AUDIT

OF

UNDP COUNTRY OFFICE

IN

BOLIVIA

Report No. 2187
Issue Date: 9 February 2021
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Report on the Audit of UNDP Bolivia  
**Executive Summary**

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Bolivia (the Office) from 23 November to 11 December 2020. 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  
(b) Development activities  
(c) Operations – procurement, finance, human resources, administrative services, information communication and technology (ICT)

OAI designed the following performance audit questions to guide the review of the following areas and sub-areas:

(a) Governance  
   i. Was the Office’s organizational structure adequate to achieve the agreed results in its portfolio of projects?

(b) Development activities  
   ii. Was project management undertaken effectively?  
      a. Were projects designed with clear and measurable results linked to strategic objectives?  
      b. Were project monitoring and change management timely undertaken?  
      c. What were the major factors influencing the achievement or non-achievement of the objectives?

(c) Finance  
   iii. Were financial transactions processed timely and accurately?

The audit covered the activities of the Office from 1 January 2019 to 30 September 2020. The Office recorded programme and management expenses of approximately $33.7 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*. Due to the COVID-19 pandemic, the audit was conducted remotely. Scope limitations due to the nature of the remote audit related to the following activities:

(a) A review of original supporting documentation could not be carried out, and therefore the audit team relied on scanned copies of documents provided by the Office for all audit areas reviewed.  
(b) Meetings with Office staff and personnel were carried out virtually, which limited the audit team’s understanding of the Office’s working environment  
(c) Project visits (location, site visits, meeting with counterparts/beneficiaries) were not conducted. Interviews with selected project counterparts, government officials, donors and project beneficiaries were carried out virtually.  
(d) A physical verification of assets was not performed.  
(e) Safe and petty cash contents were not verified.  
(f) The information and communication technology areas were not reviewed on site.
Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means, “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to weaknesses in project monitoring and risk management, Global Environment Facility (GEF) project implementation issues, and the inadequate use of budget overrides.

**Good Practice**

OAI identified a good practice, as follows:

*Replacing the old telephone system with a cost-efficient solution:* The Office’s Information, Communication and Technology Unit implemented a temporary and cost-efficient telephone system that was now being considered as a permanent solution.

**Key recommendations:** Total = 6, high priority = 3

The six 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>Reliability and integrity of financial and operational information</td>
<td>6</td>
<td>High</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>1, 5</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>3, 4</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Medium</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 three high (critical) priority recommendations are presented below:

**Inadequate use of budget overrides (Issue 6)**

The audit team identified 13 budget overrides (totalling $1.8 million) that were processed to fund project activities that could not be delayed. Written assurance was not obtained from the donor indicating payments were in progress. Two of these budget overrides in one project, approved by the Resident Representative, exceeded the Office’s authority limit of $200,000: one for $776,000 and another for $343,000. At year end, the project recorded a budget deficit of $250,000.

**Recommendation:** The Office should improve controls over project budgets to avoid project deficits and unauthorized budget overrides by; (a) ensuring that resources are available prior to making financial commitments and that budget overrides are performed as per policy and budget deficits are approved within the authority limit; and, (b) recovering outstanding donor contributions to offset the budget deficit.

**Global Environment Facility (GEF) project implementation issues (Issue 4)**

The GEF funded project is nationally implemented. The project started in January 2018 and was expected to be completed in December 2022. The Project Implementation Report rating was unsatisfactory for 2020. The audit team noted weaknesses in the project design, capacity assessments of implementing partners and project coordination.
Recommendation: To mitigate project risks, the Office should liaise with the GEF Regional Team to address the project implementation issues (project design, project coordination and implementing partner capacity) and develop a robust risk assessment.

Weaknesses in project monitoring and risk management (Issue 3)

The audit team reviewed a sample of 6 projects of a portfolio of 38 projects. In addition, the audit team reviewed the use of the engagement facility and initiation plans. The following weaknesses were noted:

- Three of the six reviewed projects contained a monitoring framework that described quarterly monitoring activities to be carried out during the life cycle of the project; the audit disclosed that activities were carried out quarterly as stated in the project documents but annually. The Office failed to enter project output targets for three of the six projects reviewed within the enterprise resource planning system (Atlas).
- The Office did not conduct the Social and Environmental Screening Procedures for five out of the six projects.
- Target for Resource Assignment from Core (TRAC) funds intended as seed funding for projects were incorrectly used to fund salaries of project personnel of projects under implementation for several years.

Recommendation: 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 conducting the monitoring activities with the frequency stipulated and updating Atlas with all output targets for all projects and with adequate file naming; (b) completing the Social and Environmental Screening Procedures; and (c) ensuring adequate financial monitoring of project funds, including TRAC funds, to make strategic use of them.

Management comments and action plan

The Resident Representative accepted all six 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 Osttveiten
Director
Office of Audit and Investigations
I. About the Office

The Office, located in La Paz, Bolivia (the Country), and its Country Programme covered the period from 2018 to 2022 with the following development priorities:

a) Public management and inclusive services
b) Integral development and plural economy
c) Interculturality

During the period from January 2019 to September 2020, the Office spent $31.5 million on development activities, an increase by 65 percent compared to the previous period. The increase was due to support provided to both the national elections process and the Government’s response to the COVID-19 global pandemic.

The largest development projects in terms of expenses during the period covered by the audit were:

<table>
<thead>
<tr>
<th>Title</th>
<th>Expenditure Jan - Dec 2019 $million</th>
<th>Expenditure Jan - Sep 2020 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respuesta COVID-19</td>
<td>-</td>
<td>10.3</td>
</tr>
<tr>
<td>FONDO MUNDIAL*</td>
<td>4.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Fortalecimiento Órgano Electoral Plurinacional OEP</td>
<td>-</td>
<td>3.5</td>
</tr>
<tr>
<td>Bolivia Libre de Malaria Transición</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Contribución del Sector Privado para Respuesta al COVID-19</td>
<td>-</td>
<td>1.7</td>
</tr>
<tr>
<td>Total</td>
<td>5.8</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Note: *The resources from Global Fund were not included in the audit since a separate audit will be conducted in 2021*

The largest sources of funding of the Office’s development activities for the period covered by the audit were:

<table>
<thead>
<tr>
<th>Donor</th>
<th>Funding for the period $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>11.9</td>
</tr>
<tr>
<td>GFATM</td>
<td>10.6</td>
</tr>
<tr>
<td>GEF</td>
<td>5.9</td>
</tr>
<tr>
<td>UN Agencies</td>
<td>2.2</td>
</tr>
<tr>
<td>Total</td>
<td>30.6</td>
</tr>
</tbody>
</table>

Other critical information

The Country experienced a political crisis following the national elections of October 2019. This led to the resignation of the president and appointment of a transitional government to conduct new national elections. Due to the global COVID-19 pandemic, the election, scheduled for May 2020, was postponed to October 2020. The Office supported the Country in the new electoral process that took place in October 2020. The Office procured goods totalling $11 million with funds received from the Government for the COVID-19 emergency, following a loan from the World Bank. UNDP served as supplier to the Government for the procurement of goods required for the emergency response.
II. Good Practice

OAI identified a good practice, as follows:

Replacing the old telephone system with a cost-efficient solution.

The Office’s Information, Communication and Technology Unit implemented a temporary and cost-efficient telephone system that was now being considered as a permanent solution.

III. Audit results

Satisfactory performance was noted in the following areas:

(a) Operations – Human resources. The governance, risk management and control systems within human resource management including recruitment, separations, promotions were adequate.

(b) Operations – Administrative services. The governance, risk management and control systems within administrative services, which include asset management and common services, were adequate and effective.

(c) Operations – Information and communication technology (ICT). The governance, risk management and control systems within ICT including the implementation of the business continuity plan were operational and effective.

Satisfactory performance was observed in relation to the performance audit questions, except for development activities, where major improvements are required, as indicated below:

(a) Governance

i. Was the Office’s organizational structure adequate to achieve the agreed results in its portfolio of projects?

The structure was adequate to achieve the agreed results. Project counterparts, donors, government officials and project beneficiaries, with whom the audit team met virtually during the audit, expressed their appreciation of the Office as a valued partner.

The Office was moving from a silo approach to a portfolio approach, which requires greater integration across policy, programme and organizational silos. In early 2020 there were changes in the Programme Unit, including: the appointment of a Programme Specialist to lead the unit and increased responsibility for staff members to manage a portfolio of projects. The revised organization chart and corresponding job descriptions and reporting lines were under preparation, (refer to Issue 1).

(b) Development activities

i. Was project management effectively undertaken?

The audit team concluded that project management was not undertaken effectively. While the Office took actions to improve the effectiveness of project management, there was a need to address weaknesses in project management.
a. Were projects designed with clear and measurable results linked to strategic objectives?

The audit team reviewed a sample of 6 projects from a portfolio of 38 development projects. In addition, the audit team reviewed the use of engagement facility1 and initiation plans2. The Office linked project outputs to the United Nations cooperation framework and national development plan results. However, deficiencies in project design were identified in three of the six sampled projects as outlined in issue 2.

b. Were project monitoring and change management activities timely undertaken?

Project monitoring and change management were not well implemented and required further improvement (refer to issues 3 and 4).

c. What were the major factors influencing the achievement or non-achievement of the programme objectives?

The political crisis of 2019, which led to new elections in 2020, combined with the COVID-19 pandemic were the main factors leading to the approval of new projects which contributed to the achievement of certain programme objectives.

However, some projects in the Office’s portfolio faced delays. This was mainly due to capacity constraints of national implementing partners, which led to delays in the achievement of other programme objectives.

(c) Finance

i. Were financial transactions processed timely and accurately?

The financial transactions reviewed were processed timely and accurately. In all 51 payment vouchers reviewed, the payments were completed within the terms and conditions agreed. For the 51 payment transactions reviewed, 40 transactions were approved within one day. However, the Office incorrectly used the budget override feature in Atlas to process urgent payments for one project. This practice led to a project deficit of $250,000 (refer to issue 6).

OAI made three recommendations ranked high (critical) and three 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 controls over project budgets to avoid project deficits (Recommendation 6).
(b) Liaise with the GEF Regional Team to address project issues (Recommendation 4).
(c) Strengthen project monitoring and risk management (Recommendation 3).
Medium priority recommendations, arranged according to significance:
(a) Address gaps in the Programme Unit’s organizational structure (Recommendation 1).
(b) Strengthen project design (Recommendation 2).
(c) Develop a procurement strategy for projects with complex business needs from the onset of the project (Recommendation 5).

The detailed assessment is presented below, per audit area:

A. Governance

1. Organization chart & overall staffing

Issue 1 Gaps in the Programme Unit’s organizational structure

The vision and mission of an office, as well as its organizational effectiveness, rely on the office’s adequate organizational structure, which includes well defined roles and responsibilities, with clear reporting lines. From 2019, the Office started moving from a silo approach to a portfolio approach, which requires greater integration across policy, programme and organizational silos.

The following issues in respect of the organizational structure were identified:

- Following the appointment of the Programme Specialist, changes in the responsibilities of staff members within the Programme Unit were introduced; however, at the time of the audit the corresponding organization chart, reporting lines and job descriptions had not been updated to reflect these changes.
- In some instances, dual reporting lines existed, with staff members reporting to the Programme Specialist for matters relating to project implementation and to the Deputy Resident Representative for initiatives with the private sector.
- The role of the Programme Unit regarding monitoring and evaluation had not been defined.

The audit team was informed that the COVID-19 pandemic delayed the finalization of the restructuring process. Despite the delay, the Office aimed to finalize it in the first half of 2021.

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<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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Recommendation 1:
To address the gaps identified in the Programme Unit’s structure, the Office should update the organization chart and job descriptions, clarify reporting lines, and determine responsibilities in relation to monitoring and evaluation.

Management action plan:
To address the recommendation, the Office will:
(a) finalize the organization chart, and review the job descriptions and reporting lines within the Programme Unit; and
(b) review the terms of reference and the hiring of a Monitoring and Evaluation Specialist.

Estimated completion date: 30 June 2021
B. Development activities

1. Implementation modalities

**Issue 2: Deficiencies in project design**

A development project is a time-bound instrument designed to deliver outputs that contribute to outcome-level development change reflected in the programme. Quality standards for project design include: (i) results that are SMART (specific, measurable, attainable, realistic and time-bound) and elaborated in a quality results framework; (ii) completion of risk assessments and capacity assessments with responsible parties and grantees (as applicable), and completion of due diligence when engaging with private sector entities; and (iii) appropriate use of engagement facilities and initiation plans.

The audit team reviewed a sample of 6 projects out of 38 projects; the sample included 4 directly implemented projects and 2 nationally implemented projects. In addition, the audit team reviewed the use of engagement facilities and project initiation plans. The following weaknesses were identified:

- The project documents for three sampled projects contained broad results without SMART indicators and generic monitoring and evaluation frameworks that were not adjusted to measure project results for complex or high risk projects.
- The monitoring and evaluation frameworks for two projects had yet to be defined.
- The Office engaged with two responsible parties and two grantees without completing the required risk assessments and capacity assessments for the responsible parties. One project engaged in partnership with three private sector institutions; for two of these, due diligence procedures were not completed.
- The Office lacked clarity regarding the use of engagement facility projects as instruments for quick response. As a result, the Office issued two grants (totalling $26,000) under the engagement facility and cash advances to two responsible parties, which is not permitted. The Office incorrectly used an initiation plan instead of a full development project; as a result, the project excluded a monitoring framework and SMART indicators.

Without adequate project design, the intended development results are at risk of not being achieved.

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

The Office should strengthen project design by:

(a) ensuring that quality standards are met with SMART results and indicators and monitoring and evaluation frameworks are adjusted to project needs;

(b) completing the applicable assessments for responsible partners, grantees, and private sector partners; and

(c) using and implementing the appropriate delivery instrument corresponding to programmatic requirements.

**Management action plan:**

To address this recommendation, the Office will develop and implement a training plan for programme and project staff on:
(i) the use of different programmatic instruments (engagement facility, Development Services, Result Based Payments, Innovation Challenge, Low Value Grants, Development Projects, Initial Plans, Implementation Modalities, etc);

(ii) the different types of agreements to be signed with donors and partners according to the various programme modalities;

(iii) quality standards for content of project documents;

(iv) due diligence requirements and process to engage with private sector partners; and

(v) capacity assessment and risk management tools (including Social and Environmental Screening Procedures) – technical advice will be sought from OAI and the Regional Bureau for Latin America and the Caribbean to deliver these training sessions as needed.

**Estimated completion date:** 31 December 2021.

**Issue 3**  
**Weaknesses in project monitoring and risk management**

Programme and project monitoring are driven by the need to account for the achievement of intended results and to provide a factual basis for decision-making purposes. This includes the following: (i) development of monitoring frameworks at the project level; (ii) completion of the Social and Environmental Screening Procedures; (iii) ensuring that the financial disbursement mechanism is appropriate for the delivery instrument; (iv) utilizing the Target for Resource Assignment from the Core (TRAC) funds as seed funding; and (v) ensuring output targets are entered within the enterprise resource planning system.

The audit team reviewed a sample of 6 projects out of 38 ongoing projects; the sample included 4 directly implemented projects and 2 nationally implemented projects receiving Country Office support. In addition, the audit team reviewed the use of the engagement facility and initiation plans (four engagement facility projects and eight initiation plans). The following weaknesses were noted:

- Three of the six reviewed projects contained a monitoring framework that described quarterly monitoring activities to be carried out during the life cycle of the project. Such activities entailed preparing quarterly project progress reports, including the financial monitoring of the annual work plan, risk assessments and project board meetings. The audit disclosed that each of these activities were scheduled to be completed quarterly however were completed annually. Monitoring was also hindered by not entering project output targets for three of the six projects reviewed within the enterprise resource planning system (Atlas). Furthermore, the Office used the Atlas output ID as the project identifier and not the Atlas project ID (formerly award ID) as required.

- The Office did not conduct the Social and Environmental Screening Procedures for five out of the six projects sampled and for all engagement facility and initiation plans reviewed.

- TRAC funds intended as seed funding for projects were incorrectly used to fund salaries of project personnel of projects under implementation for several years. Some TRAC funds were allocated to projects that were fully funded by vertical funds.

Lack of effective monitoring may prevent the Office from determining whether intended programme and project results are being achieved and whether corrective actions are necessary to ensure delivery.
### Priority
High (Critical)

### Recommendation 3:
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 conducting the monitoring activities with the frequency stipulated, and updating Atlas with all output targets for all projects and with adequate file naming;

(b) completing the Social and Environmental Screening Procedures; and

(c) ensuring adequate financial monitoring of project funds, including TRAC funds, to make strategic use of them.

### Management action plan:
The Office will undertake the following actions:

(a) Development of a training activity for programme and project personnel on the minimum actions for monitoring and evaluation of projects established in the ‘UNDP Programme and Operations Policies and Procedures’ and as established in the project documents and other programming instruments.

(b) Development of a training activity for programme and project personnel on risk management in development projects, including Social and Environmental Screening Procedures and the minimum requirements established in the Programme and Project Management section of the ‘UNDP Programme and Operations Policies and Procedures’ that need to be met for normal programme implementation.

(c) Reinforcement of ongoing reporting efforts for project boards, including strengthening sections already incorporated to address planning, reporting of monitoring and evaluation activities of projects, as well as the updating of risks and mitigation measures.

(d) Elaboration of a concept paper on the strategic use of TRAC resources allocated to the Office to drive innovation, UNDP’s positioning, and resource mobilization, which will be used as the standard for TRAC resource allocation. Documentation of lessons and good practices at the end of the period.

**Estimated completion date:** 30 June 2021

### 2. Project administration

**Issue 4**  
Global Environment Facility (GEF) project implementation issues

GEF project implementation needs to be coordinated with the GEF Regional Team and should address implementing partner project design, project coordination and capacity.

The GEF funded project is nationally implemented. The project started in January 2018 with a budget of $6.2 million and was expected to be completed in December 2022. The project team prepared the Project Implementation Report in 2019 and was rated by the automated GEF platform as marginally satisfactory and for 2020 was unsatisfactory, indicating major issues in project implementation. The audit team noted the following:

- Project design and implementation
The Office prepared a separate report situation report in July 2020 that was escalated to UNDP Headquarters. The report referred to overambitious targets within project design, and 89 percent of indicators had no activities developed or were in the planning stage. The report also referred to the incomplete results framework, with 44 percent of indicators lacking a baseline, and indicated that the project duration was halfway through its project life cycle, only 23 percent of the total funds were executed with no substantive achievements. Finally, the report indicated that at the current implementation pace, by the end of the project only 45 percent of the resources would be used.

- Project coordination, conflicting roles and responsibilities

The project had significant delays due to the lack of clarity of roles and responsibilities among the implementing partner, a strategic partner that was overlapping the role of the implementing partner, and the Office, which under a Letter of Agreement was providing support to national implementation but was perceived by partners as being the new implementing partner. In addition, the Project Coordinator was hired by the Office under a service contract but reporting lines were to the implementing partner, thereby creating a conflict of interest with the oversight role of the Office.

- Implementing partner capacity

The audit team observed that both the implementing partner and strategic partner were assessed under the Harmonized Approach to Cash Transfers (HACT) Framework; however, an implementing partner capacity assessment was not completed.

Failure to address weaknesses in project design and corresponding implementation challenges may negatively affect UNDP’s reputation and result in the loss of confidence from the donor and other stakeholders.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 4:</strong></td>
<td></td>
</tr>
<tr>
<td>To mitigate project risks, the Office should liaise with the GEF Regional Team to address project implementation issues (project design, project coordination and implementing partner capacity) and develop a robust risk assessment.</td>
<td></td>
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</tbody>
</table>

**Management action plan:**

The Office will undertake the following corrective measures:

(a) Development and implementation of a capacity building of the national counterpart. This capacity development effort includes addressing the recommendations of the latest micro-assessment of capacities under the HACT format, the improvement of field monitoring capacities, risk management and socio-environmental conflict resolution.

(b) Review of the project implementation strategy and results framework together with national and local counterparts (approval of those changes will be done through the project board), following the recommendations of the mid-term evaluation scheduled to end in February 2021 with a view to accelerate the achievement of expected results.

(c) Maintain permanent communication with the UNDP-GEF unit in Panama to assess the progress of the project, mainly in the aspects of governance and the management of social and environmental risks.

**Estimated completion date:** 30 June 2021
C. Operations

1. Procurement/Goods & services

Issue 5  Lack of a procurement strategy for projects with complex business needs

The ‘UNDP Programme and Operations Policies and Procedures’ stipulate that offices are required to develop a procurement strategy for projects with ‘complex business needs’ in an emergency crisis setting to properly address business risks.

In April 2020, the Office signed an agreement with the Government, financed by the World Bank, for the COVID-19 pandemic response. The agreement included the acquisition of health commodities up to $13 million. The project budget was subsequently adjusted to $11.9 million. The Office’s responsibilities, within the agreement, included the following:

- outputs to be delivered following the timetable outlined in the work plan;
- production of progress reports to update the Government; and
- the procurement of health commodities would be in accordance with UNDP standard procurement and quality assurance policies and procedures.

The audit team made the following observations:

- A project procurement strategy was not developed.
- The Office lacked experience in the supply chain management of health commodities in an emergency response situation, including the quality assurance of health products.
- Delays and higher costs were experienced, due to limited air transportation availability, and unit price increases in some health commodities due to the pandemic.
- The Global Procurement Unit was unable to complete 12 percent of the purchase orders, which created additional burden for the Office in having to source and procure locally.

The lack of a project procurement strategy may have prevented the Office from mitigating risks with regard to the timely and cost-effective delivery of health products.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
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</thead>
</table>
| **Recommendation 5:** | The Office should ensure the timely development of a procurement strategy for all projects with complex business needs, in compliance with the ‘UNDP Programme and Operations Policies and Procedures’.
| **Management action plan:** | The Office will develop a procurement strategy considering the lessons learned in 2020 regarding the limitations of UNDP’s Global Procurement Unit to respond to the Office demands in response to a systemic crisis. This strategy will seek the diversification of potential local suppliers, updating the long-term agreements and risk management mechanisms to better prepare for eventual emergency procurement processes requested by the new Government. |
| **Estimated completion date:** | 30 June 2021. |
2. Finance/Office budget & cost recovery

Issue 6   Inadequate use of budget overrides

The budget override policy states that, “In exceptional cases, payments to suppliers may be made, provided that an override has been authorized by the head of office. The decision to approve such disbursements must be based on a written assurance from the donor that the installment payment is in progress. Only then can funds be advanced temporarily to honor the commitments to suppliers.” The Office’s delegated authority threshold is $200,000; transactions above this amount shall be authorized by the Regional Bureau.

The audit team identified 13 budget overrides (totaling $1.8 million) that were processed to fund project activities that could not be delayed in the case of one project. Written assurance was not obtained from the donor indicating payments were in progress. Two of these budget overrides, approved by the Resident Representative, exceeded the Office’s authority limit of $200,000: one for $776,000 and another for $343,000. At the end of the year, the project recorded a budget deficit of $250,000.

Inadequate control over budget overrides may create financial liabilities, and impact the sustainability of the Office.

<table>
<thead>
<tr>
<th>Priority</th>
<th>High (Critical)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 6:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should improve controls over project budgets to avoid project deficits by:</td>
<td></td>
</tr>
<tr>
<td>(a) ensuring that resources are available prior to making financial commitments and that budget overrides are performed as per policy and budget deficits are approved; and</td>
<td></td>
</tr>
<tr>
<td>(b) recovering outstanding donor contributions to offset the budget deficit.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

The Office will carry out the following measures to address the audit observation:

(a) Implement an override analysis in coordination with the Regional Bureau for Latin America and the Caribbean to address the cases identified.

(b) Share with Office staff an updated protocol/format for override requests (including a risk financial assessment and reputational risk assessment) in compliance with and to ensure full adherence to the corporate override policy.

(c) Collect outstanding contributions to cover deficits.

(d) Ensure the inclusion of the standard contribution clauses within the project document.

**Estimated completion date:** 31 March 2021
Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Fully 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.

- **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**.