UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

PANAMA

Report No. 2417
Issue Date: 10 January 2022
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Report on the Audit of UNDP Panama
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Panama (the Office) from 8 to 19 November 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 communication and technology (ICT)

The audit covered the activities of the Office from 1 January 2020 to 31 July 2021. The Office recorded programme and management expenses of approximately $52.9 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 contents and petty cash were not verified.  
(f) The information communication and 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 weaknesses in procurement planning, project management and inaccurate project budget information in Atlas.

**Key recommendations:** Total = 3, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are three 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.”

The three 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>1</td>
<td>Medium</td>
</tr>
<tr>
<td>Effectiveness and efficiency of operations</td>
<td>3</td>
<td>Medium</td>
</tr>
<tr>
<td>Compliance with legislative mandates, regulations and rules, policies and procedures</td>
<td>2</td>
<td>Medium</td>
</tr>
</tbody>
</table>
Management comments and action plan

The Resident Representative accepted all three 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.

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

The Office, located in Panama City, Panama (the Country) and its Country Programme covered the period 2021–2025 with the following development priorities:

- a) inclusive and sustainable social and economic development;
- b) strengthening inclusive, effective, and transparent governance processes and institutions; and
- c) supporting policies and interventions for sustainable environmental management, mitigation and adaptation to climate change and resilience.

During the period from 1 January 2020 to 31 July 2021, the Office spent $50.3 million on development activities.

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 2020 $million</th>
<th>Expenditure Jan–Jul 2021 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEDUCA</td>
<td>6.5</td>
<td>7.9</td>
</tr>
<tr>
<td>MINGOB</td>
<td>3.0</td>
<td>5.1</td>
</tr>
<tr>
<td>INADEH</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Programme de desarrollo sostenible de Darién</td>
<td>2.7</td>
<td>0</td>
</tr>
<tr>
<td>MICI II</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>14.9</td>
<td>15.2</td>
</tr>
</tbody>
</table>

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>Government of Panama</td>
<td>48.5</td>
</tr>
<tr>
<td>Global Environment facility</td>
<td>2.2</td>
</tr>
<tr>
<td>GFATM</td>
<td>1.2</td>
</tr>
<tr>
<td>Montreal Protocol</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>52.7</td>
</tr>
</tbody>
</table>

II. Audit results

Satisfactory performance was noted in the following areas:

(a) Human resources: The audit team reviewed human resources activities and processes managed by the Office such as recruitment, separations, performance management, service contracts, mandatory trainings and leave management. It was noted that adequate controls were established and working effectively.

(b) Administrative services: The areas of travel management and common services were reviewed, adequate controls were established with no reportable issues.

(c) Information communication and technology: Controls within the management of information communication and technology including those relating to access control backup and recovery were in place with no reportable issues.
OAI made 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.

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

(a) Improve planning and scheduling to ensure that the time taken for bid evaluation and internal review are reduced (Recommendation 3).
(b) Improve project management (Recommendation 2).
(c) Strengthen the budget information in Atlas (Recommendation 1).

The detailed assessment is presented below, per audit area:

### A. Development Activities

#### 1. Project Administration

Issue 1  **Inaccurate project budget information within Atlas**

All development projects must formulate a realistic multi-year work plan within Atlas (enterprise resource planning system of UNDP), budgeting costs at the activity level for the project duration, from commencement to project closure. Budgets reflect the assumptions of resources required to deliver results. As such, they must be flexible and easily revised in response to findings from monitoring and changes in context. In Atlas, resources budgeted for but not spent in prior years should be reallocated to current or future years.

A review of Atlas project budgets highlighted the following weaknesses:

i. The Office used the Integrated Work Plan (IWP) to monitor the available budget, which differed from the available budget in Atlas. The Office explained that the Atlas project budgets were not being modified, as required by the policy (such as when resource were unspent and needed to be reallocated). This led to the differences highlighted below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Programme delivery $million</th>
<th>Atlas budget $million</th>
<th>Delivery %</th>
<th>IWP budget $million</th>
<th>Delivery % vs IWP budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>30</td>
<td>52</td>
<td>58%</td>
<td>30.7</td>
<td>91%</td>
</tr>
<tr>
<td>2020</td>
<td>25</td>
<td>50</td>
<td>50%</td>
<td>32.8</td>
<td>74%</td>
</tr>
<tr>
<td>2021 (10 months)</td>
<td>33</td>
<td>82</td>
<td>40%</td>
<td>33</td>
<td>87%</td>
</tr>
</tbody>
</table>

ii. The audit team sampled 6 out of 36 development projects. The review noted that for 5 out of these 6 projects, Atlas multi-year budget information differed from the total budget approved in the project document:

<table>
<thead>
<tr>
<th>Project No.</th>
<th>83709</th>
<th>99149</th>
<th>97004</th>
<th>107033</th>
<th>99506</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget in Prodoc $million</td>
<td>37.31</td>
<td>39.33</td>
<td>15.42</td>
<td>47.26</td>
<td>22.48</td>
</tr>
<tr>
<td>Multi-year Budget in Atlas*</td>
<td>45.86</td>
<td>10.80</td>
<td>10.91</td>
<td>44.55</td>
<td>24.27</td>
</tr>
</tbody>
</table>
Explanations for these differences included:

- For Project No. 99149, the multi-year work plan within the project document did not include a total budget figure for each year of the project duration, which may have led to incorrect budget figures being included in Atlas.
- For Project No. 107033, the general management support (GMS) and direct project costing (DPC) budget information was not included in Atlas.
- Project No. 99506, the difference was caused by not updating Atlas after extending the project following a budget revision.

In the event Atlas project budgets are not revised following significant project changes or differ from the budget in the project document, the external reporting budget information may be incomplete.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should strengthen the budget information in Atlas by:</td>
<td></td>
</tr>
<tr>
<td>(a) making revisions following significant changes to the project and for the rephasing of activities; and</td>
<td></td>
</tr>
<tr>
<td>(b) ensuring the Atlas budget is complete and includes all expected costs.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

(a) By the first quarter of 2022, the budget balance of all active projects will be reflected in Atlas.
(b) The Office will implement a mechanism to ensure that all substantial revisions are updated in Atlas within a month after the signature.

**Estimated completion date:** April 2022

**Issue 2  Weaknesses in project management**

The project document must include the basis on which payments will be made, the amount of the contributions, and the timing of the contributions in projects funded through government cost-sharing.

A sample of 6 out of the 36 ongoing projects were reviewed (of which five were funded by government cost-sharing) and the following was noted:

i) Schedule of payments not included in project documents or enforced

- In five projects (funded through government cost-sharing) no clauses related to the payment of contributions were found. Thus, it was unclear on what basis funds were to be disbursed to the projects.
- In two projects (107033 and 97004), it was observed that the total contributions disbursed were significantly less than the amount budgeted in the project documents (refer to table 1 below).
- Due to the Government’s administrative procedures, in five projects there were delays in the initial disbursement of the government cost-sharing between 3 and 6.5 months. This further set back the implementation of activities.
Table 1: Analysis of project contributions by project

<table>
<thead>
<tr>
<th>Project No.</th>
<th>107033</th>
<th>97004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project duration</td>
<td>2019-22</td>
<td>2017-19</td>
</tr>
<tr>
<td>Budget ($million) in project document as of Dec 2021</td>
<td>36.96</td>
<td>15.42</td>
</tr>
<tr>
<td>Contributions ($million) received as of date of audit</td>
<td>17.71</td>
<td>7.63</td>
</tr>
</tbody>
</table>

ii) Weaknesses in the management of responsible parties

When engaging responsible parties under Country Office support, a standard letter of agreement between UNDP and a government ministry or institution to carry out activities should be signed. Cash transfers to responsible parties must be recorded in Atlas as advances; these are liquidated when the partner reports the expenditure incurred.

Within Project No. 107033 with a budget of $36.96 million, the Office signed 294 letters of agreements, amounting to $3.2 million with local governmental entities as responsible parties, to implement project activities. The following was observed:

- The agreement for the provision of support services to the project signed with the government counterpart did not include the contracting of responsible parties. In addition, the Office used an agreement template as the ‘implementing partner’ of the project instead of indicating they were engaging responsible parties on behalf of the implementing partner.
- The cash transferred to the responsible parties amounting to $3.2 million were recorded as expenditures instead of being recorded as advances.
- There were implementation delays, 281 agreements had an end date of December 2021, however, at the time of the audit the activities for only 21 agreements had been completed.

Delays in receiving contributions may impact project delivery and the achievement of results. Project documents with non-standard arrangements create a fiduciary risk to the organization. Non-adherence to policies governing service agreements and cash disbursement creates financial and reputational risks.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 2:</strong></td>
<td></td>
</tr>
<tr>
<td>The Office should improve the management of projects by:</td>
<td></td>
</tr>
<tr>
<td>(a) including in project documents the schedule and payment of contributions information, and ensuring that funds are available; and</td>
<td></td>
</tr>
<tr>
<td>(b) providing services to nationally implemented projects in line with the signed letter of agreement, using the correct legal instrument to engage responsible parties, and recording cash transfers to partners as advances that should be closely monitored by the Office.</td>
<td></td>
</tr>
</tbody>
</table>

**Management action plan:**

(a) The Office will update the project document template in Spanish to follow up on the revised corporate guidelines from December 2021.
(b) The Office has recently updated the “Guía para Elaboración y Aprobación Prodoc” to ensure project documents include a revision of the responsible parties. By the first quarter of 2022, staff will receive a training on programmatic policies.
Estimated completion date: April 2022

B. Operations

1. Procurement – Goods and Services

   Issue 3  Protracted bid evaluation process

   The 'UNDP Programme Operations Policies and Procedures' state that the bid evaluation is the process of assessing offers and submitted proposals in accordance with established evaluation methodology and criteria, with the goal of obtaining the best value for money and timely completion of the process.

   For 20 out of 38 highest value competitive procurement submissions, ranging from $0.1 million to $2.5 million, the Office had taken on average 107 days to complete the process (from start of the procurement bidding to procurement committee approval stage). The Office stated that these delays mainly occurred at the bid evaluation stage, due to the practice of including personnel from the implementing partners when evaluating bids. There was no evidence to suggest that the Office had planned and scheduled the time of these internal evaluations, which would have made the process more efficient.

   Inadequate procurement planning may result in delays in the implementation of the projects.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Medium (Important)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation 3:</td>
<td></td>
</tr>
<tr>
<td>The Office should take appropriate actions such as better planning and scheduling to ensure that the time taken for bid evaluation and internal review are reduced.</td>
<td></td>
</tr>
</tbody>
</table>

   Management action plan:

   (a) The Operations Manager will conduct a review of the phases/functions to identify bottlenecks and prepare a training session about the bid evaluation process to achieve greater efficiency.
   (b) The Office will develop a guide ensuring common understanding of roles/responsibilities of the committee members, timely scheduling of meetings and completion of the evaluation process. The Procurement Unit will share the information with the members of the evaluation committee at the time of installment during the Q1 2022.

   Estimated completion date: April 2022
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.