

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

COSTA RICA

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Report on the Audit of UNDP Costa Rica Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Costa Rica (the Office) from 22 February to 2 March 2016. 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, business continuity, 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 2014 to 31 December 2015. The Office recorded programme and management expenditures of approximately \$11.7 million. The last audit of the Office was conducted by OAI in 2011.

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

Overall audit rating

OAI assessed the 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 weaknesses in the following areas: organizational structure and delegations of authority; risk management, planning, monitoring and reporting; and human resources.

Key recommendations: Total = 12, high priority = 3

The 12 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	1, 3	High
	4, 6	Medium
Reliability and integrity of financial and operational information	5, 10	Medium
Effectiveness and efficiency of operations	2, 7, 11	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	8	High
	9, 12	Medium

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:

Weak organizational structure and unclear roles and responsibilities
(Issue 1)

The audit disclosed that some roles and responsibilities were diluted due to overlapping tasks and unclear roles and responsibilities, as follows: (a) the Office had not designated a staff member responsible for procurement management – rather, the procurement function was performed by several personnel in the Office and in the projects, which impacted efficiency and diluted responsibilities; (b) the human resources function was not under the purview of the Operations Manager but rather under the lead role of the Assistant Resident Representative – Programme; (c) conflicting roles in human resources and global payroll administrator functions for two Office staff members who held manager level 2 and buyer profiles in Atlas (enterprise resource planning system of UNDP) were found, which contravened the segregation of duties requirements; and (d) approving managers were also acting as authorized signatories in the Office's bank account.

Recommendation: The Office should undertake a review and update its organizational structure and functions of all units in order to: (a) clarify roles, responsibilities and accountabilities, including designating a head of the procurement; (b) match the Internal Control Framework with the revised organizational structure; (c) clear any conflicts with the Operations Manager's roles and responsibilities; (d) ensure that adequate segregation of duties is maintained and address any deviations from the 'UNDP Programme and Operations Policies and Procedures'; and (e) issue a written delegation of authority to concerned staff members.

Pending resolution on the applicability of local social security scheme to United Nations agencies
(Issue 3)

According to the relevant government office, United Nations agencies (including UNDP) in the Country must enroll their personnel, including service contract holders, to the Government's mandatory social security scheme, and make the corresponding payments. According to the relevant government office this is mandatory and the unpaid obligation by the Office amounted to approximately \$3 million (unpaid obligations plus moratoria interest and other indirect costs) covering the period from 1993 to 2015. The United Nations agencies in the Country had received collection notices on several occasions in the last five years. The Office's operations had been impacted to the extent that it had been listed as a "debtor" on the official relevant government office records.

Recommendation: Under the lead role of the United Nations Resident Coordinator, further collective actions should be taken among United Nations agencies in the Country to resolve the issue relating to the Government's alleged mandatory social security scheme, and the United Nations Resident Coordinator should seek advice from the Office of Legal Affairs of the United Nations.

Inadequate
management of service
contract holders
(Issue 8)

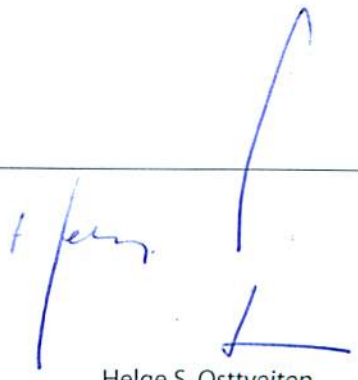
The Office had minimal oversight over the service contract holders, hired as project personnel. Specifically, these service contract holders directly reported to a Project Director. The Project Director was also carrying out the performance evaluations of the service contract holders at the end of contracted period and determined if contract extensions should be requested. Additionally, there was inadequate control in the selection of service contract holders. Specifically, 7 of 14 selection processes reviewed disclosed that the number of government officials in the interview panel was more than the Office staff. The request for contract was completed three times. Funding Authorization and Certificate of Expenditures (FACE) forms were unnecessarily completed to request payments of service contract holders' salaries.

Recommendation: The Office should enhance the management of service contracts issued by: (a) ensuring that Office staff participate in the entire recruitment process; (b) interviewing and selecting suitable candidates as required by the UNDP policies and procedures; (c) performing a competitive and transparent process for every new position to be filled by service contract holders including contract extensions and maintaining proper documentation of the entire process; (d) maintaining updated and certified attendance records for all service contract holders; and (e) assessing the selection procedures and applied documents to avoid unnecessary and duplicate activities.

Management comments and action plan

The Resident Representative accepted all 12 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, located in San Jose, Costa Rica (the Country) had 16 staff members under fixed-term appointments as of 31 December 2015. The Office was implementing a Country Programme agreed with the Government for the period 2013-2017, which was aligned to both the national development plan (*Plan Nacional de Desarrollo 2015-2018*) and the UNDP Strategic Plan 2014-2017. The Country Programme Document included development results in three programmatic areas: (i) environment, disaster management, and climate change; (ii) democratic governance and social cohesion; and (iii) human development, equality and equity. The Office's programme portfolio had a strong focus on environment because the Country is globally recognized as a leader in this area.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Leadership, ethics and values. Overall, staff members were aware of the Office's priorities, challenges and control objectives regarding ethical behavior. No reportable issues were identified.
- (b) Development activities. Implementing partners, United Nations agencies, and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner.
- (c) Resident Coordinator Office. The United Nations Country Team shared the common goal of improving coordination within the United Nations system in the Country.
- (d) General administration. Controls over general administration activities, including common services, fuel management, vehicle management, and travel management, were found to be adequate. Physical verifications of the Office's assets were periodically conducted.
- (e) Safety and security. UNDSS was co-located with the Office and it issued basic emergency instructions for new and emerging contingencies on a continuous basis.

OAI made 3 recommendations ranked high (critical) and 9 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) Undertake a review and update organizational structure and functions of all units (Recommendation 1).
- (b) Under the lead role of the United Nations Resident Coordinator, take collective actions to resolve the issue relating to the Government's mandatory social security scheme, and seek advice from the Office of Legal Affairs of the United Nations (Recommendation 3).
- (c) Enhance the management of service contracts (Recommendation 8).

Medium priority recommendations, arranged according to significance:

- (a) Comply with the corporate guidelines for NIM projects (Recommendation 2).
- (b) Improve financial sustainability (Recommendation 4).
- (c) Strengthen programme management (Recommendation 6).
- (d) Strengthen the management of cash advances (Recommendation 10).

- (e) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 5).
- (f) Improve the use of Atlas by providing training to staff members and ensuring appropriate follow-up actions (Recommendation 7).
- (g) Improve the management of the pension scheme for service contract holders (Recommendation 9).
- (h) Strengthen the procurement function, while ensuring compliance with UNDP policies and procedures (Recommendation 11).
- (i) Improve the management of its information and communication technology (Recommendation 12).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Weak organizational structure and unclear roles and responsibilities

The 'Operational Guide of the Internal Control Framework' for UNDP stipulates that each head of office has overall responsibility for establishing and maintaining adequate internal controls, and for ensuring documentation of the office's internal control procedures. Further, the 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone for the organization and provides the foundation for an effective internal control system.

The 'UNDP Change Management Toolkit' indicates that Operations Managers should ensure strategic financial and human resources management, efficient procurement and logistical services, effective information and communication technology, and common services consistent with UNDP rules and regulations.

The Office's structure was flat considering the size of the Office and volume of operations. The audit disclosed that some roles and responsibilities were diluted due to overlapping tasks and conflicting roles and responsibilities, as described below:

- During the audit period, the Office processed 2,058 purchase orders and hired or extended the contracts of 75 individual contractors. In addition, the Office had 28 procurement cases that were reviewed by the Contracts, Assets and Procurement Committee; 4 out of the 28 were also submitted to the Regional Advisory Committee on Procurement. Despite the workload in procurement, the Office had not designated a staff member responsible for procurement management. Rather, the procurement function was performed by several personnel in the Office and in the projects, which impacted efficiency and diluted responsibilities. The Office indicated that due to the insufficient number of staff and budgetary constraints, the appointment of a suitable head of procurement remained pending.
- The Operations Manager post was established at the national officer level and was directly supervising finance, general administration, and information communications and technology units. However, the human resources function was not under the purview of the Operations Manager, but rather under the lead role of the Assistant Resident Representative – Programme. This was a decision taken by the former Resident Representative who left in July 2015, and was being revisited by the current Resident Representative. The Office arrangement in respect of the Operations Manager's role deviated from the

'UNDP Change Management Tool Kit'. Specifically, the Operations Manager should manage the Office's operations, including the human resources function.

- Conflicting roles in human resources and global payroll administrator functions for two Office staff members who held manager level 2 and buyer profiles in Atlas were found, which contravened the segregation of duties requirement for first and second authorities, as per the Internal Control Framework. Furthermore, approving managers were also acting as authorized signatories in the Office's bank account. Office management explained that due to the small structure of the Office, full adherence to the Internal Control Framework had been a challenge.

In addition, the Resident Representative did not issue a written delegation of authority to the staff as required by the 'UNDP Programme and Operations Policies and Procedures'. Furthermore, according to the Internal Control Framework, when a senior manager role is assigned it must indicate the threshold set for that individual since the Atlas system does not set an approval limit, and therefore this needs to be managed outside of Atlas.

An organizational structure that does not provide clear reporting lines and that is not aligned with respective functions may result in unclear roles, responsibilities, and accountabilities. Furthermore, inadequate segregation of duties and unclear reporting lines jeopardize the effectiveness of the entire internal control system, which can lead to the untimely detection of errors and fraud and to financial losses for the organization.

Priority	High (Critical)
Recommendation 1: The Office should undertake a review and update its organizational structure and functions of all units in order to: <ul style="list-style-type: none"> (a) clarify roles, responsibilities and accountabilities, including designating a head of the procurement; (b) match the Internal Control Framework with the revised organizational structure; (c) clear any conflicts with the Operations Manager's roles and responsibilities; (d) ensure that adequate segregation of duties is maintained and address any deviations from the 'UNDP Programme and Operations Policies and Procedures'; and (e) issue a written delegation of authority to concerned staff members. 	
Management action plan: The Office will: <ul style="list-style-type: none"> (a) Review functions, roles, workflow and bottlenecks for the operations and programme teams. (b) Build staff capacity for the implementation/strengthening of the Office's Internal Control Framework including, but not limited to enhancing segregation of duties. An expert mission from the Regional Support Centre has already been booked. (c) Issue delegations of authority to staff members. 	
Estimated completion date: June 2016	

2. Risk management, planning, monitoring and reporting

Issue 2 Lack of compliance to corporate guidelines for nationally implemented projects

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', 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. Country Office support to national implementation (NIM) activities are to be defined in the Letter of Agreement that is signed with the implementing partners when the annual work plan is agreed upon or revised.

The Office signed the required Letter of Agreement for 2 out of 13 NIM projects. The lack of a Letter of Agreement for the remaining 11 impacted the implementation of the projects since no detailed activities to be performed by the Office and the related cost recovery were clearly described. The project agreements became more generic and indicated that over a given threshold, all activities should be carried out by UNDP, making it difficult to determine how much of each project was actually implemented by the implementing partner and how much was implemented by the Office. As a result, even though the Office was recovering costs using Direct Project Costs in addition to General Management Support, the audit was unable to determine the adequacy of costs recovered.

The lack of adherence to corporate guidelines may result in accountability issues due to unclear roles and responsibilities between the Office and implementing partners. Furthermore, there may be confusion as to which regulations, rules, policies and procedures govern project activities.

Priority	Medium (Important)
Recommendation 2: The Office should comply with the corporate guidelines for NIM projects by: <ul style="list-style-type: none"> (a) signing a Letter of Agreement with appendices for each project whenever the Office provides support services to national implementation; and (b) clarifying activities to be undertaken by the Office for each NIM project in order to clearly disaggregate the Office support services to NIM. Specific roles should be clearly stated in the Letter of Agreement and cost recovery could be easily tracked and recovered. 	
Management action plan: The Office will assess all NIM projects and, as applicable, update Letter of Agreements with implementing partners and records in Atlas.	
Estimated completion date: July 2016	

Issue 3 Pending resolution on the applicability of local social security scheme to United Nations agencies

As an international organization, the United Nations has been accorded certain privileges and immunities which are necessary for the fulfilment of the purposes of the Organization. Paragraph 1 of Article 105 of the United Nations Charter (the Charter) provides that, “the Organization shall enjoy in the territory of each of its Members such privileges and immunities as are necessary for the fulfilment of its purposes.” In order to give effect to Article 105 of the Charter, the General Assembly of the United Nations adopted the Convention of the Privileges and Immunities of the United Nations (the General Convention) on 13 February 1946, to which the Country acceded without reservation on 26 October 1949. It should be noted that the immunity of the United Nations is neither qualified nor limited in any way under the terms of the Charter, the General Convention, or the practice of the Organization.

As an integral part of the United Nations, UNDP is entitled to the privileges and immunities provided for in the General Convention. With regard to UNDP, in particular, the Government confirmed in article IX, paragraph 1 of the agreement concerning assistance by UNDP to the Government of Costa Rica dated 17 September 1973 that “the Government shall apply to the United Nations and its organs, including UNDP and UN subsidiary organs acting as UNDP Executing Agencies, their property, funds and assets, and to their officials, including the resident representative and other members of UNDP mission in the country, the provisions of the Convention of the Privileges and Immunities of the United Nations.”

In addition, the United Nations has its own comprehensive social security scheme. Article 101, paragraph 1 of the Charter provides that staff members are appointed by the Secretary-General “under regulations established by the General Assembly.” Staff Regulation 6.2 of the ‘Staff Rules and Staff Regulations of the United Nations’ provides that “the Secretary-General shall establish a scheme of social security for the staff, including provisions for health protection...and reasonable compensation in the event of illness, accident or death attributable to the performance of duties on behalf of the United Nations.” It would be inconsistent with Staff Regulation 6.2 for a Member State to insist that a staff member must also participate in its national scheme. However, the Office of Legal Affairs of the United Nations indicates in a letter of 28 October 2015 that United Nations officials are not prohibited from voluntarily participating in their national schemes as they see fit, and at their own expense.

With regard to the service contract holders, the policy is either to provide them with additional remuneration in addition to their gross remuneration to enable them to participate in the national security schemes directly, or where such participation is prohibited (as is the case in the Country), to pay them a lump sum in lieu of the pension. This policy excludes any direct payments by UNDP or other United Nations agencies to the social security services. As indicated in the communication from the Office of Legal Affairs of the United Nations on 28 October 2015, all personnel of the United Nations based in the Country, including the personnel of UNDP and other United Nations agencies and including those who are nationals or permanent residents of the Country, are not compelled to enroll and contribute to the national social security scheme in the Country.

However, according to the relevant government office, United Nations agencies (including UNDP) in the Country must enroll their personnel, including service contract holders, to the Government’s mandatory social security scheme, and make the corresponding payments. According to the relevant government office, this is mandatory. The unpaid obligation by the Office amounted to approximately \$3 million (unpaid obligations plus moratoria interest and other indirect costs) covering the period from 1993 to 2015. The Office had not recorded in its accounting books any contingent liability given the lack of clarity relating to the claims by the relevant government office.

The United Nations agencies in the Country had received collection notices on several occasions in the last five years. The Office's operations have been impacted to the extent that it had been listed as a "debtor" on the official records of the relevant government office. It also affected the effective and uninterrupted functioning of the Office and its ability to normally transact with local companies.

OAI acknowledged the efforts made by the Office's management together with the various representatives from United Nations agencies to get the matter clarified with the relevant government office. The Office is also relying on the support of the government ministry.

Priority	High (Critical)
Recommendation 3:	
Under the lead role of the United Nations Resident Coordinator, further collective actions should be taken among United Nations agencies in the Country to resolve the issue relating to the Government's alleged mandatory social security scheme, and the United Nations Resident Coordinator should seek advice from the Office of Legal Affairs of the United Nations.	
Management action plan:	
The Resident Coordinator's Office will follow up with the government ministry and other concerned institutions.	
Estimated completion date: September 2016	

3. Financial sustainability

Issue 4 Office's financial sustainability at risk

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish effective partnerships, develop a Resource Mobilization Strategy, as well as implement a corresponding Resource Mobilization Action Plan. All offices are also required to maintain a minimum financial reserve of 12 months and ensure financial sustainability by securing long-term committed resources.

The Office faced challenges similar to those confronted by any middle or high-income country, which included: (a) increased operational costs; (b) reduced inflow of core resources; and (c) limited possibilities for mobilizing resources from traditional donors.

The financial sustainability of the Office remained a concern for senior management, both in the Office and the Regional Bureau mainly due to the following:

- The reduction in core resources affected the extra budgetary reserve and demanded a larger project portfolio in order to achieve the breakeven point delivery for the Office, which was at \$8 million per year.
- Cost recovery from projects under the Country Office support to NIM was not fully implemented because the Office continued to use Implementation Support Services as opposed to Direct Project Costing.

- Government Contributions to Local Office Costs for the years 2004, 2005 and 2007 amounting to \$312,000 remained uncollected.

The Office developed a Resource Mobilization Strategy in early 2016 in an effort to move towards providing substantive contributions to the Government. However, the Office did not develop a plan to implement the Strategy.

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

Priority	Medium (Important)
Recommendation 4: The Office should improve its financial sustainability by: <ul style="list-style-type: none"> (a) revisiting the project pipeline and improving resource mobilization, and to the extent possible starting new development projects; (b) reviewing the cost recovery charges for project activities and using Direct Project Costing; (c) establishing a strategy to recover outstanding Government Contributions to Local Office Costs; and (d) developing a plan of action to implement the Resource Mobilization Strategy. 	
Management action plan: The Office will take the following actions: <ul style="list-style-type: none"> (a) update Resource Mobilization Strategy with the support from the Bureau's Partnerships Advisor, including monthly review of implementation of the Strategy; (b) finalize the local price list as part of the Office cost recovery mechanism strengthening, including better management of Direct Project Costing; (c) follow up with the government ministry on the collection of outstanding Government Contributions to Local Office Costs; and (d) develop an action plan for the implementation of the Resource Mobilization Strategy. 	
Estimated completion date: June 2016	

B. United Nations system coordination

1. Harmonized Approach to Cash Transfers

Issue 5 Harmonized Approach to Cash Transfers not fully adopted

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 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.

As part of the preparation for HACT adoption during the transitional year, the United Nations Country Team established an inter-agency working group headed by UNDP. A macro-assessment was carried out in 2014. UNDP completed the micro-assessment of only one implementing partner (about 10 implementing partners required the assessment). In 2016, the Office was not ready for HACT adoption because the transitional assurance plan was not completed. The HACT project dashboard showed that the Office's overall rating was 73 percent compliant.

The Office's management explained that the departure of the Resident Coordinator in 2015 negatively affected the timely implementation of the HACT framework.

Unless all of the HACT requirements are implemented, the objectives of harmonizing practices among United Nations agencies and lessening the burden of using multiple procedures are at risk of not being achieved.

Priority	Medium (Important)
Recommendation 5: The Office should fully adopt the Harmonized Approach to Cash Transfers by: <ul style="list-style-type: none"> (a) completing the micro-assessments of all 10 implementing partners; and (b) developing an assurance plan and conducting assurance activities under the Harmonized Approach to Cash Transfers. 	
Management action plan: The Office will complete all micro-assessments by the end of the year and will put an action plan in place for the adoption of HACT.	
Estimated completion date: December 2016	

C. Programme activities

1. Programme management

Issue 6 Weaknesses in programme management

The UNDP programme and project cycles are the underpinning processes that provide UNDP with the ability to deliver results. Within these processes, a series of actions are carried out including the definition of a clear hierarchy of results (outcomes and outputs contributing to those outcomes) and continuous monitoring of progress towards these specified results. In general, a UNDP programme is a plan and its adequate management will determine how effective an office is contributing to development. National implementation will be the norm for UNDP programme activities, taking into account the capacities of programme countries and the nature of

UNDP programme activities where UNDP will engage implementing partners and responsible partners to that end.

The review of the Country Programme Document, which included development results in three programmatic areas, namely (i) environment, disaster management, and climate change; (ii) democratic governance and social cohesion; and (iii) human development, equality and equity, disclosed the following weaknesses:

- The Office engaged implementing partners to implement project activities without conducting prior capacity assessments, as required.
- Non-governmental organizations/civil society organizations were engaged as responsible parties. However, the Office used implementing partner agreements and payment modalities. For instance, the Office carried out a micro-assessment of a national institution, and signed a Project Cooperation Agreement and issued cash advances (treating the institution as the implementing partner). The project was directly implemented by the Office and a different agreement and payment modality should have been used (i.e. payments under procurement contract or micro-grants) since the institution was a responsible party and not an implementing partner.
- The programme portfolio was mainly focused on environment, disaster management, and climate change, leaving the other two programme areas with very few projects, making it less feasible to achieve the target results in those areas.

By not conducting capacity assessments of implementing partners and not using the correct agreements and payment modalities when engaging non-governmental organizations/civil society organizations, the Office is at risk of engaging partners that might not be able to deliver the expected results, thus affecting the overall programmatic results. In addition, with an unbalanced programme portfolio, the target results may not be achieved.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen programme management by: <ul style="list-style-type: none"> (a) conducting capacity assessments of implementing partners; (b) using the correct agreements and payment modalities when engaging non-governmental organizations/civil society organizations (i.e. procurement or micro-grants); and (c) reviewing the project portfolio and developing projects to cover all of the agreed programmatic results. 	
Management action plan: The Office will undertake the following corrective actions: <ul style="list-style-type: none"> (a) carry-out capacity assessments for the main implementing partners and these will be a requisite for project development; (b) develop a strategy for non-governmental organizations/civil society organizations, including capacity building (depending on the type of agreements), which will be enforced. (c) Develop programme strategy for democratic governance and human development areas. A fundraising campaign (as part of the Resource Mobilization Strategy) will also be developed. 	
Estimated completion date: September 2016	

2. Project management

Issue 7 Weaknesses in use of Atlas for project management

Atlas is the enterprise resource planning system of UNDP. It comprises a management information system used for project management and 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 addition, the information entered in Atlas is used in other corporate systems such as the corporate planning system and for results-based management.

The audit reviewed 6 out of 47 development projects representing 46 and 51 percent of total programme delivery for 2014 and 2015, respectively. Of the 6 projects, 4 were nationally implemented and 2 were directly implemented by the Office. The following weaknesses were noted:

- risks, issues and monitoring activities were not entered or updated in Atlas consistently for all six projects;
- output targets, baselines and indicators were not entered or updated in Atlas on an annual basis as required for all six projects;
- incorrect use of the implementing agent code to identify responsible parties were noted in three of six projects; and
- incorrect use of account codes for recording expenses in three of six projects (e.g., project training costs charged to hospitality account and pre-payments recorded as regular payments).

The audit also noted the following during the review of Office records:

- names of former project managers of 16 active projects remained in Atlas project profiles;
- project and output status were not updated to reflect the actual project status (e.g., 24 closed projects had "initiating" status);
- 26 projects with 27 outputs were operationally closed for over 12 months, but had not been financially closed as required by the 'UNDP Programme and Operations Policies and Procedures'; and
- 43 vendor profiles were created without supporting documentation causing duplicate entries and incorrect banking information, affecting payments.

The above weaknesses occurred mainly due to limited knowledge in the use of Atlas by some Office personnel.

The inadequate use of Atlas and the incorrect input of project information could impact the completeness and accuracy of project management and financial reporting. Furthermore, project information that is not correctly and completely entered in Atlas impacts the Corporate Planning System, which is being used for results-based management at the country, regional and corporate levels.

Priority	Medium (Important)
Recommendation 7: The Office should improve the use of Atlas by providing training to staff members and ensuring appropriate follow-up actions, specifically in: <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) updating project manager names and correcting Atlas data with regard to project information (d) updating project and output status to reflect actual project status; (e) using the appropriate account codes and recording pre-payments; (f) ensuring financial closure of projects within 12 months after operational closure; and (g) creating vendor profiles based on proper supporting documents and having them verified by the Office before entering into Atlas. 	
Management action plan: The Office will start a training programme for all staff to build their capacity in using Atlas and will carry out periodic monitoring on the use of Atlas. Regarding the use of inaccurate Atlas accounts, hospitality accounts will be used according to the 'UNDP Programme and Operations, Policies and Procedures' and pre-payments will be charged against accounts as per IPSAS requirements. Regarding project closure, an updated list of projects that must be closed is with the responsible officer, and the projects will be closed in accordance with the 'UNDP Programme and Operations, Policies and Procedures'. To improve vendor management, the nomination of focal point for vendor management was already completed. The regular update and clean-up of vendors in Atlas will take place on a quarterly basis. Estimated completion date: June 2016	

D. Operations

1. Human resources

Issue 8 Inadequate management of service contract holders

The 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' state that project personnel who need to carry out activities described in the project document under national implementation, must be recruited by the implementing partner. Furthermore, project personnel are subject to national security and pension schemes when the contracts are signed by the implementing partner or the government institution. The 'Service Contract Guide' requires that payments to service contract holders be

based on services provided, which must include the reporting structure and the measurable outputs of the work assignment.

At the time of the audit fieldwork, there were 44 service contract holders. Of the 44, 11 service contract holders were working within the Office's premises, either as Office personnel (5) or as project personnel (6). The remaining 33 service contract holders were working in the projects located outside the Office premises. A total of 64 service contracts were issued during the audit period.

Inadequate oversight of service contract holders

The Office had minimal oversight over the service contract holders hired as project personnel. Specifically, these service contract holders directly reported to a Project Director. The Project Director was also carrying out the performance evaluations of the service contract holders at the end of contracted period and determined if contract extensions should be requested.

In addition, the audit noted that:

- These service contract holders were assigned an email address of the implementing partner.
- Some of these service contract holders signed project documents as representatives of the implementing partner or on behalf of the government institution.
- The Office did not maintain service contract holder attendance sheets for those working on project premises in order to monitor their attendance.

The Office faced reputational risks due to a lack of control of the activities undertaken by the service contract holders. Furthermore, by not maintaining attendance sheets, the Office may have processed salary payments for work not performed and may have overstated leave balances.

Inadequate controls in the selection of service contract holders

The review of the selection of 14 service contract holders carried out by the implementing partner and the Office disclosed the following:

- In 7 of 14 selection processes reviewed, the number of government officials in the interview panel was more than the Office staff. In 2 of 14 selection processes, the final decision was made by the project implementing partner without the consensus of the Office. The low participation of the Office in selection panels impacted the Office's ability to ensure transparency and integrity on recruitment and selection processes.
- The implementing partner completed both institutional and UNDP forms when requesting for issuance of new service contracts, contract amendments, or contract cancellations. At the same time, the Office's Programme Unit prepared and submitted the same requests to the HR Associate.
- Service contract holders were included in the payroll of the Office. However, the implementing partner unnecessarily completed the FACE form to request payments of service contract holders' salaries.

By not complying with UNDP standards for competitive selection and transparent processes, there is no assurance that the most qualified candidate will be selected.

Priority	High (Critical)
Recommendation 8: The Office should enhance the management of service contracts by: <ul style="list-style-type: none"> (a) ensuring that Office staff participate in the entire recruitment process; (b) interviewing and selecting suitable candidates as required by the UNDP policies and procedures; (c) performing a competitive and transparent process for every new position to be filled by service contract holders including contract extensions and maintaining proper documentation of the entire process; (d) maintaining updated and certified attendance records for all service contract holders; and (e) assessing the selection procedures and applied documents to avoid unnecessary and duplicate activities. 	
Management action plan: In order to rectify the gaps identified by OAI in the management of service contracts, the following actions are or will be taken: <ul style="list-style-type: none"> ▪ New guidelines for selection/evaluation panels have already been developed and are under implementation. ▪ A list of current service contract holders has been updated and meetings with existing service contract holders are taking place. ▪ Clear communications with service contract holders on legal issues are being duly held. ▪ New guidelines for selection/evaluation panels have been developed and are under implementation. ▪ A review of current processes (contract requests, payment processes, FACE forms, etc.) to identify and correct duplicate and/or unnecessary tasks is currently underway. 	
Estimated completion date: December 2016	

Issue 9 Inadequate management of pension scheme for service contracts holders

The 'Service Contract User Guide' stipulates that UNDP offices must ensure that individuals engaged under service contracts are covered under a pension age plan as appropriate. Furthermore, social security coverage in one form or another is obligatory and must be guided by local conditions. Most importantly, such coverage must be provided in such a manner so as not to create legal implications for UNDP under the local law. The 'Service Contract User Guide' further stipulates that where a national social security scheme exists (such as the case in the Country), individuals under service contract may contribute directly to such a scheme, if permitted.

The audit noted that the service contract remuneration consisted of a base salary plus 5 percent of the base salary as contribution to social security/pension scheme for the service contract holder. However, individual contributions were not permitted to the national social security system. The Office explained that the management of service contract holder's pension coverage had been a customary process for several years. The Office required service contract holders to enrol in a private pension scheme, but failed to ensure that they were duly enrolled.

The incorrect management of the pension scheme exacerbated the legal and financial risk to the Office, as mentioned under Issue 3. Furthermore, the Office did not verify that service contract holders were making contributions to another pension scheme.

According to the 'Service Contract User Guide', in countries where no pension scheme is in place or where there is only a national scheme that does not permit direct participation by the service contract holder, a lump sum equivalent to 8.33 percent of the monthly remuneration rate is provided. This option is granted by the Director, Office of Human Resources on an exceptional basis for the duration that no pension scheme is in place and is subject to review on an annual basis.

The request for approval of this lump sum option must be submitted to the Director, Office of Human Resources through the respective Human Resources Business Advisor at Headquarters, prior to issuance of the contract. The request must confirm that all criteria for the lump sum has been met with all documented proof kept on file should there be an audit check at a later date. The Office must specify this option in the contract; the service contract holder must sign a Certificate of No Contest that confirms agreement to receive the pension contribution in the form of a lump sum. A copy of the Certificate of No Contest and the calculation sheet must be provided to the service contract holder and a copy kept on the file.

Without adequate pension scheme coverage, service contract holders are at risk of not having adequate pension benefits upon retirement. This may also negatively affect the reputation of UNDP, giving the appearance that it is an organization which pays limited attention to the welfare of its personnel and contractors. In addition, legal risks for the Office may increase.

Priority	Medium (Important)
Recommendation 9:	
The Office should improve the management of the pension scheme for service contract holders by adopting the appropriate pension scheme applicable in the Country in consultation with and following the advice of the Office of Human Resources.	
Management action plan:	
In order to rectify the gaps identified by OAI in the management of service contract holders, the following actions are or will be taken:	
<ul style="list-style-type: none"> ▪ A list of current service contract holders has been updated and meetings with existing service contract holders are taking place. ▪ Clear communications with service contract holders on legal issues are being duly held. ▪ An exit strategy for service contract holders is being developed. 	
Estimated completion date: December 2016	

2. Finance

Issue 10 Weak management of project cash advances

According to the 'UNDP Programme and Operations Policies and Procedures', the approval of a request for an advance by an implementing partner for a particular project is subject to the verification by the Office that at least 80 percent of the previous advances given and 100 percent of all earlier advances have been liquidated. Cash advances are usually granted and liquidated on a quarterly basis to ensure proper monitoring.

The Office was granting advances to implementing partners using a threshold of 70 percent (instead of the required 80 percent) when releasing subsequent cash advances due to a pre-existing practice. In addition, in two cases, cash advances were granted to responsible parties instead of micro-grants or procurement modalities that were applicable.

The Office issued a cash advance of \$240,000 to a national institution acting as a responsible party for a directly implemented project to cover six months of activities, and at the time of the audit, \$120,590 of the cash advance was still outstanding for more than six months. The Office had been regularly following up with the management of the national institution.

Several dates were agreed between the Office and the national institution for the settlement of the advance, but on each occasion, a settlement was not possible due to financial issues affecting the national institution. At the time of the audit, the Office was in contact with senior management of the national institution and the government ministry to find a solution to the problem.

Outstanding cash advances for extended periods could lead to financial losses or to funds not being used for their intended purposes.

Priority	Medium (Important)
Recommendation 10:	
The Office should strengthen the management of cash advances by:	
<ul style="list-style-type: none"> (a) granting cash advances to implementing partners on a quarterly basis and only when at least 80 percent of the previous advance has been liquidated and 100 percent of all earlier advances have been liquidated; and (b) ensuring that the remaining cash advance issued to the national institution is recovered or liquidated. 	
Management action plan:	
In order to rectify the gaps identified by OAI in the management of project cash advances, the following actions are or will be taken:	
<ul style="list-style-type: none"> ▪ The policy on cash advances to be granted when 80 percent of the previous advance has been liquidated will be enforced. ▪ An agreement with the national institution for liquidation or outstanding balance has been reached. It will be subject to a follow-up every two weeks. 	
Estimated completion date: June 2016	

3. Procurement

Issue 11 Weaknesses in procurement management

UNDP takes on procurement responsibilities for all NIM projects, whether there is a formal agreement for the provision of these services or not. As a result, UNDP is the signatory of all invoices and contracts, and makes

payments directly to suppliers. Therefore, UNDP policies and procedures regarding procurement should be applied.

The 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures' state that in these cases, UNDP must evaluate bids in accordance with UNDP procedures, and the Government may participate in an ex-officio capacity if interested. However, where the Government has been exceptionally granted a voting right, UNDP shall remain as the Chairperson and the majority in the evaluation committees.

The 'UNDP Programme and Operations Policies and Procedures' stipulate that 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. In addition, 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.

The following control weaknesses were noted during the review of the Office's procurement activities:

- In 8 of 13 procurements observed for NIM projects, the evaluation committee included a majority of government officials or project representatives, while the Office was not sufficiently represented when procurements were made. In the remaining cases, UNDP representation was assumed by some of the service contract holders hired by UNDP, but representing Government interests, as referred to in Issue 7.
- In 3 of 13 procurements reviewed, the purchase orders (totaling \$75,000) were issued to the supplier directly from the project, thus avoiding the prescriptive prior submission to the Contract, Assets and Procurement Committee, when required. In one case, a post facto review by the Regional Contract, Assets and Procurement Committee was required due to the amount involved, but review by the Regional Advisory Committee on Procurement was not sought. Furthermore, the purchase orders used in these three cases were signed by the Project Director on behalf of the Office using the UNDP template with the UNDP logo.
- The evaluation bids and award recommendations were not submitted to the Local Advisory Committee on Procurement for review, even though in three instances the amount was over \$50,000.
- In six of eight individual consultant contracts reviewed, the payments were not directly linked to outputs. Payments based on percentage of achievement are acceptable if such an achievement is a quantifiable output, which was not the case for these six contracts.
- A procurement plan for the Office was prepared. However, the procurement plans corresponding to all projects in the portfolio were not obtained, thus a consolidated procurement plan was not prepared.
- For the period reviewed, the Office had utilized the Call for Expressions of Interest modality to identify vendors but did not pre-qualify the vendors.
- A roster of consultants was not available.

In addition, due to the lack of the Office's understanding of the accountability of UNDP in the selection, procurement and contracts management, the following actions were taken by both the Office and the implementing partner:

- The Office issued purchase orders to some suppliers while some project officials submitted their purchase orders to the Office (and occasionally to the supplier directly) thus resulting in duplicate purchase orders.

- The original invoices were addressed to the Office and it processed the payments as a result. However, the implementing partner also completed the FACE form to authorize the payments. This was not required when the Office undertook the procurement process and invoices were issued to the Office.

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

Priority	Medium (Important)
Recommendation 11: The Office should strengthen the procurement function, while ensuring compliance with UNDP policies and procedures. In particular, the Office should: <ul style="list-style-type: none"> (a) ensure adequate representation of UNDP staff in all evaluation committees; (b) improve the use and submission of purchase orders; (c) ensure timely submission of cases by the Contracts, Assets and Procurement Committee; (d) prepare and approve a comprehensive annual procurement plan including all project procurements; (e) introduce the procurement practice of pre-qualifying vendors; (f) develop a vendor's roster; and (g) improve communications/training to project counterparts to avoid duplication when undertaking procurement processes. 	
Management action plan: The Office will take the following actions: <ul style="list-style-type: none"> ▪ Review functions, roles, workflow and bottlenecks for the operations team (including procurement processes). ▪ Review the Office's Internal Control Framework. ▪ Develop new guidelines for procurement, clearly establishing roles and responsibilities for the Office as well as for projects and implementing partner's personnel to address all shortcomings identified by OAI. ▪ Review and approve procurement plans for all projects. 	
Estimated completion date: June 2016	

4. Information and communication technology

Issue 12 Weaknesses in information and communication technology management

Information systems operated by UNDP are critical assets for the organization to fulfil its mission. There are always threats, both natural and man-made, which can damage or disable critical information systems. Therefore, adequate planning, management, data backup, equipment replacement and disaster recovery planning becomes fundamental for any Country Office.

There were weaknesses in the management of information and communication technology services as described below:

- An information and communication technology plan was not available for the audit period and for the current year. The inventory of equipment was not regularly updated, affecting the strategic replacement of obsolete equipment.
- The Office updated its Disaster Recovery Plan in 2016 using the standard template required by the Office of Information Management and Technology, but the plan did not address the possible threats to the server room and related equipment. The Plan did not include information on how to respond to possible scenarios, exposing the Office to possible data loss. In addition, the Disaster Recovery Plan was not tested on a yearly basis, as required.
- The external hard drives used for data backup were not labeled, making it difficult to know which one was used for the last backup, which could compromise data recovery after a disaster.
- Six non-ICT personnel had domain administrator rights, exposing the servers to unauthorized changes in configuration or parameters.
- UNDP introduced 'OneDrive for Business' in order to rely less on local server storage by gradually moving data to the cloud. The Office was not using OneDrive for Business and had no plan to train users and implement the use of cloud services.

Without adequate management of information and communication technology, the Office is exposed to possible interruptions of services and data loss, affecting the ability to use corporate systems and resources.

Priority	Medium (Important)
Recommendation 12: The Office should improve the management of its information and communication technology by: <ul style="list-style-type: none"> (a) creating and approving an Information and Communication Technology Plan, which should include proposals for equipment replacement; (b) completing the Disaster Recovery Plan, including the possible threats, and testing it on a yearly basis as required; (c) labelling the external hard drives used for data backup for easy reference to know which one was used for the last backup; (d) removing domain administrator rights from regular users and ensuring that those rights are assigned only to key information and communication technology staff; and (e) implementing OneDrive for Business by planning its gradual adoption and training users. 	
Management action plan: The Office will take the following actions: <ul style="list-style-type: none"> ▪ Develop an Information and Communication Technology Plan for 2016. ▪ Approve and test a Disaster Recovery Plan. ▪ Complete an information and communication technology registry update and label hard drives. ▪ Remove domain administrator rights. ▪ Build the capacity of the staff on the use of One Drive. 	
Estimated completion date: May 2016	

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.