AUDIT

OF

UNDP COUNTRY OFFICE

IN

EL SALVADOR

Report No. 2044
Issue Date: 6 February 2020
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Report on the Audit of UNDP El Salvador
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP El Salvador (the Office) from 11 to 22 November 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 September 2019. The Office recorded programme and management expenses of approximately $32 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 partially satisfactory/some improvement needed, which means, “the assessed governance arrangements, risk management practices and controls were generally established and functioning, but need major improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area”. This rating was mainly due to weaknesses identified in the areas of governance, project management, specially risk management and project closure, ICT and procurement.

Key recommendations: Total = 5, high priority = 1

The five recommendations aim to ensure the following:

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Recommendation No.</th>
<th>Priority Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement of the organization’s strategic objectives</td>
<td>1</td>
<td>Medium</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>2, 4, 5</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>3</td>
<td>High</td>
</tr>
</tbody>
</table>

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.

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1 The audit covered the activities under this area only for 2018.
Inadequate project closure (Issue 3)

At the time of the audit, 10 out of 32 ongoing projects had expired project duration and should have been operationally closed as per the project end date in Atlas. Additionally, 11 projects had been operationally closed in Atlas for more than 12 months, pending financial closure. And 5 out of those 32 projects had no budget for the current year indicating that those projects should have also been closed. Although the Office conducted financial closure of 30 development projects from 2018 to 2019, it failed to conduct the Quality Assessments for closure. In addition, from the review of 4 out of the 30 closed projects, 3 of them had no final lessons learnt report.

**Recommendation 3:** The Office should improve project closure by (a) timely conducting quality assessment for project closure to ensure that lessons learnt are duly captured; and (b) ensuring that project closure (operationally and financially) is conducted within the required timeframes and expediting the pending closure of projects.

**Management comments and action plan**

The Resident Representative of UNDP El Salvador accepted all 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.

Hein

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

The Office, located in San Salvador, El Salvador (the Country), consisted of 21 staff members (including 2 Internationals, 18 Fixed Terms and 1 Temporary Appointment), 22 service contract holders and 1 United Nations Volunteer at the time of the audit. The Office’s strategy has been guided by the 2016-2020 Country Programme Document (CPD), which was structured around four pillars: (i) universal and equitable access to and coverage of basic goods and services; (ii) decent work and sustainable livelihoods; (iii) basic consensus that guarantee people’s full exercise of their rights; and (iv) human resilience to natural events. The CPD was aligned to the 2014-2019 National Development Plan, the 2016-2020 United Nations Development Assistance Framework (UNDAF) for El Salvador was developed in line with the United Nations “Delivering as One” approach. The CPD outputs were reviewed in 2018 to align the Office results framework with UNDP’s 2018-2021 Strategic Plan.

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Governance/Corporate Direction / Oversight and Assurance. Key controls were in place. Overall, staff were aware of the Office’s priorities, challenges and control objectives. Supervisory role by the Regional Bureau for Latin America and the Caribbean was adequate.

(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 adequate to ensure a sound financial resource management.

(d) Operations/General Administrative Management. Records and controls were adequate for asset management.

(e) Operations/Staff and Premises Security. The Office premises were well administered; security was well managed; sound business continuity systems and security arrangements were in place.

(f) United Nations Leadership and Coordination. No reportable issues were identified. The audit 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 one recommendation ranked high (critical) and 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.

High priority recommendations, arranged according to significance:

(a) Improve project closure procedures (Recommendation 3)

Medium priority recommendations, arranged according to significance:

(a) Improve contract management strategy (Recommendation 5)
(b) Improve its project management (Recommendation 1)
(c) Strengthen project monitoring and risk management (Recommendation 2)
(d) Address the identified weaknesses in ICT management (Recommendation 4)

The detailed assessment is presented below, per audit area

A. Programme

1. Programme/project design and implementation

Issue 1  Weaknesses in project management

Sound project management starts with (i) project document formulation, (ii) implementation of activities to achieve the agreed outputs, (iii) monitoring, evaluation and (iv) closing of projects. Project management information should be stored in Atlas (the enterprise resource planning system of UNDP), and project quality assessments stored in the Corporate Planning System. Once a project has completed its operations, it should be operationally closed, and within 12 months, it should be financially closed.

The audit reviewed a sample of 11 out of 32 ongoing development projects (9 projects under the national implementation modality where 7 of them received Country Office Support and 2 projects under the direct implementation modality). In addition, 3 Engagement Facility projects, 1 Memorandum for the Provision of Services, and 4 closed projects were reviewed. The total sample of ongoing projects represented 78 and 73 percent of 2018 and 2019 as of third quarter programme delivery respectively. The following weaknesses were noted:

(a) Project design:

- 3 of the 11 ongoing projects selected by OAI for review showed weaknesses in formulation since the results and resources framework contained results, indicators, baselines and targets that were not SMART (specific, measurable, attainable, relevant and trackable). For the same three projects selected, the Monitoring and Evaluation frameworks were generic and not adjusted to project needs. The theory of change was not clearly presented and thus the links with proposed results were weak and with unclear links to Country Programme outcomes.
- Gender mainstreaming was not included or budgeted for in three projects.
- The Social and Environmental Screening Procedure was not conducted in a timely fashion, for instance in three cases the screening procedure was conducted after the project document was signed. In addition, for all the sampled projects, the social and environmental questionnaire was not signed and names of people who reviewed the document were not mentioned.
- 3 of the 11 ongoing projects had a management arrangement clause indicating that funds received from the Government were considered as an advance and that the remaining balance would be refunded at the end of each year. The clause affected the standard contribution agreement by enforcing refunds that were not included as part of the signed contribution agreement.

(b) Project implementation:

- Three selected project counterparts showed multiple instances where information on communication and coordination with the Office were insufficient.
As of 31 October 2019, the Office had 32 ongoing development projects in Atlas of which 12 had achieved less than 60 percent of their intended delivery targets, and 5 had no delivery at all. The Office explained that the transition between the outgoing and incoming Government authorities had an impact on the pace of project implementation.

OAI found that Atlas information for 7 out of the 11 projects reviewed was not regularly updated, the following issues were identified:
- The risks and monitoring items were not entered consistently for all projects.
- Office used one output per project even when the results and resources framework had more than one output.
- Name of programme officers were not regularly updated.
- Some fields in Atlas were simply not filled at all.

Failure to implement the corporate guidelines may impair the achievement of intended project outputs, which in turn may also negatively affect UNDP’s reputation and result in the loss of confidence from stakeholders and the host Government.

**Priority** Medium (Important)

**Recommendation 1:**

The Office should improve its project management by:

(a) strengthening project design while ensuring that results are SMART, with an appropriate monitoring framework and clear link to the Theory of Change, including gender mainstreaming and social environmental compliance;
(b) ensuring that project delivery targets are met; and,
(c) ensuring that management arrangements in project documents and contribution agreements are properly aligned, and that project information is regularly updated in Atlas.

**Management action plan:**

(a) The Office acknowledges the recommendation and will develop a new Standard Operating Procedure for project design with specific input in gender, innovation and monitoring and evaluation.
(b) The Office will ensure that management arrangements and contributions agreements are aligned, with the guidance and oversight of the Management Analyst. To that effect, the Office will create a task force to review and update all existing projects in Atlas, as well as periodic reviews.

**Estimated completion date:** December 2020

**Issue 2** Weaknesses in project monitoring and risk management

According to the Programme and Project Management guidelines, 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. It is an essential management tool to support UNDP’s commitment to accountability for results, resources entrusted to it, and organizational learning. Monitoring relates to pre-identified results in the
development plan that are achieved throughout the project implementation, where baselines, indicators, targets 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 Office had a Monitoring and Evaluation plan which describes the different tasks for the programme cycle 2016-2020. The document covered the Country Programme Document and its corresponding Country Programme Action Plan and projects, with roles described for different units and positions in the Office. Nevertheless, the programme was not reviewed annually. At project level the responsibilities were not clear as to who should ensure that monitoring tasks.

The audit reviewed a sample of 11 out of 32 ongoing development projects (9 projects under the national implementation modality where 7 of them received Country Office Support and 2 projects under the direct implementation modality). In addition, 3 Engagement Facility projects, 1 Memorandum for the Provision of Services, and 4 closed projects were reviewed. The total sample of ongoing projects represented 78 and 73 percent of 2018 and 2019 as of third quarter programme delivery respectively. The following weaknesses in project monitoring and risk management were identified:

- The project documents described quarterly or bi-annual monitoring activities to be carried out during the lifecycle of the project that were not conducted as required. Such activities entailed preparing quarterly project progress reports including the financial monitoring of the Annual Work Plan, risk assessments and project board meetings.
- The Office did not update the Atlas risk register for 10 out of 14 projects reviewed (11 development projects and 3 Engagement Facility projects). Furthermore, not all key risks were identified during project formulation or project revisions. One example was the issuance of a national law approving electronic passports almost 17 months after a project to procure non-electronic passports had been initiated. Although the project was subject to political uncertainty, this was not flagged as a key risk for the objectives of the $24 million project.

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 intended results are delivered. Risk management is a critical aspect of project management and failing to do it may expose the projects and the Office to uncertainty in the attainment of key objectives.

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<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 2:**

The Office should strengthen project monitoring and risk management by:

(a) ensuring that the country programme is reviewed annually, and
(b) clarifying monitoring responsibilities at project level and conducting monitoring activities, risk assessments and project board meetings with the frequency stipulated in the project documents and update Atlas accordingly.

**Management action plan:**
(a) The Office will liaise with new key Government authorities for a joint annual review of the country programme, and the project level responsibilities will be clarified in the Job Descriptions of the Programme Analyst and Assistant Resident Representative (Programme).
(b) The Office will implement a system periodic review to ensure all monitoring activities are conducted as stipulated in project documents.

**Estimated completion date:** December 2020

### Issue 3  Inadequate project closure

According to the Programme and Operations Policies and Procedures, the focus of closing a project is placed on overall performance, assessing quality, evidence of completion, lessons learned and necessary hand-over to ensure sustainability. The first part is to close a project operationally when the last financed inputs have been provided and the related activities have been completed. Through the project board, the implementing partner promptly notifies when this has been done. Should the implementing partner not do so, the UNDP Programme manager must determine when the project is operationally complete. Projects should be financially completed not more than 12 months after being operationally completed once UNDP has closed the accounts for the project and the implementing partner have certified a final combined delivery report.

The audit reviewed the project closure process and found that out of a portfolio of 32 ongoing projects in Atlas, 10 of them had expired project duration and should have been operationally closed as per the project end date entered in Atlas. Additionally, 11 projects had been operationally closed in Atlas for more than 12 months, pending financial closure, by the time of the audit. Furthermore, out of the 32 ongoing development projects, 5 had no budget for the current year indicating that those projects should have also been closed.

The Office conducted financial closure of 30 development projects from 2018 to 2019 but failed to conduct their Quality Assurance closure assessments. From the review of 4 out of the 30 closed projects, 3 of them had no final lessons learnt report.

Projects that are not financially closed within 12 months after their operational closure may create financial risks for UNDP as deficits will have to be covered with its own funds and might have reputational consequences with donors. Without adequate project closure, the Office runs the risk of not being able to capture the lessons learned and might not have the necessary hand-over to ensure sustainability.

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<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
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<tbody>
<tr>
<td><strong>Recommendation 3:</strong></td>
<td></td>
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<tr>
<td>The Office should improve project closure by:</td>
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<tr>
<td>(a) timely conducting quality assessment for project closure to ensure that lessons learnt are duly captured; and,</td>
<td></td>
</tr>
<tr>
<td>(b) ensuring that project closure (operationally and financially) is conducted within the required timeframes and expediting the pending closure of projects.</td>
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**Management action plan:**

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The Office will prepare a work plan and strengthen office capacity to ensure timely and proper project closure, including quality assessment.

**Estimated completion date:** December 2020

### B. Operations

#### 1. ICT and General Administrative Management

**Issue 4**  
Weaknesses in information and communication technology management

Information systems operated by UNDP are critical assets for the organization to fulfil its mission. Threats, both natural and man-made, can damage or disable critical information systems. Adequate planning, management, data backup, equipment replacement and disaster recovery planning are needed for the Country Office.

There were weaknesses in the management of information and communication technology (ICT) services as described below:

- The Office had obsolete equipment, boxes, cables, accessories and computer parts pending disposal which were stored or accumulated inside server’s room and ICT Office creating security and hazard risks since ICT personnel had limited space to move around and work.
- The Office had no maintenance or spare parts contracts for any of the systems which included critical ICT equipment such as networking, Uninterruptible Power Supply (UPS) and telephones. The Office explained that due to budget constraints, investment in ICT and maintenance was postponed.
- Prior to the audit, the headquartered Office of Information Management and Technology conducted a Remote ICT Assessment (RICTA) and identified weaknesses such as the lack of standardization, at user level, of Windows Operating system to Windows 10, and networking equipment, with more than 8 years in service, that although compliant, no longer had manufacturer coverage for spare parts.

Without adequate management of information and communication technology, the Office is exposed to system failures that can impact the delivery of the office.

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

The Office should address the identified weaknesses in ICT management by:

(a) disposing the old equipment, cables, accessories and parts as per the Programme and Operations Policies and Procedures to ensure that the server’s room and ICT personnel office have adequate workspace;

(b) ensuring that critical systems are covered with maintenance or spare parts contracts and,

(c) developing a plan of action to timely and properly address the recommendations of the Office of Information Management and Technology report addressing the identified weaknesses.
Management action plan:

To address OAI recommendations, the Office will
(a) Dispose of old equipment, cables and accessories.
(b) Sign a contract with a specialized firm to ensure proper maintenance services for critical systems.
(c) Implement the recommendations contained in the Office of Information Management and Technology report.

Estimated completion date: June 2020

2. Procurement

Issue 5  Absence of a contract management strategy

Contract management encompasses all post-award tasks including, performance monitoring, relationship management, risk management, contract administration and dispute resolution. Under the contract management principles stipulated in the UNDP Programme and Operations Policies and Procedures, the procurement unit should implement all the administrative requirements including the management of required documentation, change management and contract closure; and work together with the requester/end user to manage the relationship with the supplier and ensure effective communication. Upon the contract award, the requesting unit and the procurement unit should analyze the terms and condition of the signed contract and develop a contract management strategy that will govern the management of the contract.

The audit team found that the contract management for projects of significance and complex procurement processes, such as the procurement of health products, was fully delegated to the programme unit. Contract management for these projects was conducted by two Service Contractors hired as contract administrators. The national counterparts of two projects, under national implementation modality, expressed concerns on the lack of adequate communication between the project and the personnel carrying out the contract management functions.

The contract administrators faced the following challenges:
- the contract administrators had been in the posts for about a year and had minimal experience in procurement functions, i.e. contract management. The terms of reference of the contract administrator post required 5 years project management experience and did not address procurement experience;
- the Office had not provided an induction and guidance to the contract administrators on contract management function encompassed in their role and tasks as contract administrators. The contract administrators were in the programme unit under the direct supervision of a programme analyst;
- lack of knowledge of UNDP’s newly implemented Quality Assurance policy for Health Products
- lack of decision making and/or delays in decision for responsibilities undertaken; rather, any communication with the projects, that required a decision, was forwarded to the Programme Analyst for a decision and/or response; and
- monitoring and follow-up actions was delayed, as these actions needed to be channelled through the Programme Analyst.
The lack of a contract management strategy may put the Office at risk of not adequately monitoring the contract implementation or engaging in risk mitigation measures and establishing adequate monitoring and communication arrangements with implementing partners.

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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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**Recommendation 5:**

To improve its contract management strategy, the Office should:

- (a) ensure that a contract management strategy is developed for high value and complex procurement processes;
- (b) update the terms of reference of the contract administrator posts; and consider re-locating the contract administrator posts within the Procurement Unit, for oversight and guidance; and
- (c) address the gaps in training and development of the contract administrators.

**Management action plan:**

The Office will ensure a contract management strategy for high value/complex procurement processes; re-locate the contract administrator posts within the Procurement Unit; and develop a training plan for the contract administrators.

**Estimated completion date:** June 2020
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**.