the Country; (c) lack of resource mobilization strategy for 2015-2016; as well as (d) uncollected Government Contribution to Local Office Costs amounting to $750,000.

Recommendation: Implement actions to mitigate the risk to the Office's financial sustainability by: (a) containing operational costs within acceptable limits to keep extrabudgetary reserves at the required level; (b) expanding partner and donor opportunities by developing innovative project interventions to increase the inflow of resources; (c) designing and implementing a resource mobilization strategy and implementation plans for 2015-2016, as well as (d) pursuing negotiations with the Government to collect the outstanding Government Contribution to Local Office Costs, seeking input from the Regional Bureau, and also considering in-kind contributions as an option.

"Corporate issue" means action is required from a headquarters bureau.

Management comments and action plan

The Director of the Regional Bureau for Latin America and the Resident Representative accepted the recommendations under their purview and are 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 Kingston, Jamaica (the Country), and at the time of the audit, it had 13 staff members, 1 United Nations International Volunteer and 4 service contractors. In the second quarter of 2013, a Management Consulting Team mission was carried out to support the Office management's efforts to reorganize the Office structure based on a financially sustainable budget, and strengthened functions and capacities.

II. Good practices

OAI identified two good practices, as follows:

Operations/General administration. The Office installed solar panels which helped reduce electricity costs by almost 50 percent.

Operations/Human resources. The Office scheduled team-building activities, which contributed to improving staff morale.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Resident Coordinator Office. Adequate key controls were in place. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.

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

(c) Safety and security. The Office had a Business Continuity Plan that was tested and adjusted as necessary.

OAI made 3 recommendations ranked high (critical) and 8 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) Strengthen the operational and back-office support provided to the Office (Recommendation 1).
(b) Implement actions to mitigate the risks to the Office's financial sustainability (Recommendation 3).
(c) Strengthen the monitoring function (Recommendation 2).

Medium priority recommendations, arranged according to significance:

(a) Improve the use of Atlas (Recommendation 6).
(b) Improve records management (Recommendation 11).
(c) Implement the Harmonized Approach to Cash Transfers (Recommendation 4).
(d) Seek guidance from the Regional Bureau to address the lack of authorization for directly implementing nine projects and the proper use of target resources allocated from core funds (Recommendation 5).
(e) Accelerate the financial closure of projects (Recommendation 7).
(f) Improve human resources management (Recommendation 8).

(g) Strengthen the procurement function (Recommendation 10).
(h) Improve management of cash advances to nationally implemented projects (Recommendation 9).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Corporate Issue: Organizational structure not aligned with Office's strategic requirements

During the second quarter of 2013, a Management Change Team mission was carried out to support the Office's senior management with reorganizing the Office's structure. Specifically, the mission's aim was to strengthen the Office's operational and programmatic functions, and further develop internal capacities to make it financially viable. The mission report (also called 'transformation plan') included a series of recommendations, including revamping the Office's organizational structure.

The transformation plan recommended changes to 12 of 18 existing positions, as follows: abolishing 7 positions, re-purposing 4 positions, and reassigning 1 position to supervise the Office's operations. Also, there was another recommendation to create two new positions. The streamlining was based on the assumption that the Office would be serviced through the back-office support from UNDP's Global Shared Service Centre in Malaysia, the Procurement Support Office in Copenhagen or New York, and the Regional Service Centre for Latin America and the Caribbean in Panama. However, these offices did not fully commit to providing operational services and back-office support. This was mainly due to the absence of Service Level Agreements, which would have established the conditions for services to be provided to the Office, the turn-around time for each service, the details of each service category as well as the associated costs to be charged for each service. Due to the absence of signed Service Level Agreements, services were provided on an ad-hoc basis and without any prioritization.

As a result, the Office faced operational and reputational risks whenever the service hubs did not deliver within the expected timeframes. For example, there were excessive delays in procurement services pertaining to both the Regional Service Centre for Latin America and the Caribbean, and the Procurement Support Office. These were raised with OAI during interviews with implementing partners and later confirmed by OAI's own assessment.

In addition, the Office was not clear about its roles and responsibilities with regard to obtaining such operational services and back-office support. Therefore, the Office:

- did not fully comply with the transformation plan developed by the Management Change Team mission to ensure that the critical success factors, such as strengthening leadership, teamwork and communication, were not placed at risk; and
- did not identify means to address the operational gaps resulting from the lack of support from the service hubs either by insourcing through seeking staff on detail assignments or outsourcing by obtaining services from consultants and experts, also because of funding constraints.

Due to the lack of Service Level Agreements, the gaps in operational and back-office support remained.

Priority	High (Critical)

Recommendation 1:

Strengthen the operational and back-office support provided to the Office by:

(a) having the Regional Bureau for Latin America and the Caribbean ensure that the Office enter into Service Level Agreements with global and regional service hubs and, as a stop gap measure, provide funding for insourcing or outsourcing; and
(b) having the Office ensure that the Management Change Team's transformation plan is fully implemented.

Responsible HQ bureau: Regional Bureau for Latin America and the Caribbean [for recommendation (a)]

Management action plan:

(a) The Regional Bureau is in the process of strengthening its Regional Service Centre. A Business Solutions and Operations Team has been established in Panama with dedicated national staff and it is operational as of 2015. The Regional Service Centre will also work with the Office to agree on the Service Level Agreement and plan for the necessary back-office support.

(b) The Office will coordinate with the Regional Bureau in ensuring that Service Level Agreements with the global and regional service hubs are signed. Initial discussions have already taken place between the Office and Regional Service Centre with the expectation of formalizing its programmatic and operational support by the end of April 2015. Furthermore, the Office has also included in its Integrated Work Plan a request for funding a position under a Temporary Appointment contract as a stop gap measure, until the Regional Service Centre is able to provide the required operational support.

The Office will work under the Regional Bureau's guidance to fully implement the Management Change Team's transformation plan, including arranging a follow-up mission to evaluate the realignment exercise and confirm training needs.

Estimated completion date: July 2015

2. Risk management, planning, monitoring and reporting

Issue 2 Lack of effective monitoring

Monitoring involves accounting for the achievement of intended results and providing a factual basis for decision making. It is an essential management function to support UNDP's commitment to accountability for results and resources entrusted to it, as well as to promote organizational learning. Furthermore, monitoring relates to results defined in the development plan that are achieved through project implementation. Baselines, indicators, targets and results are clearly defined and regularly monitored.

OAI reviewed a sample of 6 out of 52 development projects active in Atlas (enterprise resource planning system of UNDP) and identified the following weaknesses in all 6 of them:

- risk assessments were not carried out as stipulated in the 'Programme and Operations Policies and Procedures';
- field visits were carried out on an *ad hoc* basis, and the field visit reports were activity-oriented rather than results-oriented;
- project board meeting reports did not include risk assessments or project issues that might have required substantive project revisions;
- project delivery was below established targets and no corrective actions were taken;
- the number of financial adjustments to project expenses increased during the period covered by the audit due to incorrect accounting entries;
- senior management and programme unit staff were not sufficiently involved in substantive monitoring activities because monitoring was exclusively the responsibility of the Monitoring and Evaluation Unit; and
- Office personnel were not aware of the roles and responsibilities of the monitoring function.

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

Priority	High (Critical)
Recommendation 2: Strengthen the monitoring function by: (a) carrying out risk assessments as required by the 'Programme and Operations Policies and Procedures'; (b) developing and implementing a field visit plan and adopting a results-oriented approach for field visit reports; (c) improving project board meeting reports to ensure they include risk assessments and project issues; (d) determining the reasons for low project delivery and developing action plans to ensure that projects meet delivery targets; (e) increasing financial monitoring to ensure that accounting entries correctly reflect project expenses; (f) involving senior management and programme unit staff in substantive monitoring activities; and (g) enhancing the awareness of monitoring responsibilities among senior management and programme unit staff.	
Management action plan: (a) The Office will undertake risk assessments as required by the 'Programme and Operations Policies and Procedures'. (b) The Office acknowledged that its regular monitoring visits were undertaken in the absence of a formal monitoring plan. The Office is developing a results-based monitoring plan following the 'Programme and Operations Policies and Procedures' guidelines to properly monitor risks, issues, and challenges for all its projects. (c) The Office will strengthen its ongoing bilateral meetings with the implementing partners and provide training to implementing partners and project boards in providing substantive guidance to projects while reporting on risks and project issues. (d) The Government put an expenditure ceiling on the projects, which resulted in low project delivery. The Government counterpart is arranging a meeting for the Office to better understand these constraints and arrive at appropriate solutions. The Office is preparing a strategy to thoroughly monitor its delivery	

through an action plan that would ensure that projects meet delivery targets.

(e) Programme staff members have been strongly advised on the necessity for due diligence in financial monitoring.

(f) Senior management will be actively involved in monitoring project activities to ensure the correct recording of project expenses, including receiving timely updates on the progress of project implementation.

(g) The Office discussed and submitted to the Regional Service Centre a detailed training plan outlining the requirement for a staff member on detail assignment to provide learning-by-doing training on financial monitoring in the Office.

Estimated completion date: December 2015

3. Financial sustainability

Issue 3 Office's financial sustainability at risk

The 'Programme and Operations Policies and Procedures' require all offices to maintain a minimum of 12 months of extrabudgetary reserves. They also require offices to ensure financial sustainability by securing stable and sufficient long-term financial resources and allocating these resources appropriately and in a timely manner in order to cover full costs, and to ensure that resources are managed effectively and efficiently.

The Office maintained operational reserves of at least 12 months over the past three years. Nonetheless, the Office's financial sustainability was of concern to its senior management and to the Regional Bureau because of the following:

- a reduction in the number of months of reserve from 18 months in 2012, to 16 months in 2013 and 2014, due to insufficient revenue collection to cover annual expenditures and the lack of a cost contention plan;
- reduced possibility for mobilizing resources from traditional donors in the Country; and
- lack of a resource mobilization strategy for 2015-2016.

In addition, the Office also had uncollected Government Contribution to Local Office Costs totalling $750,000.

In 2011, the Office developed a resource mobilization strategy covering a three-year period (2012-2014), even though the programme cycle covered a five-year period (2012-2016). In 2013, this strategy was revised after the Management Change Team developed the 'transformation plan' to align the Office to UNDP's new approach on policy service delivery and capacity development management. Nevertheless, the strategy for 2015-2016 was still not prepared and it would be subject to a second Management Change Team mission to measure the progress of the 'transformation plan'. At the time of the audit, the second mission had not been undertaken and the Office, despite the mission, failed to develop a comprehensive resource mobilization strategy.

The lack of financial resources may negatively impact the achievement of UNDP's overall mandate for the Office.

Priority	High (Critical)
Recommendation 3: Implement actions to mitigate the risks to the Office's financial sustainability by: (a) containing operational costs within acceptable limits to keep extrabudgetary reserves at the required level; (b) expanding partner and donor opportunities by developing innovative project interventions to increase the inflow of resources; (c) designing a resource mobilization strategy and an implementation plan for 2015-2016; and (d) pursuing negotiations with the Government to collect the outstanding Government Contribution to Local Office Costs, seeking input from the Regional Bureau, as well as considering in-kind contributions as an option.	
Management action plan: (a) The Office will continue to contain operational costs within acceptable limits. (b) The Office is engaging with donors and partners and the efforts have already yielded results, as a donor confirmed the release of an additional $3 million in funds to the Justice Undertakings for Social Transformation Project. (c) A pipeline of projects covering the last two years (2015-2016) of the Country Programme Action Plan has been established and is being shared with potential partners for co-financing. (d) The Office is having discussions with the Government regarding the Government Contribution to Local Office Costs. The Regional Bureau advised the Office to explore ways to motivate and assist the Government in providing its contribution. **Estimated completion date:** June 2015	

B. United Nations system coordination

Issue 4 Harmonized Approach to Cash Transfers not implemented

To lessen the burden caused by the multiplicity of United Nations procedures and rules for its partners, the 'Framework for Harmonized Approach to Cash Transfers to Implementing Partners' requires that participating United Nations agencies (UNDP, UNICEF and UNFPA) agree on and coordinate a Harmonized Approach to Cash Transfer (HACT) activities. Compliance is achieved when the following four steps have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; (c) agreement with the Government on implementing the HACT; and (d) development and implementation of an assurance and audit plan for implementing partners.

Since 2014, the Office had initiated actions with UNICEF and UNFPA to implement HACT under a dedicated working group led by UNFPA. The Office had completed the macro-assessment of the public financial system, but not the formal micro-assessments of all implementing partners during the programme cycle and the assurance plan. The Office was in the process of updating some existing micro-assessments to align them to the newly revised HACT framework. A detailed implementation plan to guide efficient implementation of the harmonized approach had yet to be prepared at the time of the audit.

In response to the draft report, the Office indicated that an Advisory Committee on HACT had been established in 2014. The Office also participated in the workshop on HACT implementation organized by UNICEF Regional Office for Latin America Region.

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

Priority	Medium (Important)

Recommendation 4:

Implement the Harmonized Approach to Cash Transfers by:

(a) completing the micro-assessments of implementing partners;
(b) developing an implementation plan; and
(c) establishing assurance plans and conducting assurance activities.

Management action plan:

The 2015 work plan for the Advisory Committee on Harmonized Approach to Cash Transfers has been developed, and includes the following tasks:

- conducting a macro-assessment;
- developing a manual for implementing partners;
- providing training to implementing partners with regard to revised guidelines on Harmonized Approach to Cash Transfers; and
- completing micro-assessments and establishing an assurance plan.

Estimated completion date: July 2015

C. Programme activities

Issue 5 Projects implemented without proper authorization

According to the ‘Programme and Operations Policies and Procedures’, projects that are to be directly implemented by a UNDP Country Office need to be authorized by the Regional Bureau Director. The Country Office also needs to comply with specific reporting requirements.

During the audit period, the Office was directly implementing nine projects without the required authorizations from the Regional Bureau Director. Furthermore, two of the nine projects were fully funded by the Office using resources from another account (also known as country programme co-financing cost sharing reserve) and target resources allocated from core funds and for activities that were not directly related to project results (e.g. travel and training costs such as printing materials). This occurred because of a lack of knowledge of the required steps to obtain authorization for the Office to directly implement a project.

Implementing projects without authorization from the Regional Bureau Director may impact project governance and may result in reputational risks for the Office.

Priority	Medium (Important)

Recommendation 5:

Seek guidance from the Regional Bureau for Latin America and the Caribbean to address:

(a) the lack of authorization for nine directly implemented projects; and
(b) the proper use of target resources allocated from core funds.

Management action plan:

The Office will obtain authorization for the directly implemented projects and ensure proper utilization of target resources allocated from core funds as per the guidelines set by UNDP.

Estimated completion date: April 2015

Issue 6 Incorrect use of Atlas

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

The following weaknesses in the use of Atlas were noted, which were mainly due to the limited knowledge of some Office staff:

- the risks, issues and monitoring items were not entered or updated consistently for all projects;
- the targets, baselines and indicators were not entered or updated on an annual basis as required;
- the total dollar amount for each project was not entered, which affected the budget cover page and other reports;
- project manager names in Atlas project profiles still reflected former staff; and
- budget revision justifications were not entered.

Additionally, a review of General Ledger Journal Entries manually entered into Atlas highlighted 120 adjustments processed by the Office totalling $3 million during the audit period. In 10 cases, the adjustments were entered using incorrect account codes or chart fields, which required subsequent re-adjustments, and further added to the inconsistencies in total project expenses.

The inadequate use of Atlas and the incorrect input of financial information could impact the completeness and accuracy of project management reporting. Further, the incorrect use of account codes created the need to make adjustments, and resulted in increased workload.

Priority	Medium (Important)

Recommendation 6:

Improve the use of Atlas by providing training to staff members and ensuring appropriate follow-up actions, specifically in:

(a) entering and updating risks, issues and monitoring items for all active projects;
(b) entering and updating targets, indicators and baselines on a yearly basis;
(c) uploading key documents;
(d) updating project manager names and correcting Atlas data with regard to project information, such as justification for budget revisions;
(e) reducing the use of General Ledger Journal Entries; and
(f) using the appropriate account codes.

Management action plan:

The Office arranged Atlas training for staff, which was scheduled for April 2015 to enhance staff capacity. After the training, the Office will make the necessary corrections in Atlas.

Estimated completion date: July 2015

Issue 7 Projects pending financial closure for more than 12 months

UNDP's 'Financial Regulations and Rules' state that the financial closure of projects should take place within 12 months of their operational closure.

The Office was implementing a portfolio of 52 active projects in Atlas. Of these 52 projects, 31 were operationally closed and 21 were ongoing. Of the 31 operationally closed projects, 8 had been closed for more than 12 months and should have been financially closed by the time of the audit. Specifically, 1 project was operationally closed in 2008, 3 were closed in 2011, 3 in 2012, and 1 in 2013. The remaining 23 projects were closed in 2014 and were approaching the timeframe to be financially closed. The main reason for the delay in financial closure was the need to finalize the pending adjustments to clear outstanding balances.

Not financially closing the projects within 12 months after their operational closure may lead to financial obligations not being met.

Priority	Medium (Important)

Recommendation 7:

Accelerate the financial closure of projects by finalizing the pending financial adjustments and ensuring that in the future, projects are closed within the required timeframe.

Management action plan:

The Office is working with the Regional Service Centre for Latin America and the Caribbean in getting staff on detail assignment to assist the Office with project management in Atlas and financial closure of the projects.

Estimated completion date: September 2015

D. Operations

1. Human resources

Issue 8 Weaknesses in human resource management

According to the 'UNDP Human Resources Strategy', people are UNDP's greatest asset. The development of talent is key to improving institutional performance and fulfilling the mission and mandate of UNDP. Therefore, human resource management is critical for the success of the Office.

For the two-year period reviewed, the following weaknesses were noted in human resource management:

- A review of a sample of job descriptions showed: (a) some duplicate functions between the monitoring & evaluation personnel and the United Nations Volunteer, (b) the functions and responsibilities of the United Nations Volunteer were not carried out, and (c) conflicting procurement and finance roles assigned to the Operations Associate.
- In at least two cases, the Compliance Review Panel consisted of staff members at the same grade level as the posts for which the applicants were applying. In addition, clear criteria were not established for evaluating applicants against the posts.
- Eight staff members had high annual leave balances as at 31 December 2014, which was primarily due to the Office restructuring process and the inability of the Office to identify back-up support for the key posts.
- The completion of 2013 Performance Management and Development exercise was delayed for all staff.
- A reasonable maximum rent level was not established and rent subsidy allowances were authorized based on rents previously paid by other international staff members.

Without adequate human resources management, staff morale can be reduced impacting overall Office performance. Further, financial risks to the Office could be exacerbated.

Priority Medium (Important)

Recommendation 8:

Improve human resources management by:

(a) reviewing all job descriptions and updating them accordingly;
(b) ensuring the Compliance Review Panel members are at least one level above the candidates for the posts being reviewed;
(c) adequately planning leave and identifying opportunities to backstop key functions in case of absences;
(d) strengthening the process of Performance Management and Development to ensure compliance with corporate deadlines; and,
(e) establishing a maximum rent level and subsidy allowances in accordance with existing policy.

Management action plan:

(a) All job descriptions, except for the United Nations Volunteer, were structured by the Management Change Team, and approved and classified by the Office of the Human Resources. The Office will work with the Regional Bureau for Latin America and the Caribbean so that the Management Change Team will undertake another review of the Terms of Reference.
(b) The Office will review members of the Compliance Review Panel and ensure compliance with 'Programme Operations Policies and Procedures'.
(c) The Office will enforce and monitor implementation of the established leave plan to reduce high leave balances of staff. The Office will also explore possibilities of getting back-up support from other Country Offices when staff performing unique functions are on leave.
(d) The Office is monitoring the completion of Performance Management and Development exercise and is encouraging staff to finalize it as soon as possible.
(e) The Resident Coordinator Office will work with the United Nations agencies to establish a maximum level for rental subsidy.

Estimated completion date: September 2015

2. Finance

Issue 9 Project cash advances not compliant with policies and procedures

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

OAI identified cases where the Office was not following the prescribed procedures, as follows:

- The Office had unliquidated cash advances for more than one year totalling $5,000, and between 4 and 6 months totalling $120,000, which exceeded the quarterly expected maximum duration for the liquidation of advances.
- One project had four cash advances in May 2014; however, it did not comply with the requirement of having at least 80 percent of the previous advance and 100 percent of all earlier advances liquidated prior to granting new cash advances.
- There were unreconciled liquidation of cash advances given to government counterparts.
- The financial closure of four projects was still pending due to cash advances that remained unliquidated for more than one year.

Long unliquidated cash advances to nationally implemented projects might result in financial losses for UNDP, and may lead to funds not being used not for their intended purpose.

Priority	Medium (Important)
Recommendation 9: Improve the management of cash advances given to nationally implemented projects by: (a) ensuring additional cash advances are released only when at least 80 percent of the previous advance and 100 percent of all earlier advances have been liquidated; and (b) finalizing pending adjustments to liquidate all unliquidated cash advances.	
Management action plan: The Office will (a) ensure the management of cash advances to nationally implemented projects fully comply with policies and procedures, and (b) monitor the full liquidation of cash advances. **Estimated completion date:** September 2015	

3. Procurement

Issue 10 Deficiencies in procurement function

The 'Programme and Operations Policies and Procedures' stipulate that during the definition stage of the project cycle, consideration must be given to the acquisition of goods, services and civil works for successful project implementation. In addition, all procurement actions are to be conducted in a fair and transparent manner and in the interests of UNDP. Procurement should be done through a competitive process to provide best value for money; therefore, direct contracting should only be used on an exceptional basis.

The following procurement weaknesses were noted:

- Contract management functions had not been established and responsibilities had not been clearly defined in the Office, including responsibility for contract management functions relating to procurements conducted by the Regional Bureau or UNDP's Global Shared Service Centre.

- Dissemination of procurement requirements was insufficient. A review of selected procurements showed that even though a competitive process was conducted, the number of qualified bidders who submitted a proposal was limited.

- A review of 20 individual contracts disclosed that the hiring of 14 consultants did not undergo a competitive process and the Office did not provide adequate justification for direct contracting. Furthermore, there was direct communication with consultants prior to issuing the contracts, thereby putting the transparency of the procurement of an individual contractor at risk.

By not addressing the weaknesses described above, the Office is at risk of failing to conduct its procurement process in a fair, competitive and transparent manner.

Priority	Medium (Important)
Recommendation 10: Strengthen the procurement function by: (a) ensuring that the contract management function is established and carried out; (b) improving the dissemination of procurement requirements, which could include contacting academic institutions and alerting vendors about upcoming procurement needs through the placement of general advertisements; and (c) re-evaluating the effectiveness of the control mechanisms in place for direct contracting to ensure a competitive procurement process, specifically for individual contracts.	
Management action plan: The Operations Management Team is working on an inter-agency roster, which will significantly strengthen the Office's sourcing capabilities. The Office will also ensure compliance on direct contracting and contract management in the future. **Estimated completion date:** June 2015	

4. General administration

Issue 11 Insufficient records management

Within the framework of UNDP official activities, files are maintained which contain records originating from or received by the organization in written, audio, video, electronic and all other forms. As such, records management relates to the creation, use and maintenance of current records in a systematic manner and archiving relates to the preservation and maintenance of non-current records on a temporary or permanent basis in accordance with an established retention schedule.

The Office did not maintain an adequate records management system and key information was missing from official records. Furthermore, the Office did not engage in file archiving, retiring, and purging, in order to prevent unnecessary build-up of records. Additional records management weaknesses were identified, as follows:

- A checklist was not used to follow up on documentation required from staff or contractors. As a result of the split responsibility in managing service contracts, documentation was archived separately and difficult to retrieve.
- The pre-employment medical examination results and other medical tests/certifications were included in the personnel files of staff and contractors, thereby comingling highly sensitive medical files, which should not be seen by unauthorized personnel.
- In various instances, official procurement contracts were signed, but not dated. This made it difficult to establish when contracts were valid, which may have future legal implications.
- Key documents, such as project documents, Project Appraisal Committee meeting minutes, and project progress reports were not maintained for all projects.

Insufficient records management could make the retrieval of documents time consuming.

Priority	Medium (Important)
Recommendation 11: Improve records management by: (a) using the checklist as prescribed in the 'Programme and Operations Policies and Procedures' to ensure adequate documentation is gathered from staff or contractors; (b) safeguarding the privacy of individuals by adequately segregating personnel and medical information within the personnel files; (c) including the signature date on signed documents; and (d) maintaining important project records, such as project documents, Project Appraisal Committee minutes, and project progress reports.	
Management action plan: The Office will continue to improve its records management by using the check list in the 'Programme and Operations Policies and Procedures', and segregating personnel and medical records in the personnel files. Furthermore, the Office also initiated the e-registry system which will be rolled out on 31 March 2015. The Office has been revisiting its filing system to ensure that signed and legally binding documents are kept in the file. **Estimated completion date:** July 2015	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory** — Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory** — Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are <u>not included in this report</u>.