

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP COUNTRY OFFICE**

**IN**

**GUATEMALA**

**Report No. 1723**  
**Issue Date: 18 November 2016**

## Report on the Audit of Guatemala Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Guatemala (the Office) from 29 August to 9 September 2016. 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 and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, business continuity, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination (development activities, Resident Coordinator Office, role of UNDP – “One UN”, Harmonized Approach to Cash Transfers);
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security).

The audit covered the activities of the Office from 1 January 2015 to 31 July 2016. The Office recorded programme and management expenditures of approximately \$65 million as of 31 July 2016. The last audit of the Office was conducted by OAI in 2013.

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

### Overall audit rating

OAI assessed the Office 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 deficiencies in the management of service contracts, weaknesses in the E-banking payment process, payments processed outside of the Atlas system (enterprise resource planning system of UNDP), deficiencies in the management of vendor accounts.

**Key recommendations:** Total = 11, high priority = 4

The 11 recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization’s strategic objectives	2, 3, 4, 6	Medium
Reliability and integrity of financial and operational information	8, 9, 10	High
Effectiveness and efficiency of operations	1	Medium
Safeguarding of assets	11	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	5	Medium
	7	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. All high (critical) priority recommendations are presented below:

**Deficiencies in the management of the service contracts (Issue 7)** In paying the remuneration of service contract holders, salaries were processed through the monthly payroll in Atlas and payslips were issued to each contractor. Concurrently, the Office requested the contractors to issue invoices for services rendered on a monthly basis, thus in effect simultaneously treating service contractors as Office employees and as individual company owners. When the Office actually paid for invoices, they also issued a Value Added Tax (VAT) exception certificate commensurate to the tax on each invoice, which could have enabled the contractors to avoid payment of VAT to the national tax authority.

Other deficiencies identified in the hiring of service contract holders were the use of different contract templates than the standard UNDP template, lack of verification of qualifications and credentials of hired individuals, and lack of proof of enrollment in a pension fund at the beginning of the contracts.

**Recommendation:** The Office should improve the management of service contracts by: (a) immediately discontinuing the issuance of certificates as a basis for exemption for VAT payments; (b) verifying candidates' qualifications and credentials prior to the selection and hiring of a service contract holder; and (d) seeking advice from the Office of Human Resources and the Office of Financial Resources Management on how to handle the pension and other social security benefits for service contract holders in the Country.

**Weaknesses in E-banking payment process (Issue 8)** The controls in the execution of the E-banking payment process were weak and cumbersome due to the following:

- The Finance Assistant who processed payments in Atlas selected and included all approved vouchers in the daily paycycle without verifying the supporting documentation of those vouchers. Then all information from the paycycle was being downloaded from Atlas in a "text format file" (not password protected or encrypted) and stored in the share-drive. This text file was converted using a locally developed application to make it compatible with the E-banking web application. The converted file was then manually modified to change the date format from English to Spanish and eventually uploaded in the E-banking web application. This process was not only cumbersome, but exposed the process to manipulation of data.
- A print out of the locally developed application for payments, rather than from Atlas, was compared against the information uploaded in the E-banking application. Consequently, the original information downloaded from Atlas was not verified against the information in the actual electronic fund transfers (EFT) payments.

The following gaps regarding access to the E-banking web application were also noted:

- The Finance Analyst was the only one who had the approver right to release payments online, which was not aligned with the Internal Control Framework

that established two approvers.

- The Operations Manager, who had the administrator role of the E-banking web application, was able to modify user profiles online without any other approval required.
- Two bank signatories did not have access to the E-banking web application.

It was also noted that the E-banking application used by the Office was not approved by the UNDP Treasury Unit.

**Recommendation:** The Office should strengthen the internal controls over payments and minimize business risks by: (a) selecting and processing payments in Atlas for which adequate and valid documentation supporting payments exists; (b) developing an automated application to interface Atlas to the E-banking web application and eliminating the manual conversion of information in these systems; and (c) establishing two individuals with approving rights to jointly approve online payments and providing online access to the application for all authorized bank signatories.

Payments to individual consultants processed outside Atlas system (Issue 9)

The Office processed payments to consultants hired by NIM projects. The contracts and related payments were managed and made through a locally developed application system. At the end of each month, the total amount paid to all consultants for that month was entered as a single transaction in Atlas under a generic name of a vendor. As a result, tracing the payments to individual consultants in Atlas was not possible. During the audit period, there were 12 projects using this modality involving 282 contractors and the amount paid was estimated at \$1.6 million. When the information in the locally developed application was compared with Atlas, it was observed that 62 contractors had also received payments (\$480,000) for other services not linked to the contracts managed through the locally developed application.

**Recommendation:** The Office should process all payments through Atlas and identify the specific vendor and the project for each and every payment transaction.

Deficiencies in management of vendor accounts (Issue 10)

Non-compliance with Internal Control Framework requirements when creating a new vendor in Atlas or in the E-banking application led to inconsistent data in these systems. The audit identified 5,538 vendors created in the E-banking application, while there were 3,683 vendors registered in Atlas. Additionally, documentation to assess the accuracy of the banking information was not requested, contrary to the requirements of the 'UNDP Programme and Operations Policies and Procedures'.

The Office used generic vendors such as "Local staff" or "UNDP proyectos especiales" in processing payments and granting advances to project personnel and entering the expenses in Atlas. These amounted to approximately \$23.6 million, or 38 percent of total payments made by the Office during the period audited.

**Recommendation:** The Office should strengthen vendor management by: (a) requiring submission of supporting documentation for vendor profile creation and performing data review of vendors' information in Atlas to ensure that information is accurate and complete; (b) reviewing the process of creating vendors in the E-banking web application by restricting access to do so and by having independent approval of new vendors created; and (c) aligning Atlas vendors' information to the information in the E-banking system.

**Implementation status of previous OAI audit recommendations:** Report No. 1182, 24 January 2014.

Total recommendations: 15

Implemented: 13

Withdrawn: 2

**Management comments and action plan**

The Country Director accepted all 11 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.



Helge S. Osttveiten  
Director  
Office of Audit and Investigations