



AUDIT

OF

UNDP COUNTRY OFFICE

IN

COSTA RICA

Report No. 2308
Issue Date: 26 April 2021



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Report on the Audit of UNDP Costa Rica Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Costa Rica (the Office) from 22 February to 9 March 2021. 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 and communication technology (ICT)

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

Main audit question: To what extent are the projects results likely to be achieved?

- (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 activities timely undertaken?
- (c) Procurement
 - iii. Were procurement activities conducted effectively in accordance with applicable policies?
- (d) Finance
 - iv. Were financial transactions processed timely and accurately?

The audit covered the activities of the Office from 1 January 2019 to 31 December 2020. The Office recorded programme and management expenses of approximately \$15.3 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.
- (d) A physical verification of assets was not performed.
- (e) Safe and petty cash contents were not verified.
- (f) The information and communication technology area was not reviewed on-site.

Overall audit rating

OAI assessed the Office's performance as **fully 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."

Good practice

The Office obtained the UNDP Gold Gender Equality Seal¹ and ensured that its project portfolio included gender activities in all thematic areas as well as within projects from the governance to environment programme clusters. The six project counterparts that were interviewed by the audit team, including the host Government, expressed their appreciation for the commendable work carried out by the Office to increase women in leadership roles and participation.

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

The audit 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 inadequate project closure, and weaknesses in travel management.

The two recommendations aim to ensure the following: (a) effectiveness and efficiency of operations (Recommendation 2); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

Management comments and action plan

The Resident Representative 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 management and actions have been initiated to address them.

Helge S. Ostveiten
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¹ The Gender Equality Seal incentivizes UNDP Country Offices to integrate gender equality into all aspects of their development work.

I. About the Office

The Office, located in San José, Costa Rica, and its Country Programme covered the period 2018–2022 with the following development priorities:

- a) strengthening the capacity of public institutions to generate data and produce knowledge for decision-making, focused on the inclusion of vulnerable populations and spaces for dialogue; and
- b) supporting public administrations in strengthening rights-enforcement spaces and their capacity for results-based management, with a focus on gender and human rights approaches, emphasizing environmental governance and sustainability.

During the period from January 2019 to December 2020, the Office spent \$13.17 million on development activities, a reduction of 4.8 percent compared to the previous period.

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

Title	Expenditure Jan.-Dec. 2019 \$million	Expenditure Jan.-Dec. 2020 \$million
CONSERVING BIODIVERSITY IN PRODUCTION LANDSCAPES	\$1.7	\$1.8
II FASE ASISTENCIA TÉCNICA MONITOREO AGUAS SUBTERRANEAS	\$1.1	\$0.5
FORTALECIMIENTO CAPACIDADES ASADAS	\$0.7	\$0.5
Biodiversity Finance Initiative (BIOFIN) Phase II	\$0.6	\$0.5
Rounded Total	\$4.1	\$3.4

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

Donor	Funding for the period \$million
Global Environment Facility	\$6.5
Funding Window SPDE	\$1.4
Multi Partner Trust Funds	\$0.9
Total	\$8.8

II. Good practice

OAI identified one good practice, as follows:

Governance/Gender. Integration of gender activities within the project portfolio.

The Office designed and implemented a gender strategy that covered the entire project portfolio. The strategy included the inclusion of measurable activities relating to gender all large projects. Furthermore, the strategy was supported by the regional gender team and the Office was successful in being awarded the UNDP Gold Gender Equality Seal. The audit team interviewed six project counterparts who expressed their appreciation for the work performed to increase women in leadership roles and participation.

III. Audit results

Effective controls were 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 – Procurement. A review of the procurement functions, including samples of procurement transactions and management of individual contractors indicated that adequate controls were in place.
- (c) Operations – Finance. The Office adequately monitored the level and use of financial resources, managed the risk of financial loss, and maintained accurate accounting records. There was appropriate management of commitments, disbursements, and follow-up of outstanding receipts, and cash.
- (d) 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.

Further, satisfactory performance was observed in relation to the performance audit questions. The programme and operations activities were shown to effectively support the achievement of agreed results. See below:

(a) Governance

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.

(b) Development activities

The audit team concluded that project management was undertaken effectively for project design and implementation but found weaknesses in project closure as described in issue 2.

The review of six projects from a portfolio of 29 development projects confirmed they were designed with clearly defined and measurable outputs. These were in line with the strategic objectives of the Country Programme and the United Nations Sustainable Cooperation Framework.

Project monitoring was adequately completed through quality assurance, and monitoring visits and project audits were conducted in accordance with the project document and supported by written reports. Due to the COVID-19 pandemic, the Office had to readjust project work plans; the change management was timely, allowing projects to remain on track to achieve the agreed results.

(c) Procurement

The audit team concluded that procurement was completed effectively in accordance with applicable policies.

For the period reviewed, the Office used the corporate procurement planning platform (PROMPT) for their annual procurement planning. A sample of procurement activities were reviewed and it was confirmed they were completed in accordance with applicable policies, these included:

- 2 of 4 reimbursable loan agreements.
- 20 individual contracts out of 64, each selected through direct contracting.
- 23 procurement processes sampled, of which 12 were awarded as exceptions to competition.

(d) Finance

The financial transactions reviewed were processed timely and accurately. For all 47 payment vouchers reviewed, the payments were completed within the terms and conditions agreed. All payments except for two were approved within one day and all payments were recorded accurately.

OAI made two 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) Improve the closure of projects (Recommendation 1).
- (b) Address weaknesses in travel management (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Development activities

1. Project administration

Issue 1 Inadequate project closure

Projects should be operationally closed when activities have been completed. Projects should be financially closed not more than 12 months after being operationally closed. Prior to project closure, a final project quality assurance assessment is required along with a summary of lessons learned during the project.

The audit team found that 11 project outputs belonging to 11 projects had been operationally closed for over 12 months, awaiting financial closure. Two had been operationally closed for three years, five related to cases where outputs were reopened by the Office of Financial Resources Management due to incorrect financial closure, and four had outstanding project balances preventing financial closure.

In addition, four projects were inactive for over 18 months and required closure and 19 project outputs where activities were ongoing had exceeded the Atlas (enterprise resource planning system of UNDP) project end date. The corporate tools to manage project closure, the 'UNDP project closure workbench' and the project management tool for GEF projects, the 'Project Information Management System' (PIMS), showed outstanding milestones with regard to project closure that had not been addressed in accordance with established timelines.

Furthermore, 21 projects were closed between 2017 and 2019 for which the final quality assurance assessments had not been completed. The Office started to complete the quality assurance assessments for project closure in 2020.

Without adequate project closure, lessons learned may not be captured. Furthermore, not financially closing projects within 12 months of operational closure may lead to financial and reputational risks.

Priority	Medium (Important)
Recommendation 1:	
The Office should improve project closure by:	
<ul style="list-style-type: none"> (a) ensuring that projects are financially closed within 12 months of operational closure; (b) completing quality assurance assessments for closure, ensuring that lessons learned are captured; and (c) regularly monitoring the Atlas 'UNDP project closure workbench' and 'Project Information Management System' (PIMS), and taking the necessary action for projects awaiting closure. 	
Management action plan:	
<p>The Office has already requested technical assistance from the Regional Bureau for Latin America and the Caribbean as well as from another office within the region to close projects that imply complexity in their closure due to the periods that have elapsed. In addition, training in all aspects of project management and closure will be provided to all Office staff including proper use of the Power BI platform, Atlas 'UNDP project closure workbench', the 'Project Information Management System' (PIMS) and the dashboards available in Power BI.</p> <p>A standard operating procedure for closing projects will be also developed including programmatic and financial inputs.</p>	
Estimated completion date: December 2021	

B. Operations – Administrative services

1. Travel

Issue 2 Weaknesses in travel management

The 'UNDP Programme and Operations Policies and Procedures' require all business travel organized and paid by UNDP to be processed through the Travel & Expense (T&E) Module in Atlas. Direct payment requests from governments and UN agencies where travel is not organized by UNDP should be processed outside of the T&E Module. Once travel has concluded, all staff and non-staff members are required to submit a travel claim to the authorizing unit within two weeks from completion of travel whether claiming additional expenses or not. Travel claims shall be deemed time barred if received by the authorizing unit more than one year from completion of travel. In such cases, no payment shall be made to the traveler. However, the travel claim should still be processed in the system.

The audit team reviewed a sample of 15 travel (representing 18% of travel undertaken) requests processed through the T&E Module and noted the following:

From the sample, the audit team identified instances where the travel policy was not adhered to:

- Four travel requests did not include the mission dates, information comparing authorized versus preferred itineraries, and whether there were personal costs to be borne by the traveler.
- One case where the traveler had been a non-staff member, and payment of the 20 percent balance was not settled in the travel claim. No expense report was created.
- Three cases where Daily Subsistence Allowance (DSA) was paid without adequate justification. This included one case where the DSA was paid for activities not included in the official agenda, one instance where the DSA was partially paid for an overnight flight and one case where DSA was paid on the day of departure from the mission.
- Five travel claims were submitted between 37 to 239 days after completion of travel.
- Five travel requests were processed through the T&E Module, but the corresponding travel claims were not finalized in the system.
- Four direct payment requests from UN agencies were incorrectly processed through the T&E Module. In addition, six direct payment requests from the Resident Coordinator’s Office were processed through the T&E Module; however, following delinking there was lack of guidance on this area.
- The Travel & Expense Dashboard indicated the following:
 - 10 pending claims where travel had concluded over 30 days ago. These claims had been submitted but not finalized in the system.
 - 33 travel requests with no claims submitted. In some cases, travel had concluded in 2019.

The travel processor role was assigned to two staff in the Office; one was the Finance Associate, who was also the travel focal point, and processed 89 percent of all travel requests/expense reports in the system.

Weaknesses in travel management may lead to the inefficient use of resources and increase the administrative burden of the Office.

Priority	Medium (Important)
Recommendation 2:	
To address weaknesses in travel management, the Office should:	
<ul style="list-style-type: none"> (a) review travel management workflows and assess the distribution of roles and responsibilities, ensuring that all staff involved in processing travel are adequately trained and up to date with the travel policy; (b) ensure that all travel claims are submitted and processed on time; and (c) process direct payment requests from UN agencies outside the T&E Module and seek further guidance from the HQ travel unit regarding the use of the T&E Module to process travel on behalf of the Resident Coordinator’s Office. 	
Management action plan:	
To address the recommendations, the Office will:	
<ul style="list-style-type: none"> (a) Conduct a review of all the profiles involved in the travel management process for a reassignment of the travel focal point and related functions. (b) Carry out official consultations to follow up on the corresponding policies for travel-related activities, specifically those of the Resident Coordinator’s Office. Worth to note, the Office has already stopped using the travel module to process travel from other agencies, the Government and the Resident Coordinator’s Office. 	



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- (c) Prepare a training module - information capsules to reinforce knowledge and responsibility among all staff members involved in travel management.

Estimated completion date: December 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.