UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

Empowered lives.
Resilient nations.

AUDIT

OF

UNDP COUNTRY OFFICE

IN

CAMEROON

Report No. 1768

Issue Date: 18 May 2017

Table of Contents

Report on the Audit of UNDP Cameroon
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Cameroon (the Office) from 13 to 24 February 2017. 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 (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2015 to 31 December 2016. The Office recorded programme and management expenditures of approximately $22 million. The last audits of the Office were conducted by OAI in 2012 (full scope) and 2013 (follow-up audit).

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 / major improvement needed,** which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to weaknesses in project design and implementation, financial resources management, procurement, and ICT and general administration.

Key recommendations: Total = **11**, high priority = **4**

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

Exceptions in project monitoring and implementation (Issue 3)	The selection of three NGOs as grant recipients did not comply with the prescriptions in the 'UNDP Programme and Operations Policies and Procedures'. The selection was conducted by the project team rather than through programming modalities (i.e. review by the Project Appraisal Committee or Project Board). The three selected NGOs only scored 58.5, 34.5 and 30 points, respectively, out of 100 in the combined technical and financial evaluation undertaken by the Office, which meant that they did not meet the minimum requirements. Further, recommendations regarding close monitoring from the capacity assessment for two of the three selected NGOs were not implemented. The audit further reviewed the financial liquidation reports for the period from November 2016 to January 2017 totalling approximately $42,000 and noted inconsistencies and poor supporting documents, resulting in errors and irregularities. The financial documents were forwarded to the OAI Investigations Section for further guidance. <u>Recommendation:</u> The Office should strengthen project risk management and monitoring by: (a) selecting NGOs as grant recipients meeting the selection criteria and selecting them through programming modalities (review by Project Appraisal Committee or project boardand (b) enhancing the oversight of project implementation and the oversight mechanism outside the project team by establishing the required decision-making groups.
Weaknesses in financial resources management (Issue 5)	The Office had 44 electronic funds transfer (EFT) payments amounting to $42,600 that were unreconciled for more than six months, with the oldest dating back to December 2011. The Office had not followed up on these outstanding payments as required by the policies. In addition, the certifying officers and disbursing officers approved payment vouchers for payments where goods or services had not been received or rendered or payee information did not match the supporting documentation in 12 percent of the cases reviewed. An international consultant received an unjustified payment for cost of living expenses amounting to $1,430. The Office paid, on average, $10,000 to $12,000 annually for banking services that were provided for free to other customers of the bank. <u>Recommendation:</u> The Office should improve financial resource management by: (a) timely following up on unreconciled payments that are older than two months and reviewing the supporting documentation; (b) following up and as necessary recovering the payment amounting to $1,430 and ensuring that payments are only raised in Atlas upon receipt of goods and services; and (c) negotiating lower transaction fees or exploring alternative and more competitive banking arrangements.
Inadequate management of travel (Issue 6)	In 13 cases of travel (61 percent of sample), only one or two itineraries were considered instead of three as required by the policy, without adequate justification. In other instances, the itinerary chosen was based on the travellers' preferences. In addition, weaknesses were noted with respect to the calculation of Daily Subsistence Allowances, resulting in overpayments to travellers. <u>Recommendation:</u> The Office should improve travel management by: (a) ensuring that the most direct and economical route is used; (b) correctly calculating and validating the amount of Daily Subsistence Allowance to be paid;

and (c) continuing its efforts in recovering the amount in excess of the allowable travel costs.

Inadequate procurement management processes (Issue 8)	The 2015 and 2016 consolidated procurement plans did not include requisition plans from all project activities. The consolidated plans were not regularly monitored and updated during the year to reflect major changes during the year. The audit noted that 15 vouchers above \$2,500 estimated at \$50,000 were processed in 2015 and 2016 without purchase orders as required by the policy. Further, the Office did not efficiently monitor the cumulative procurement volume to identify vendors who had reached the threshold for submission to the relevant procurement review committee. The cumulative value of the procurement transactions of \$66,176, \$60,809, and \$62,649 for three vendors was not reviewed by the Contracts, Assets and Procurement Committee as required by the policies due to an inefficient monitoring mechanism. Nine procurement cases amounting to approximatively \$200,000 were awarded with only one or two vendors competing instead of a minimum of three as required by the UNDP procurement policy. For 84 percent of vendor forms reviewed, there was no evidence that the Office conducted the minimum due diligence before the vendor was approved in Atlas. <u>Recommendations:</u> The Office should reinforce controls over procurement activities and processes by: (a) establishing a consolidated risk based procurement plan that contains requisitions from all projects at the beginning of the year and regularly updating this plan in order to include major changes during the year; (b) monitoring vendor thresholds so that vendors are reviewed by the responsible procurement committees, and ensuring that a purchase order is raised for all orders above \$2,500; and (c) obtaining a minimum of three offerors and conducting a market analysis to identify vendors known to be specialists and strengthening the vendor screening process in accordance with the organization's procedures.

Management comments and action plan

The Resident Representative a.i accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided have 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 Yaoundé, Cameroon (the Country), comprised of 27 staff members, 20 service contract holders, and 4 United Nations Volunteers at the time of the audit. The Country Programme Document, covering the period 2013-2017, focused on three main pillars: (a) Support for the economy and strategic State management; (b) Poverty eradication in the field and sustainable development; and (c) Support for governance and crisis and disaster prevention.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Corporate oversight and assurance. There were no outstanding previous audit recommendations; all recommendations from two evaluations of projects as well as from the United Nations Development Assistance Framework (UNDAF) mid-term review were implemented.

(b) Human resources management. Controls were adequately established and functioning. The review of recruitment and separation processes did not identify any reportable issues.

(c) Staff and premises security. The Office was compliant with the Minimum Operating Security Standards (MOSS). The security plan and Business Continuity Plan were endorsed.

OAI made four recommendations ranked high (critical) and seven recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendations, arranged according to significance:

(a) Strengthen project risk management and monitoring (Recommendation 3).
(b) Improve financial resources management (Recommendation 5).
(c) Improve travel management (Recommendation 6).
(d) Reinforce controls over procurement activities and processes (Recommendation 8).

Medium priority recommendations, arranged according to significance:

(a) Set a target date for the completion of mandatory training courses (Recommendation 1).
(b) Strengthen partnership management (Recommendation 2).
(c) Strengthen programme structure and alignment (Recommendation 4).
(d) Strengthen financial and administrative management of the United Nations Clinic (Recommendation 7).
(e) Improve individual contract management (Recommendation 9).
(f) Improve the management of the RCO budget (Recommendation 10).
(g) Pursue the implementation of HACT (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Low completion rate of UNDP mandatory training courses

According to the UNDP training policy, mandatory training courses are important for ensuring that staff and managers understand the organization's cores values, including its policies, regulations as well as its goals and objectives. All staff members should complete the mandatory courses and obtain their certificates of completion no later than six months after commencing duties.

At the time of the audit, not all staff members had completed the UNDP mandatory training courses as shown below:

- 61 percent had not completed the Ethics and Integrity at UNDP course;
- 74 percent had not completed the Legal Framework course;
- 69 percent had not completed the Prevention of Harassment course;
- 82 percent had not completed the Gender Journey course;
- 54 percent had not completed the Advanced Security in the Field course; and
- 57 percent had not completed the Basic Security in the Field course.

The low completion rates were due to a lack of management's prioritization of the completion of the required training courses in accordance with the organization's policy. The Office's management acknowledged that there were no targeted efforts to highlight the importance of these courses.

Delays in the completion of mandatory training courses could negatively affect the ability of staff to promote the organization's core values.

Priority	Medium (Important)

Recommendation 1:

The Office should set a target date for all current staff to complete the mandatory training courses, and establish an oversight mechanism to ensure that all new staff members complete the required courses within six months from their recruitment.

Management action plan:

The Office agreed with the recommendation. A memo has been sent to staff urging them to complete mandatory training courses by the end of June 2017.

Management will further ensure the close monitoring of 100 percent completion of mandatory courses by all concerned staff. The Human Resources Unit will also ensure that all new staff complete the required courses within six months after recruitment.

Estimated completion date: 30 June 2017

OAI Response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

2. Corporate External Relations and Partnership

Issue 2 Low partnership survey results not addressed

The 'UNDP Programme and Operations Policies and Procedures' require offices to establish effective partnerships with various stakeholders. All offices are required to submit partnership surveys to their respective partners and donors in order to assess their perception of the offices as strategic partners in the country. The survey also assesses how offices deliver on UNDP strategic priorities. The offices should review the survey results, and develop action plans to address any weaknesses or negative perceptions.

The audit team reviewed the 2012 and 2015 partnership survey results, and surveyed 10 additional donors and partners in February 2017. The following weaknesses were noted:

- The 2015 partnership survey disclosed low results regarding the Office's ranking vis-a-vis the UNDP Strategic Plan priorities, as on average, over 50 percent of the respondents did not rank the Office as a partner of choice regarding democratic governance, institutional capacity-building for delivery of basic services, gender equality and women's empowerment, and reducing likelihood of conflict and the risk of natural disasters, including for climate change.
- Feedback received from 7 out of 10 partners surveyed by the audit team also reinforced the partnership survey results and the need for the Office to strengthen its external relations.

The Office had not developed an action plan to tackle the root causes and improve the partners' perceptions, due to a lack of prioritization of the importance of the survey and its outcomes.

Failure to address concerns from the partnership survey results may have a negative impact on the reputation of the Office as a strategic partner, and may put the Office's financial sustainability at risk.

Priority Medium (Important)

Recommendation 2:

The Office should strengthen partnership management to promote its image as a valued development partner by reviewing the results of the partnership surveys and developing action plans to overcome negative perceptions.

Management action plan:

The Office accepts the audit recommendation and will develop a strategy with an action plan to implement and follow up on the recommendations of the 2017 partnership survey as soon as the results are published.

Estimated completion date: July 2017

B. Programme

1. Project Design and Implementation

Issue 3 Exceptions in project monitoring and implementation

According to the 'UNDP Programme and Operations Policies and Procedures', NGOs, as micro-capital grant recipients, are exempt from competitive procurement processes and shall be selected under programming modalities. The project document should provide for an independent mechanism, such as a Grants Steering Committee, that will review and endorse the selection of recipient institutions and assess their performance in managing the grants. The NGOs can be identified during project formulation. In such instances, the Project Appraisal Committee can recommend them for the Resident Representative's approval. The NGOs should be listed on the annual work plans of the projects and the draft terms of reference should be attached to the project document. NGOs in receipt of more than $50,000 in grants should be micro-assessed. The corporate procedures further state that the project board is responsible for making management decisions for a project, including recommendations for approval of project plans and revisions. The project board should be consulted by the project manager when project timelines and budgets are exceeded.

The audit team reviewed the Rapid Response and the Social Cohesion projects of the Office and noted the following:

Inadequate selection process and lack of oversight of NGOs as grant recipients: Three NGOs were selected by the Office in order to implement project activities in the North and Far North regions of the Country.

- The selection was conducted by the project team with the support of a staff member from another agency, rather than through programming modalities.
- These NGOs were not identified during project formulation, were not listed in the annual work plan, and the draft terms of references were not attached to the project document. The Office stated that management endorsed the process in the absence of a project board. The three NGOs were selected without demonstrating that they met the selection requirements, as they only scored 58.5, 34.5, and 30 points, respectively, out of 100 in the combined technical and financial evaluations undertaken by the Office.
- A capacity assessment undertaken by the Office for two out of three NGOs recommended close monitoring in order to mitigate the level of risks. The audit found no evidence that such actions were implemented.

  The audit further reviewed the financial liquidation reports received from one of the selected NGOs for the period from November 2016 to January 2017 totalling approximately $42,000 and noted inconsistencies and weak supporting documentation.

These issues were caused by a lack of understanding of the policies and procedures specific to the selection of NGOs as grant recipients, and an absence of managerial oversight.
Non-compliance with the procedures regarding the selection of NGOs may delay project implementation. Lack of close monitoring and oversight of the activities of grant recipients rated as high risk may also expose the Office to unjustified or unsubstantiated expenses.

Changes in project output targets without prior approval: The targets for two outputs regarding "Number of heads of households having benefited from income generating activities" and "Number of heads of households receiving stoves" were modified upwards from 100 beneficiaries each to 1,257 and 1,500, respectively. The project team explained that due to the increased need for income generating activities in the field it was necessary to increase the beneficiaries' numbers. There was no evidence of approval of such modifications by UNDP senior management or by the project board, nor of any analysis conducted to assess how the changes made affected the successful implementation of the project. The Office's management stated that there was no project board established for the particular project due to a disagreement with the Government on its participation in the board.

Unauthorized changes to the project targets agreed upon may lead to errors and irregularities not being timely detected, which can affect the successful implementation of the project activities.

Priority	High (Critical)
Recommendation 3: The Office should strengthen project risk management and monitoring by: (a) selecting NGOs as grant recipients meeting the selection criteria and selecting them through programming modalities (review by Project Appraisal Committee or project board); and (b) enhancing the oversight of project implementation and the oversight mechanism outside the project team by establishing the required decision-making groups.	
Management action plan: (a) The Office will ensure that all future project documents clearly identify the selection modalities to be used for NGO selection (where applicable) – this will be verified by the Project Appraisal Committee – and a Grants Committee has been established, and will appraise all future grant processes. (b) The Office will also ensure that a clear selection criterion for NGOs is used and that all NGOs contracted meet minimum requirements. (c) The Office will reinforce project oversight mechanisms – including ensuring that all deviations/changes to the project will be approved – in the first instance by Country Office management and as required (when strategic changes to the project are proposed) by the project board. **Estimated completion date:** December 2017	
OAI Response OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.	

Issue 4 Weaknesses in programme management

The 'UNDP Programme and Operations Policies and Procedures' set out the following provision for the monitoring and closure of projects: Atlas (the enterprise resource planning system of UNDP) should be used both as a financial management tool and a substantive monitoring tool. As such, issues logs, risk logs and monitoring logs should be regularly updated.

The Strategic Plan is UNDP's comprehensive corporate planning instrument, which outlines the vision and mission of the organization, as well as the concrete goals and objectives to be pursued over the four-year cycle to support programme countries in achieving national development objectives. The Plan defines the areas in which UNDP will work (development focus areas) and the types of outcomes it will support based on its mandate and comparative advantage. In addition, the Strategic Plan states that UNDP will not normally engage in: (a) specialized sectoral activities; (b) small-scale projects without countrywide impact; (c) infrastructure with no capacity-building; or (d) stand-alone procurement of goods and services.

<u>Incomplete risk management:</u>

The audit team reviewed a sample of six projects representing 41 percent of project expenditures during the period under audit and noted that risk logs were not exhaustive or updated to take into account potential risks faced by the projects. The audit also reviewed three trip reports with regards to the Social Cohesion project and noted that they highlighted issues and potential risks that should have been captured in the risk register for monitoring purposes. Further, no risk mitigating actions were captured in Atlas since the inception of the project.

The audit also noted that according to the Executive Snapshot for 2016, expenditures amounting to $570,729 were not linked to any Integrated Results and Resources Framework (IRRF) organizational effectiveness indicators. It further showed that another $1,178,638 in expenditures was not linked to any IRRF development outcomes.

This situation arose from an inadequate linkage of 46 projects to the UNDP Strategic Plan outcomes in Atlas. Atlas queries showed that these projects were not attached to the Office's programme tree. As such, expenses against these projects were not contributing to the organization's Strategic Plan outcomes. The Office's management stated that with support from the Country Support Team, it was able to link some of the projects to the strategic outcomes in Atlas, which resulted in a considerable drop in amounts from $570,729 to $1,294 for IRRF organizational effectiveness and from $1,178,638 to $57,019 for IRRF development outcomes. OAI has therefore not made a recommendation in this respect.

Projects not aligned with the Strategic Plan may have a negative impact on the Office's contribution to the achievement of the organization's goals.

Priority	Medium (Important)

Recommendation 4:

The Office should strengthen its programme structure and alignment to the organization's strategic outcomes by:

(a) updating its risk logs in Atlas to include all risks emanating from the different stages of project implementation; and
(b) linking all projects not in its programme tree to the organization's strategic outcomes.

Management action plan:

The Office accepts the audit recommendation, and has already performed the following:

(a) Updated all project risk logs since the audit fieldwork. Systems have been put in place to monitor the establishment/maintenance of risk logs within the broader Office "integrated M&E plan."
(b) Action is ongoing to finalize the alignment of the project portfolio. A system has been put in place to monitor the quality criteria (including alignment with programme tree and organization objectives) when creating new projects / programmes in Atlas on a regular basis within the broader Office "integrated M&E plan."

Estimated completion date: June 2017

OAI Response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

C. Operations

1. Financial Resources Management

Issue 5 Weaknesses in financial resources management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that offices should proactively manage banking relationships and prepare annual scorecards for banks with a view to ensure the timely resolution of service issues and to maintain cost advantages, among others. The Internal Control Framework provides that bank reconciliations are important control mechanisms and all unreconciled transactions must be reviewed regularly to promptly detect errors and to reduce the risk of irregularities or fraud. Further, payments outstanding for two months or more from the date of issuance must be followed up with the payee. Project managers should document satisfactory receipt of goods, services, and works, prior to initiating payments in Atlas. In addition, the policy on "Disbursing Funds (Making Payments)" states that disbursing officers who sign off on payment instruments must review such payments and reconcile all amounts, currencies, payees and dates to approved Atlas payment vouchers.

The review of financial resources management in the Office disclosed the following weaknesses:

Inadequate bank reconciliation function:

- At the time of audit fieldwork in February 2017, the Office had 44 electronic funds transfer (EFT) payments amounting to $42,600 that were unreconciled for more than six months, with the oldest dating back to December 2011. The Office had not followed up on these outstanding payments as required by the policies.
- Out of the five unreconciled EFT payments tested, two payments from 2014 and 2015 were returned unpaid by the bank and credited back to the Office's bank account due to issues with beneficiaries' bank details. Despite the refund from the bank, these two payments were maintained in Atlas as paid, thereby creating a

discrepancy between the Office's bank account and its records. A third payment from 2012 amounting to $9,721 was determined to be ineligible as the payment was conditional to the validation of the final report, which never occurred. Finally, there was no evidence that the remaining two payments were sent to the bank, and the bank could not trace them in their books.

Deficiencies in the management of bank reconciliation could lead to undetected errors or financial irregularities.

Inadequate review of payments by approving officer:

The audit team reviewed 49 payment vouchers representing payments valued at $933,000 or 7 percent of all payment vouchers made during the audit period. The certifying officers and disbursing officers approved payment vouchers for payments where goods or services had not been received or rendered, or payee information did not match the supporting documentation in 12 percent of the cases reviewed:

- One illustrative example included the unjustified payment for cost of living expenses amounting to $1,430 to an international consultant. The consultant was working from its home country and did not travel to the duty station.
- In three other cases valued at $1,000, the vendor profile of a beneficiary was different from that in the supporting documents. The discrepancies were detected during the signing of the payment instrument and after first paycycle had been run.

These issues occurred because the certifying officers and disbursing officers did not systematically exercise due diligence over payments by thoroughly reviewing the supporting documentation against the payment information in Atlas.

Processing vouchers in Atlas before the receipt of goods and services increases the risk that payments will be released before receipt of such goods and inflates delivery at a point in time.
Costly banking arrangements:

The total cost for banking services rendered by the local bank for the years 2015 and 2016 amounted to $52,000. The audit noted that these fees were provided for by the memorandum of understanding signed in 2014 by all United Nations agencies in the Country. Compared to the standard agreement signed with a competitor, the current bank was more expensive due to fees charged for services that were provided for free by the competitor. Consequently, the Office paid on average $10,000 to $12,000 annually for banking services.
Non-competitive banking arrangements increase the operational costs of the Office.

Priority	High (Critical)

Recommendation 5:

The Office should improve financial resources management by:

(a) timely following up on unreconciled payments that are older than two months and reviewing the supporting documentation;
(b) following up and as necessary recovering the payment amounting to $1,430 and ensuring that payment vouchers are only raised in Atlas upon receipt of goods and services; and
(c) negotiating lower transaction fees or exploring alternative and more competitive banking arrangements.

Management action plan:

The Office accepts the audit recommendations and:

(a) will put in place a control mechanism to monitor and avoid such occurrences with the support of the Country Support Team – all 44 EFT payments noted by the audit have now been reconciled and the Office has already recovered $785 and will follow up to recover the pending payment of $645; and
(b) will discuss internally within the Operations Management Team to explore the opportunities and possibilities to undertake a new assessment for the selection of a bank.

Estimated completion date: October 2017

2. ICT and General Administration Management

Issue 6 Inadequate management of travel

The 'UNDP Programme and Operations Policies and Procedures' stipulate that official travel is to be undertaken based on the most direct and economical route. In case an office is unable to obtain three itineraries to demonstrate a competitive process, adequate justification should be maintained on file. Further, the policies prescribe rules that determine Daily Subsistence Allowance entitlements, including circumstances upon which supplementary or special Daily Subsistence Allowance is to be paid.

The audit reviewed 21 cases of international travel processed during the audit period and noted that the process for determining the most direct and economic route was not adequately undertaken. In 13 cases (61 percent of the sample), only one or two itineraries were considered instead of three as required by the policy, without adequate justification. In other instances, the itinerary chosen was based on the travellers' preferences, which was not in accordance with prescribed policies.

In addition, weaknesses were noted with respect to the calculation of Daily Subsistence Allowances, resulting in overpayments to travellers. In total, excess costs due to unjustified itineraries and overpayments of Daily Subsistence Allowances amounted to $35,272. Specific issues included:

Inappropriate itinerary selection:

- Two staff travelled to Antananarivo, Madagascar in June 2015 for the Regional Bureau for Africa Cluster Meeting using itineraries that were not the most direct and economic. The total unjustified costs arising from the choice of these itineraries amounted to $8,858 (air ticket difference of $7,768 and excess Daily Subsistence Allowance of $1,090) and $5,869 (excess ticket cost of $4,153 and excess Daily Subsistence Allowance of $1,716), respectively. One of the travellers explained that the management of the Regional Bureau for Africa had approved the more indirect and expensive itinerary, but did not provide any evidence of such approval.
- A staff member travelled to Mauritius in November 2016 for a conference using an itinerary that was not the most direct and economic, and which did not coincide with the mission dates. The Office explained that the itinerary was chosen to accommodate the schedule of the traveller who could not leave three days before the workshop and return two days after the end of the mission. The Office did not provide communications with the travel agency to establish that the more direct and economic itinerary could not fit the more

restrictive schedule of the traveller. The itinerary chosen was $6,234 more expensive than the most direct and economic one.

- A staff member undertook a mission to New York and Dakar in September 2016 using an itinerary that was preferred by the traveller and which did not incorporate any analysis of the most direct and economic route. As a result, it was not possible to determine the cost implications of such direct procurement of travel.

Over payment of Daily Subsistence Allowance:

- A traveller received excess Daily Subsistence Allowance amounting to $2,506 for a mission to New York and Tokyo in September 2015 primarily due to unjustified supplementary Daily Subsistence Allowances.
- The same traveller received excess Daily Subsistence Allowance amounting to $1,731 for a mission to New York in September 2016. The traveller stated that there was a special Daily Subsistence Allowance in force in New York during the General Assembly when the travel took place to justify the higher allowance. While there are different seasonal allowances for New York, there are none that exclusively address the period of the General Assembly. There was no evidence justifying the special Daily Subsistence Allowance paid out. As such, the cumulative excess Daily Subsistence Allowance amounting to $4,237 for the two missions was unjustified.
- A staff member that travelled to Brindisi, Italy in June 2015 was overpaid $676 in Daily Subsistence Allowance for four nights. The overpayment was due to cancellation of parts of the itinerary given challenges in obtaining visas. In addition, the staff and another colleague who undertook the mission never filed the F.10 form to substantiate that the travel took place.
- Two travellers who undertook a mission to Kigali, Rwanda received excess Daily Subsistence Allowances amounting to $326 that were unjustified. This arose due to errors in the computation of Daily Subsistence Allowance for early check in.

Subsequent to the audit fieldwork, the concerned staff members reimbursed $6,871 from the above exceptions noted.

Deficiencies in travel management and non-compliance with the 'UNDP Programme and Operations Policies and Procedures' may lead to abuse of travel entitlements and unjustified costs.

Priority High (Critical)
Recommendation 6: The Office should improve travel management by: (a) ensuring that the most direct and economical route is used; (b) correctly calculating and validating the amount of Daily Subsistence Allowance to be paid;and (c) continuing its efforts in recovering the amount in excess of the allowable travel costs.
Management action plan: The Office accepts the audit recommendations, and has already sent a memo to staff as a reminder about the rules and procedures on travel management. The Office will further: (a) Ensure that the Travel Unit fully implements the travel policy.

(b) Ensure that Daily Subsistence Allowance is accurately calculated and validated prior to payment.
(c) Ensure that excess payments have been recovered.

Estimated completion date: August 2017

Issue 7 Lapses in financial and administrative management of United Nations Clinic

The management of the United Nations Clinic in the Country comprised of a dedicated team supported by WHO for technical matters, and UNDP for all administrative and financial aspects. The annual budget of the Clinic is prepared by the United Nations Clinic Team and the Office, and serves as the basis for determining participating United Nations agencies contributions based on the number of employees. At the end of each year, the actual expenses are prorated per agency and reconciled with their individual budget.

The audit reviewed the administrative and financial management of the United Nations Clinic and noted the following weaknesses:

- There was no monitoring or oversight over the contributions received from participating agencies. The annual expenses were not prorated by agency and reconciled to their respective contributions in 2015 and 2016. As an example, one agency over-contributed by $21,725 in 2015 and by $50,125 in 2016. These excess contributions were not taken into account in the following years and were also not traceable in Atlas. Further, under-contributions of three agencies amounting to $9,000 in 2015 were also not reflected in the 2016 contributions for the respective agencies.
- The United Nations Clinic project was not properly set up in Atlas to allow for adequate monitoring and accurate reporting of expenses. The Clinic project in Atlas included expenses of $20,201 and $9,076 for the UNDAF/Common Programme, and Harmonized Approach to Cash Transfer (HACT) activities, respectively. These activities were not related to the Clinic and should not have been charged to the Clinic budget.
- The annual work plan for the United Nations Clinic for 2015 and 2016 did not include any budget for the different activities. There were no performance indicators to monitor the achievement of the Clinic results.

These issues were caused by the lack of a signed Memorandum of Understanding that would have clearly defined the role and responsibilities of the Office for the administrative and financial management of the United Nations Clinic. Furthermore, there was no oversight mechanism to properly monitor and accurately report on the Clinic budget and contributions.

Following the audit fieldwork, the Office signed a memorandum of understanding, and set up a new UN Clinic project in Atlas to dissociate it from the coordination project.

Inadequate management of the United Nations Clinic could lead to mismanagement of contributions, which in turn could lead to fraud or other financial irregularities.

Priority	Medium (Important)
Recommendation 7: The Office should strengthen the financial and administrative management of the United Nations Clinic by tracing all over- and under-contributions from different agencies, and reconciling the cash balances for each participating agency in Atlas. Furthermore, the Office should demonstrate how the excess/under-contributions for 2015 and 2016 were accounted for in the following year.	
Management action plan: The Office accepts the audit recommendation and a speed chart will be set up to ensure the follow-up of the cash balances for each agency. **Estimated completion date:** June 2017	

3. Procurement

Issue 8 Inadequate procurement management processes

According to the 'UNDP Programme and Operations Policies and Procedures', developing a strategic approach to procurement through appropriate and timely planning, which should include a risk management process, is a key element to the successful and timely acquisition of goods, civil works, or services, at a reasonable cost. In addition, the UNDP procurement policy requires that all procurement contracts be awarded on the basis of effective competition and of a fair selection process. Where a minimum number of offers is not received despite all efforts, a written explanation or justification should be recorded by the business units.

The 'UNDP Programme and Operations Policies and Procedures' also require that any contract or series of contracts including amendments to be awarded to a vendor in a given calendar year with a cumulative value of $50,000 or more should be submitted to the Contracts, Assets and Procurement Committee. Furthermore, according to the policy, purchase orders which represent legally binding commitments entered into with third parties for the delivery of goods and services procured by UNDP should be raised for all purchases above $2,500.

The 'UNDP Programme and Operations Policies and procedures' require the review and verification of supporting documents when creating a vendor or when updating vendor information in Atlas. In addition, prior to creating a vendor record, supporting documentation must be obtained that indicates a bona fide business relationship between UNDP and the vendor.

During the audit period, the Office processed 943 purchase orders for a total of $4.9 million. The audit team reviewed a sample of 30 transactions amounting to $0.8 million and noted the following weaknesses regarding procurement activities and internal controls within the Office:

Inadequate procurement plan and risk management:

The 2015 and 2016 consolidated procurement plans did not include requisition plans from all project activities. The consolidated plans were not regularly monitored and updated during the year to reflect major changes during the year. These were also not used as a strategic tool to help the Office achieve its delivery objectives timely and efficiently. As an example, four procurement activities valued at $40,000 or more, such as purchases of vehicles and recruitments of individual contractors in 2016, were not initiated from the existing procurement plans.

Moreover, the audit found no evidence of a comprehensive procurement framework that: sets risk analyses; assesses the business units' complete unique procurement needs and related strategies; analyses the Office's procurement functions and capabilities; and identifies corporate procurement objectives and how these are to be achieved.

Absence of purchase orders:

The audit noted that 15 vouchers above $2,500 estimated at $50,000 were processed in 2015 and 2016 without purchase orders as required by the policy. Management was not able to identify the root cause of this issue and no preventive controls had been put in place to mitigate this risk.

Lack of monitoring of vendors' threshold:

The Office did not efficiently monitor the cumulative procurement volume to detect vendors who had reached the threshold for submission to the relevant procurement review committee. As a result, the cumulative value of the procurement transactions of $66,176, $60,809, and $62,649 for three vendors was not reviewed by the Contracts, Assets and Procurement Committee as required by the policies.

Exceptions to the competitive process:

Nine procurement cases amounting to approximatively $200,000 were awarded with only one or two vendors competing instead of a minimum of three as required by the UNDP procurement policy. In three cases amounting to $60,000, the sole offeror was selected by default.
The shortage of suitable candidates on several procurement activities (including recruitment of Individual contractors) was due to a lack of a sourcing analysis, market research, or an updated roster. The audit found no evidence that market research efforts were conducted in order to expand the competitive field of vendors or consultants.

Inadequate vendor approval process:

The audit reviewed a sample of 25 vendor forms (out of a list of 2107 approved vendors in Atlas) for verification of completeness and accuracy of information through the related document. For 21 of the forms, or 84 percent, there was no evidence that the Office conducted the minimum due diligence (e.g., confirmed company registration with government authorities, checked financial statements, personal identity documents, verified the entity against the United Nations Security Council 1267 Committee's list of terrorists and the UNDP suspended vendors list. etc.) before the vendor was approved in Atlas. In all 21 cases reviewed, the "For Office Use" section of the form used to validate the supporting documentation submitted was not completed and three of the forms did not have registration details or were approved without the forms being filled.

The issue on the quality of the documentation justifying the creation of vendors was previously raised by the audit in 2012 (Audit Report No. 968); however, the Office did not maintain an effective oversight mechanism to prevent the issue from recurring.

Inadequate planning and risk management over procurement activities may result in inadequate procurement processes and lost opportunities for the organization to achieve economies of scale. Weaknesses in the procurement processes may put the Office at financial and reputational risk, as it may not be able to obtain the best value for money. Not thoroughly reviewing and validating vendor information could lead to irregularities or to the creation of fictitious vendors, which may not be detected in a timely manner.

Priority High (Critical)

Recommendation 8:

The Office should reinforce controls over procurement activities and processes by:

(a) establishing a consolidated risk based procurement plan that contains requisitions from all projects at the beginning of the year and regularly updating this plan in order to include major changes during the year;
(b) monitoring vendor thresholds so that vendors are reviewed by the responsible procurement committees, and ensuring that a purchase order is raised for all orders above $2,500; and
(c) obtaining a minimum of three offerors and conducting a market analysis to identify vendors known to be specialists and strengthening the vendor screening process in accordance with the organization's procedures.

Management action plan:

The Office accepts the audit recommendations and actions were already taken to address (a) and (b) as follows:

(a) A message has been sent to all projects requesting them to provide their requisition plans. The consolidated procurement plan has been developed and signed by management. A risk assessment was conducted and the strategies to be put in place were presented during the staff meeting on 17 March 2017. A monthly review of the consolidated procurement plan has been set up.
(b) A message was sent to the Procurement Unit reminding them of the monitoring of vendor thresholds and to all staff concerning the implementation of eProcurement, stating that a purchase order must be raised for all purchases above $2,500.
(c) The Office will undertake a market analysis to identify vendors (Expression of Interest) based on the information available in the procurement plan. With regards to vendor management, a memo has already been sent to the staff involved in vendor creation and approbation reminding them to make sure that the vendor forms should be filled in and signed along with the appropriate supporting documentation.

Estimated completion date: September 2017

OAI Response

OAI acknowledges the actions taken by management; these will be reviewed at a later stage as part of the standard desk follow-up process of OAI.

Issue 9 Inadequate selection of individual contractors

The engagement of individual contractors under the individual contract modality is subject to the general procurement principles established by the UNDP Financial Rules and Regulations, namely, best value for money, fairness, integrity and transparency, effective competition, as well as the interests of UNDP. Furthermore, the policy stipulates that for contracts over $5,000, a minimum of three qualified offers have to be considered. Under certain circumstances, and subject to proper justification, it may be appropriate to consider a single offeror as the only suitable individual for the selection. Furthermore, reference checks are an important part of the selection process and the offeror deemed to be most suitable shall be subject to a minimum of two reference checks.

During the audit period, the Office recruited 121 individual contracting cases. The audit noted the following weaknesses in the selection process of 13 consultants sampled:

- In five cases amounting to $107,000, the Office considered less than three technically qualified candidates for the desk panel's review. In two of these cases, only one application was received, yet the Office proceeded with the competitive process. There was no evidence that the Office attempted to ensure that a minimum of three qualified candidates would be recommended for the selection process.
- In two international recruitment processes (estimated at $40,000), which ended with two offers received, national candidates with the expected experience were excluded from the selection processes because the Office incorrectly believed that the position should only be opened to international candidates.
- In three instances, a project manager who recommended a candidate for recruitment for his own project also led the evaluation panel.
- In seven cases reviewed, the required two reference checks for the selected candidate were not obtained.
- The Office directly contracted 40 individual contractors below $5,000. The audit noted that a minimum of five of these individual contractors had additional contracts for the same assignment within a year, thus exceeding the $5,000 threshold, above which a minimum of three qualified offerors should have been considered in the selection process. No supporting evidence of justification and approval from the Resident Representative/head of the business unit was provided to the audit team.

These issues were caused by a misinterpretation of the procurement policies and procedures. By not complying with individual contractor recruitment and management policies and procedures, there is no assurance that the most qualified candidate will be selected and that best value for money, fairness, integrity and transparency, in the competitive process will be achieved.

Priority	Medium (Important)

Recommendation 9:

The Office should improve individual contract management by:

(a) conducting reference checks prior to hiring consultants;
(b) preventing project managers who recommend candidates for posts from leading the evaluation panels; and
(c) selecting a minimum of three qualified offers for contracts over $5,000, including national candidates with required experience for international individual contract recruitments;

Management action plan:

The Office accepts the audit recommendations and will:

(a) monitor the implementation of reference checks for each recruitment process based on a memo already sent to the Procurement Unit; ensure that project managers who recommend candidates for posts do not also lead the evaluation panel; and
(b) continue to ensure that a minimum of three qualified offers for contracts over $5,000 are considered and exceptions will be systematically documented;

Estimated completion date: December 2017

D. United Nations Leadership and Coordination

Issue 10 Lapses in management of Resident Coordinator's Office budget

The funding for the Resident Coordinator's Office (RCO) is allocated by the UN Development Operations Coordination Office (DOCO) based on the United Nations Development Group (UNDG) cost sharing mechanism. Offices are required, for the proper financial reporting of the RCO budget, to create two projects in Atlas, one for the management of the staff salary costs and another one for the management of General Operating Expense costs. For proper oversight and monitoring of the use of funds of the Resident Coordinator system, offices are further required to accurately reflect in the UNDG Information Management System (IMS) and in Atlas, any funding provided by United Nations agencies, development partners and government cost sharing at the country level. The UNDG IMS has both a Coordination Profile for the Resident Coordinator, and for the UNCT work plan, including funding sources. It is therefore essential that both of these are correctly filled in with correlation to Atlas figures, in order to accurately report to the UNDG and Member States.

The review of the RCO's budget management and execution of its annual work plan disclosed the following weaknesses:

- The RCO budget structure in Atlas did not reflect the separation of salaries and General Operating Expense as required by DOCO for proper financial oversight and reporting.
- The approved annual work plans for the RCO for 2015 and 2016 did not align with the allocation of funds received from DOCO, and were not accurately reflected in Atlas as required by the corporate guidance. In 2016, the allocation from DOCO comprised of salary costs of $406,624, and general operating expenses of $108,000. However, the annual work plan did not make such a distinction, and only reflected a total budget of $480,000. Furthermore, in 2015, the RCO annual work plan did not include any budget to reflect how the allocation of $281,055 from DOCO would be used.
- Funding provided by agencies at the country level amounting to $115,022 and $107,121 in 2015 and 2016, respectively, were not traceable in the IMS or in Atlas, as required by the guidelines.

Consequently, the Office did not adequately monitor the use of the different sources of funds of the RCO, which led to an underspending of funds received from DOCO by $30,000 in 2015. The unused portion of DOCO funds was considered lost at the end of the year according to the guidance. At the same time, the RCO used more than $30,000 in funds mobilized at the country level by agencies, which does not have the same requirements as

DOCO funding. The RCO therefore missed an opportunity for saving $30,000. In another case in 2015, the RCO pre-financed an activity (travel) amounting to $9,000, which was to be paid by another agency. Because of the lack of oversight, the RCO failed to recover the funds by the end of the year, which led to a respective overstatement of RCO expenditure at year-end.

These issues were caused by an incorrect set up of different RCO budgets in Atlas, poor planning, and absence of regular monitoring on the use of coordination budgets.

Ineffective management of the RCO budget could lead to inaccurate expense reporting to UNDG and Member States. Furthermore, low delivery could prevent the RCO from efficiently fulfilling its mandate.

Priority	Medium (Important)
Recommendation 10: The Office should improve the management of the RCO budget by: (a) ensuring that RCO projects are accurately set up in Atlas and aligned with the requirements from DOCO; (b) aligning its annual work plan with the allocation of funds from DOCO and the approved budget in Atlas; and (c) accurately recording all contributions provided locally, and ensuring that they are correctly reflected in the UNDG IMS.	
Management action plan: The Office accepts the audit recommendation, and will: (a) review the structure of the RCO budget in Atlas and ensure it's aligned with the requirements so a clear distinction is made between management of the staff salary costs, and another one for the management of General Operating Expense costs; (b) accurately record all contributions provided locally, and ensure that they are correctly reflected in the UNDG IMS; and (c) regularly monitor the financial reports of the RCO budget and update local contributions in IMS and Atlas. **Estimated completion date:** March 2018	

Issue 11 Inadequate progress towards implementing Harmonized Approach to Cash Transfers

The 'Framework for Harmonized Approach to Cash Transfers' requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of United Nations procedures creates for its partners. Compliance is achieved when the following components have been completed: (a) macro-assessment of the public financial system; (b) micro-assessments of implementing partners; and (c) an assurance plan which details the spot checks for each implementing partner based on the results of the micro-assessment.

The audit reviewed the implementation of HACT and noted disparities within the implementing United Nations agencies in the Country. While UNICEF and UNPFA offices in the Country were providing cash advances to a select number of implementing partners and implementing HACT, the Office was still operating under the full support to the national implementation modality. All project implementation activities under this modality were undertaken by the Office. The Office attributed the lack of HACT implementation progress to the complex nature of operating activities and the lack of capacity of the national partners. However, this was not in accordance with the satisfactory results of the last audits of projects implemented by national partners when they received cash advances from the Office. In addition, the micro-assessments concluded low or medium risks for most implementing partners.

The audit further noted that the Office had developed an assurance plan for 2016; however, as at 31 December 2016, the completion rate stood at zero percent. In addition, no formal training had been provided to staff in charge of carrying out assurance activities. The Office explained that it did not pursue the assurance plan activities as it did not provide cash advances to partners.

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

Priority	Medium (Important)
Recommendation 11: The Office should, in coordination with the participating agencies, pursue the implementation of HACT, taking into account the contextual environment and the implementing partners' capacities.	
Management action plan: The Office accepts the audit recommendations, and will: (a) within the broader framework in line with full HACT implementation in partnership with other participating agencies, develop a roadmap for the preparation of the transition to HACT in the context of the implementation of the Country Programme Document 2018-2020; (b) provide internal training to UNDP and project staff; and (c) on the basis of the results of the micro-evaluation, build the capacity of identified implementing partners, and determine the transfer modality. **Estimated completion date:** December 2017	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in negative consequences for UNDP.

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