



DIVISION FOR OVERSIGHT SERVICES

AUDIT
OF THE UNFPA COUNTRY OFFICE
IN MONGOLIA

FINAL REPORT
N° MNG-101

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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the UNFPA Country Office (the Office) in Mongolia from 1 August to 30 November 2012. The audit covered the period from 1 January 2010 to 31 December 2011. Programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances.

Background

2. The activities covered by the audit corresponded primarily to Mongolia's fourth Country Programme 2007-2011, with total expenditures of USD 15.5 million for the five-year cycle. Total expenditures in the biennium 2010-2011 covered by the audit amounted to USD 7.7 million, allocated to 20 projects executed by 12 implementing partners (USD 1.9 million) and by UNFPA (USD 5.8 million)¹. Approximately 57 per cent of the expenditures were allocated to reproductive health, with focus on improving the quality of maternal and newborn health care, especially in the most disadvantaged Western region of the country; telemedicine support; and promoting sexual and reproductive health commodity security. Population and development activities, which accounted for approximately 19 per cent of the expenditures, focused on building the capabilities of the National Statistics Office and on the availability of quality disaggregated data on population and on gender and reproductive health issues. Gender and advocacy activities accounted for approximately 5 per cent of expenditures, and contributed to the approval of the gender equality law and to an increased awareness of and sensitivity to gender based violence. Management and programme coordination and assistance (PCA) costs accounted for the remaining 20 per cent of expenditures.

Methodology and scope

3. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the internal controls, governance and risk management processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

4. The scope of the audit included the review of the Office's governance, programme management and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology.

Audit rating

5. The audit indicates that, for the period covered, the risk management performance of the Office was '**Partially Satisfactory**', which means that, overall, internal controls, governance and risk management processes were adequately established and functioning well. However, one or more issues were identified that, if not addressed by management, may negatively affect the achievement of the objectives of the Office. Ratings by key audit area are summarized in the following page:

¹ Source: COGNOS project monitoring reports.

Audit ratings by key audit area		
Office Governance		Satisfactory
<i>Organizational structure</i>		<i>Satisfactory</i>
<i>Staffing</i>		<i>Satisfactory</i>
Programme Management		Partially satisfactory
<i>Programme planning, implementation and monitoring</i>		<i>Partially satisfactory</i>
<i>National execution (NEX)</i>		<i>Partially satisfactory</i>
<i>Inventory management</i>		<i>Satisfactory</i>
<i>Management of non-core funding</i>		<i>Satisfactory</i>
Operations Management		Partially satisfactory
<i>Human resources management</i>		<i>Partially satisfactory</i>
<i>Procurement</i>		<i>Partially satisfactory</i>
<i>Financial management</i>		<i>Partially satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Not assessed due to lower risk</i>

Key findings and recommendations

6. The audit identified several good practices implemented by the Office in the areas of programme planning and implementation and operations management, including detailed and clear annual work plans; well documented and easy to link cash advance requests, submitted by implementing partners using a standardized template developed by the Office; the engagement of a technical expert to validate procurement specifications for medical equipment; the involvement of implementing partner staff in the review of the technical specifications and vendor proposals for medical equipment; and the use of a third-party medical product distribution company to manage sexual and reproductive health commodity logistics activities.

7. The audit did not identify any issues assessed as high priority. However, the audit revealed a number of opportunities for improving programme and operations management activities and controls, as well as being in compliance with rules and regulations:

- a) In the area of programme management, the audit identified a need for more detailed project budgets; a timelier planning of procurement interventions; the avoidance of high freight costs; the implementation of clear procedures for the testing and acceptance of medical equipment supplied to enhance maternal health care; and the strengthening of the monitoring system;
- b) Improvements required in the area of operations management include a more competitive selection process for the award of short term consultancy contracts; maintaining quotations and bid solicitations open for a longer period; and enhanced documentation evidencing the receipt of goods and services procured; and
- c) One area requiring management’s attention is the accounting for Value Added Tax (VAT) reimbursements, which were not credited to the projects (including those funded from non-core resources) to which the VAT paid had originally been charged, resulting in an overstatement of expenditures for those projects.

8. The audit report includes 17 recommendations designed to help the Office address the above matters, all of them assessed as medium priority.

Management response

9. Management appreciates the audit conducted by DOS and overall agrees with its findings and recommendations.

10. The DOS team would like to thank the management and staff of the Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2010 to 31 December 2011. Programme delivery and operations activities executed in 2012 were covered by the audit as considered appropriate in the circumstances. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the internal controls, governance, and risk management processes implemented for UNFPA's operations in Mongolia.
2. The audit included such tests, as considered necessary in the circumstances, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of the Office's operations;
 - b) The conformity of expenditures with the purposes for which funds were appropriated;
 - c) The safeguarding of assets entrusted to the Office;
 - d) The level of compliance with applicable rules, regulations, policies and procedures; and
 - e) The reliability of the Office's financial and operational reporting.
3. The scope of the audit included the review of Office's governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.
4. The engagement was conducted by a team of DOS staff and external consultants starting on 31 July 2012; a field mission took place from 10 to 28 September 2012. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 28 September 2012. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 31 December 2012, and a management response received on 16 January 2013.

II. BACKGROUND

5. Mongolia is the least densely populated country in the world, with an estimated population of 2.6 million, spread over a surface area of nearly 1.6 million square kilometres. Approximately 40 per cent of the population lives in the capital city, Ulaanbaatar.

6. The country is undergoing a significant economic transformation, primarily driven by investments in the mining sector. The maternal mortality ratio stands at 63 deaths per 100,000 live births², compared to 96 deaths per 100,000 births in 2000. The adolescent birth rate stands at 6.1 per 1,000 women aged 15-19³, and the average contraceptive prevalence rate stands at 53.2⁴.

7. The activities covered by the audit corresponded primarily to Mongolia's fourth Country Programme (CP) 2007-2011, with total expenditures of USD 15.5 million for the five-year cycle. Total expenditures in the biennium 2010-2011 covered by the audit amounted to USD 7.7 million, allocated to 20 projects executed by 12 implementing partners (USD 1.9 million) and by UNFPA (USD 5.8 million)⁵. Approximately 57 per cent of the expenditures were allocated to reproductive health, with focus on improving the quality of maternal and newborn health care, especially in the most disadvantaged Western region of the country; telemedicine support; and promoting sexual and enhancing health commodity security. Population and development activities, which accounted for approximately 19 per cent of the expenditures, focused on building the capabilities of the National Statistics Office and on the availability of quality disaggregated data on population and on gender and reproductive health issues. Gender and advocacy activities accounted for approximately 5 per cent of the expenditures, and contributed to the approval of the gender equality law and to an increased awareness of and sensitivity to gender-based violence. Management and programme coordination and assistance (PCA) costs accounted for the remaining 20 per cent of expenditures.

8. The UNFPA Office is located in the city of Ulaanbaatar. During the period under review and at the time of the audit, the Office was managed by a Representative, an Assistant Representative, and an Operations Manager.

² Trends in Maternal Mortality 1990 to 2008 – WHO, UNICEF, UNFPA and the World Bank – May 2011.

³ Country Programme data.

⁴ Country Programme data.

⁵ Source: COGNOS project monitoring reports.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

SATISFACTORY

9. During the period under review the office was managed by a competent and stable team, which followed adequate processes for planning, managing and supervising the Office's programme and operations.

A.1 - ORGANIZATIONAL STRUCTURE

SATISFACTORY

10. No reportable issues were identified based on the audit work performed in this area, which included the review of the adequacy of the organizational structure of the Office and its alignment to the requirements of CP delivery and operations management.

A.2 - STAFFING

SATISFACTORY

11. No reportable issues were identified based on the audit work performed in this area, which included the review of the number and capabilities of staff vis-à-vis the needs of CP delivery and operations management, and the proper utilization of staff engaged under the Service Contract (SC) and Special Service Agreement (SSA) modalities throughout the period under review.

B. PROGRAMME MANAGEMENT

PARTIALLY SATISFACTORY

Good practices identified

12. The audit identified the following good practices in the area of programme planning, implementation and monitoring, some of which can be replicated in other offices:

- a) Annual work plans (AWPs) identified activities to be implemented in a concise yet clear manner, and the ERP system set-up of projects facilitated the linkage of expenditures incurred to corresponding AWP activities. In June 2012, the Office started the implementation of an internal monitoring system for tracking progress of implementation of AWP activities. The system, which was under implementation at the time of the field mission, consists of a comprehensive database used by programme officers for weekly updates on progress of AWP implementation and verification of this information with financial reports. This information is regularly used for the weekly cluster meetings;
- b) Cash advance requests submitted by implementing partners (IPs) were very well documented, using a standardized template developed by the Office, including a detailed break-down, by input type, of the funding requested for the implementation of each AWP activity;
- c) Technical specifications for medical equipment under procurement for a significant project at the time of the field mission were reviewed by an independent expert and endorsed by the IP; and

- d) A third-party medical products distribution company was engaged, under a tripartite agreement with the Ministry of Health (MoH) and the Office, to manage the sexual and reproductive health (SRH) commodity logistics activities end-to-end, including customs clearance, warehousing at the central and provincial level and delivery to health facilities based on the distribution plans approved by the MoH.

B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING

PARTIALLY SATISFACTORY

13. During the period under review, the Office implemented 20 projects at a cost of approximately USD 6.7 million, inclusive of PCA costs. The audit included testing of programme planning, implementation and monitoring activities for six of these projects, with aggregated expenditures of USD 4.2 million.

Late implementation of 2012 programme activities

14. The average implementation rate as of 20 September 2012 stood at approximately 49 per cent (including the Office management and PCA project codes). Projects MNG5U203 and MNG5U305 reflected extremely low implementation rates of 31 per cent and 33 per cent, respectively.

15. The low year-to-date implementation rates were mainly the result of delays in the procurement of medical equipment (which represents a significant cost for both projects) and the reprogramming of project activities to the fourth quarter of 2012. Procurement delays were partially attributable to the need to engage an independent consultant to review the equipment's technical specifications, an initiative undertaken by management to prevent the reoccurrence of quality defects that affected equipment procured in previous years (see paragraphs 26 to 28 infra). The reprogramming of project activities to the fourth quarter of 2012 was most noticeable for project MNG5U305, the implementation of which was impacted by the vacancy in the Youth and Development Officer position (until 1 October 2012).

16. The effect of the re-programming of activities in the years 2010 and 2011 to address implementation delays experienced in those years was not fully reflected in the corresponding AWP. Given the potential impact of changes in the timing of planned activities on initially desired project results, these changes should always be reflected through amendments to the corresponding AWP.

IMPACT *Programme results may not be achieved.*

ROOT CAUSE *Guidance (inadequate guidance and supervision – Country Office).*

CATEGORY *Operational.*

RECOMMENDATION 1

PRIORITY: MEDIUM

Timely execute planned project activities to ensure the achievement of intended project results, and amend AWP, as appropriate, for the effects of reprogramming if any (e.g. changes to activities and/or their implementation schedule, budgets and expected results).

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: 31 December 2013

The Office agrees with this recommendation, although it is important to recognize that, occasionally, exogenous factors hamper the Office's ability to implement activities in a timely manner. For instance in 2012, in addition to the need to engage an international medical Engineer Consultant to assist with the right specifications for medical equipment, delays in implementation were due to the electoral process and subsequent changes in Government at all levels. The Country Office will seek to always document re-programming of activities through amendments made to the original AWP's, and revised AWP's duly signed by both UNFPA Representative and respective Implementing Partner.

A lot of efforts put in implementing the 4th CP evaluation recommendations - and a need to enhance the monitoring process

17. A significant effort was made to inform the design of the fifth CP 2012-2016 and improve its quality, that of the Country Programme Action Plan (CPAP) and the CPAP Planning and Monitoring tool, through utilizing the results of the fourth CP end-of-programme evaluation. The Office also created a full-time monitoring and evaluation (M&E) position in 2012.

18. Many of the recommendations of the fourth CP evaluation were implemented and the most significant remaining ones relate to (i) evaluate and improve the strategy for the dissemination of Population and Development information (ii) the establishment of a quality review process by the Office for all publications and information materials produced with its support.

19. The audit noted that the CPAP Planning and Monitoring Tool did not reflect annual targets for progress indicators, whenever applicable. The monitoring system is activity-oriented and remains focused on budgeted expenditures; the monitoring tools did not provide a continuous input of data and information for results-oriented monitoring. Monitoring of 2012 programme activities performed as of the date of the audit mission had been limited. The usage of monitoring information is not clearly specified in the programme monitoring tools (for example, the Monitoring and Evaluation plan).

IMPACT *Intended programme results may not be achieved.*

ROOT CAUSE *Insufficient human resources (the Office did not have full time M&E staff at the start of the 2012-2016 CPAP development)*

CATEGORY *Operational.*

RECOMMENDATION 2

PRIORITY: MEDIUM

Promptly address the pending recommendations from the fourth CP evaluation.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

The Country office regularly follows-up and updates the internal on-line application on recommendations of the CP 4 evaluation; however due to technical problems on the application itself, the updates cannot be viewed at regional and HQs level. CO has raised this issue with Headquarters management. A solution to this technical issue is still pending.

Regarding paragraph 18. i), the Office wishes to emphasize that all major surveys and studies produced with UNFPA funds have been disseminated widely through multiple channels. Regarding paragraph 18.ii), the Office will set up a Quality Review Committee that includes technical Office staff and representatives from relevant partners for quality assurance of all publications produced with UNFPA support. A major challenge remains that most partners produce publications in Mongolian language precluding the possibility of further quality technical review by UNFPA regional advisors.

RECOMMENDATION 3 **PRIORITY: MEDIUM**

Promptly include all relevant data, such as annual targets for progress indicators, in the CPAP Planning and Monitoring Tool; specify how information produced by monitoring and evaluation activities is to be utilized and by which users, while ensuring that sufficient time and resources are allocated thereto.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

Based on the Programme Policies and Guidelines issued in 2012, the Office is now required to develop the Planning for Monitoring and Evaluation format. This format is being updated with revised annual targets (the 2013 targets have been identified during the 2013 AWP development process). The Office will inform and guide stakeholders on the required M&E activities for their follow up and reporting; the CO will retrain all programme officers and assistants, involving the latter in conducting regular spot checks of IPs to track performance. Starting in 2013 fiscal year, programme officers will be required to use the Planning for Monitoring and Evaluation format and the AWP monitoring format to review performance of IPs.

Limited level of detail of AWP budget calculations

20. AWP clearly identified the activities to be implemented by UNFPA and its IPs and the corresponding expenditure budgets. However, the assumptions used to estimate budgeted amounts and their break-down by type of expenditure (e.g., procurement of goods, consultancies, travel, printing services, etc.) were not clearly documented. The lack of well documented budget estimates could lead to budget-to-actual differences and create the need to re-programme activity level budgets, increasing the workload of programme and operations staff.

IMPACT *AWP budgets may not be accurate.*

ROOT CAUSE *Guidance (inadequate guidance and supervision – Country Office).*

CATEGORY *Operational.*

RECOMMENDATION 4 **PRIORITY: MEDIUM**

Estimate AWP budgets in a more structured and detailed manner, by expenditure component (“inputs”), making explicit key assumptions made.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2013*

The Country Office has already started the implementation of this recommendation. During the development of 2013 AWP, activities are broken down by inputs, indicating, unit costs and as much cost details as possible. The 2013 procurement plan will be developed at the same time as AWP to better estimate the budget allocated for procurement and minimize delays in reception of goods and services. A small task force will be formed to look at the procurement process and suggest further improvements from the Country Office end.

B.2 - NATIONAL EXECUTION (NEX)

PARTIALLY SATISFACTORY

21. Overall, the Office has maintained adequate controls over cash advances provided to implementing partners. NEX audits opinions were unqualified in both 2010 and 2011. Atlas OFA balances were regularly reconciled to FACE forms. Fund requests were submitted through a web-based application developed by the Office, adequately documented and supported through the use of forms which break-down the fund requests by activity and cost type. Cash advances and expenditures reported by the IPs could be easily linked to the AWP. No reportable findings were identified by the audit except for the following one.

Funding provided to implementing partners outside of the NEX/OFA process

22. The Office provided funds for programme implementation activities to several government agencies and NGOs outside of the NEX Operating Fund Account (OFA) process, based on Memorandums of Understanding (MOUs) signed with those entities. The funds provided, which amounted to approximately USD 350,000 during the period of the audit, were expensed at the time of payment.

23. Activities funded outside of the OFA process were reflected as UNFPA direct execution (or DEX), understating the extent of national execution, and were excluded from the NEX audit process, therefore limiting UNFPA's ability to obtain assurance about the proper use of the funds provided. Financial monitoring over the payments made outside of the OFA process was limited in scope, partly due to the high workload it imposed on the Finance Associate. The two most significant entities engaged under this modality in 2010 and 2011 were enrolled as implementing partners in 2012 and funding to these partners is now managed under the NEX/OFA process, and therefore no recommendation is provided with regards to this matter.

B.3 - INVENTORY MANAGEMENT

SATISFACTORY

24. Since the inception of the fourth CP, under the umbrella of the Global Programme to enhance Reproductive Health Commodity Security (GPRHCS), the Office funded activities to enhance the logistics management information system (LMIS) and commodity management capacities of the MoH. Through the GPRHCS and other programmes implemented by the Office, such as the telemedicine support project, the Office supplied SRH commodities and medical equipment at a cost of over USD 2.0 million during the period under review, contributing to improve SRH commodity security and maternal health care in Mongolia.

Too frequent use of air freight

25. As part of its response to the 2010 'dzud'⁶ emergency and at the request of the MoH, the Office procured 70 midwifery (kits N^o 1, 2 and 3 - drugs, equipment and consumables, respectively) and micro-nutrients. The kits were ordered from UNICEF in early March 2010, at a cost of USD 56,489 (approximately 3 per cent of inventory purchases during the period under review) and shipped to Mongolia on 13 June 2010, at a cost of USD 72,000. These kits were received on 6 July 2010 and distributed to 13 provinces affected by the emergency in October 2010. Given that the delivery and distribution of the kits took place after the emergency had elapsed, and that similar kits previously procured by UNICEF had been distributed in May 2010, the Office should have considered an alternative and more cost-effective method of transportation to Mongolia. Additional midwifery kits procured in 2011 were shipped by sea / land. The audit also noted some instances of medical equipment purchases shipped to Mongolia by air freight. A timelier planning and execution of these purchases might have allowed the Office to select alternative transportation arrangements at a lower cost.

IMPACT *Adequate value for money not obtained.*

ROOT CAUSE *Guidance (inadequate guidance and supervision – Country Office).*

CATEGORY *Operational.*

RECOMMENDATION 5**PRIORITY: MEDIUM**

Limit the use of air freight for the shipment, as appropriate, of medical equipment and SRH commodities.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2013*

More attention will be paid to the mode of freight against need and cost starting 2013. Agreement will be sought with PSB on the method of delivery beforehand.

Medical equipment supplied to the MoH affected in the past by quality issues

26. Multiple items of medical equipment supplied for use by the MoH under the telemedicine support project and the GPRHCS got damaged and placed out of operation, in some cases shortly after the equipment was delivered to the medical facilities for which they were procured. The issue was timely identified by the Office in the course of its monitoring visits to provincial level facilities and extensively discussed with the MoH authorities. In the course of its physical inspection procedures, the audit also noted damaged medical equipment supplied to two medical facilities located in Ulaanbaatar, representing approximately one third of the value of the equipment provided to those facilities.

27. Per the documentation made available to the audit team, the equipment damages were partially attributable to electrical power supply problems (power surge protection units were supplied by the Office in 2011 after the equipment got damaged but not at the time it was initially procured). Defects were also attributed to the low quality of equipment procured from certain vendors.

⁶ Extremely harsh winter weather and snow storms.

28. In response to the issue, and as the MoH did not have sufficient budgetary resources to maintain and repair the equipment, management contacted the services of a local vendor to assess the condition of the equipment supplied to provincial facilities (in 2010) and procured the required spare parts and provided repair services (in 2011), at a cost of approximately USD 77,000. In addition, the Office engaged the services of a consultant to revise the technical specifications of the equipment to be procured in 2012 for the telemedicine project and involved IP staff in the assessment of proposals submitted for the supply of ultrasound machines and other medical equipment procured. This revised approach resolved the issue and the equipment is operating properly.

IMPACT *The lack of availability of critical medical equipment may impair the achievement of expected programme results. Additional costs were incurred to assess and repair the equipment.*

ROOT CAUSE *Guidance (inadequate guidance and supervision – Country Office).*

CATEGORY *Operational.*

RECOMMENDATION 6

PRIORITY: MEDIUM

Strengthen the medical equipment post-delivery process through inclusion in procurement contracts of clearly defined testing and acceptance criteria, procedures and technical resources, as well as warranty clauses, covering the period required to deliver, test and accept the equipment.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2013*

The Country Office agrees totally with the auditors that there is need to pay more attention to sustainability of procured equipment, and Management is sparing no efforts to this end. However, some of the recommendations fall beyond the scope of the Country Office and need to be brought to the level of the Procurement Services Branch, such as issues of testing and warranty for PSB procured goods. Some of the actions that the Office can and will take immediately include:

- a) Discuss with PSB on recommendations related to equipment testing, acceptance and warranty clauses;*
- b) Continue to engage the technical assistance of experts in developing equipment and supplies specifications;*
- c) The Office will attempt to add a clause for longer warranty in procurement specifications;*
- d) UNFPA Mongolia will continue the already initiated practice of including maintenance and spare parts cost of supplied equipment for the first 2 years after its supply.*

RECOMMENDATION 7

PRIORITY: MEDIUM

To ensure programme sustainability, advocate with the MoH for the creation of dedicated medical equipment maintenance and repair budget lines; and include spare part kits and small budgets for equipment maintenance and repair as part of any future equipment procurement.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 October 2013*

The Country Office will:

- a) Step up advocacy to the new leadership of the MoH and health facilities for inclusion of sufficient budget for medical equipment maintenance and spare parts in their budgets.*
- b) Advocate to MoH and recipient health facilities to improve equipment maintenance at both at central and local levels.*

B.4 - MANAGEMENT OF NON-CORE FUNDING

SATISFACTORY

29. Thirteen of the projects implemented by the Office were funded from non-core resources provided by eight different donors. Expenditures funded from this source during the period under review amounted to USD 2.2 million (approximately one third of total programme expenditures). The audit included the testing of programme planning and implementation and compliance with donor agreements' requirements, including expense eligibility and reporting, for three of these projects, with aggregated expenditures of USD 1.5 million (approximately two thirds of the non-core funded expenditures). No reportable issues, except the one separately reported in para. 44, were identified based on the audit work performed in this area.

C. OPERATIONS MANAGEMENT

PARTIALLY SATISFACTORY

Good/ right practices identified

30. The audit identified the following good practices in the area of operations management:
- a) In-depth and well documented assessments of bids and quotations received;
 - b) Involvement of IP staff in the assessment of the vendor proposals for a significant procurement of medical equipment; and
 - c) Overall, programme and operations staff demonstrated in-depth knowledge of UNFPA policies and procedures.

C.1 - HUMAN RESOURCES MANAGEMENT

PARTIALLY SATISFACTORY

Lack of verification of employment references

31. From its testing of six Service Contracts (SCs) awarded during the period under review at a cost of USD 177,140 (representing approximately 54 per cent of SC costs for the period), the audit noted that there was no verification of academic credentials, as well as employment and personal references of the candidates selected. The audit also noted that three of the contracts were renewed at least once shortly before completing the contract holders' performance evaluations (albeit no performance issues were identified in these evaluations).

Lack of competitive selection for the award of SSAs

32. From its testing of seven Special Service Agreements (SSAs – short term consultancies) awarded during the period under review at a cost of USD 93,397, representing approximately 35 per cent of SSA costs for the period, the audit noted that:

- a) In four cases, the chosen candidate was selected from a list of at least three candidates identified by the Office or recommended by the Asia and Pacific Regional Office (APRO) or the Division for Human Resources, on the ground that the other candidates from the list were not available. Evidence thereof was not clearly documented in the recruitment files (for three of the four cases, email evidence was provided in the course of the field mission); and
- b) For the remaining three cases tested, the consultants selected were not engaged through a competitive selection process but rather on documented good performance in previous engagements.

IMPACT *The Office may not engage the most qualified professionals.*
 ROOT CAUSE *Guidance (inadequate guidance or supervision – Country Office).*
 CATEGORY *Compliance.*

RECOMMENDATION 8 **PRIORITY: MEDIUM**

Verify academic credentials and employment and personal references before formalizing any new job offers to SCs, and complete and document the performance assessments for SC holders before their contracts are renewed.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 March 2013*

The Office has a comprehensive checklist for supporting documents of recruitments under Fixed Term appointments as part of submission form to the Local Compliance and Review Board. The Office will adapt this checklist for recruitments of SC holders so that all the supporting documents are valid and verified before the job offer is made. The Representative will not sign any SC extension until the performance assessment form is duly completed and signed by the SCs holders and respective supervisors.

RECOMMENDATION 9 **PRIORITY: MEDIUM**

Complete a competitive selection process before awarding any new consulting contracts.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 March 2013*

The Office agrees with the principles stated in this observation. However, two of the three contracts mentioned in paragraph 32.b) were awarded based on recent competitive selections and documented good performances. The recruitment of the third consultant was based on the recommendation of another consultant given the pressure to identify a qualified specialist to meet the time bound needs of the post census project. Starting immediately, the Office will use all possible ways of competitive selection of individual consultants, including reviews of CVs from corporate, regional and CO consultancy rosters and public advertisement. The note to files for single sourcing will be used only after the documented trials of competitive selection processes.

C.2 - PROCUREMENT

PARTIALLY SATISFACTORY

33. The Office locally procured goods and services in the amount of USD 2.2 million during the period under review. Major categories of goods and services procured included computer hardware, medical equipment, medical kits and pharmaceutical products, printing services, professional services and vehicles. The audit tested a sample of 43 procurement transactions with an aggregated amount of USD 1.3 million.

Insufficient bidding period and late creation of requisition and purchase orders

34. The audit noted that requests for quotation and bid solicitations for 9 out of the 43 tested transactions amounting to USD 130,315 (all of them for amounts over USD 5,000 but below the USD 30,000 threshold, representing roughly 10 per cent of the sample in value) remained open for less than 10 days.

35. The audit also noted that:

- a) Requisitions were created after initiating the bidding process for 11 out of the 43 procurement transactions tested, most of which correspond to the purchase of vehicles and other fixed assets at a cost of USD 442,000 (40 per cent of the sample);
- b) Transaction requests (a manual form used by the Office to initiate and approve procurement interventions) were not available for seven of these transactions; and
- c) Purchase orders for four of the transactions tested, amounting to USD 70,842, were created on the same date or after the vendor invoices were received.

36. However, it should be noted that the audit did not identify any concerns about the ultimate validity and authorization of these transactions, all of which could be linked to the corresponding annual work plans.

IMPACT *Goods and services may be procured without appropriate authorization. The office may not obtain the most cost-effective bids.*

ROOT CAUSE *Guidance (inadequate guidance or supervision - Country Office).*

CATEGORY *Compliance.*

RECOMMENDATION 10**PRIORITY: MEDIUM**

Process procurement transactions (transaction requests, requisitions and purchase orders) in the proper sequence and in compliance with the requirements of the procurement policies and procedures with regards to the length of the bidding period.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2013*

The Office will update its Standard Operating Procedures (SoPs) to reflect the business practice to create Atlas requisitions before any other procurement activities are initiated. The existing "Transaction Request" form will be amended as "Transaction Monitoring Form", adding check boxes for status of key transaction steps, including "Atlas Requisition Approval". Existing SoPs for procurement transactions will be amended with a minimum of two-week open solicitations period regardless of the solicitation method.

Potential conflict of interest in the composition of the Local Contracts Review Committee

37. All procurements over the cumulative thresholds of USD 30,000 and USD 100,000 during the period under review were adequately submitted for approval to the Local Contracts Review Committee (LCRC) and the Headquarters Contract Review Committee (CRC), respectively.

38. The audit however noted that, for two submissions made in 2011, the LCRC membership included the budget owners of projects for which procurement transactions were submitted to the LCRC. This creates the potential for conflict of interest.

IMPACT *Procurement award decisions may not be appropriate*
 ROOT CAUSE *Guidance (inadequate guidance or supervision - Country Office).*
 CATEGORY *Compliance.*

RECOMMENDATION 11 **PRIORITY: MEDIUM**

Budget owners should recuse themselves from participating in LCRC meetings which review procurement submissions for the projects they manage.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31 March 2013*

The composition of LCRC will be reviewed so that no budget owner is a primary member of LCRC. The budget owners who serve as alternate members of LCRC will not participate in reviews of procurement cases for their own projects.

Lack of documented vendor performance assessments

39. During the period under review, performance assessments were not performed for any vendors of good and services other than consulting services. The Office’s ability to perform and document the assessments was limited by the lack of a working corporate vendor performance assessment tool during the period under review.

IMPACT *Vendor performance issues may not be identified and considered for future procurement of goods and services.*
 ROOT CAUSE *Guidance (inadequate guidance or supervision - Country Office).*
 CATEGORY *Compliance.*

RECOMMENDATION 12 **PRIORITY: MEDIUM**

Complete vendor performance assessments for all vendors active in the past year, using the new tool provided by PSB.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

The Office will:

- a) *Assess the performance of vendors who supplied goods and services under formal UNFPA POs and contracts, upon receipt of the goods and services using the CO internal vendor Assessment Tool;*
- b) *Continuously conduct a mandatory vendor performance assessment for vendors who were awarded contracts with values above \$ 50,000 using the PSB Vendor Management tool.*

Insufficient documentation of the receipt of goods procured

40. The receipt of SRH commodities and medical equipment⁷ was documented through receiving reports, albeit not sufficiently detailed. For goods procured other than SRH, the Office used vendor-created delivery vouchers in lieu of receiving reports, but the receiving and inspection procedures were not clearly documented.

41. The audit noted a situation where parts of colposcopes procured in 2010 at a cost of USD 53,000 were lost at an unidentified point after the pre-shipment inspection. No claims were made against any of the parties involved in the transaction. The Office replaced the missing parts, without which the equipment could not be operated, at an additional cost of USD 6,237. Furthermore, the audit noted that payments for two purchases of medical equipment spare parts in the amount of USD 4,500 were authorized before full receipt of the goods. All parts were delivered subsequent to the payment authorization.

IMPACT *Payments may be made for goods and services not received.*

ROOT CAUSE *Guidance (inadequate guidance or supervision - Country Office).*

CATEGORY *Operational.*

RECOMMENDATION 13

PRIORITY: MEDIUM

Prepare detailed receipt and inspection reports for all goods and services and authorize payments to vendors only after full receipt of said goods and services procured.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: 31 March 2013

The Office will introduce:

- a) *itemized "Receiving and Inspection Report" form with full description of the procured item (serial numbers or batch numbers) and detailed specifications for quantitative and qualitative assessments;*
- b) *A checklist for supporting documents for voucher processing, including the new "Receiving and Inspection Report".*

⁷ This process is managed by a third party logistical services provider engaged by the MoH and the Office.

C.3 - FINANCIAL MANAGEMENT

PARTIALLY SATISFACTORY

42. The audit work performed in this area included the analysis of the proper recording in Atlas of journal entries (JEs), accounts payable vouchers (APVs) and accounts payable journal vouchers (APJVs) and the coding of transactions to the correct account and fund codes and an analytical review of expenditures by General Ledger account.

NEX expenditures allocated to incorrect Atlas project activity codes

43. The audit noted several instances of expenditures reported by IPs which were recorded by the Office under incorrect project activity codes, therefore creating discrepancies such as Atlas activity lines reflecting (i) expenditures not budgeted; (ii) lack of financial implementation of budgeted activities although the related AWP activities had been executed; and (iii) negative activity-level OFA balances. These discrepancies, not previously identified by the Office at the time of the audit field mission, distort activity level implementation rates and render financial monitoring of project implementation more difficult.

IMPACT *Financial monitoring of programme implementation may not be effective*

ROOT CAUSE *Guidance (inadequate guidance or supervision - Country Office).*

CATEGORY *Reporting.*

RECOMMENDATION 14**PRIORITY: MEDIUM**

Perform regular programme expenditure reviews to identify transactions charged to erroneous project activity codes.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2013*

The Office agrees with this finding and the following actions have been and/or will be carried out to address it:

- a) The Office has conducted a learning session for Budget Owners and Programme Assistants on the use of COGNOS reports in September 2012. A refresher training will be conducted in March 2013;*
- b) The Office will conduct a refresher training for all IP finance staff on the project financial management and UNFPA requirements on the reporting (FACE form) in April 2013 right after the NEX audit exercise.*
- c) The Office will conduct quarterly reviews of expenditure reports of IPs submitted via FACE jointly by Finance/Programme Staff starting April 2013.*

VAT reimbursements not allocated to the projects originating the tax recovered

44. Under Mongolia tax law, Value Added Tax (VAT) on goods and services subject to this tax must be paid by the Office at the time such goods and services are received and billed; requests for VAT reimbursement are subsequently submitted on a monthly basis to the tax authorities. The Office followed the practice of crediting VAT reimbursements received during the period under review, which amounted to USD 169,593, to the Programme Coordination and Assistance project code instead of the project codes to which the VAT was originally charged, including for projects funded from non-core resources. The amount of reimbursable VAT charged to non-core funded projects, which does not constitute an eligible expenditure and should be credited back to the corresponding trust funds, could not be quantified in the course of the audit.

IMPACT *Project expenditure funds and implementation rates were overstated. Non-core funds were charged with ineligible expenditures which must be reimbursed to the donor countries.*

ROOT CAUSE *Guidelines (lack of adequate policies and procedures at the Office level).*

CATEGORY *Compliance.*

RECOMMENDATION 15

PRIORITY: MEDIUM

Going forward, account for VAT in accordance with the applicable corporate guidance which establishes that reimbursable VAT should be charged to an accounts receivable account at the time the tax is paid, and VAT reimbursements credited to this account when collected.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2013*

The Office will strictly adhere to the VAT Guidance Note of DMS dated 07 December 2012 to record, clear and reconcile VAT to the accounts receivables account. (14056).

RECOMMENDATION 16

PRIORITY: MEDIUM

Quantify the potential VAT refunds to non-core funded projects over the length of the fourth CP and, with the support of the Resource Mobilization Branch, communicate with donors regarding them.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30 June 2013*

a) VAT recoveries for 2012 were credited to the respective CP5 projects. For CP4 projects, the Office will quantify the reimbursements to be made to non-core funds since January 2007.

b) The Office will, in coordination with the Resource Mobilization Branch and the Finance Branch (FB) officially inform donors of the amount of reimbursable VAT recoveries. Depending on donor(s)' decisions, the Office will request FB to credit back to the donor accounts or refunds will be made to the successor projects funded by the same donor(s).

c) The Office will continue to negotiate with the Mongolia Ministry of Finance, collectively with other UN agencies and diplomatic missions, on the "right-away-exemption" of taxes rather than the reimbursement of VATs.

Discrepancies in staff leave balances

45. No significant issues were noted by the audit from its testing of leave transactions and records as of August 2012 for a sample of five fixed terms staff members (out of a total of 15 fixed terms staff members employed by the Office). Leave request forms were submitted and properly reflected in the manual time tracking sheets maintained by the Leave Focal Point.

46. However, the audit noted discrepancies between the number of outstanding annual leave days reflected in the manual tracking sheets and the balances per the Atlas leave management report for the five staff members tested.

IMPACT *Atlas leave balances may be incorrect and lead to an inaccurate estimation of the annual leave liability balance.*

ROOT CAUSE *Guidelines (lack of adequate policies and procedures at the Office level).*

CATEGORY *Compliance.*

RECOMMENDATION 17 **PRIORITY: MEDIUM**

Reconcile the annual leave balances and adjust the Atlas balance as appropriate.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31 March 2013*

On a monthly basis, the Office's Leave Monitor will adjust Atlas leave balances based on the manual leave records. The Operations Manager will review and reconcile Atlas leave balances with manual records on quarterly basis.

C.4 - GENERAL ADMINISTRATION **SATISFACTORY**

47. No reportable issues were identified based on the audit work performed in this area, which focused primarily on the testing of travel costs and daily subsistence allowance (DSA) payments amounting to approximately USD 225,000 (22 per cent of travel and DSA costs for the period under review) and of the asset management process with regards to purchases of fixed assets procured for use by the Office and its IPs at a cost of approximately USD 614,000 (75 per cent of fixed asset purchase costs of approximately USD 813,000 in the period under review).

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY **SATISFACTORY**

48. No reportable issues were identified based on the audit work performed in this area, which focused on the management and control of the Office's local area network.

ANNEX 1

Definition of Audit Terms

A. AUDIT RATINGS

Effective 1 January 2010, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP use revised harmonized audit rating definitions, as described below:

- **Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** - Internal controls, governance and risk management processes were adequately established and functioning well. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** - Internal controls, governance and risk management processes were either not established or functioning well. The issues were such that the achievement of the objectives of the audited entity could be seriously compromised.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines:** absence of written procedures to guide staff in performing their functions:
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate Regional and/or Country Office policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - Lack of or insufficient resources: financial, human, or technical resources
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional:** intentional overriding of internal controls.
- **Other:** Factors beyond the control of UNFPA.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities are used:

- **High:** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization);
- **Medium:** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences);
- **Low:** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are discussed by the audit team directly with the management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the 'COSO framework' and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic:** High level goals, aligned with and supporting the entity's mission.
- **Operational:** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage.
- **Reporting:** Reliability of reporting, including fulfilling accountability obligations.
- **Compliance:** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement-specific provisions.

GLOSSARY

AM	Asset Management
APRO	Asia and Pacific Regional Office
APV	Accounts Payable Voucher
APJV	Accounts Payable Journal Voucher
Atlas	ERP (Enterprise Resource Planning) system used by UNFPA
AWP	Annual Work Plan
BSB	Biennial Support Budget
CERF	Central Emergency Response Fund
CAP	Contract Approval Committee
CDR	Combined Delivery Report
CO	Country Office
Cognos	Corporate reporting system used by UNFPA
CP	Country Programme
CPAP	Country Programme Action Plan
CV	Curriculum Vitae
CRC	Contracts Review Committee
DEX	Direct Execution
DHR	Division for Human Resources
DOS	Division for Oversight Services
DSA	Daily Subsistence Allowance
ERP	Enterprise Resource Planning
FACE	Funding Authorization and Certificate of Expenditures
GPRHCS	Global Programme to Enhance Reproductive Health Commodity Security
IP	Implementing Partner
ITB	Invitation to Bid
JE	Journal Entry
LACRO	Latin America and Caribbean Regional Office
LCRC	Local Contracts Review Committee
LMIS	Logistics Management Information System
LTA	Long Term Agreement
MoH	Ministry of Health
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
NEX	National Execution
NGO	Non-Government Organization
OIC	Officer in charge
OFA	Operating Fund Account
OMP	Office Management Plan
PAD	Performance Appraisal and Development
PCA	Programme Coordination and Assistance
PO	Purchase Orders
PSB	Procurement Services Branch

RFP	Request for Proposals
SC	Service Contracts
SOP	Standard Operating Procedure
SRH	Sexual and Reproductive Health
SSA	Special Service Agreements
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USD	United States Dollars
VAT	Value Added Tax