UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP COST RECOVERY PRACTICES

Report No. 1452

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Report on the Audit of UNDP Cost Recovery Practices
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Cost Recovery Practices from 27 April to 15 May 2015. 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) Adherence of UNDP cost recovery mechanisms to the relevant Executive Board decisions and Quadrennial Comprehensive Policy Review directives, including criteria of full cost recovery and proportional cost recovery from core and non-core funds.

(b) Implementation, monitoring, and oversight of the UNDP cost recovery policies by Country Offices and Headquarters units. This included an assessment of the adequacy of the systems employed for the management of cost recovery as well as a review of the client-oriented dimension of the services provided.

The audit covered the following cost recovery income items: General Management Support, Direct Project Costs, and Agency Services. Not included in the audit were other cost recovery income items related to common shared services (i.e., local premises, security, communication, and dispensary) which are incurred in the field and thus fall outside the scope of this audit. The audit also did not cover the internal cost recovery process among UNDP business units, such as Management Consulting Team services, as well as information technology, and procurement services. These services do not generate an income but are rather a transfer of resources from one UNDP unit to another. The audit covered the period from 1 January to 31 December 2014. This was the first audit of UNDP Cost Recovery Practices.

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

Overall audit rating

OAI assessed UNDP Cost Recovery Practices 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 implementation of the new Direct Project Costs methodology as well as insufficient justification for the new General Management Support allocation key.

Key recommendations: Total = **5**, high priority = **2**

The five recommendations aim to ensure the following: (a) achievement of the organization's strategic objectives (Recommendation 1); (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendations 2, 3 and 5), and (c) effectiveness and efficiency of operations (Recommendation 4).

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:

Lack of analytical basis for General Management Support allocation key to cover management costs (Issue 1)	In 2015, UNDP redefined General Management Support as part of its new cost recovery policy and developed a new distribution key. Based on the new definition, General Management Support is supposed to cover costs incurred in providing general management and oversight functions of the organization as a whole. The audit results showed that the internal, unit-level distribution key for General Management Support was not based on a detailed analysis of the management costs by organizational unit. There was no direct link between the income generated through General Management Support and the management costs incurred at the organizational unit level. Further, with the new allocation, the highest share of this income would go to the unit that would implement the project rather than mobilize resources, i.e., mainly Country Offices. Recommendation: The Bureau of Management should (a) revisit the allocation/distribution key for General Management Support and base it on an analysis of current and planned management costs; and (b) consider merging, in one account at the corporate level, management cost collection and distribution.
Weaknesses in the implementation of the new Direct Project Costs methodology (Issue 2)	The implementation of the Direct Project Costs methodology was inconsistent among Country Offices and regions at the time of the audit fieldwork. Further, the necessary implementation tools had not been introduced. Recommendation: The Bureau of Management and Regional Bureaux should review the implementation of the Direct Project Costs methodology with the goal to address the identified inconsistencies among UNDP offices and enhance the implementation of the methodology.

Management comments and action plan

The Deputy Director and Chief Finance Officer of the Bureau of Management 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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