



**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**HONDURAS**

**Report No. 2310**  
**Issue Date: 3 September 2021**



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## Report on the Audit of UNDP Honduras Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Honduras (the Office) from 7 to 22 June 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:

Main question: **To what extent are project 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. Was project monitoring timely undertaken?

The audit covered the activities of the Office from 1 January 2020 to 31 March 2021. The Office recorded programme and management expenses of approximately \$85.5 million. The last audit of the Office was conducted by OAI in 2018.

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 content and petty cash 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 **satisfactory/some improvement needed**, which means “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.” This rating was mainly due to inadequacies in travel management and the safeguarding of assets.

**Key recommendations:** Total = **4**, high priority = **2**

The five recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	2	Medium
Safeguarding of assets	4	High
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium
	3	High

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 recommendations are presented below:

Inadequate travel management (Issue 3)

The audit identified instances where the travel policy was not adhered to, as follows:

- It was not possible to determine the compliance of travel itineraries, as travel requests were approved without clear information on mission objectives/agendas and official itineraries, especially those containing multiple destinations and modes of transportation. It was noted that while itinerary quotes were provided by the travel agent, there was no information from the Office/requester regarding official dates or itineraries to quote.
- One travel request was approved after the mission commenced, where the policy establishes that all business travel should be approved prior to travel.
- 6 out of 11 missions were entered and approved in the system less than five days in advance. In two cases the day prior to departure and in one case on the same day travel commenced. In five of these cases, tickets were bought in business class lacking sufficient time in advance to assess whether the lowest fare could have been obtained; the travel policy strongly encourages to purchase tickets at least 21 days in advance of travel when traveling in the class below first class and at least 14 days in advance when traveling in economy class.
- Four tickets for non-staff were bought in business class without proper justification, as no forms were submitted for approval.
- Two travel claims contained expenses reimbursed without supporting documents (lack of invoice or justification).
- Multiple travel requests were created for a single mission (a staff on detail assignment) and were closed before the staff could return to his duty station.

**Recommendation:** To improve travel management, the Office should: (a) ensure that all staff involved in processing travel are adequately trained and up to date with travel policy updates; (b) fully comply with the UNDP travel policy, ensuring that documentation is complete, and information is available for accurate and timely processing of both, travel requests, and travel claims; and (c) update the Long-Term Agreement for travel services.



Weaknesses in assets management (Issue 4)

The audit disclosed discrepancies between the assets reported in the In-Service Report (ISR) included in the latest Asset Certification package and the assets/items in actual custody of the Office. The audit also noted that assets had been retired from the system without having been physically removed from the premises.

Recommendation: Ensure in a timely fashion the accuracy of asset verification records; Ensure the correct disposal of assets that are no longer used by the Office; and finalize the physical removal of assets (automobiles) that were retired from the system.

### Management comments and action plan

The Resident Representative 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.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

## I. About the Office

The Office, located in Tegucigalpa, Honduras and its Country Programme covered the period 2017–2021 with the following development priorities:

- a) reducing vulnerabilities and inequalities, so that no one is left behind;
- b) support institutional reforms for effective and transparent participation in democratic spaces, including for vulnerable populations; and
- c) promoting and expanding interventions to prevent negative behaviors and violence and strengthening municipal plans for coexistence and safer municipalities.

During the period from January 2020 to March 2021, the Office spent \$83.4 million on development activities, an increase by 280 percent compared to the previous period.

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

	Expenditure Jan–Dec 2020 \$million	Expenditure Jan–Mar 2021 \$million
Identificate*	39.03	14.45
COVID – 19 Apoyo a beneficiarios	0.35	6.67
Transparencia de la Gestión Estratégica de Hondutel	3.14	0.31
CONECTA+	1.64	0.56
Apoyo al Programa RISP-HO-COVID-19	0.13	0.32
COPS4	0.32	0.11
AdaptarC	0.36	0.03
<b>Total</b>	<b>44.97</b>	<b>22.45</b>

**Note:** \*Identificate project was audited separately in 2021 thus not included in the Country Office audit. All project expenses are shown as recorded in the Combined Delivery Report.

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
Honduras	94.33
Global Environment Facility	6.69
European Union	5.31
<b>Total</b>	<b>106.33</b>

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) 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.

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

The assessment of performance audit questions was as follows:

Main audit question: **To what extent are project 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?

The structure was adequate to achieve the agreed results. Project counterparts, such as 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.

While the structure was adequate, weaknesses were identified within the following: description of Programme Unit roles and the open position of Finance Associate position since 2016.

The weaknesses concerning project management within organizational governance are described in detail under issue 1.

(b) Development activities

- ii. Was project management undertaken effectively?
  - a. Were projects designed with clear and measurable results linked to strategic objectives?

Project results were clear and measurable for the sample reviewed of 6 projects from a portfolio of 35 development projects. The Office linked project outputs to the United Nations Development Cooperation Framework and national development plan results that are the strategic instruments in the Country. No further reportable issues were noted.

OAI made two recommendations ranked high (critical) and 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.

**High priority recommendation:**

- (a) Ensure that all staff involved in processing travel are adequately trained and up to date with travel policy updates, fully comply with the UNDP travel policy, and update the Long-Term Agreement for travel services (Recommendation 3).
- (b) Ensure accuracy of asset verification records prior to submission for the bi-annual PP&E certification exercise, follow the correct procedures to dispose of assets and take the necessary steps to finalize the physical removal of assets (Recommendation 4).

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

- (a) Ensure that standard clauses and the schedule of contribution is included in all project documents, implementing partners do not use templates designed only for UNDP use, and financial monitoring of projects is strengthened (Recommendation 1).
- (b) Use the Direct Project Cost stand-alone project and ensure that all financial transactions are recorded under the correct account codes and adjust the transactions that were miscoded (Recommendation 2).

The detailed assessment is presented below, per audit area:

## A. Development activities/Project administration

### Issue 1 Weaknesses in project management

Effective project management starts with project formulation using standard templates stipulating the conditions that will prevail in the project, the role of the implementing partners and responsible parties. During the project implementation, financial monitoring provides inputs to project managers for making corrective actions.

The audit team reviewed a sample of 6 out of 35 ongoing development projects. The total sample represented 13 and 36 percent of 2020 and 2021 Q1 programme delivery, respectively. The following weaknesses were noted:

- (a) Two of the six projects reviewed were funded by the Government and the project documents lacked the schedule of contribution that, according to the 'UNDP Programme and Operations Policies and Procedures', should be part of the project document. Furthermore, when contributions are in a currency other than USD, the project document should also include a standard clause regarding the rate of exchange.
- (b) Three projects from the sample, where a national counterpart was the Implementing partner, signed agreements with responsible parties using a template, that according to the, UNDP Programme and Operations Policies and Procedures', should only be used when UNDP is the implementing partner and not for non-UNDP implementing partners. Although the text of the template was adjusted to the implementing partner needs, the document continued to refer to UNDP standards, which can create liability and reputational risks for UNDP.
- (c) Five projects from the sample had delivery levels below 50 percent of the approved budget for 2020 and for the first quarter of 2021. The Office explained that while projects budget adjustments were proposed for COVID-19 response projects these were not adjusted to more realistic figures. The Office also explained that the Global Environment Facility project portfolio (Atlas projects IDs 00058184, 00088099 and 00094142) experienced delays due to changing implementing partners.

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



<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
To improve project management the Office should ensure that:	
<ul style="list-style-type: none"> <li>(a) standard clauses and the schedule of contribution is included in all project documents where funds are received from the Government;</li> <li>(b) implementing partners do not use templates designed only for UNDP use; and</li> <li>(c) financial monitoring of projects is strengthened to have budget and planned delivery aligned to realistic project targets.</li> </ul>	
<b>Management action plan:</b>	
To address the recommendations, following actions will be taken:	
<ul style="list-style-type: none"> <li>(a) The Office, in agreement with the implementing partner, will prepare a substantive revision to the ongoing project, which was signed in 2013, to incorporate the special clauses of the template revised in June 2019. The other project is in the operational closure phase.</li> <li>(b) The Office will request the implementing partner to issue agreements with responsible parties using its own legal instruments provided these are consistent with UNDP rules and regulations.</li> <li>(c) The Office will send a written communication to the Project Coordinators and Programme Officers requesting to update the project budgets in Atlas, as necessary.</li> </ul>	
<b>Estimated completion date:</b> March 2022	

**B. Operations/Finance/Vendor accounts**

**Issue 2**      Incorrect use of direct project cost stand-alone project and account codes

As per UNDP’s Direct Project Costing policy, a stand-alone project can be used to account for the office’s management expenditures that can be allocated to projects. These expenditures relate to office costs and the stand-alone project should have a balance of zero at the end of the year. Also, the direct project costs to be recovered from the projects should be the actual expenditures with supporting documentation.

Also, UNDP reports its financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). Therefore, the Country Offices must ensure that their financial transactions are recorded accurately.

The Office uses a stand-alone project to recover expenditures not related to the Office’s management expenditures. In addition, by the end of the year, the stand-alone project had a balance which implied that the costs were not recovered timely.

The audit team also identified the incorrect use of account codes since payments made to a local bank acting as a vendor, as part of the COVID-19 response project, while it should have been linked to the nature of the expenditures which were related to the COVID-19 response project. In addition, payments to responsible parties were charged only to the account ‘Construction Engineering’ while the nature of the expenditures was related to other account codes.

These accounting anomalies could lead to incorrect classification of transactions, which could result in financial reporting that is not in accordance with the IPSAS.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
To improve financial management, the Office should:	
<ul style="list-style-type: none"> <li>(a) use the direct project cost stand-alone project as per the stipulated policy and ensure that it has a zero balance at the end of the year; and,</li> <li>(b) ensure that all financial transactions are recorded under the correct account codes and adjust the transactions that were miscoded before the year-end close.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The Direct project cost stand-alone project will be reviewed and actions to ensure a zero balance at the end of the year will be taken.</li> <li>(b) Financial transactions will be reviewed and adjusted accordingly to reflect adequate account codes.</li> </ul>	
<b>Estimated completion date:</b> March 2022	

## C. Operations/Administrative services

### 1. Travel

#### Issue 3 Inadequate travel management

The 'UNDP Programme and Operations Policies and Procedures' establish that a travel request, which is the formal document to secure approval to incur travel expenses, should contain a minimum amount of information including, *inter alia*, the purpose of travel, authorized (official) and preferred (by traveller) itineraries as well as mode of transportation. An official itinerary defines the origin, official destination and any stopovers including official dates and times of travel.

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. The audit team reviewed a sample of 11 travel requests out of 65 entered in the Atlas travel & expense module, amounting to \$75,063 or 42.7 percent of travel expenses (travel request amounts) reported in the module for the audited period. From the sample, the audit team identified instances where the travel policy was not adhered to, as follows:

- It was not possible to determine the compliance of travel itineraries, as travel requests were approved without clear information on mission objectives/agendas and official itineraries, especially those containing multiple destinations and modes of transportation. It was noted that while itinerary quotes were provided by the travel agent, there was no information from the Office/requester regarding official dates or itineraries to quote.



- One travel request was approved after the mission commenced, whereas the policy establishes that all business travel should be approved prior to travel.
- 6 out of 11 missions were entered and approved in the system less than 5 days in advance. In two cases, the day prior to departure and in one case on the same day travel commenced. In five of these cases, tickets were bought in business class, whereas the travel policy strongly encourages to purchase tickets at least 21 days in advance of travel when travelling in the class below first class and at least 14 days in advance when traveling in economy class to have the best opportunity to confirm the lowest fare.
- Four tickets for non-staff were bought in business class without proper justification.
- Two travel claims contained expenses reimbursed without supporting documents (lack of invoice or justification).
- Multiple travel requests were created for a single mission (a staff on detail assignment) and were closed before the staff could return to his duty station.

Regarding the processing of travel claims, it was noted from the Atlas travel and expense module that at the time of the audit, the Office had the following:

- 13 pending claims: 1 pending since 2018, 1 pending since 2019 and 1 pending since 2020.
- 26 travel requests with no claims: 2 from 2018, 15 from 2019 and 5 from 2020.

The audit team also found that the Long-Term Agreement for travel services expired in July 2020, yet the Office continued to use the services of the same vendor, exclusively.

Weaknesses in travel management may lead to waste of resources while reputational and financial risks may be exacerbated for the Office.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
To improve travel management, the Office should:	
<ul style="list-style-type: none"> <li>(a) ensure that all staff involved in processing travel are adequately trained and up to date with travel policy updates;</li> <li>(b) fully comply with the UNDP travel policy, ensuring that documentation is complete, and information is available for accurate and timely processing of both travel requests and travel claims; and</li> <li>(c) update the Long-Term Agreement for travel services.</li> </ul>	
<b>Management action plan:</b>	
The Office will take the following corrective actions:	
<ul style="list-style-type: none"> <li>(a) Will conduct training sessions for all staff involved in processing travel to ensure the UNDP travel policy is strictly adhered to. In addition, the role of the local focal point for travel will be emphasized to all staff for adequate orientation when processing travel requests.</li> <li>(b) Standard operating procedure for travel will be shared and constantly updated to serve as the guidance for staff.</li> <li>(c) Long-Term Agreement for procuring travel services is in progress and will be concluded prior to year-end.</li> </ul>	
<b>Estimated completion date:</b> March 2022	

## 2. Assets

### **Issue 4**      Weaknesses in assets management

The 'UNDP Programme and Operations Policies and Procedures' establish that all property, plant and equipment (PP&E), finance leases, and intangible assets used and controlled by UNDP, regardless of their value, must be managed appropriately in compliance with the 'UNDP Financial Regulations and Rules'.

The audit disclosed discrepancies between the assets reported in the In-Service Report (ISR) included in the latest Asset Certification package and the assets/items in actual custody of the Office, as reported in the documents provided to the audit team during the planning phase, including the list of vehicles bearing UNDP license plates and insurance policies. Assets had been retired from the system without having been physically removed from the premises. These retired assets were not included in the physical verification results submitted for the 2020 PP&E certification exercise. During the remote audit the Office management confirmed the physical location of the vehicles and their current condition.

The latest ISR reflected a total of 10 motor vehicles (7 automobiles, 1 motorbike, 1 boat, 1 overboard engine) and 1 tow trailer. However, the following was noted:

- The Office was in custody of four additional automobiles and one motorbike, all bearing official plates, and not recorded in the ISR. Some of these vehicles were still being used by the Office.
- Three of the vehicles did not have the required legal documents (reported by the Office as lost) to proceed with a legal title transfer.
- One automobile was located in non-UNDP premises.
- One automobile was recorded as having been "donated" to the Small Grants Programme; however, the disposal documents provided by the Office referred to another automobile (different make, model and year) which was incorrectly "disposed of" under the category of "other/internal transfer" – where it should have been a transfer to another project, only requiring a change of Chart of Accounts.

The audit team also found the following from the motor vehicles reported in the ISR:

- Two automobiles were located in a different geographical location from the central office, in non-UNDP premises, under the custody of a third party. One vehicle was noted as being in non-working condition and pending disposal.
- One automobile was still in the custody of the Office but pending disposal for over a year due to delays in obtaining legal documents from the counterpart.

Weaknesses in asset management may lead to the inefficient use of resources, increased administrative burdens for the Office, and inaccurate financial reporting.

<b>Priority</b>	High (Critical)
<b>Recommendation 4:</b>	
To improve asset management, the Office should:	
<ul style="list-style-type: none"> <li>(a) ensure accuracy of asset verification records prior to submission for the bi-annual PP&amp;E certification exercise;</li> <li>(b) follow the correct procedures to dispose of assets that no longer used by the Office; and</li> <li>(c) finalize the physical removal of assets (automobiles) that were retired from the system, but remained under the custody of, and bear legal UNDP titles.</li> </ul>	



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**Management action plan:**

The Office is taking the following action to address OAI's recommendations:

- (a) Asset records are being reviewed prior to submission of bi-annual PP&E certification to headquarters.
- (b) Procedures to dispose assets have been revisited with involved staff for adequate implementation.
- (c) The Global Shared Services Unit will be consulted on the most appropriate manner to dispose assets (e.g., automobiles) that are still in use. Regarding legal documentation for further donation or sale of disposed vehicles will be handled by the Office in agreement with local authorities/laws.

**Estimated completion date:** March 2022

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## 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.