



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**COLOMBIA**

**Report No. 1655**  
**Issue Date: 16 August 2016**

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## Report on the Audit of UNDP Colombia Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Colombia (the Office) from 23 May to 5 June 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 2015 to 31 March 2016. The Office recorded programme and management expenditures of approximately \$100.9 million. The last audit of the Office was conducted by OAI in 2013.

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.”

### Good practices

The Procurement Unit was engaged in conducting better procurement business practices by: conducting procurement training to projects, agencies and Office personnel throughout the audit period; using ‘Track My Vendors’ Atlas tool to accurately monitor the accumulated payments by vendor; creating a procurement database that contains all relevant information on procurement processes, which was updated regularly and timely; and designating a contract supervisor as a contract representative to conduct oversight of a procurement process. These good practices can be replicated in other offices within the Latin America and the Caribbean region. (Refer to page 1 for details).

**Key recommendations:** Total = 7, high priority = 1

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2, 4	Medium
Reliability and integrity of financial and operational information	5	Medium
Effectiveness and efficiency of operations	3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	6	High
	7	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. The high (critical) priority recommendation is presented below:

Inadequate management of service contracts (Issue 6)

At least four service contract holders were performing core functions within the Office, related to procurement, finance and programme functions. Furthermore, during the audit period, at least 21 service contractors conducted official missions outside of the Country to attend workshops, training, or other matters related to their functions. However, the Office had not made arrangements for private medical scheme coverage for service contractors on official missions as required.

In addition, the Office granted all service contract holders an additional 6 holidays to the already designated 10 official holidays observed by United Nations agencies in the Country.

Lastly, the audit disclosed that the text in the service contract template was translated in Spanish and used without clearance from the Office of Human Resources and approval from the Legal Support Office. The review of 35 service contracts, all of which used the Spanish version, disclosed either omissions or additions to the terms and conditions to the standard contract clauses.

Recommendation: The Office should improve the management of service contracts by: (a) engaging service contract holders in non-core functions only within the Office's structure; (b) ensuring that service contract holders on official missions have medical coverage by a private scheme for travel outside the country of residence; (c) complying with the established United Nations official holidays; and (d) requesting review and clearance from the Legal t Office and the Office of Human Resources of the Spanish version of the service contract template.

**Implementation status of previous OAI audit recommendations:** Report No. 1147, 25 October 2013.

Total recommendations: 7

Implemented: 7

**Management comments and action plan**

The Resident Representative accepted all seven 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 Osttveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Bogota, Colombia (the Country) had 50 staff members under fixed-term appointments, 344 service contract holders, and 6 United Nations Volunteers at the time of the audit. The Office was implementing a Country Programme agreed with the Government for the period 2015-2019, which was aligned to both the national priorities, as confirmed by interviewed government officials, and the UNDP Strategic Plan 2014-2017. The Office had 14 provincial project offices that were very much appreciated by the Government and donors, since they allowed a good level of interaction with civil society for project implementation and better coordination among United Nations agencies in the field.

## II. Good practices

OAI identified good practices, as follows:

Operations/procurement. Engagement of Procurement Unit in conducting better procurement business practices.

- Training: The Procurement Unit conducted procurement training for projects, United Nations agencies and Office personnel throughout the audit period.
- Monitoring of accumulated payments by vendor: The Procurement Unit made use of the 'Track My Vendors' Atlas tool to accurately monitor the accumulated payments by vendor.
- Procurement database developed: The Office developed a procurement database that contained all relevant information on procurement processes, which was updated regularly and timely.
- Designation of contract supervisor: The contract supervisor, as a contract representative, was appointed to conduct oversight activities of a procurement process throughout the entire span of the procurement process.

These good practices can be replicated in other offices within the Latin America and the Caribbean region.

## III. 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 and were helping with the establishment of the peace process in the Country.
- (d) Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating effectively.

- (e) 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.
- (f) Safety and security. The Office had a local field security advisor who regularly conducted security briefings to different audiences. The Business Continuity Plan and building evacuation plan were tested in coordination with building administration to comply with national regulations.

OAI made one recommendation ranked high (critical) and six 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 recommendation:**

- (a) Improve the management of service contracts (Recommendation 6).

**Medium priority recommendations**, arranged according to significance:

- (a) Strengthen the monitoring of project activities (Recommendation 2).
- (b) Ensure that a Letter of Agreement is signed when providing support services to national implementing partners (Recommendation 5).
- (c) Continue efforts to ensure financial sustainability (Recommendation 3).
- (d) Strengthen controls over the payment process (Recommendation 7).
- (e) Continue liaising with government authorities to close the pending legal matter (Recommendation 1).
- (f) Fully adopt the Harmonized Approach to Cash Transfers (Recommendation 4).

The detailed assessment is presented below, per audit area:

## A. Governance and strategic management

### 1. Risk management, planning, monitoring and reporting

**Issue 1**      Legal issues faced by the Office

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 on the Privileges and Immunities of the United Nations (the General Convention) on 13 February 1946, to which the Country acceded without reservation on 6 August 1974.

This is further confirmed in Article V of the Standard Basic Assistance Agreement concerning assistance by UNDP to the Government dated 29 May 1974. Based on that Agreement, the Government shall apply to the United Nations and its organs, including UNDP and United Nations subsidiary organs acting as UNDP Executing Agencies, their property, funds and assets, and to their officials, including the Resident Representative and other members of the UNDP mission in the Country, the provisions of the General Convention.

Section 2.2 (Legal Framework), paragraph (f) of the 'UNDP Service Contract User Guide' states that although UNDP offices are to take into account local conditions in establishing the appropriate remuneration for the market, this must not be construed as subjecting UNDP or the service contractor to national legislation. As the service contract is a UNDP contract, it cannot be subjected to national legislation. Adherence to the 'UNDP Service Contract User Guide' by UNDP offices is essential to protect UNDP's legal interests. Similarly, paragraph (g) indicates that the individuals engaged under a service contract are neither staff members nor "officials" for the purposes of the General Convention. They may, however, be given the status of "experts on mission" according to Section 22 of Article VI of the General Convention. Such a determination is made in each case by the Secretary-General, who alone has the authority to assert immunity on behalf of the Organization. In addition, paragraph (h) establishes that the services performed by an individual engaged under a service contract do not carry any authority either directly or by delegation, to legally bind UNDP or otherwise enter into any agreements or financial obligations on behalf of UNDP with other international organizations, governments, legal entities or individuals.

#### Pending legal claims against UNDP

Despite the above rules and regulations, the Office kept records of 16 legal claims made against UNDP (directly or against other United Nations agencies (e.g., UNODC) on UNDP-signed contracts filed at Labour Courts in the Country. Most cases were triggered by the service contractors' dissatisfaction with their contracts being terminated. Contractors then filed labour suits against the Office pleading for the application of the Country's labour law to the contracts. All service contractors worked for projects. Two cases had been processed by the Court and archived without any impact on the Office's finances, and 14 labour claims were active at the time of the audit fieldwork, with a long estimated processing time before being examined at court.

In response to the draft audit report, the Office's management stated that it had been following up the resolution of the remaining 14 claims with the relevant government ministry, in close coordination with other United Nations agencies in the Country (when applicable) and the Legal Support Office.

The audit team acknowledges the efforts made by the Office's management to clarify this issue with support of the respective government ministry and legal authorities in the Country. The audit team encourages the Office to continue asserting its privileges and immunities, in consultation with the Regional Bureau for Latin America and the Caribbean and the Legal Support Office. OAI is not issuing a recommendation in this regard given that this issue is not entirely under the Office's control and given the actions already undertaken.

#### Request for information from national Tax Authority pending resolution

The national Tax Authority issued Resolution No. 220 on 31 October 2014 to all public entities, requesting complete information on contracts signed with individuals and companies, for the purposes of controlling and reducing tax evasion. In response to the resolution, some institutions with which the Office (and some other United Nations agencies) had signed and implemented development cooperation agreements with, started requesting detailed information on project expenditures, and in some cases copies of contracts. Moreover, when preparing new cooperation agreements, institutions had requested the inclusion of clauses for receiving such information. For example, they requested monthly reports with detailed information on all contracts, including the name of the contracted person, ID number, address, amount, and reason for payment.

The request for such detailed information was not in line with the legal arrangements for cooperation, as specified in the Standard Basic Assistance Agreement signed between the Country and the United Nations. As a result, the new regulation had blocked the signing of new cooperation agreements with some institutions.



A meeting with the Tax Authority and the relevant government ministry was held on 22 October 2015 to discuss possible adjustments to the resolution; however, a settlement of the dispute for the request had not been reached.

OAI acknowledges the efforts made by the Office’s management to clarify the matter, counting on the support of the Legal Support Office and the relevant government ministry, as well as discussions with the national Tax Authority.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should continue liaising with the relevant government authorities to close the matter regarding the request from the Tax Authority, in close coordination with the Legal Office.	
<b>Management action plan:</b>	
The senior management of the Office will firmly continue asserting its privileges and immunities with the government authorities, through the relevant government ministry, in close coordination with other United Nations agencies in the Country (when applicable) and the Legal Support Office, to get the cases closed within an acceptable timeframe.	
The Office will continue proactive communication with the Tax Authority through the Resident Coordinator Office in close coordination with the other United Nations agencies. The Resident Coordinator Office sent a communication on 26 June 2016 about public and open information, which responded to the request of the Tax Authority to clarify the information and other ways United Nations agencies can provide information according to their rules and regulations. The communication also mentioned that all contracts issued by United Nations agencies be specific about contract holder tributary obligations.	
Within 12 months, the Office will share the status of the claims and the actions implemented to contribute closing the pending legal cases.	
<b>Estimated completion date:</b> June 2017	

**Issue 2**      Weaknesses in monitoring project activities

According to UNDP’s ‘Handbook on Planning, Monitoring and Evaluating for Development Results’, project monitoring is driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making.

The project documents of 12 projects reviewed contained monitoring frameworks that described quarterly monitoring activities expected to be carried out during the life cycle of each project. Such activities should entail preparing quarterly quality assessment reports, including reporting on the financial monitoring of the Annual Work Plan implementation. However, the audit disclosed that monitoring activities were carried out on an annual basis for all 12 projects reviewed rather than on a quarterly basis as stated in the project documents. The audit also considered this project monitoring practice as not adequate to ensure the achievement of planned development results. At the same time, the audit disclosed that the Office had not developed field visit plans for

the 12 projects reviewed. The Office indicated that programme staff and management visited the projects regularly; however, no formal field visit reports were prepared or kept on file.

Donors and government implementing partners interviewed by the audit team expressed concerns on the limited level of details of project reports received from the Office. Specifically, the donor reports had financial details only and there was a lack of information on the progress towards achieving project results.

Additionally, the 'UNDP Programme and Operations Policies and Procedures' require that project risk registers in Atlas (enterprise resource planning system of UNDP) be updated at least once a year after the initial assessment and after project approval. After the risk registers were set up in Atlas for 12 projects, there was no follow-up or update of risks assessments on 10 projects.

The lack of effective monitoring may impede the Office from determining whether intended results are being achieved, and whether corrective actions are necessary to ensure the delivery of intended results.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Office should strengthen the monitoring of project activities by:	
<ul style="list-style-type: none"> <li>(a) carrying out activities described in the project monitoring frameworks;</li> <li>(b) developing and implementing project field visit plans that are results-oriented, and properly documenting field visits;</li> <li>(c) improving the level of reporting to partners by including information on the progress towards achieving agreed project results; and</li> <li>(d) performing project risk assessments and updating the risk registers in Atlas on an annual basis.</li> </ul>	
<b>Management action plan:</b>	
<p>The Office committed in its recently approved Country Programme Document (2015-2019) to develop a Results-Oriented Monitoring Strategy, to track its contributions to expected outcomes. The Office, through the Management Support and Programme Units, with close coordination with senior management, will analyse ongoing project monitoring frameworks and how they have been implemented from the 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2016, looking at the four dimensions highlighted in this report: results frameworks, field visits, risks, and donor reports.</p> <p>As a result of this analysis, a baseline will be set up for each one of the four dimensions mentioned earlier and any improvements needed to strengthen processes, practices, mechanisms and tools used will be identified. The Office will agree on clear goals and will appoint responsible staff for their implementation in the next three quarters. Based on the analysis done and after retrieving good practices from other projects and UNDP offices, the Office will document the design or re-design of processes, report formats, field visits plans, quality and compliance spot checks, and its capacity for data collection and analysis.</p>	
<b>Estimated completion date:</b> March 2017	

## 2. Financial sustainability

### Issue 3 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 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; (c) impact of exchange rate fluctuation due to the appreciation of the US dollar compared to the national currency that put an extra burden on delivery, as project expenditures were mostly effected in the local currency; and (d) the untimely collection of Government Contributions to Local Office Costs.

The financial sustainability of the Office remained a concern for the Office's senior management and the Regional Bureau. The Office had been responsive and proactive in identifying options to ensure its financial sustainability. It prepared a plan to revise the structure and business processes through a strengthening mission in June 2015 led by the Regional Bureau for Latin America and the Caribbean. At the time of the audit, the Office was finalizing the new organizational structure.

The Office also established a Service Center that would eventually improve coordination and efficiency of some services mainly for projects, such as travel management, procurement and recruitment of service contractors. It aimed to reduce the Office's operational costs. Nevertheless, the financial situation of the Office continued to be a matter of concern considering the Integrated Work Plan was approved with a financial delivery target of \$80 million, while the reserves needed to offset the Office's operational costs required a delivery in 2016 of approximately \$124 million.

Government Contributions to Local Office Costs for the years 2003 and from 2008 to 2015 amounting to \$4.2 million remained uncollected, which also impacted the Office's financial position.

In response to the draft report, the Office indicated that to increase its financial delivery rate in 2016, several hard pipeline initiatives amounting to \$15 million were being formalized, which included those in the Multi-Partner Trust Fund (created for the post-conflict initiative) that was expected to start in July 2016. Additionally, it was expected that the Office's support to the United Nations system would increase its implementation support services target of \$100,000. Furthermore, the Office would not incur certain operational costs.

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

<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>	
The Office should continue its efforts to ensure financial sustainability by:	
(a) increasing the financial delivery rate and reducing operational costs; and	
(b) collecting the outstanding Government Contributions to Local Office Costs amounting to \$4.2 million.	

### Management action plan:

In order to reach the delivery goals in the Integrated Work Plan 2016, the Office will pursue close monitoring, focusing on those projects with the highest budgets and low disbursement rates, identifying bottlenecks faced by projects at the time of their implementation for finding possible solutions, and confirming procurement plans in order to align the different areas (i.e. procurement, human resources etc.) around defined processes and dates. The new Service Center will contribute to more effective delivery through the specialization of functions and a proactive client-oriented approach.

Regarding optimizing operational costs, the Office will speed up Direct Project Costing implementation to reduce costs funded from extrabudgetary resources. The Office will also revise the Strengthening Plan agreed with the Regional Bureau for Latin America and the Caribbean for 2015-2017, transferring \$250,000 from its 2016 approved budget to 2017. This revision is needed to ensure the Office is fit for purpose and optimal response during the first months of the implementation of the Peace Accords.

In reference to Government Contributions to Local Office Costs, the Office will continue, in close coordination with the Regional Bureau for Latin America and the Caribbean, efforts to collect the pending contributions. Two letters were sent recently to the Government explaining the origins, methodology and emphasizing the arrears and the proposed way forward to collect the contributions. The Office, in close collaboration with the Regional Bureau for Latin America and the Caribbean, will follow up at the highest levels on the best alternative(s) for the Government to pay the outstanding contributions.

**Estimated completion date:** March 2017

## B. United Nations system coordination

### 1. Harmonized Approach to Cash Transfers

#### Issue 4 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 plan for implementing partners.

As part of the preparation for HACT adoption, the UN Country Team established an inter-agency working group to move the HACT initiative forward. Micro-assessments on selected implementing partners had been completed while the requirement to use the Funding Authorization and Certificate of Expenditure form was already implemented. However, at the time of the audit, the macro-assessment and transitional assurance plan had not been completed.

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.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Office should fully adopt the Harmonized Approach to Cash Transfers by completing the macro-assessment and the assurance plan, including conducting the assurance activities.	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Resident Coordinator Office is conducting a macro-assessment.</li> <li>(b) The Office has already developed the assurance plan. Activities conducted under HACT will have close follow-up from all units to guarantee that HACT framework requirements are met.</li> </ul>	
<b>Estimated completion date:</b> December 2016	

## C. Programme activities

### 1. Project management

#### **Issue 5**      Support services provided to national implementing partners without required Letter of Agreement

In accordance with the 'National Implementation by the Government of UNDP Supported Projects: Guidelines and Procedures', 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 outputs and carry out all activities towards the achievement of those outputs; or (b) national implementation, in which the national implementing partner assumes full responsibility for the related outputs, but where, at the request of the Government through a standard Letter of Agreement (LOA) for support to national implementation (NIM), UNDP serves as a responsible party that undertakes specific, clearly defined activities for the implementing partner.

Instead of using the standard LOA for the provision of support services to national implementing partners, the Office was using generic management arrangements contained in the project documents. This was the case for three out of four nationally implemented projects reviewed, including one of the largest projects of the Office (Project No. 70016). During the planning phase of the annual NIM audit, the Office provided inaccurate information to OAI since all expenditures were reported as being incurred by the implementing partners. Therefore, project activities carried out and expenses incurred by the Office were audited by external auditors under the NIM audit.

This action was not in accordance with the 'UNDP Programme and Operations Policies and Procedures'. Furthermore, without a signed LOA, there is a risk that the costs incurred by the Office when providing support services to NIM projects will not be recovered, thereby impacting the Office's finances.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
The Office should ensure that a Letter of Agreement is signed when providing support services to national implementing partners, including details of services to be provided and the associated costs.	
<b>Management action plan:</b>	
For each support to NIM ongoing projects, the Office, through the Management Support Unit will confirm which projects do not have LOAs. For existing projects, depending on the project completion date and/or political feasibility, the Office will produce and implement a timetable to have all projects under this category with their LOA signed. For all new projects where the Office will provide support services to national implementing partners, having a signed LOA will be a requirement from the Project Appraisal Committee to start their implementation.	
The Office will verify that LOAs to be signed will include those costs associated with support services to be provided by UNDP acting as responsible party.	
<b>Estimated completion date:</b> December 2016	

## D. Operations

### 1. Human resources

#### **Issue 6**      Inadequate management of service contracts

According to the 'UNDP Service Contract User Guide', Resident Representatives can delegate the responsibility and accountability for the management of service contracts to the responsible officer who manages the planning and contracting of resources. Specifically, service contract holders should not carry out core functions, as they are not staff members. Furthermore, UNDP Country Offices are responsible for ensuring that service contract holders who travel outside of their country of residence have arranged medical coverage under the designated insurance company or other private schemes for the duration of the official mission.

The audit of the Office's management of service contracts identified the following weaknesses:

- There were at least four service contract holders performing core functions within the Office's organizational structure, related to procurement, finance and programme functions.
- During the audit period, at least 21 service contract holders conducted official missions outside of the Country to attend workshops, training, or other activities related to their functions. However, the Office did not make arrangements for private medical scheme coverage for these service contract holders when outside the Country.
- United Nations official holidays are determined in consultation with all United Nations agency representatives in the Country. However, effective 24 March 2014, the Office granted service contract

holders an additional 6 days to the 10 official holidays observed by United Nations agencies in the Country. On the basis of work-life balance, this benefit was granted following actions recommended by an internal working group, created to improve the results of the 2013 Global Staff Survey. The audit estimated the financial impact of the decision in 2015 was approximately \$277,000.

- Offices within the Latin America and the Caribbean region engaged in translating into Spanish the standard service contract template, as there was no Spanish version. In doing so, changes were noted in the translated version of the service contract text that implied either omitting, deleting or adding terms and conditions to some contract clauses without clearance from the Office of Human Resources and approval from the Legal Support Office.

The audit reviewed a sample of 35 service contracts and disclosed that all contracts had at least one of the following discrepancies between the translated Spanish version and the standard service contract template:

- Paragraph 7 – Clause on income tax was deleted.
- Paragraph 14 – Standards of Conduct did not include the Statement on the Prohibition of Sexual Exploitation and Abuse.
- Numerical sequence of the paragraphs was distorted due to the omissions.

Under Annex B, Conditions of Service, the translated version had the following discrepancies:

- Paragraph 2 – The remuneration clause did not address a performance bonus.
- Paragraph 4, National/Public holidays – Some contracts included six additional holidays, as discussed above.

The discrepancies identified put the Office at risk of non-compliance with the responsibility and accountability delegated by the Office of Human Resources in the issuance and management of service contracts. By signing contracts that were not cleared by the Legal Support Office and the Office of Human Resources, the Office could face legal consequences and/or reputational damage.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>	
The Office should improve the management of service contracts by:	
<ul style="list-style-type: none"> <li>(a) engaging service contract holders for non-core functions only within the Office’s structure;</li> <li>(b) ensuring that service contract holders on official missions have medical coverage by a private scheme for travel outside the country of residence;</li> <li>(c) complying with the established United Nations official holidays; and</li> <li>(d) requesting review and clearance from the Legal Support Office and the Office of Human Resources of the Spanish version of the service contract template.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Office is in the process of increasing the number of fixed-term appointment posts as part of the investment and strengthening plan approved by the Regional Bureau for Latin America and Caribbean,</li> </ul>	

looking to keep at minimum the service contracts within the Office's structure. In line with the approved strengthening plan, only the processes of a more administrative nature will be covered by the service contract holders.

- (b) Medical coverage for service contract on official business – The Office will ensure, from 1 July 2016, that service contract holders travelling on official business are covered by a private medical scheme, at no cost to the service contract holders.
- (c) Complying with the established United Nations official holidays – The Office is reviewing this matter with the Office of Human Resources and the policy. The Office will proceed according to the guidance received.
- (d) Service contract template clearance – The Office will use the Spanish service contract template once cleared by the Legal Support Office/Office of Human Resources. The Office sent the Legal Support Office/Office of Human Resources on 14 June 2016 a proposal of a Spanish version of the service contract template based on the corporate model in English and the certificate of no contest for their review and clearance.

In the future, all contract templates will always be managed in coordination with the Legal Support Office and the Office of Human Resources, as applicable.

**Estimated completion date:** December 2016

**OAI Response:**

OAI acknowledges the actions taken by management on recommendation (d); these will be reviewed at a latest stage as part of the standard desk follow-up process of OAI.

## 2. Finance

### Issue 7 Weaknesses identified in payment process

The 'UNDP Programme and Operations Policies and Procedures' require the establishment and use of electronic banking systems as part of a bank service. The electronic funds transfer payment is processed by the UNDP Interface, software that permits UNDP to instruct banks to pay and transfer funds from UNDP's bank account to vendors or staff accounts. Country Offices may establish electronic interfaces between Atlas and local banks with electronic banking capability. Treasury must be informed by Country Offices prior to establishing electronic interfaces with local banks. Electronic funds transfer is the preferred mode of payment, whenever possible, as it is less expensive, more efficient, and eliminates the use of cheques.

UNDP is responsible for managing the resources entrusted for carrying out programmes. A major factor in fulfilling this responsibility is ensuring that adequate controls exist and expected results are achieved. Effective internal control requires that incompatible tasks be properly segregated to minimize the occurrence of errors or fraud and to help detect such occurrences.

During the audit period, the Office processed 48,938 payments through the local e-banking web application amounting to approximately \$105 million, representing 97 percent of payment transactions. The review of the payment cycle showed the following weaknesses in processing payments through the e-banking web application:



- The paycycle information was downloaded from the Atlas system in a “plain text” format (not password-protected, which could be easily manipulated), stored in the Office’s shared drive, and using Microsoft Access, downloaded information was rearranged to make it compatible with the e-banking application. In order to reduce the risk of making a payment to a wrong vendor, the Office established a manual control to ensure that the information from Atlas and the e-banking web application was the same. The control consisted of printing out the Atlas paycycle information and comparing it with the printout from the e-banking web application. However, the Atlas printout did not include bank account numbers or payee identification numbers in order to compare it the with e-banking application printout, which had this information. This control was important to ensure that the correct vendor was being paid and to the correct bank account.
- The e-banking web application required approval from two designated administrators to create a new user. However, it only required approval from one administrator to change user profiles, such as passwords or rights for different transactions.
- The role of administrator in the e-banking web application was assigned to the Office’s Operations Manager and IT Associate. However, the Operations Manager was also assigned as a bank signatory.
- Neither the Country Director nor the Deputy Country Director had access to the e-banking web application even though they were bank signatories. Therefore, they were not approving electronic transactions.
- The e-banking web application used by the Office had not been approved by Treasury. The Office indicated that it already asked for Treasury’s approval on the e-banking process as part of the Treasury Harmonization Project established by the Chief Executive Board. According to the Office, a Request for Proposal for Banking Services took place in the Country after the audit fieldwork, in June.

Additionally, during the audit, 352 payments were made through online bank transfers that were rejected by the bank due to incorrect vendor information (e.g. invalid bank account numbers, incorrect vendor identification numbers or closed bank accounts) transmitted, representing less than 1 percent of the total number of payments. According to the Office, the incorrect information was mainly due to typing errors when creating vendor profiles.

Weak payment processing and disbursement controls might lead to the loss of funds and potential fraud.

<b>Priority</b>	Medium (Important)
<b>Recommendation 7:</b>	
The Office should strengthen controls over the payment process by:	
<ul style="list-style-type: none"> <li>(a) developing an automated application to eliminate the manual conversion of information from Atlas to the e-banking web application;</li> <li>(b) adding supplier bank account numbers and payee identification numbers to the Atlas paycycle summary sheet;</li> <li>(c) requiring approval of both administrators when making changes in the user profiles in the e-banking web application;</li> <li>(d) not assigning staff with both administrator and bank signatory roles in the e-banking web application;</li> </ul>	

- (e) granting access to all bank signatories and encouraging them to approve payments in the e-banking web application;
- (f) requesting Treasury's approval of the e-banking web application used by the Office; and
- (g) improving the vendor creation process to reduce payment rejections.

**Management action plan:**

- (a) A Request for Proposal for banking services took place in the Office on 30 June 2016. The objective of this process was to identify at least two banks that could provide the banking services and from which the United Nations agencies could choose. This exercise was led by the Treasury from United Nations Headquarters participated by UNDP, UNICEF and UNODC. One of the main objectives of this process was to choose a bank for all United Nations agencies. Funds and Programmes could benefit from using an interface/host-to-host connection, which will imply avoiding any manual interventions.
- (b) The Office will include in the Atlas paycycle summary the supplier bank account numbers and identification.
- (c) The request was sent to the bank on 28 June 2016 to set up in the e-banking web application that both administrators' approval would be necessary when making changes in user profiles.
- (d) The Office will request the bank to remove the administrator role when staff are also assigned as bank signatories. For this, senior management selected the Strategic Planning Specialist to accomplish this task and will remove him as a bank signatory.
- (e) The Office will grant e-banking access to the Country Director and the Deputy Country Director in order to approve payments online.
- (f) The online banking agreement was sent to our local bank, including Legal Office comments. In reference to bank rejections we want to highlight that 352 rejects correspond to 0.007 percent of total transactions during the audit period, 262 (0.005 percent) were UNDP vendors. The remaining balance related to other agencies. However, our Office will continue improving the vendor creation process.

**Estimated completion date:** February 2017

## 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 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.