UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP PHILIPPINES

SUPPORT TO TYPHOON RECOVERY AND RESILIENCE IN THE VISAYAS

(Directly Implemented Project No. 77295, Output Nos. 88169, 88231, 88305)
(Directly Implemented Project No. 77462, Output No. 88217)

Report No. 1412

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Report on the audit of UNDP Philippines
Support to Typhoon Recovery and Resilience in the Visayas
(Project No. 77295, Output Nos. 88169, 88231, 88305)
(Project No. 77462, Output No. 88217)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 15 September to 1 October 2014, conducted an audit of Support to Typhoon Recovery and Resilience in the Visayas (Project No. 77295, Output Nos. 88169, 88231, 88305) (Project No. 77462, Output No. 88217), herein referred to as "the Project", which is directly implemented and managed by the UNDP Country Office in the Philippines (the Office). The audit of this Project was not part of the original OAI Work Plan for 2014. In view of the continuous monitoring of emerging risks, and given the inherent high risks involved in the management of relief projects, OAI, in consultation with the Office and the Regional Bureau for Asia and the Pacific, decided to audit the Office's performance in its response to Typhoon Haiyan through the implementation of this particular project.

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) organization and staffing (project organizational structure and delegations of authority, risk management, planning, monitoring and reporting, financial sustainability);

(b) project management (programme management, partnerships and resource mobilization, project management)

(c) operations (human resources, finance, procurement, general administration, asset management).

The audit covered the activities of the Project from 8 November 2013 to 30 August 2014. The Project recorded programme and management expenditures totalling $14.8 million during the audit period. This was the first audit of the Project. The last audit of the Office was conducted by OAI in 2011.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Project as **partially satisfactory**, which means, "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in the areas of disaster preparedness, project document and project governance, management of project cash advances, procurement, and fuel management.

Key recommendations: Total = **12**, high priority = **5**

The 12 recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) reliability and integrity of financial and operational information (Recommendations 5, 6, 7); (c) effectiveness and efficiency of operations (Recommendation 3, 8, 11); (d) safeguarding of assets (Recommendation 12); and (e) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 4, 9, 10).

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. All high (critical) priority recommendations are presented below:

Inadequate disaster preparedness (Issue 1)	As the Office had not made advanced preparations, it was not fully equipped to quickly respond to emergencies. The Office would have benefited from preparatory planning, such as establishing long-term agreements for goods and services designed for crisis response and recovery, preparing a generic project and annual work plan to support responses to probable natural disasters and considering options for operating on a cash basis. Recommendation 1: Undertake preparatory steps to respond to future crisis situations, such as: (a) establishing long-term agreements with providers of goods and services relevant to crisis prevention and recovery; (b) developing a generic project and annual work plan to support response to high probability natural disasters; (c) preparing rosters of competitively selected candidates who can be deployed in a crisis response; (d) identifying a provider to facilitate cash management in crisis situations; and (e) developing an approach to identify non-governmental organizations and other entities that could be engaged in a crisis situation.
Inadequate controls over project cash advances (Issue 5)	During the audited period, the Office used the project cash advance modality to pay $4.4 million as cash-for-work activities to local workers for debris clearance. However, there were inadequate controls over the project cash advances. For example, personnel that received advances did not sign the appropriate forms, project cash advances often exceeded the threshold without the appropriate approval, and there were delays of up to four months in the liquidation of advances. Recommendation 5: Enhance controls over project cash advances and project cash on hand by: (a) ensuring that project cash advances are limited to the stipulated threshold and obtaining advance approval from Treasury for advances that exceed the established thresholds; (b) having the cash custodian forms signed by all recipients of project cash advances and ensuring that project cash advances are liquidated within the timeframe stipulated in the 'Programme and Operations Policies and Procedures'; and (c) ensuring that all payments to beneficiaries have adequate supporting documents.
Inadequate controls over cash payments by third party (Issue 6)	To mitigate the risks associated with making large cash payments, the Office made arrangements with a vendor in December 2013 to make payments for cash-for-work activities. However, there was inadequate justification for entering into a direct contract with this vendor. The Office paid $409,000 to the vendor to distribute cash to beneficiaries through a third party bank, even though the terms and conditions of the contract (including the service charges) did not provide guidance for the specific roles and responsibilities. The arrangements with the vendor ended in April 2014; however, the vendor had not provided the list of beneficiaries paid until the date of the audit. The Office was therefore unable to confirm the amount that was actually distributed to the beneficiaries. Recommendation 7: Enhance controls over cash payments by third parties by: (a)

ensuring there is adequate justification for direct contracting and contract terms and conditions are agreed to before signing the contract and making payments to the vendor; and (b) completing a reconciliation of all amounts paid to the vendor and independently confirming the amounts received by the beneficiaries and recover the balance due from the vendor as soon as possible.

Weaknesses in procurement (Issue 8)	There were weaknesses in the Request for Quotation for the leasing of heavy equipment, as it did not specify the size and capacity of the equipment to be supplied. This led to difficulties in evaluating the bids, due to substantial variations in the equipment available. However, due to the urgency, the Office signed long-term agreements with nine vendors and paid $2.2 million to five vendors for the rental of heavy equipment. In June 2014, the Office agreed to amend the rates of one vendor of heavy equipment by excluding fuel costs (though the original contract included the fuel cost). This amendment was not in compliance with the procurement procedures. Further, there was inadequate justification for continuing with the long-term agreements signed in January 2014 with the heavy equipment vendors several months after the typhoon. Recommendation 8: Enhance controls over procurement by: (a) undertaking a new procurement process for the provision of heavy equipment; and (b) strengthening the bid evaluation process by establishing standard criteria to facilitate the ranking of bidders.
Inadequate controls over management of fuel (Issue 11)	The Office did not have adequate controls over fuel procured valued at $280,000 during the audit period. The Office made arrangements for a fuel vendor to supply fuel directly to the heavy equipment vendors; however, there was no provision for monitoring fuel consumption. Records were also not maintained to confirm the actual fuel delivered by the fuel vendor or the fuel received by the heavy equipment vendors. There was also inadequate segregation of responsibilities for fuel management at the hub office and there was no evidence that invoices paid were in accordance with the appropriate price index as stipulated in the contract. Recommendation 11: Enhance controls over fuel management by: (a) assigning responsibilities for fuel monitoring between the fuel vendor, the Project, and the heavy equipment vendor in the respective contracts; (b) comparing the submitted invoices to the Tacloban Price Index and documenting the results of the comparison; (c) establishing and implementing controls to assess the reasonableness of fuel consumed by having all of the trucks fitted with functional odometers and relating distances covered to fuel consumption records; (d) ensuring adequate segregation of responsibilities for fuel management so that the requisition for fuel, monitoring of fuel, and verification of payments is not carried out by the same individual; and (e) assigning specific personnel authorized to order fuel and communicating these names to the fuel vendor.

Management comments and action plan

The Resident Representative accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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