

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

CHILE

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Report on the audit of UNDP Chile Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Chile (the Office) from 20 April to 1 May 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, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2013 to 31 December 2014. The Office recorded programme and management expenditures totalling \$29 million. The last audit of the Office was conducted by OAI in 2010.

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

Overall audit rating

OAI assessed the Office as **satisfactory**, which means, “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.”

Key recommendation: Total = 6, high priority = 2

The six recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendations 3 and 5), and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 1, 2, 4 and 6).

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:

Lack of adherence to corporate guidelines for nationally implemented projects (Issue 1)	The review of eight nationally implemented projects indicated that the Office failed to implement the corporate guidelines regarding carrying out the required capacity assessments, granting of cash advances, the use of a standard Letter of Agreement, application of the cost recovery policy, and alignment of Annual Work Plans to the standard templates.
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Recommendation: Implement the Guidelines for all active and new nationally implemented projects by: (a) performing capacity assessments before engaging implementing partners and assessing the level of risk when granting cash advances; (b) signing the standard Letter of Agreement whenever the Office provides support to national implementation; (c) recovering actual costs when providing support to national implementation; and (d) aligning projects' Annual Work Plans to the standard templates to include output targets, baselines and indicators.

Lack of compliance with the 'Service Contract User Guide' (Issue 4)

The audit disclosed several weaknesses regarding adherence to the 'Service Contract User Guide', such as service contractors performing core functions, lack of evidence of pension coverage as required, pension fund coverage paid in excess of the national practice, leave periods exceeding the maximum set limit, lack of alignment of salaries to the approved scale, and salary advances granted on grounds of emergency without any supporting documentation.

Recommendation: Adhere to the 'Service Contract User Guide' by: (a) limiting the use of service contractors to non-core functions; (b) obtaining evidence that all service contractors acquired pension coverage – where this evidence is not provided, assess whether respective payments as part of the salaries should be stopped by amending or terminating the contracts; (c) aligning the portion of the salary for pension coverage in accordance with local practice; (d) ensuring that leave benefits of service contractors are generally consistent with the local labor market; (e) aligning salaries paid with the approved salary scales for each level; and (f) refraining from approving salary advances for service contractors.

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.



Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I. About the Office

The Office, located in Santiago, Chile (the Country) had 13 staff members and 31 service contract holders at the time of the audit. The Office was implementing a Country Programme agreed upon with the Government for the period 2015-2018, covering areas such as inclusive sustainable development, inclusive and participative democracy, disaster risk reduction and resilience, and South-South Cooperation. South-South Cooperation was an area where the Office was working in close collaboration with the Chilean Agency for International Cooperation, through the special fund “Fondo Chile contra el Hambre y la Pobreza” (Chile Fund Against Hunger and Poverty).

II. 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) Financial management. Financial records as well as bank reconciliations were properly managed.
- (c) Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately.
- (d) Safety and security. The Office had a Business Continuity Plan that was tested and adjusted as necessary.

OAI made two recommendations ranked high (critical) and four 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) Adhere to the ‘Service Contract User Guide’ (Recommendation 4).
- (b) Implement the Guidelines for all active and new nationally implemented projects (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Adhere to the prescribed procedures for project appraisal and substantive revisions (Recommendation 2).
- (b) Improve the use of Atlas (Recommendation 3).
- (c) Strengthen the procurement function (Recommendation 5).
- (d) Comply with the Travel Policy (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Programme activities

1. Project management

Issue 1 Lack of adherence to corporate guidelines for nationally implemented projects

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

OAI reviewed eight nationally implemented projects and found that the Office failed to implement the corporate guidelines regarding the following aspects:

- The Office engaged implementing partners without carrying out the required capacity assessments, and granted cash advances to them without assessing the risks involved.
- The Office support to national implementation was provided on the basis of the management arrangements agreed to in the project document but without a standard Letter of Agreement.
- There was incorrect application of the cost recovery policy, as the Office used a percentage to calculate direct costs when providing support services to national implementation.
- The Office did not fully align the nationally implemented projects' Annual Work Plans to the standard templates. As a result, the Annual Work Plans lacked details about output targets, baselines and indicators, mainly because the project documents did not include the respective information.

Non-compliance with the corporate guidelines may cause issues of accountability due to unclear roles and responsibilities for the Office and/or the implementing partners. Furthermore, there may be confusion as to which regulations, rules, policies and procedures govern project activities.

Priority	High (Critical)
Recommendation 1:	
Implement the Guidelines for all active and new nationally implemented projects by:	
<ul style="list-style-type: none"> (a) performing capacity assessments before engaging implementing partners and assessing the level of risk when granting cash advances; (b) signing the standard Letter of Agreement whenever the Office provides support to national implementation; (c) recovering actual costs when providing support to national implementation; and (d) aligning projects' Annual Work Plans to the standard templates to include output targets, baselines and indicators. 	

Management action plan:

- (a) The Office will introduce the capacity assessment for national implementing partners according to the 'Implementing Partner Checklist', especially in relation to their technical skills and capacities to implement specific projects. In order to ensure its application, it will be introduced in the Monitoring Plan as a formal requisite to be considered by the Project Appraisal Committee.
- (b) The Office will introduce the Letter of Agreement as an attachment to any signed project document from September 2015. A verbal note will inform the respective ministry and government official and a formal meeting will be held to explain the need to sign this Letter of Agreement. This will also be introduced in our Monitoring Plan to ensure it becomes part of our procedures.
- (c) The Monitoring Plan will incorporate the Annual Work Plan standard template and the requirement to design and approve this document at the beginning of the year. Any major changes to the approved Annual Work Plan will require further approval.

Estimated completion date: December 2015

Issue 2 Substantive project revisions and social and environmental screening procedure checklist not submitted to Project Appraisal Committee

UNDP's 'Programme and Operations Policies and Procedures' stipulate, that as part of the project appraisal process, UNDP representatives and stakeholders shall ensure that projects are designed with clear and measurable results, following standard templates. All projects and substantive revisions should be reviewed by a Project Appraisal Committee to ensure that outputs are aligned with the planned results contained in the 'Country Programme Document' and that a proper project management structure is in place to monitor and evaluate results. Further, a project-level environmental and social screening checklist is required for projects submitted to the Project Appraisal Committee with a budget of \$500,000 or more.

The audit reviewed a sample of 12 development projects and indicated that even though all of them were substantively revised at least once, the revisions were not submitted to the respective Project Appraisal Committee for review.

For nine of the projects reviewed that had a budget of \$500,000 or more, the Office did not comply with the required screening procedure, as projects submitted to the Project Appraisal Committee did not include the required checklist. The audit disclosed that only three projects funded by the Global Environmental Facility were subjected to the social and environmental screening procedure, because this was the donor's requirement.

Weaknesses in the review of project designs, substantive revisions and social screening procedures increase the risk of not achieving expected results. Failure to meet expected results may result in reputational risks.

Priority	Medium (Important)
Recommendation 2:	
Adhere to the prescribed procedures for project appraisal and substantive revisions by:	
<ul style="list-style-type: none"> (a) having all substantive revisions reviewed by the Project Appraisal Committee; and (b) submitting the environmental and social screening procedure checklist for projects with a budget of \$500,000 or more to the Project Appraisal Committee. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Project Appraisal Committee will review substantive revisions and also the environmental and social screening checklist, whenever it is applicable. (b) These changes will be included in the Monitoring Plan. Internal training to programme staff on the new requirements will be held. 	
Estimated completion date: September 2015	

Issue 3 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 in order to be able to record and update all necessary information in a correct and timely manner.

The audit noted the following weaknesses in the use of Atlas, 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 output targets, baselines and indicators were not entered or updated on an annual basis as required.
- Project documents, minutes of the Project Appraisal Committee, project progress reports and contribution agreements were not uploaded for all projects.
- Former staff were still reflected under programme manager names.
- The total amount of the project was not entered in the new project management module, thus affecting the Budget Cover Page report.
- The number of outputs in project documents did not match the number of outputs in Atlas.
- A total of 10 outputs were created inadvertently and were not linked to any project, but were instead reflected as ongoing, while 17 projects with 25 outputs had an operationally closed status for more than 12 months.
- There were 218 duplicate vendors that were identified.

The incorrect use of Atlas and the incorrect input of financial information could impact the completeness and accuracy of project management reporting, as well as proper decision making.

Priority	Medium (Important)
Recommendation 3:	
<p>Improve the use of Atlas by:</p> <ul style="list-style-type: none"> (a) entering and updating risks, issues and monitoring items for all active projects; (b) entering and updating output targets, indicators and baselines on a yearly basis; (c) uploading key documents and updating project manager names; (d) entering the total project amount in the new project management module for all projects; (e) deactivating the outputs created inadvertently and timely closing projects and outputs; and (f) closely monitoring vendor creation and deactivating duplicate vendors. 	
Management action plan:	
<p>A Monitoring Committee will be appointed in order to review all of the information uploaded in Atlas and to guarantee that these new procedures are considered consistently by programme staff as part of the monitoring practices to ensure better results. The Monitoring Plan will incorporate these requirements and the monitoring framework in project documents will be reviewed. As a task for the Committee, a Project Closure Plan for 2015-2016 will be designed and implemented.</p>	
Estimated completion date: December 2016	

B. Operations

1. Human resources

Issue 4 Lack of compliance with the 'Service Contract User Guide'

UNDP's 'Service Contract User Guide' stipulates that individuals under service contracts are not covered by the 'Staff Rules and Staff Regulations of the United Nations' and should not perform core functions. In addition, UNDP offices must ensure that service contractors are covered under a pension plan as appropriate. The Guide does not provide for salary advances to service contractors and stipulates that salaries shall be paid according to each country's approved scale. In addition, service contractors are entitled to annual leave of 1.5 days unless the local legislation is stricter.

By the end of 2014, the Office had 222 service contractors (31 of them working for the Office and the remaining for development projects). During the audit period, 80 percent of the total Office salary expenditure corresponded to service contractors (\$11.7 million out of \$14.8 million). Out of this amount, 16 percent corresponded to pension costs incurred by the Office.

The audit disclosed the following:

- In 30 cases, the service contractors were performing core functions.
- There was no evidence that individuals had acquired pension coverage as required. Upon OAI's request, the Office provided evidence for only six service contractors having acquired the pension coverage.

- Pension fund coverage was being paid in excess of the national practice. The national pension coverage was around 13 percent of the salary, while service contractors hired by the Office received an average of 16 percent coverage.
- A total of 56 contractors were granted 2.5 annual leave days per month, instead of 1.5 days.
- Salaries were not aligned to the approved salary scale in 49 cases.
- Salary advances totalling \$6,000 were granted to two service contractors on the grounds that it was for emergency reasons. There was no supporting documentation provided.

Lack of compliance with the 'Service Contract User Guide' provisions may expose the Office to financial, regulatory and reputational risks.

Priority	High (Critical)
Recommendation 4:	
Adhere to the 'Service Contract User Guide' by:	
<ul style="list-style-type: none"> (a) limiting the use of service contractors to non-core functions; (b) obtaining evidence that all service contractors acquired pension coverage – where this evidence is not provided, assess whether respective payments as part of the salaries should be stopped by amending or terminating the contracts; (c) aligning the portion of the salary for pension coverage in accordance with local practice; (d) ensuring that leave benefits of service contractors are generally consistent with the local labor market; (e) aligning salaries paid with the approved salary scales for each level; and (f) refraining from approving salary advances for service contractors. 	
Management action plan:	
<ul style="list-style-type: none"> (a) For new service contractors' competitive process, the Office will review the terms of reference for the positions as specified in the 'Service Contract User Guide'. (b) As of 2016, the Office will request from current service contractors the Certificate of Affiliation to the Local Pension Fund scheme (AFP) and, twice a year, they should submit the Certificate of Pension Premium Payments provided by the AFP. For new hires, the Certificate of Affiliation should be presented before the contract is signed as a mandatory requisite, and they should submit, twice a year, the Certificate of Pension Premium Payment. Failure to submit the certificates will constitute grounds for termination of the contract. (c) The portion of the salary retained for pension will be reviewed for all service contractors and corrected as necessary, aligned with the local practice. (d) The benefits and conditions for service contractors will be corrected as necessary aligned with the local practice except where UNDP has defined a standard as specified in the 'Service Contract User Guide'. (e) The salary scale will be reviewed this year and salaries will be aligned to new salary scale once it's approved. (f) In the event of a salary advance request, the Office will take the necessary actions in requesting further information and will approve the request only on the grounds of an emergency. 	
Estimated completion date: December 2015	

2. Procurement

Issue 5 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:

- For the period reviewed, the Office had not utilized the Call for Expressions of Interest modality to identify vendors and did not pre-qualify vendors.
- Purchases of air tickets were not based on a Long-Term Agreement. The previous Long-Term Agreement had expired in 2010, and the Office was unofficially piggybacking on an existing Long-Term Agreement of another United Nations agency.
- Procurement through the use of Long-Term Agreements (both local and corporate) was low. Only \$182,000 (which represented 2.5 percent) out of \$7.3 million in procurement was undertaken through Long-Term Agreements in 2014. A total of 13 out of 153 procurement cases were cancelled in 2013. In 2014, a total of 31 out of 120 procurement cases were cancelled. The justifications provided by the Office varied from insufficient project budget to inadequate/outdated terms of reference.
- The members of the local Contracts, Assets and Procurement Committee remained the same for three years with one exception. The limited rotation of Committee members was due to the low number of fixed-term appointment staff in the Office.

Not adhering to policies and procedures regarding procurement may prevent the Office from carrying out its procurement processes in a fair, competitive and transparent manner.

Priority	Medium (Important)
Recommendation 5:	
Strengthen the procurement function by:	
<ul style="list-style-type: none"> (a) establishing the use of the Call for Expressions of Interest; (b) pre-qualifying vendors; (c) expanding the use of, and increasing the number and type of Long-Term Agreements; (d) re-assessing procurement planning, technical specifications and/or terms of reference to minimize the occurrence of cases cancelled; and (e) expanding the local Contracts, Assets and Procurement Committee membership by seeking staff support from other United Nations agencies in the Country, other offices within the region, or the Regional Service Center in Panama. 	

Management action plan:

The Procurement Unit will:

- (a) Establish the use of the Call for Expressions of Interest based on the complexity of the requirements of specific goods, services or civil works, and will get a long list of vendors that may be further subjected to detailed review of eligibility and qualification at the time of solicitation. If the required documents are very specific and detailed, the Office may shortlist vendors that will be considered prequalified and therefore invited to submit detailed offers at a later stage.
- (b) Perform a pre-qualification of vendors to ensure that offers are sought only from those vendors with requisite resources and experience, for particularly high value or complex requirements.
- (c) Expand and increase the use of Long-Term Agreements when the required services or goods are used frequently.
- (d) Actively accompany the annual procurement plan of each project during the 3rd quarter of each calendar year. At the same time, the Procurement Unit will use different methods for training users on technical specifications and terms of reference to minimize the number of cases cancelled.
- (e) Expand the local Contracts, Assets and Procurement Committee membership by seeking support from other United Nations agencies in the Country, or other offices within the region or from the Regional Service Center in Panama.

Estimated completion date: June 2016

C. General administration

Issue 6 Lack of authorizations and supporting documentation for international travel

UNDP's Travel Policy requires that all travel paid by the organization be approved before the traveller leaves for the trip and before any prepayments can be made. The international travel requests shall be authorized by the Resident Representatives, and their travels, by the heads of the Regional Bureaux. Furthermore, all staff members are required to submit a Voucher for Reimbursement of Expenses (F.10) within two weeks after returning from mission, accompanied by proof of travel, including boarding passes, the official itinerary and receipts for miscellaneous expenses incurred, if applicable. The travel claim must be signed-off by an approving officer verifying that the mission occurred and that any expenses comply with policies. In addition, if the traveller fails to submit travel claims for two consecutive missions within 60 days of the completion of the mission, no further advances should be made until all outstanding claims are settled.

For non-staff, where travel is paid and organized by the Office or another UNDP unit, the same rules apply, but the advance paid is 80 percent of the estimated Daily Subsistence Allowance and terminal expenses. The remaining balance owed to the traveller is processed through the F.10 upon completion of the travel.

The Office recorded \$1.3 million of travel expenses during the period covered by the audit. Travel requests by service and individual contractors were authorized by their respective programme managers and the Human Resources Unit authorized expenses for the remaining staff. The requests were then sent to the Finance Unit, which processed the payments.

The review of eight travel cases identified the following weaknesses, which were mainly due to the limited knowledge of procedures by the staff responsible:

- There was no verification of the amounts to be paid, nor any approval from the certifying officers.
- F.10s were not prepared in any of the cases reviewed. Nevertheless, subsequent advances were paid to the travellers.
- In one case assessed where travel was authorized for an individual contractor, there was no travel requisition raised and no F.10 submitted afterwards. The travel and respective payments were authorized after the travel took place and with a single payment request from a Programme Assistant.
- In one case of a service contractor’s travel, no travel authorization was signed before the travel actually took place.

The lack of a proper authorization and supporting documentation for travel may result in the Office incurring unauthorized expenses.

Priority	Medium (Important)
Recommendation 6:	
Comply with the Travel Policy by:	
(a) verifying that travel requests are duly completed and authorized prior to the travel; and	
(b) requiring staff to submit travel claims along with adequate supporting documentation after the travels.	
Management action plan:	
This Office participated during 2014 as a pilot for the Atlas Travel and Expense Module implementation, which is on track and scheduled for the current year. This module will enhance the way to verifying that travel request are duly completed and authorized prior to the travel and require staff the submission of travel claims including the supporting documentation after the travels.	
Estimated completion date: December 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.