UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COUNTRY OFFICE

IN

JORDAN

Report No. 1887

Issue Date: 15 December 2017

Table of Contents

Report on the Audit of UNDP Jordan
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Jordan (the Office) from 10 to 21 September 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 2016 to 30 June 2017. The Office recorded programme and management expenditures of approximately $37.8 million. The last audit of the Office was conducted by OAI in March 2012.

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 improvements needed**, which means that "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 identified in project initiation, and weak oversight in processing payments.

Key recommendations: Total = 11 high priority = **2**

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 2	Medium
Efficiency and effectiveness of operations	3, 4 8, 9	High Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	5, 6, 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. The high (critical) priority recommendations are presented below:

Weaknesses in project initiation (Issue 3)	The review of four sampled projects disclosed weaknesses when initiating those projects. Specifically, no Local Project Appraisal Committee (LPAC) meetings were held for three projects, and no project documents were prepared or signed with the Government. The Office did not also provide evidence of approval to implement three projects under the direct implementation modality and operating under a fast track procedure. There was no evidence provided that assessments of the implementing partners or responsible parties were conducted. Recommendation: The Office should improve project initiation by (a) holding LPAC meetings for new projects before project implementation; (b) obtaining prior authorization from the Regional Bureau when directly implementing projects and operating under fast track procedures; and (c) conducting capacity assessment of implementing partners prior to implementing project activities.
Weak oversight in processing payments (Issue 4)	OAI reviewed payments processed in Atlas and noted the following issues: (a) payments totaling $520,000 were processed before the receipt of goods and services; (b) four payment vouchers amounting to $385,000 were charged to the wrong chart of accounts or project number; and (c) payments totaling $1.7 million to five Non-Governmental Organizations were recorded as expenses instead of being recorded as advances in Atlas. Recommendation: The Office should strengthen its oversight in processing payments by (a) raising account payable vouchers in Atlas only upon receipt of goods and services and the presentation of a vendor invoices; (b) providing training to staff and establishing standard operating procedures to reduce the level of errors in recording payments; and (c) recording payments made to Non-Governmental Organizations under the Host Community Project, as an advance in Atlas (the enterprise resource management system of UNDP).

Management comments and action plan

The Resident Representative accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Low risk issues (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 Amman, The Hashemite Kingdom of Jordan (the Country), comprised of 33 staff members, 59 service contract holders, and 27 United Nations Volunteers at the time of the audit. The Country Programme Document, covering the period from 2013 to 2017, focused on the following areas: (a) accelerating progress on Millennium Development Goals 1, 7 and 8, with issues related to women and youth; (b) strengthening aid coordination and effectiveness, and (c) reducing disaster risk. The Office had 25 ongoing projects and had expensed a total of $37.8 million during the period under review.

II. Audit results

Satisfactory performance was noted in the following areas and sub-areas:

(a) Governance/Corporate direction: The audit team did not identify any reportable issues after conducting interviews with the Regional Bureau for Arab States, discussing with the Office management, and reviewing corporate performance briefs.

(b) Operations/Staff premises and security. The audit team reviewed the Office's compliance with the Minimum Operating Safety Standards and no reportable issues were identified.

OAI made two recommendations ranked high (critical) priority and nine 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 project initiation (Recommendation 3).
(b) Strengthen oversight in processing payments (Recommendation 4).

Medium priority recommendations, arranged according to significance:
(c) Strengthen procurement processes (Recommendation 7).
(d) Reinforce programme and project monitoring (Recommendation 2).
(e) Improve individual contract management (Recommendation 8).
(f) Enhance risk management (Recommendation 1).
(g) Strengthen management of project cash advances (Recommendation 5).
(h) Improve implementation of Direct Project Costing (Recommendation 6).
(i) Enhance human resources management (Recommendation 9).
(j) Strengthen travel management (Recommendation 10).
(k) Strengthen Harmonized Approach to Cash Transfers (HACT) implementation (Recommendation 11).

The detailed assessment is presented below, per audit area:

A. Governance

1. Leadership

Issue 1 Lack of a structured risk management process

The 'UNDP Enterprise Risk Management Policy' highlights that UNDP is exposed to a variety of external and internal risks that create uncertainty regarding the realization of organizational goals. The Enterprise Risk Management System allows UNDP to manage these risks, and stipulates that reporting on risks is performed at all levels of the organization as part of the implementation of the work plan. Risk assessment is the overall process of risk identification, assessment, prioritization, taking action, monitoring and reporting. All offices are required to update the risk register on a quarterly basis.

The Office grew from approximately $13.5 million financial delivery in 2013 to approximately $37.8 million during the period under review, partly due to the surge of the Syrian refugee crisis and the growth of the Global Environment Facility portfolio. Capitalizing on new interventions and providing support to Syrian refugee's crisis, required the Office to consider more risk factors, and to be more responsive and proactive.

The audit noted that although a process for risk identification existed at the onset of project developments, there was a limited reporting on the risk status, the effectiveness of mitigating actions, and on the residual risks. Programme and Project managers interviewed understood the notion of risks and were aware of the risk levels their respective projects faced, however risk management was performed rather intuitively.

The audit team tested six projects for the systematic update of Atlas logs (risks, issues, and monitoring logs) and found that only one of the six projects was updated in 2017.

The above issues were due to lack of oversight and compliance with the organization's regulations and rules.

Weaknesses in monitoring and timely reporting of risks, combined with infrequent reviews, may lead to delays in the evaluation of key risk factors, and realization of the programmatic goals.

Priority	Medium (Important)
Recommendation 1: The Office should enhance risk management by documenting all the five steps of the risk management cycle, as defined in the 'UNDP Enterprise Risk Management Policy'.	
Management action plan: The Office will ensure that the risk management cycle is fully implemented in the future. **Estimated Completion Date:** June 2018	

B. Programme activities

1. Programme / project design and implementation

Issue 2 Weaknesses in programme and project monitoring mechanisms

The 'UNDP Programme and Operations Policies and Procedures' state that "UNDP as one partner is directly accountable for making its own agreed contribution toward the achievement of outcomes, and is also collectively responsible for monitoring the gradual achievement of the overall outcome". Monitoring is a continuous management function that provides decision makers with regular feedback on discrepancies between planned and actual results and implementation performance. All UNDP programming activities are required to adhere to monitoring standards, which include mandatory annual reviews of the UNDP Country Programme together with the national counterparts, as part of the United Nations Development Assistance Framework (UNDAF) annual review process.

At the project level, the 'UNDP Programme and Operations Policies and Procedures' have set the following monitoring tools: (i) each project should be visited at least once a year by a representative of the Office, for results validation and reporting on progress in the preparation of annual report. Field visits should be documented through brief and action-oriented reports, submitted within the week of return to the office; (ii) an annual review exercise, driven by the Project Board and involving all stakeholders should be organized to assess the extent to which progress is being made towards outputs.

There was no evidence of programme monitoring mechanism at the outcome level. Furthermore, the Office did not organize the annual review of its programme. At the same time, the UNDAF result group chaired by UNDP was not functioning. The key role of the group was to: (i) propose baselines and targets for outputs and outcomes for which baselines had not yet been established at the time of the UNDAF formulation; (ii) collect monitoring data; (iii) produce a quarterly report, summarizing results achieved and activities carried out in relation to their respective UNDAF outcomes and outputs as given in the results matrices.

With regards to project monitoring the following weaknesses were noted:

- Progress reports were not prepared on a quarterly basis for three out of four projects tested.
- Annual reviews of projects were not organized. The Office management explained that project staff regularly submitted quarterly reports to the Programme Unit. However, as stated above, quarterly reports were not prepared consistently. Furthermore, annual reviews are meant at a more strategic level and should involve national counterpart, and donors.

Inadequate programme and project monitoring may lead to issues and bottlenecks not identified and not resolved in a timely manner. In addition, it may be challenging to assess programmes and project results and achievements.

Priority	Medium (Important)

Recommendation 2:

The Office should reinforce programme and project monitoring by:

(a) putting in place a regular monitoring mechanism at the outcome level and better coordinate the UNDAF results group under its responsibility;

(b) systematically conducting and documenting annual reviews of its programme; and

(c) enforcing project managers accountability to systematically obtain quarterly progress reports and field visits reports, and to organize annual reviews of their projects.

Management action plan:

(a) As part of the United Nations Country Team agreement on the United Nations Sustainable Development Framework for 2018-2022, a results group under the Head of agencies has been set up and it will serve as the basis for identifying joint programming initiatives, monitoring and reporting.

(b) At the Country Office level, towards the new programme cycle, a result reporting, communication and advocacy team is being mobilized to improve delivery in this area; an organizational level monitoring and reporting framework will be developed and shared with all programmes to harmonize reporting and systematize annual review of programmes.

(c) The Office will enforce project managers accountability to systematically documenting quarterly progress reports, including field visits reports as well as organize annual reviews of their projects.

Estimated completion date: March 2018

Issue 3 Weaknesses in project initiation

The 'UNDP Programme and Operations Policies and Procedures' set out the following provisions for the definition and initiation of projects: (i) projects should be submitted to a Local Project Appraisal Committee (LPAC) for review and approval before implementation. The role of this Committee is to assess the project relevance in terms of scope, effectiveness, and contribution to national outcomes.

The key approval process of a project includes signing the project document by the Government, donors and UNDP, and for project under direct implementation modality and fast track procedure, obtaining prior authorization from the Director of the Regional Bureau.

The audit reviewed four projects (three directly implemented and one nationally implemented) representing 71 percent of project expenditures during the audit period totalling $16.2 million.

The review also tested compliance with UNDP's policy with regards to submission of new projects to LPAC for review and approval before implementation.

(a) Lapses in project approval and revision processes

The Office mobilized $13.4 million, $1.5 million and $12.7 million for 2014, 2015, and 2016 respectively, from three donors for the following projects: (1) Solid Waste Management, (2) Women Economic Empowerment, and (3) Prevention of Violent Extremism. The audit noted that no formal LPAC meeting was held to review and approve these three projects and no project documents were signed with the Government. Instead, the Steering Committee in March 2016 endorsed the receipt of funds from two out of the three donors.

(b) Absence of Regional Bureau's authorization

At the time of the audit, three out of the four projects reviewed were being executed under the direct implementation modality and operating under a fast track procedure. However, the audit found that the Regional Bureau's authorization was granted to one project only and it was valid until 31 December 2016. The Office management did not provide any evidence of extension.

(c) Assessment of implementing partners or responsible parties not documented or performed

For three out of the four projects reviewed there was no evidence that the assessments of implementing partners or responsible parties were conducted. As for the remaining project, two of the IPs were ministries. One ministry was not assessed whereas the other one was assessed in 2016, which is two years after the beginning of the project. There was no explanation provided for these exceptions.

Weaknesses in project initiation may result in ineffective implementation of projects, which may negatively affect the achievement of development results.

Priority	High (Critical)
Recommendation 3: The Office should improve project initiation by: (a) holding LPAC meetings for new projects before project implementation; (b) obtaining prior authorization from the Regional Bureau when directly implementing projects and operating under fast track procedures; and (c) conducting capacity assessment of implementing partners prior to implementing project activities.	
Management action plan: The Office will improve project initiation by: (a) Holding LPAC meetings on continuous basis and there will be more monitoring on the results of these meetings. In addition to that, consistent project revisions will be held to assess actual project progress in relation to the Annual Work Plan. (b) Implementing partners' capacities will be duly assessed before entrusting them with activities to be implemented; all agreements as per UNDP due process will be signed. (c) The Office will not create new outputs (projects in Atlas) until a project (Award in Atlas unless DIM authorisation is obtained. As per headquarters' response, DIM authorisation cannot be obtained at the AWARD level, and needs to be obtained for each individual output/project under the Award. **Estimated completion date:** January 2018	

C. Operations

1. Financial Resources Management

Issue 4 <u>Weak oversight in processing payments</u>

According to the 'UNDP 'Programme and Operations Policies and Procedures", an accounts payable voucher is raised upon the receipt of goods and services and the presentation of a vendor's invoice. It records a liability due to a vendor and expenses against a given chart of account. A payment may be cancelled in Atlas in case of rejection or return from the bank or of unreconciled cheque.

The Office processed 8,450 account payable vouchers amounting to $70 million during the audit period. Of which, the audit reviewed supporting documentation for 35 randomly selected vouchers amounting to $6.3 million. The following control weaknesses were noted:

(a) <u>Payments in Atlas without receipt of goods and services</u>

There were 14 payments amounting to $520,000 processed in Atlas prior to receipt of goods and services. These payments were processed in December 2016 to record liabilities in fiscal year 2016, and therefore overstated the Office's financial delivery. The Office management explained that these payments were made in anticipation of the receipt of goods and services, although they were cancelled in February 2017.

(b) Payments charged to the wrong chart of accounts

In four payment vouchers amounting to $385,000, the wrong chart of accounts or project number was used. In addition, the Office used the sundry account for payments made on behalf of other United Nations agencies, instead of recording them to their respective charts of account. The sundry account should be used for small expenses only and these expenses do not occur often.

(c) Advances recorded as expenditure

Under the Host Community Project, the Office signed responsible party agreements with five Non-Governmental Organizations totaling $1.7 million for the period from December 2016 to December 2017. The amounts paid to the NGOs were based on milestones, as detailed on the agreements. However, the Office immediately booked the amount paid to NGOs as an expense instead of recording them as advances in Atlas. This could have allowed for the timely monitoring and the proper use of funds and liquidation.

These exceptions were caused by lapses in due diligence exercised by the staff with oversight functions.

Failure to provide adequate financial oversight could to lead inaccurate financial reporting or to errors and irregularities not timely detected and corrected.

Priority High (critical)

Recommendation 4:

The Office should strengthen its oversight in processing payments by:

(a) raising account payable vouchers in Atlas only upon receipt of goods and services and the presentation of a vendor invoices;

(b) providing training to staff and establishing standard operating procedures to reduce the level of errors in recording payments; and

(c) recording payments made to Non-Governmental Organizations under the Host Community Project as an advance in Atlas.

Management action plan:

(a) In the future, no account payable vouchers will be raised prior to receipt of goods and invoices.
(b) Trainings will be conducted to newly hired staff including project staff to ensure minimal error in recording payments.
(c) Office takes note of the issue and will implement the recommendation.

Estimated completion date: January 2018

Issue 5 Weaknesses in the management of project cash advances

According to the 'UNDP 'Programme and Operations Policies and Procedures'', a project cash advance (PCA) is a one-time advance issued to an appointed PCA Custodian for a specific one-time project activity that takes place in remote locations. The maximum cash advance is $25,000 per custodian at any given point of time, unless otherwise approved by the UNDP Treasurer. The PCA must be recorded to account 16108, closed and fully accounted for actual expenses within seven days after the last day of the one-time project activities.

The Office used the expenses account 7xxxx series instead of account 16108 to record all the project cash advances processed during the audit period. As such, it was difficult to determine the volume of the project cash advances processed by the Office, and to assess the timeliness of their closure and accounting for actual expenses.

The audit team identified and reviewed seven payment project cash advances amounting to $181,000, and noted the following weaknesses:

- The Office did not appoint Project Cash Advance Custodians for any of the identified cases.
- There were three instances that the Office exceeded the project cash advance threshold of $25,000 and it did not seek approval from UNDP Treasurer as required.
- There was no independent oversight or reconciliation of the financial reports for all seven cases. As such, there was no assurance that all funds disbursed were accounted for.

These issues were caused by an inadequate oversight and a lack of understanding of the project cash advance modality.

Lack of monitoring and properly reconciling and recording the expenses associated with the PCA may lead to not accounting for all cash disbursed.

Priority	Medium (Important)
Recommendation 5: The Office should strengthen the management of project cash advances by: (a) recording all project cash advances to account 16108 and liquidating advances within 7 days after the last day of the one-time project activities; (b) appointing Project Cash Advance custodians and seeking prior approval from UNDP Treasury for all project cash advances greater than $25,000; and (c) reconciling the project cash advance financial reports.	
Management action plan: (a) Project cash advance modality will be implemented using the correct account -16108 and expenses will be reconciled accordingly. (b) Project Cash Advance custodians will be appointed with the approval of Treasury for all project cash advances greater than $25,000. (c) Trainings will be conducted to newly hired staff including project staff to ensure proper reconciliation of the project cash advance reports. **Estimated completion date:** January 2018	

Issue 6 Inadequate implementation of Direct Project Costing

Direct project costs are organizational costs incurred in the implementation of a development activity or service that can be directly traced and attributed to that development activities (projects and programmes) or services.

According to UNDP's policies and procedures, Country Offices can create a "stand-alone" project in Atlas to facilitate recording of Direct Project Costing (DPC). This option is more appropriate for Country Offices that manage a large portfolio of development projects where introducing separate chart of account lines for each project may be cumbersome. The "stand-alone" project requires pre-funding, at least quarterly reconciliations, and reversal of expenditure between the stand-alone project and the development projects. Finally, the guidelines stipulate that the Resident Representative and all posts at D1 level and above cannot be multi-funded.

The Office established a "stand-alone" project in Atlas for implementation of Direct Project Costing (DPC).

The audit reviewed the Office's implementation of DPC and noted the following shortcomings:

(a) Absence of regular monitoring and reconciliation of the "stand-alone" project

In 2016, the "stand-alone" project had not been reconciled, the balance of $108,000 had not been cleared at year end, and expenses had not been charged against all development projects identified in the workload study.

There was also no evidence of periodic reconciliations to review the actual direct project costs incurred in the "stand-alone" project against the budgeted amounts. As of October 2017, the "stand-alone" project had a balance of $414,693, out of a total budget of $627,429 for 2017.

(b) Rationale for charging staff costs on DPC was not adequately substantiated.

There were inconsistencies in the DPC charged to projects. As illustrative examples:

- Two human resources staff and two procurement staff were charged to projects that had their own human resources and procurement personnel.
- The 2017 rental costs for all projects amounting to $30,508 were charged to one project only. The Office management explained that this was due to budget constraints of some projects.
- The Resident Representative post was charged to the different projects. The Office management explained that this was the advice they had received from the Regional Bureau.

These shortcomings were due to lack of oversight when formulating and charging the DPC.

Incorrect implementation of DPC may impact the accurate reporting of project expenditures.

Priority	Medium (Important)

Recommendation 6:

The Office should improve the implementation of Direct Project Costing by:

(a) regularly reconciling direct project cost amounts in the stand-alone project, clearing its balance at year end, and charging expenses to the relevant projects; and

(b) updating the workload study based on the allocation of time spent on projects and removing ineligible post costs from the direct project costs.
Management action plan: (a) The workload study will be updated based on time spent on projects. All ineligible posts are already removed from DPC funding line for 2018. The Office will plan a training and capacity building of team on DPC implementation in consultation with the Regional Hub. (b) The Office will reconcile and clear stand-alone projects on a yearly basis starting from December 2017. **Estimated completion date:** December 2017

2. Procurement

Issue 7 Weaknesses in procurement processes

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.

Purchase orders represent legally binding commitments entered with third parties for the delivery of goods and services procured by UNDP. As such, UNDP purchase orders may not be raised for procurement activities undertaken by implementing partners such as civil society organizations.

Also, the 'UNDP Programme and Operations Policies and Procedures' require Business Units to establish adequate internal controls within the process for receiving and safeguarding procurement offers.

The audit reviewed 10 vendor forms out of 1,939 approved vendors in Atlas for the verification of completeness and accuracy of information with the supporting documents. Furthermore, the audit reviewed 39 (amounting to $8.7 million) out of 972 purchase orders (amounting to $24 million) processed between January 2016 and June 2017.

(a) Inadequate vendor management processes

For all 10 vendor forms reviewed, there was no evidence that the Office performed due diligence (e.g. confirmed company registration with government authorities; checked financial statements, personal identity documents, and annual statements; and verified the entity against the United Nations Security Council 1267 Committee's list of terrorists and the UNDP suspended vendors list) before the vendor was approved in Atlas.

Furthermore, the audit noted that the Office developed its own vendor form which did not include the "For Office Use" section of the standard vendor form. This prevented the Office management from signing off on the form after validating that the supporting documentation submitted. The Office commented that the form they implemented was more user friendly for vendors and had the advantage of speeding up the overall vendor management process. However, the audit noted that this practice has contributed to a weakened oversight of the vendor management process.

(b) Weaknesses in contract management and vendors sourcing

- The Office incorrectly processed four purchase orders totaling $1 million to cover activities undertaken by civil society organizations. The grants payment modality should have been used instead of raising purchase orders.
- The vendor offers were not duly safeguarded as they were stored in a room which was not secured to prevent unauthorized accesses to the files. Furthermore, there was no mechanism to segregate the receipt of the bids (physical or email) from the procurement unit.

Priority	Medium (Important)
Recommendation 7: The Office should strengthen procurement processes by: (a) using the UNDP standard vendor form and completing all sections, and documenting due diligence performed prior to the approval of the vendor profile in Atlas; (b) using the grant payment modality when disbursing funds to civil society organizations; and (c) securing all offers received from vendors during a procurement process.	
Management action plan: (a) The Country Office will amend the local vendor form to include necessary actions for verification and approval of vendors information in line with UNDP standard vendor form (b) The Office will use the grant payment modality for payments to civil society organizations. (c) The Office will put in place a separate cabinet with limited access, to ensure safekeeping of bidding documents. **Estimated completion date**: January 2018	

Issue 8 Weaknesses in the management of individual contracts

The engagement of individual contractors under the individual contract modality is subject to the general procurement principles established by the 'UNDP Financial Regulations and Rules', namely, best value for money fairness, integrity and transparency, effective competition, as well as the interests of UNDP. The policy stipulates that for contracts over $5,000, a minimum of three qualified offers must be considered. Under certain circumstances, and subject to proper justification, it may be appropriate to consider a single offeror for the selection. UNDP's Financial Rule No. 121.05 allows only nine permissible justifications for direct contracting.

During the audit period, the Office recruited 154 individual contractors. The audit noted the following weaknesses in the selection process of 30 consultants sampled for review:

- Seven individuals were directly contracted for a total of $150,000, without any supporting evidence to demonstrate that the conditions for direct contracting as described in Financial Rule 121.05 were applicable. No further justification was provided as to why the requested services could not be objectively sourced from various candidates and evaluated competitively. Furthermore, all these direct procurement cases were approved by the requesting units instead of the Office's staff with approving procurement authority.

  Similarly, the Office had two other procurement cases amounting to $64,000 where direct contracting was used. However, there was no supporting evidence to demonstrate that conditions for direct contracting as stipulated were met.

- The hiring processes of four consultants, with contract value of over $5,000 each, had less than three candidates shortlisted for desk reviews. There was no documented evidence that the Office attempted to ensure a minimum of three candidates.

Most of the issues noted above were due to lack of adequate oversight mechanisms in place to spot and mitigate risks associated with the selection of individual contractors.

By not complying with the individual contractor recruitment policies and procedures, there is no assurance that the most qualified candidates will be selected and that best value for money, fairness, integrity and transparency in the competitive process will be achieved.

Priority	Medium (important)
Recommendation 8: The Office should improve individual contract management by: (a) maintaining adequate documentation for the justification of direct contracting; and (b) soliciting a minimum of three qualified offers for contracts over $5,000.	
Management action plan: Since January 2017, all justifications for direct contracting are signed by the Resident Representative or the Country Director. The Office will comply with UNDP policies on individual contract management and direct contracts will only be done if they met one of the nine permissible justifications in UNDP's Financial Rule No. 121.05. The note to the file will be signed by the Resident Representative or the Country Director. **Estimated completion date**: March 2018	

3. Human Resources Management

Issue 9 Lapses in human resources management

The 'UNDP Recruitment and Selection Framework' states that the selection of candidates will follow a visible and fair competitive process, screening will be conducted with professional rigor, and candidates are measured against clearly articulated criteria and competencies. Staff members are required to complete seven UNDP mandatory training courses within six months from their initial appointments.

The audit reviewed the human resources management in the Office and noted the following weaknesses:

(a) <u>Candidates not meeting the minimum required experience</u>**.** The audit reviewed records for five recruitments conducted by the Office and noted two instances where the selected candidates did not meet the minimum required experience for the posts.

(b) <u>Low completion of mandatory training.</u> There were 13 out of 31 staff members (42 percent) that had not completed the seven mandatory training courses. The Office management explained that efforts were being made to ensure full compliance.

These issues were caused by an inadequate oversight of the human resources processes.

Failure to properly manage its human resources may lead to hiring unqualified candidates, and to inefficient use of resources.

Priority	Medium (important)
Recommendation 9: The Office should enhance human resources management by: (a) ensuring that only candidates meeting the minimum required experience are selected; and (b) continuing its efforts so that all mandatory training courses are completed by all staff members.	
Management action plan: The Office will implement the following actions: ▪ In the future composition of interview and desk review panels, non-UNDP staff will participate (in particular, colleagues from other UN agencies) to offer an objective and substantive perspective. ▪ Each recruitment and selection will go through the full competitive standard process starting with vacancy announcement, unless for cases where competitive selection is considered not practical. ▪ HR practitioner will be performing the initial longlisting. HR practitioner will assign another long-list from either Programme or Operations (depending on the advertised post) to have another review of the initial longlisting and validate the applications relevancy of experience to the post. ▪ The Office will continue its efforts so that all mandatory training courses are completed by all staff members. **Estimated completion date**: January 2018	

Issue 10 Weaknesses in travel management

The UNDP travel policy guidelines should be applied with respect to the route, mode and standard of accommodation. The analysis leading to the travel decisions including payment of travel entitlements must be properly documented. Upon return to the duty station, travel claim (F10) forms must be completed within 10 business days to document the travel, irrespective of whether a refund or reimbursement is due. The 'UNDP Programme and Operations Policies and Procedures' further state that for any travel three quotations are required. In case an office is unable to obtain three itineraries to demonstrate a competitive process, adequate justification should be maintained on file.

During the audit period, the Office processed 74 travel purchase orders valued at approximatively $60,000. The audit reviewed 15 out of 74 travel purchase orders, and noted the following exceptions:

- Trip analyses not documented. Trip analyses were not properly documented for all 15 travel cases reviewed. Further, in 10 out of 15 cases the Office only had one quotation.
- F10 forms not completed. F10 forms were not submitted for 7 out of 15 cases reviewed. Therefore, there was no assurance on the validity of the travel payments made.

In 6 out of 8 cases for which F10s were completed, proof of travel, including boarding passes and the official itinerary, as well as letters from the Office justifying payments of higher Daily Subsistence Allowances (for special hotel rates) were not attached. Based on the audit team's review of available supporting documents, the travel entitlements for two cases were overpaid by $1,414 and $1,856, respectively.

Failure to undertake a trip analysis may result in selecting more costly routes. Inadequate management of travel may lead to inconsistencies in granting or abuse of travel entitlements among travellers.

Priority	Medium (Important)
Recommendation 10: The Office should strengthen travel management by: (a) ensuring that trip analyses are undertaken and results are properly documented; and (b) F10 forms are completed with adequate supporting documents, and submitted within the required timeframe.	
Management action plan: (a) The Office will ensure that trip analyses are properly documented. (b) The finance unit will have a separate tray to keep record of all DSA payments made to staff so that they can follow up regularly on whether F10 claims have been submitted. If F10 claims are missing a new DSA payment for a new travel will not be issued. The two cases of over payments are going to be recovered from the relevant staff. **Estimated completion date:** December 2017	

D. United Nations Leadership and Coordination

Issue 11 Inadequate implementation of Harmonized Approach to Cash Transfers

The 'Framework for Harmonized Approach to Cash Transfers' (HACT) requires that participating United Nations agencies agree on and coordinate HACT activities, to reduce the burden that the multiplicity of United Nations procedures create 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; (c) assurance plan; and (d) spot checks.

(a) Inadequate spot checks

- The review of six spot check records indicated that the 2016 Assurance Plan was not adequate when compared to the result of the micro assessment. Based on the conclusion of the micro-assessment, the Office had 11 low-risk and 1 high-risk partners. Low-risk and high-risk partners were to be audited at least once and three times a year, respectively. However, only two spot checks were conducted in 2016. In 2017, only two spot checks were completed, as of September 2017.

(b) Payment modality not in coherence with the conclusion of the micro-assessment

- Although a number of partners were assessed as low risk based on the micro-assessment, the Office still did not use the cash advance modality and proceeded with making direct payments to vendors or recipients. There was no supporting documentation available to justify the payment modality followed.

The above issues were due to staff inadequate understanding of the HACT guidelines. This prevented the Office's ability to ensure that funds entrusted to the partners are adequately safeguarded and disbursed in accordance with agreed-upon work plans.

Priority	Medium (Important)
Recommendation 11 The Office should enhance the Harmonized Approach to Cash Transfers implementation by conducting adequate spot checks and aligning the process of disbursing funds to the outcome of the micro-assessment or properly documenting the reasons for not doing so.	
Management action plan: (a) The Office will conduct spot checks and align the advances as per micro-assessment, but there are cases when the Implementing partners refuse to use the cash advance modality and insist on "support to national implementation modality", where the funds are kept with UNDP and payments are authorized by the implementing partner through FACE forms signed by the implementing partners. **Estimated completion date:** June 2018	

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>.