

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP COUNTRY OFFICE

IN

TRINIDAD AND TOBAGO

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Report on the Audit of UNDP Trinidad and Tobago Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Trinidad and Tobago from 11 to 22 June 2018. 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 2017 to 31 March 2018. The Office recorded programme and management expenses of approximately \$9.9 million. The last audit of the Office was conducted by OAI in 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/some improvement needed**, which means, "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." The rating was due to weaknesses in the payment process.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following:

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

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Weaknesses in payment
process (Issue 3)

In the absence of an online transmission option from Atlas and the bank for making payments, the Office utilized an E-banking web application from a local bank to make disbursements online. There were internal control weaknesses and non-compliance issues noted, such as: (a) The procedure for the use of the E-banking web application was not documented through a standard operating procedure. It was also not reviewed and cleared by Treasury. Further, the agreement with the local bank for the E-banking services had not been cleared by the Legal Office. (b) Since the E-banking web application allowed for vendor creation, there could be differences with vendor profiles in Atlas (enterprise resource planning system of UNDP). Further, vendors were created by staff members within the Finance Unit without requiring any approval, which was not in line with the Internal Control Framework. (c) The Office did not match payment information from Atlas against the information entered into the E-banking web application prior to the disbursement of funds. The control was carried out on a post-facto basis in the preparation of the bank reconciliation.

Recommendation: The Office should enhance its payment process by: (a) establishing a standard operating procedure for using the E-banking web application that is reviewed and cleared by Treasury; and ensuring that the agreement with the bank covering the use of the E-banking service and conditions is cleared by the Legal Office; (b) developing an automated application to transmit payment information from Atlas to the E-banking web application to eliminate the manual data entry, including reviewing the administrator roles of the E-banking web application; and (c) when using the web application, comparing Atlas payment information with the E-banking web application information before approving payments to release funds.

Management comments and action plan

The Resident Coordinator/Resident Representative accepted all five recommendations and is in the process of implementing them. Comments and/or additional information provided have 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 Port of Spain, Trinidad and Tobago (the Country), covered Aruba, Curaçao, Saint Maarten and Trinidad and Tobago and at the time of the audit fieldwork, consisted of 11 staff members, 8 service contract holders and 16 United Nations Volunteers. The Country Programme Document under implementation was aligned to the 2017-2021 United Nations Multi-Country Sustainable Development Framework (MSDF) and the UNDP Strategic Plan. The MSDF was formulated jointly in 2015 by the United Nations system and 18 Governments of the English and Dutch-speaking Caribbean sub-region. National consultations in 15 countries were organized to ensure that the development challenges identified in the Common Multi-Country Assessment were consistent with national development needs.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance/Leadership, ethics and values. Key controls were in place. Overall, staff were aware of the Office's priorities, challenges and control objectives. No reportable issues were identified.
- (b) Governance/Corporate external relations and partnerships. Implementing partners, United Nations agencies, and donors with whom OAI met during the audit mission expressed their appreciation of the Office as a valued development partner.
- (c) Operations/Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately. The Office conducted a partial test of the Disaster and Recovery Plan and was in the process of adjusting it to address the results obtained.
- (d) Operations/General administration. Records and controls were adequate for asset management. The Office was well administered.
- (e) Operations/Safety and security. The Office, in coordination with the Regional Bureau for Latin America and the Caribbean, conducted a seismic assessment of the building, which showed that the UN House is suitable for the Office's premises.
- (f) United Nations leadership and coordination. No reportable issues were identified. The audit noted that key controls were in place.

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

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

High priority recommendation:

- (a) Enhance payment process (Recommendation 3).

Medium priority recommendations, arranged according to significance:

- (a) Improve project management (Recommendation 1).
- (b) Strengthen project monitoring and risk management (Recommendation 2).
- (c) Improve the management of service contracts (Recommendation 5).
- (d) Improve management of individual contracts (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Programme

Issue 1 Weaknesses in project management

The 'UNDP Programme and Operations Policies and Procedures' stipulate that to achieve project outputs, each project should have a results and resources framework clearly formulated in the project document and approved by the appropriate authority, in line with the delegation of authority policy. Sound project management starts with project document formulation, implementation of activities to achieve the agreed outputs, monitoring, evaluation and closing of projects. Project management information should be stored in Atlas (enterprise resource planning system of UNDP), which is the corporate system used to process financial and operational data for reporting to donors and other stakeholders.

The audit team reviewed a sample of 6 development projects with 7 outputs (2 directly implemented and 4 nationally implemented, representing 65 percent of total programme delivery) and the Engagement Facility¹, out of a total of 16 projects with 21 outputs. The following weaknesses were noted:

- The results and resources framework contained results, indicators, baselines and targets that were not SMART (specific, measurable, attainable, relevant and trackable).
- The Social and Environmental Screening Procedure was not followed for five out of six projects because the Office misunderstood that this procedure was only applicable to environmental projects.
- The Office was providing support services to all nationally implemented projects without a signed Letter of Agreement, thus compromising the cost recovery of the services rendered. The Office explained that given the Net Contributing Country status, the government ministry was not in favor of signing Letters in addition to the project document. Without the required Letter of Agreement, the recovery of support service costs provided was not ensured.
- Engagement Facility funds were not used for its intended purposes. The Engagement Facility was also used to pay for audit fees of other projects and one mission of a project manager.

If the weaknesses above are not addressed, the Office may not achieve intended project outputs. This may negatively affect UNDP's reputation and may result in the loss of confidence from stakeholders and the host Government.

Priority	Medium (Important)
Recommendation 1:	
The Office should improve project management by:	
<ul style="list-style-type: none"> (a) improving the project formulation and revision stages ensuring that results are SMART and that the implementing partner is clearly designated; (b) following the Social and Environmental Screening Procedure for all projects; 	

¹ The Engagement Facility provides a rapid and flexible response mechanism to support policy results and test innovations with scaling-up potential and should support results identified in the Country Programme Document. The activities that the Engagement Facility can fund include consultant, minor equipment purchases, publications, workshops, or research ties between institutions.

- (c) seeking advice from the Regional Bureau for Latin America and the Caribbean and Legal Office to explore viable solutions in regard to the required Letters of Agreement for nationally implemented projects; and
- (d) ensuring that the Engagement Facility is only used for its intended purposes.

Management action plan:

The following actions will be implemented by the Office to address the concerns:

- (a) Project Formulation: A Project Review Committee will be established and will be chaired by the Assistant Resident Representative, to clear all project documents and substantive project revisions before submission to the Local Project Appraisal Committee. A memo detailing the process will be circulated by the Assistant Resident Representative to the programme team. The memo will focus on (i) the creation of a checklist, which will include outcomes and outputs with the theory of change; (ii) SMART, results-oriented indicators with specified baselines and targets with identified data sources; and (iii) the convening of a training session on the *Handbook on Planning, Monitoring and Evaluating for Development Results*.
- (b) Social and Environmental Screening Procedure: The Assistant Resident Representative and the programme team will conduct a portfolio review of all the projects in the Office, ensuring that projects that have more than one (1) full year of implementation time ahead undergo the Social and Environmental Screening Procedure. The resulting report will be annexed to the project document. Further, staff will be referred to the Social and Environmental Screening Procedure and Toolkit for guidance during the formulation stages of projects.
- (c) Letter of Agreement: The Office will contact the Bureau to seek advice on this matter. The history and context of the absence of these letters will be explained in detail to Regional Bureau for Latin America and the Caribbean, to allow the Bureau to make an informed decision. The Resident Representative will take the lead on this with support from the Operations Manager and Assistant Resident Representative.
- (d) Engagement Facility: A standard operating procedure will be established by the Assistant Resident Representative, with support from the Operations Manager, for the use and management of this Facility. The standard operating procedure will be communicated to all staff.

Estimated completion date: March 2019

Issue 2 Weaknesses in project monitoring and risk management

Programme and project monitoring is driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making purposes. Monitoring relates to pre-identified results in the development plan that are achieved throughout project implementation, where baselines, indicators, targets, risks and measurements of results are clearly defined and regularly monitored. Monitoring frameworks at the project level also ensure that projects are implemented within the agreed timeframe and are timely closed to capture the lessons learned.

The following weaknesses in project monitoring and risk management were identified during the review of six sampled projects:

- Although the Office conducted the project quality assessments. The assessment results included actions required from the Office. However, they were not completed.
- The monitoring framework of five projects was not adjusted to project needs, as required. The Office used the minimum suggested monitoring actions from the project document template, without considering the size or complexity of the projects.
- In five projects, the progress reports did not include the results-oriented information that would allow the validation of the progress towards agreed targets.
- The risk registers in Atlas of four projects were not updated at least once a year since risk assessments were not conducted as required by the 'UNDP Programme and Operations Policies and Procedures'.
- The Office did not have a field visit plan for the portfolio and field visits were not documented or were insufficiently documented with narrative information and lacking a clear purpose of the visit and results-based information.
- The annual work plans of five projects submitted to the project boards had no results-based information such as baselines, targets for the year, and indicators of the outputs of the project.
- Lessons learned for five projects were not consistently captured and documented, thus preventing the Office from making necessary adjustments or from taking corrective actions.

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

Priority	Medium (Important)
Recommendation 2: The Office should strengthen project monitoring and risk management by: <ul style="list-style-type: none"> (a) ensuring that recommendations from project quality assessments are implemented; (b) adjusting the monitoring framework according to the complexity and needs of each project, including conducting risk assessments and results-based field visits; and (c) establishing annual work plans and project progress reports, so as to include results-based information, monitor performance, and capture lessons learned. 	
Management action plan: The following action will be implemented by the Office: A monitoring and evaluation capacity strengthening effort will be put in place, for the Office to have surge expertise and a substantive legacy on monitoring and evaluation (M&E). To facilitate this, a consultant will be contracted for a period of six months to address the recommendations. The consultant will work under the supervision of the Assistant Resident Representative. Specifically, the consultant will be tasked with the following primary responsibilities: <ul style="list-style-type: none"> (a) Identification of four to five major ongoing projects, from the financial volume or risk assessment perspective within the Office's portfolio and build a robust M&E framework for each of those projects. 	

- (b) Planning, coordination and provision of technical support to Programme Officers conducting field visits, to ensure that the emanating reports reflect a results-based approach that are both qualitative and quantitative in nature.
- (c) Establishment of M&E work plans for each Programme Manager, which will include progress reports, risk logs and lessons learned, all utilizing the results-based management approach.
- (d) Benchmarking the frequency of M&E deliverables (reports, visits, assessments) and report back to the Assistant Resident Representative on the implementation status.

The consultant will work hand in hand with the M&E focal point in the Office, develop capacities and transfer knowledge and M&E expertise at the end of the assignment.

Estimated completion date: March 2019

B. Operations

1. Financial Resources Management

Issue 3 Weaknesses in payment process

According to the UNDP's Treasury Advisory issued on 13 May 2016, procedures for use of the electronic bank interface should be documented through a standard operating procedure reviewed and cleared by Treasury. According to the Internal Control Framework, no single person can exercise both second authority (verifying officer) and third authority (disbursing officer) when approving transactions. As second authority, approving managers must be independent from the disbursing officer.

In the absence of an online transmission option from Atlas and the bank for making payments, the Office utilized an E-banking web application from a local bank to make disbursements online. The following internal control weaknesses and non-compliance issues were observed:

- The procedure for the use of the E-banking web application was not documented through a standard operating procedure. It was also not reviewed and cleared by Treasury. Further, the agreement with the local bank for the E-banking services had not been cleared by the Legal Office.
- For data entry in the E-banking web application, the Finance Associate selected the vendor name, wrote a reference for the payment and typed the amount to be paid. Once the batch of payments was ready for processing, a date was selected for making the payments effected once approved. This procedure was not in line with a corporate requirement from Treasury that payment instructions may never be entered manually in a bank's online system.
- Since the E-banking web application allowed for vendor creation, there could be differences with vendor profiles in Atlas. Further, vendors were created by staff members within the Finance Unit without requiring any approval, which was not in line with the Internal Control Framework.
- The Office did not match payment information from Atlas against the information entered into the E-banking web application prior to the disbursement of funds. The control was carried out on a post-facto basis in the preparation of the bank reconciliation. Once all the information for each voucher was entered in

the E-banking web application, payments were approved by the authorized bank signatories (two signatures required) to release funds.

- There was a duplication of efforts because information for each payment was being entered by the Office's Finance Associate in the E-banking web application as there was no link between Atlas and the web application.

Insufficient controls to verify that payments approved in Atlas match with those sent to the bank for release may result in unauthorized payments effected, while inadequate segregation of duties may jeopardize the effectiveness of the internal control system, which can lead to undetected errors.

Priority	High (Critical)
Recommendation 3: The Office should enhance its payment process by: <ul style="list-style-type: none"> (a) establishing a standard operating procedure for using the E-banking web application that is reviewed and cleared by Treasury and ensuring that the agreement with the bank covering the use of the E-banking service and conditions is cleared by the Legal Office; (b) developing an automated application to transmit payment information from Atlas to the E-banking web application to eliminate the manual data entry, including reviewing the administrator roles of the E-banking web application; and (c) when using the web application, comparing Atlas payment information with the E-banking web application information before approving payments to release funds. 	
Management action plan: Office management agrees with the observations and recommendations expressed in the report in the area of financial management. The critical nature of this observation is well noted and will be treated as an urgent issue, with the implementation process being initiated in July 2018. The following actions will be implemented by the Office to address OAI's concerns: <ul style="list-style-type: none"> (a) The Operations Manager will contact the Barbados Office, which has developed an interface between Atlas and the E-banking application, to get a thorough appreciation of the requirements and the resources needed to develop a similar interface for the Office. (b) The Operations Manager will develop a brief budgeted work plan and secure some funds for the development of the automated application and relevant standard operating procedures and present to management. (c) Utilizing advice received from Treasury and the Legal Office, the Office will work with a consultant and its bank to develop an E-Banking application. (d) The Office will develop and receive approval from Treasury, for standard operating procedures which will detail the procedures for using the automated application. <p>Specifically, to address recommendation (c), the Office will circulate a memo reminding all approvers and the Finance Unit, that all ACH payments that are submitted for approval must be accompanied by Atlas payment documentation to facilitate a comparison between the data generated by Atlas and the data entered in the E-banking web application. The memo will emphasize that approvers are required to compare these two sources of data and should not approve ACH payments in the absence of this supporting information. The Office already contacted the Regional Bureau for Latin America and the Caribbean on this matter and has</p>	

already received best practices of other offices; the Bureau has also assured the Office that it will receive their continued support along with that of Treasury's.

Estimated completion date: January 2019

2. Procurement

Issue 4 Deficiencies in management of individual contracts

The individual contract modality is used for the procurement of services of an individual to perform time-bound and non-staff related tasks aimed at delivering clear and quantifiable outputs, which must be clearly identified in the contract and directly linked to payments. The engagement of individuals as contractors under the individual contract modality is subject to the general procurement principles of: (i) best value for money; (ii) fairness, integrity and transparency; (iii) effective competition; and (iv) best interests of UNDP.

Where the costs of undertaking a competitive procurement process outweigh the benefits, the application of non-competitive methods, such as direct, sole source or single source contracting could be applied, provided the criteria set forth in UNDP Financial Rule No. 121.05 are met.

OAI identified the following:

- For the period reviewed, the Office had issued 65 individual contracts and the audit selected 16 for review. Out of 16 individual contracts, 14 were contracted under direct contract modality. However, the justification for direct contracting was not clearly documented to support the actions taken by the Office.
- Two consultants were hired under individual contracts to carry out recurrent functions. However, a service contract should have been awarded.
- For some key functions (i.e., temporary finance and procurement support due to absence of staff), the individual contract modality was used, which was not in compliance with the Internal Control Framework. A temporary appointment modality should have been used for back stopping key posts.

OAI found the following non-compliance related issues with the Individual Contract Policy:

- The Office did not make the distinction between staff and non-staff entitlements when assessing the per diem and travel costs in the lump sum approach, as required.
- In reviewing the breakdown, the audit team noted that three international consultants budgeted for business class air fare. The procurement unit did not evaluate the best value for money, for the breakdown of the lump sum submitted in the financial proposal.
- Individual contractor evaluations were not always completed prior to final payment of services; for the sample reviewed, two such evaluations were identified.

Deficiencies encountered in the contracting of consultants may result in financial and reputational risks for the Office.

Priority	Medium (Important)
Recommendation 4: The Office should improve the management of individual contracts by: <ul style="list-style-type: none"> (a) following the criteria set forth in Financial Rule 121.05 when using a direct contract modality, including clearly documenting the justification for doing so; (b) complying with the correct use of the individual contract as stipulated in the Individual Contract Policy; and (c) ensuring that a distinction of non-staff entitlements is made in assessing travel costs to assure adequacy of payment and that final payments are not processed without the individual contract evaluation. 	
Management action plan: The following actions will be implemented to address the concerns: <ul style="list-style-type: none"> (a) A memo will be issued to all staff reminding them of UNDP's individual contract policy and Financial Rule 121.05. Specific mention will be made of the criteria governing the use of direct contracting and the conditions under which an individual contractor can be utilized as opposed to UNDP's alternative contractual modalities. The memo will be discussed at the next staff meeting for feedback and questions and answers, to allow for a greater appreciation of the rules and policies pertaining to individual contract management. (b) A training will be facilitated by the Procurement Associate and the Operations Manager for all staff. The training will underscore the issues raised in the memo, as well as enhance staff awareness of the new contractual module which, among other things, ensures that final payments cannot be processed in the absence of the completion of an evaluation for individual contractors. The training will also address the evaluation of financial proposals submitted by individual contractors to ensure value for money, with particular attention being paid to travel costs budgeted by consultants. 	
Estimated completion date: November 2018	

3. Human Resources Management

Issue 5 Weaknesses in management of service contracts

The Service Contract Guidelines stipulate that offices must ensure that individuals under these contracts are covered under a pension plan. In countries where no pension scheme is in place or where there is only a national scheme that does not permit direct participation by the service contract holder, a lump sum equivalent of 8.33 percent of the monthly remuneration rate is provided. This option is granted by the Director, Office of Human Resources, on an exceptional basis for the duration that no pension scheme is in place and is subject to review on an annual basis. The service contract holder must also submit evidence of payments made to a pension fund.

The Office chose the option to pay a lump sum equivalent of 8.33 percent of the monthly remuneration rate. A Certificate of No Contest was signed by each service contract holder. However, there was no evidence of

approval from the Director, Office of Human Resources, or of annual reviews of this pension option by the Office. Further, service contract holders did not provide evidence of payments to a pension fund.

In addition, the Office granted all service contract holders 2.5 days of leave per month. However, this action was only based on a harmonization with the Office's staff annual leave entitlement. During the period reviewed, the Office had not conducted a salary survey for service contract holders, which could have determined the appropriate number of leave days to be granted. The Office indicated that it was waiting for funding to conduct a salary survey to adequately substantiate the annual leave entitlement for service contracts.

Inappropriate use of the lump sum pension payment scheme and unsupported annual leave entitlements could result in financial losses for UNDP or for the service contract holders.

Priority	Medium (Important)
Recommendation 5: The Office should improve the management of service contracts by: <ul style="list-style-type: none"> (a) seeking approval from the Director, Office of Human Resources, to use a lump sum scheme for pension benefits for service contract holders, and ensuring service contract holders provide evidence of pension fund payments; and (b) conducting a survey for service contract holders to determine, among other things, the appropriate annual leave entitlement for service contract holders. 	
Management action plan: Office management concurs with the observations and recommendations and will strengthen the controls over service contract holders having to provide evidence of pension fund payments. In addition, the Office will conduct and complete a salary survey by 31 December 2018.	
Estimated completion date: January 2019	

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 not included in this report.