DESK REVIEW

OF

UNDP COUNTRY OFFICE

IN

NICARAGUA

Report No. 1989
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United Nations Development Programme
Office of Audit and Investigations

Report on the Desk Review of UNDP Nicaragua
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a desk review of UNDP Nicaragua (the Office) from 16 July to 31 August 2018. Following the decision by the Government to cease operations with UNDP, the review aimed to assess the adequacy and effectiveness of the risk management and control processes relating to the following areas and sub-areas:

<table>
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<tr>
<th>Audit area/sub-area</th>
<th>Objectives</th>
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<tr>
<td>Programme/Programme/Project Design and Implementation</td>
<td>To assess whether project closure was properly undertaken, to include donor refunds.</td>
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| Operations/Financial Resources Management               | To assess whether the Office’s financial resources were adequately managed with regards to:  
  (a) Account receivables, income adjustments and status of refunds to donors.  
  (b) Accounts payable, adjustments, commitments and pending payments (if any). |
| Operations/Human Resources Management                   | To assess whether staff separations were properly undertaken, including benefit settlements of staff members and service contractors, and to assess any liabilities arising from those separations. |
| Operations/Staff and Premises Security                  | To assess the status of existing assets and transfer or disposals, including the UNDP premises.                                           |
| United Nations Leadership and Coordination              | To assess common services and cost recovery from UN agencies for the use of premises and services rendered by the Office. No further work was done in this area since there was no United Nations Development Assistance Framework or Country Programme Document in place. Each UN agency operated independently, based on individual programmatic arrangements with their counterparts within the Government. |

The desk review covered the activities of the Office from 1 January 2016 to 31 March 2018. The Office recorded programme and management expenses of approximately $10.4 million. The last audit of the Office was conducted in 2013.

The desk review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.
Overall audit rating

OAI assessed the Office as **satisfactory**, which means "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."

**Key recommendations:** Total = 2, high priority = 0

The review did not result in any high (critical) priority recommendations. There are two medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." These recommendations include actions to address delays in project closure, and assets pending to be disposed.

The two recommendations aim to ensure compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1), and the safeguarding of assets (Recommendation 2).

**Management comments and action plan**

The Deputy Regional Director of the Regional Bureau for Latin America and the Caribbean accepted the two 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 the Regional Bureau for Latin America and the Caribbean management and actions have been initiated to address them.

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Helge S. Osttveiten  
Director  
Office of Audit and Investigations
I. About the Office

In September 2015, the Government made the decision to directly implement all projects funded by international entities. This decision was followed by a total of 12 requests to close ongoing projects that were being implemented by the Office, which was located in Managua, Nicaragua (the Country). The Office’s portfolio at that time consisted of a total of 25 projects with a multi-year budget of approximately $100 million.

Following the above decision by the Government, UNDP no longer had formal representation in the Country and had suspended all its programmatic activities until further notice. As a result, most unused funds were refunded to the respective donors (as of the desk review, refunds were pending for two projects that were in the final stages of closing). Three sub-regional projects that were administered from the Country were transferred to the Regional Hub in Panama.

Approximately 80 personnel (including staff members and service contractors) were separated from their posts in 2016. Only two General Service staff members were retained to provide support to UN agencies and administer the premises, which housed other UN agencies. The two staff members had also been involved in project closure support activities.

In May 2016, the Government requested the suspension of the Standard Basic Assistance Agreement. The Office, in consultation with the Regional Bureau for Latin America and the Caribbean, responded that it was not advisable to do so as it would affect the operations of the remaining UN agencies that relied on UNDP for operational support. Given that the suspension of the Assistance Agreement can only take place if both signatories mutually agree to do so, and since no further response was received from the Government, the Standard Basic Assistance Agreement remained in place.

In January 2017, the then Deputy Regional Director, Regional Bureau for Latin America and the Caribbean, who also represented the United Nations, attended the inauguration of the (re-elected) President of the Country, taking the opportunity to express to the Government the desires of senior leadership of the UN to normalize the functioning of the UN system in the Country. Additional attempts to engage with the Government for this purpose occurred in March 2017, and most recently in July 2017, which had not led to any change.

As of the desk review, there was no United Nations Development Assistance Framework or a UNDP Country Programme Document in place in the Country. Therefore, each UN agency operated independently, based on programmatic arrangements managed individually with their government counterparts.

II. Desk review objectives and results

OAI undertook a desk review of the Office’s operations as part of its annual work plan for 2018. The desk review was aimed at determining to what extent the steps implemented by the Regional Bureau for Latin America and the Caribbean to manage the existing projects at the time were timely and adequate and limited to the following areas: (i) closure of projects; (ii) donor refunds; (iii) separation of personnel; (iv) disposition of assets; and (v) management of common services and cost recovery. The review was also intended to assist the Regional Bureau for Latin America and the Caribbean in determining whether the Office was required to keep any services active once the Office closure was completed and assets were disposed of.

Satisfactory performance was noted in the following three areas:

(a) Operations/Financial Resources Management. Upon the decision by the Government to cease operations with UNDP, the Office’s financial resources were adequately managed in respect of accounts
receivable, income adjustments and status of refunds to donors as well as accounts payable, adjustments and commitments.

(b) **Operations/Human Resources Management**. A review of a sample of personnel files confirmed that agreed separations were finalized according to UNDP rules and regulations and no-contest certifications were filed. Service contracts were also terminated, and non-renewal agreements were signed and filed.

(c) **United Nations Leadership and Coordination**. Under this area, the desk review was limited to assessing common services and cost recovery from UN agencies for the use of premises and services provided by the Office. At the time of the review, UNICEF, UNFPA, UNDSS and UNDP occupied the building, which was the property of UNDP. Beginning in 2018, the Office recovered costs for rent and common services from the participating agencies per established memoranda of understanding. However, there was uncertainty as to whether agencies would make use of the premises in the future, as UNICEF already expressed its intention of not continuing occupying the premises beyond 2018.

OAI made two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Regional Bureau for Latin America and the Caribbean senior management and are not included in this report.

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

(a) Prioritize project closure (Recommendation 1).

(b) Undertake a review of assets (Recommendation 2).

The detailed assessment is presented below, per audit area:

### A. Programme

#### 1. Programme/Project Design and Implementation

**Issue 1**  
**Delays in administrative closure of projects**

The ‘UNDP Programme and Operations Policies and Procedures’ indicate that a project should be closed under the following circumstances: when the end of the final annual work plan is approaching; when a project delivers its planned outputs; or if it becomes apparent that the project is no longer viable. These events cause the Project Board to recommend the closure of a project.

As of 13 July 2018, the audit team identified 20 projects that were still ongoing. Management at the Regional Bureau for Latin America and the Caribbean indicated that, of the ongoing projects at the time, a total of 7 projects would remain open as they pertained to common services, safety and security and office management. In addition, 9 projects, including 3 development projects (83754, 83796 and 84334) were under review for possible closure, while the remaining 4 projects were in the process of being closed. However, these 4 remaining projects had the recovery of General Management Support fee and the transfer of some assets still pending.

The audit team also found that one project (ID 59776, output 749925) was set as financially closed in 2016 but reflected an outstanding cash balance of $5,528.
The weaknesses indicated above resulted from the lack of an adequate mechanism to monitor projects and decision-making at the Regional Bureau for Latin America and the Caribbean for the closure of projects that were required to be kept active.

Delays in closing projects in a timely manner can expose UNDP to financial, legal and reputational risks.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tr>
<td><strong>Recommendation 1:</strong></td>
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<tr>
<td>The Regional Bureau for Latin America and the Caribbean should prioritize project closure by completing the prescribed tasks to ensure compliance with the ‘UNDP Programme and Operations Policies and Procedures’.</td>
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**Management action plan:**

The Regional Bureau for Latin America and the Caribbean will review the Atlas (enterprise resource planning system of UNDP) project portfolio and proceed to close all open projects, following the ‘UNDP Programme and Operations Policies and Procedures’ for financial closing.

**Estimated completion date:** December 2018

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**B. Operations**

**1. Staff and Premises Security**

**Issue 2** Assets pending to be disposed

The ‘UNDP Programme and Operations Policies and Procedures’ require a physical count of fixed assets including furniture, equipment and vehicles twice a year, to ensure that the data in the Atlas Asset Module corresponds to the items physically located in the Office. The ‘UNDP Financial Regulations and Rules’ also require the maintenance of accurate and up-to-date records of asset acquisitions, receipt, custody, maintenance, location, adjustment and disposal transactions. In addition, all assets should be tagged to facilitate their oversight and control. Furthermore, assets disposal (in case of sale, obsolescence, damage or theft) are initiated by the Asset Focal Point and approved by the Asset Manager in the Document Management System, after which staff members of the Global Shared Service Centre record the transactions in the Atlas Asset Module.

The Atlas In-service Report showed that the Office was still holding assets for a total amount of $3.4 million, including the land and building occupied by the Office for an amount of $3.1 million. Assets also included 53 computers (desktops and notebooks), other ICT equipment, one vehicle and office furniture.

As of the desk review, the Bureau had not decided what to do with these assets.

Weaknesses in asset management may negatively impact the organization’s ability to properly manage, account for, report on, and control its assets.
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<th><strong>Priority</strong></th>
<th>Medium (Important)</th>
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**Recommendation 2:**

The Regional Bureau for Latin America and the Caribbean should undertake a review of assets owned by the Office and undertake any necessary adjustments for obsolete and/or disposed assets in a timely manner.

**Management action plan:**

The Regional Bureau for Latin America and the Caribbean is currently reviewing all UNDP assets in the Country to determine the viability of disposing them as per UNDP procedures.

**Estimated completion date:** March 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.