AUDIT

OF

UNDP COUNTRY OFFICE

IN

GUATEMALA

Report No. 2041
Issue Date: 23 August 2019
Table of Contents

Executive Summary i
I. About the Office 1
II. Audit results 1
   A. Programme 2
    1. Programme/Project Design and Implementation 2
   C. Operations 4
    1. ICT and General Administrative Management 4
    2. Procurement 5
    3. Human Resources Management 6
Definitions of audit terms - ratings and priorities 8
Report on the Audit of UNDP Guatemala
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Guatemala (the Office) from 1 to 12 July 2019. 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 2018 to 30 June 2019. The Office recorded programme and management expenses of approximately $85 million. The last audit of the Office was conducted by OAI in 2016.

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

Overall audit rating

OAI assessed the Office as satisfactory, which means, “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 = 5, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are six 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 weaknesses in governance, programme, and operations.

The five recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
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<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>2</td>
<td>Medium</td>
</tr>
<tr>
<td>Reliability and integrity of financial and operational information</td>
<td>3</td>
<td>Medium</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>1</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>4, 5</td>
<td>Medium</td>
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</tbody>
</table>
Total recommendations: 11
Implemented: 11

Management comments and action plan

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

[Signature]

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

The Office, located in Guatemala City, Guatemala (the Country), consisted of 28 staff members, 81 service contract holders and one United Nations Volunteer at the time of the audit. Over the previous four years, UNDP’s strategy in the Country had been guided by the 2015–2019 Country Programme Document, which included three outcomes: i) inclusive sustainable development; ii) rule of law, peace and equal access to justice; and iii) active and inclusive citizenship.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance/Leadership and corporate direction. Key controls were in place. Overall, staff were aware of the Office’s priorities, challenges and control objectives. The supervisory role by the Regional Bureau for Latin America and the Caribbean was adequate and the Office appreciated it.

(b) Governance/Corporate external relations and partnerships. Implementing partners United Nations agencies, and government counterparts with whom the audit team members met during the audit mission expressed their appreciation of the Office as a valued development partner.

(c) Operations/Financial resources management. Records and controls were mostly adequate for a sound financial management system.

(d) Operations/Information and communication technology. The systems managed by the Office, including hardware, software and systems security were operating adequately. The Office tested its Disaster and Recovery Plan with good results.

(e) Operations/General administrative management. Records and controls were adequate for asset management.

(f) Operations/Staff and premises security. Security was well managed, and sound business continuity systems and security arrangements were in place. The Office, together with four more UN agencies, were within the same premises and were properly managed by UNDP.

(g) United Nations leadership and coordination. No reportable issues were identified. The audit team noted that key controls were in place and the Resident Coordinator de-linking process had been properly managed even though it was a work in progress.

OAI made five recommendations ranked medium (important) priority.

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

Medium priority recommendations, arranged according to significance:

(a) Enhance programme and project management and ensure an adequate structure and clarity on roles (Recommendation 1).
(b) Strengthen project monitoring and risk management (Recommendation 2).
(c) Improve travel management (Recommendation 3).
(d) Improve the management of service contracts (Recommendation 5).
(e) Enhance the management of purchase orders (Recommendation 4).

The detailed assessment is presented below, per audit area:
A. Programme

1. Programme/Project Design and Implementation

**Issue 1: Weaknesses in programmatic structure**

One of the two critical roles defined in UNDP’s Strategic Plan 2018–2021 is as an integrator across policy, programmatic and organizational silos, which in turn requires that programme units be more integrated and include a portfolio approach, and that the quality of programme and projects is ensured throughout the programmatic cycles to strengthen national ownership and capacity.

The audit disclosed weaknesses in the structure of programme and management support units which were not aligned to the Strategic Plan 2018–2021 as follows:

- Projects were distributed by programmatic area without aligning the workforce capacity; this created unbalanced workloads for Programme Officers and Associates. For example, the Governance Unit managed 24 projects, including large and complex ones, while the other three areas managed a portfolio between 5 and 7 projects each.
- The Programme Unit had four Programme Officers and four Programme Associates who had monitoring and evaluation responsibilities as part of their functions, but the specific roles were not clear. This caused inconsistencies in the quality assessments for the project design, appraisal and closure.
- 75 percent of the project portfolio was being directly implemented by the Office. This was not aligned with the national implementation modality for projects, which was the preferred modality as expressed in the Country Programme Action Plan.

The Office had started a process to review the programmatic approach and the roles of programme and management support units regarding monitoring and evaluation roles, but at the time of the audit, the changes were not complete. In addition, the Resident Representative indicated that since the Country Programme Document was extended for one year, the Office structure was aligned to that cycle and that the changes would be finished at the start of the new programmatic cycle beginning in 2020.

The Office risks inefficiency by not creating synergies across policy, programmatic and organizational silos.

<table>
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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 1:**

The Office should enhance programme and project management and ensure an adequate structure and clarity on roles by:

(a) requiring changes in programme and management support units and ensuring that the roles regarding monitoring and evaluation are clarified before the start of the new programmatic cycle; and

(b) ensuring that national ownership and capacity development takes place in all programmes and projects regardless of the project implementation modality.
Management action plan:

(a) The Office will review the roles and responsibilities in the Programme Unit, adjust business processes and SOPs when needed, and will update templates and standardize formats to ensure coherence and improved monitoring and programme quality. The Resident Representative will reinforce the functions and structure of the Management Support Unit, in line with the proposal shared with the Regional Bureau for Latin America and the Caribbean in June 2019, and once the incoming Deputy Resident Representative arrives in post (1 September 2019).

(b) New project documents and substantive project revision documents will be reviewed by the project boards, to ensure exit strategies are specified/updated. Considering that there will be new government authorities as of 1 January 2020, the planning of all activities for 2020 will be reviewed in the project boards, which will ensure national ownership and that the development of national capacities are duly reviewed/updated.

Estimated completion date: September 2020

Issue 2  Weaknesses in project monitoring and risk management

Programme and project monitoring support the achievement of intended results. Monitoring relates to pre-identified results in the development plan that are achieved throughout project implementation, where baselines, indicators, targets and measurements of results are clearly defined and regularly monitored.

The audit team reviewed a sample of 8 projects with 17 outputs (representing 43 percent of total programme delivery for 2018 and 48 percent for the second quarter of 2019), out of a total of 40 projects containing 60 outputs. The following weaknesses in project monitoring and risk management were identified:

- The results and resources monitoring plan of four projects were not adjusted to project needs. The Office used the minimum suggested monitoring actions from the project document template, without considering the size or complexity of the projects. Furthermore, one of the largest projects of the portfolio had a substantive revision where results were adjusted but the monitoring plan remained the same, not covering the changes to the results.
- The monitoring framework of four projects required quarterly project board meetings; however, these meetings were not held.
- The monitoring activities of four projects were not entered in Atlas (enterprise resource planning system of UNDP), and thus the completion of those activities was not tracked through the system.
- Two projects had no risks entered in Atlas, while the project documents had identified risks.

The lack of effective monitoring may hinder the Office from determining whether intended programme and project 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:

- (a) adjusting the results and resources monitoring plan according to the complexity and needs of each project; and
- (b) conducting monitoring activities, risk assessments and project board meetings with the frequency stipulated in the project documents and updating Atlas accordingly.

**Management action plan:**

- (a) Within the framework of the project meetings and/or strategic meetings with the new authorities, monitoring and evaluation plans will be reviewed and, if needed, project substantive revisions will be carried out.
- (b) The Office will ensure that project risk management is implemented in accordance with corporate procedures and the specific nature of each project. The risk management assessment will be included in project board meeting agendas. The Office will ensure that the risks and mitigation actions of these are recorded in the institutional system (Atlas).
- (c) Regarding lessons learned, the Office will ensure that annual reports include a sub-section of lessons learned and that they are analysed during project board meetings.

**Estimated completion date:** August 2020

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**C. Operations**

1. **ICT and General Administrative Management**

**Issue 3** Weaknesses in travel management

The ‘UNDP Programme and Operations Policies and Procedures’ stipulate that all duty travel paid by the organization should be duly approved. When duty travel is combined with personal travel, the Travel Request must identify both the “authorized itinerary” and the “preferred itinerary.” If additional costs are incurred as a result of personal travel, they are paid directly to the travel agency or reimbursed by the traveller to UNDP. Moreover, the travel processor is responsible for ensuring the appropriate application of the travel policy and that travel requests adhere to the route, mode and standard of accommodation and Daily Subsistence Allowance (DSA) guidelines.

All UNDP travellers are required to submit a travel claim form (F-10) to the authorizing unit within two weeks from the completion of travel, which are then signed off by an approving officer who verifies that the mission occurred and that expenses complied with policy.

The audit team reviewed a sample of 25 international travel requests out of 59 processed during the audit period and found the following:
The Office had not yet implemented the use of the Travel and Expenses module in Atlas.

There were 2 cases where special hotel rate DSA was paid without proper justification/approval. In one instance, the payment amounted to $1,425 in excess of the applicable DSA. In the other case, the payment amounted to $920 in excess of the applicable DSA.

Ten cases with personal deviations where the distinction between official and preferred itinerary rates was not clearly established. As a result, the audit team was unable to determine the applicable personal costs to be borne by the traveler.

Additionally, a review of travel-related purchase orders found 11 cases where the requisition and the purchase order were approved by the same individual, thus contravening the Internal Control Framework.

Gaps in travel management may result in the inefficient use of resources.

**Priority** Medium (Important)

**Recommendation 3:**

The Office should improve travel management by:

(a) rolling out the Travel and Expenses module in Atlas by the established deadline;
(b) recovering funds paid in excess to travellers; and
(c) ensuring that all travel is properly documented.

**Management action plan:**

(a) The Travel and Expenses module has been implemented as of 15 July 2019 and the first training took place in July 2019 after OAI audit.
(b) Payments are being reconciled and funds are in process of recovery/reimbursement.
(c) All travel claims and related expenditures/reimbursements are being monitored in the Travel and Expenses module dashboard.

**Estimated completion date:** December 2019

**OAI Response**

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

**2. Procurement**

**Issue 4** Weaknesses in the management of purchase orders

The 'UNDP Programme and Operations Policies and Procedures' stipulate that the procurement of goods, civil works and services begins with a requisition, originated by a business unit or project. When a requisition is raised, it calls for the creation of a purchase order. In Atlas, purchase orders are commitments that create a legal
obligation arising from a contract, agreement, or other form of undertaking by UNDP or based on a liability recognized by UNDP. Receipts are processed based on dispatched and approved purchase orders. The policies further stipulate that offices are required to conduct purchase order data cleaning to ensure the accuracy, completeness and timeliness of the expenses and commitments and highlights.

The audit team selected a sample of 128 purchase orders out of 1,253 and found the following:

- In 37 purchase orders, the requisition was approved by the same individual that approved the purchase order, contrary to the required segregation of duties.
- 40 purchase orders were created over 30 days after the requisition was approved.
- 79 purchase orders were approved after the receipt was created.

Lack of regular data cleaning by the Office can lead to preventable errors and problems in the management of purchase orders. By not adequately processing purchase orders and receipts, the Office is further exposed to financial and reputational risks.

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 4:**

The Office should enhance the management of purchase orders by:

(a) ensuring proper expense management, specifically, on purchase orders and receipts; and
(b) providing Atlas training to all buyers and training on the management of purchase orders to project personnel and Office staff members as required.

**Management action plan:**

The Office will ensure compliance regarding the “procure to pay cycle (Requisition – PO – Payment)” by revisiting the policies and providing training sessions to Office and project staff. Buyers will re-take online training.

In addition, operations management will generate Atlas reports on a quarterly basis to monitor compliance with “procure to pay cycle (Requisition – PO – Payment)” under the policies and take corrective actions, if necessary.

**Estimated completion date:** June 2020

3. Human Resources Management

**Issue 5**  Weaknesses in the management of non-staff

The ‘UNDP Programme and Operations Policies and Procedures’ stipulate that non-staff include service contract holders, interns, government officials, donors, and other sources external to UNDP, accepted under a non-reimbursable loan. They contain policies for the management of each category of non-staff.

The audit team identified weaknesses in the management of interns and service contracts, as follows:
Two local interns in the Resident Coordinator Office had incorrect documentation to support their recruitment. In both cases, the character references provided were those of a parent or both parents, not an independent party.

New service contracts were issued for each renewal, even though the same terms of reference applied; hence, no new contract was needed.

In at least one case, a Project Coordinator was issued a 6-month contract, and for each 6-month renewal, it included a salary increase.

In another case, the terms of reference for the recruitment of a Project Coordinator identified a specific education qualification not required for the objective of the project.

Service contract holders were granted flexible working arrangements, although corporate policy covers staff members only.

The inadequate management of service contract holders can expose UNDP to risks ranging from programmatic to financial.

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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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<tbody>
<tr>
<td><strong>Recommendation 5:</strong></td>
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<tr>
<td>The Office should improve the management of service contracts by:</td>
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<tr>
<td>(a) ensuring that personal/character references are provided by someone who knows the candidate, with no familyties who can attest to the character and abilities to showcase the personality and people skills of the candidate;</td>
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<tr>
<td>(b) properly administer the service contracts as per the Service Contract Guidelines; and</td>
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<tr>
<td><strong>Management action plan:</strong></td>
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<tr>
<td>(a) Senior management sent a memo to the Human Resources Unit within the Office on reference procedures.</td>
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<td>(b) The Office will take the following actions: i) a memo will be sent to all staff reinforcing the importance of complying with the guidance and policy on service contracts; ii) in coordination with the Regional Bureau for Latin America and the Caribbean, an analysis of the functions performed by service contract holders in the Office will be undertaken to identify where there is no compliance with the norm or with the Internal Control Framework, and make the necessary adjustments where/if needed; and iii) ensure the participation of the Operations Unit in all project appraisal committees for proper planning of project personnel.</td>
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<tr>
<td>(c) A roster has already been developed.</td>
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<tr>
<td><strong>Estimated completion date:</strong> March 2020</td>
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**OAI Response**

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