



United Nations Population Fund – *Because everyone counts*

DIVISION FOR OVERSIGHT SERVICES

**AUDIT
OF THE UNFPA COUNTRY OFFICE
IN NICARAGUA**

**FINAL REPORT
No. NIC-101**

13 February 2013

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EXECUTIVE SUMMARY

1. The Division for Oversight Services (DOS) performed an audit of the UNFPA Country Office (the Office) in Nicaragua from 30 April to 20 August 2012. The audit covered the period from 1 January 2010 to 31 December 2011.

Background

2. Nicaragua is currently in its seventh Country Programme 2008-2012, approved by the Executive Board in 2007, with a total resource allocation of USD 25.0 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 16.3 million, allocated to 20 projects executed by 30 implementing partners (USD 7.8 million) and by UNFPA (USD 8.5 million). Approximately 67 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health among adolescents and young people and sexual and reproductive health commodity security. Population and development activities, which accounted for approximately 12 per cent of the expenditures, focused on capacity building in data collection, analysis, dissemination and utilization of data and research studies. Gender and advocacy activities, focused primarily on the prevention of gender-based violence, accounted for approximately 11 per cent of expenditures. Management and programme coordination and assistance costs accounted for the remaining 10 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 requires 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 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 Office. Ratings by key audit area are summarized in the following page:

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

Key findings and recommendations

6. The audit identified several good practices implemented by the Office, particularly in the areas of programme planning and implementation and operations support, including clear annual work plans, detailed and well-supported project budgets, and comprehensive and well documented procurement and contracting files. Some may be considered for replication in other offices, like project budget forms linking clearly expenditures and expected results, the practice of joint programme and operations review meetings, and monthly ‘Friday afternoon’ training sessions.

7. Further, the audit identified three areas with high priority issues requiring prompt management attention as they may impact the Office’s ability to deliver its programme as they are at a strategic level and significantly affect the achievement of the Office’s objectives. All require continuous management attention until resolution.

- a) **Office governance: vacancies in key positions and organizational structure constraints.** The position of Representative has been vacant since October 2011. Two National Programme Officer positions remained unfilled as of the date of the field audit mission. Further, the Office did not have dedicated monitoring and evaluation and human resources specialists, and maintained a high level of dependency on service contract holders performing core functions.
- b) **Human resources: work environment issues.** The Office’s operations were affected by long-standing work environment issues which should be promptly addressed by the Office management with the support of the Division for Human Resources (DHR) and the Regional Office.
- c) **Procurement: review by a local contract review committee.** Procurement transactions were not reviewed by a local contract review committee although they were above the threshold set in the Procurement Manual. This situation presents a risk of potential issues not being detected in time (none was however found during the audit). The situation should be promptly addressed by the Office management.

8. Further, the audit identified a few compliance matters, in relation to consultant contracting procedures which were not consistently followed, and a more equitable cost allocation system over projects. These could be easily addressed through putting in place required tools and training of personnel.

9. The audit also revealed a number of opportunities for improving operations. The main ones relate to implementing partners, better assessing their capabilities and their absorption capacity; undertaking better inventory management monitoring, and helping them improve thereon; addressing the issue of Value Added Tax exemption for procurement undertaken with UNFPA transferred funds, thereby freeing up more funding for programmatic activities; better defining medical equipment specifications. In addition, the Office could improve some of its own internal processes, for instance through introducing long term agreements for local suppliers wherever possible.

10. To help the Office address the issues identified in the course of the audit as well as improve its operations wherever possible, the report includes 15 recommendations, four of which assessed as high priority and 11 assessed as medium priority.

11. 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.

Management response

12. The Office greatly appreciates the audit conducted by DOS and overall agrees with its findings and recommendations. Efforts and actions are underway to address the recommendations included in the report. Due diligence was followed to fill out the position of Representative, vacant since 2011. During the transition process, the Office has been managed by Officers in Charge with a large field experience.

13. In November 2012 the Office received a mission from the Division of Human Resources to assist the Office in defining a new organizational structure, and to perform a thorough review of the Terms of Reference of all personnel. Precise actions have been undertaken to improve the work environment. Additional efforts have been undertaken to further improve the procurement and contracting procedures.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2010 to 31 December 2011. 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 Nicaragua.
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 internal audit staff, starting on 30 April 2012; a field mission took place from 11 to 29 June 2012. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 29 June 2012. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 27 November 2012, and a final management response received on 8 February 2013.

II. BACKGROUND

5. Nicaragua is the largest country in Central America. The population, estimated at 5.1 million, is unequally distributed among the various regions of the country. Fifty-four per cent of the population is concentrated in the Pacific Region and lives mainly in urban areas, 32 per cent in the Central Region, and only 14 per cent in the Caribbean Coast¹.

6. The country is the second poorest in Latin America, with wide disparities in wealth and income. Significant changes in the age structure of the population have occurred due to decreasing fertility rates. The maternal mortality ratio stands at 95 deaths per 100,000 live births², compared to 130 deaths per 100,000 births in 2000. The adolescent birth rate stands at 18.5 per 1,000 women aged 15-19³, and the average contraceptive prevalence rate stands at 69.8⁴. The country has achieved a high level of availability of modern contraceptives and life-saving maternal health medicines⁵.

7. Nicaragua is currently in its seventh Country Programme (CP) 2008-2012, approved by the Executive Board in 2007, with a total resource allocation of USD 25.0 million for the five year cycle. Total expenditures in the period covered by the audit amounted to USD 16.3 million, allocated to 20 projects executed by 30 implementing partners (IPs) (USD 7.8 million) and by UNFPA (USD 8.5 million)⁶. Approximately 67 per cent of the expenditures were allocated to reproductive health, with focus on promoting sexual and reproductive health (SRH) among adolescents and young people and sexual and reproductive health commodity security. Population and development activities, which accounted for approximately 12 per cent of the expenditures, focused on capacity building in data collection, analysis, dissemination and utilization of data and research studies. Gender and advocacy activities, focused primarily on the prevention of gender-based violence, accounted for approximately 11 per cent of expenditures. Management and programme coordination and assistance costs accounted for the remaining 10 per cent of the expenditures.

8. The Office is located in the city of Managua. During the period under review the Office was managed by a Representative and three different Officers-in-Charge (OICs), one of them during two non-consecutive periods. At the time of the audit, the Office was managed by the Deputy Representative, acting as OIC, and the Assistant Representative.

¹ Information obtained from the Country Programme Action Plan.

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

³ UNFPA Population and Development Branch data – 2005.

⁴ Demographic and Health Survey – 2007.

⁵ Global Programme to Enhance Reproductive Health Commodity Security – Annual Report 2011.

⁶ Source: COGNOS project monitoring reports.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

9. The audit identified the following good practices in the area of Office Governance, which could be considered for replication in other UNFPA offices:
- a) Monthly “Friday afternoon” training sessions to enhance awareness on key policies and procedures and changes thereto; and
 - b) Weekly joint programme and operations review meetings attended by all of the Office’s staff.

A.1 - ORGANIZATIONAL STRUCTURE

PARTIALLY SATISFACTORY

Organizational structure constraints

10. The Office’s organizational structure does not include dedicated monitoring and evaluation (M&E) and human resources specialist positions. At the time of the field mission, the Assistant Representative, who was recruited taking in consideration his M&E expertise, served as focal point in this area, and human resources matters were managed by the Administrative Officer. The Office’s ability to monitor its programme and manage its large headcount of fixed-term and service contract (SC) staff and consultants could be strengthened if it had dedicated monitoring and evaluation and human resources specialists. (see para. 13. infra).

A.2 - STAFFING

PARTIALLY SATISFACTORY

Vacancies in key positions

11. The Representative position has been vacant since October 2011. In addition, during the period covered by the audit, there were vacancies in the positions of Deputy Representative, from 2008 until 2010, and that of Assistant Representative, from April to September 2010. Other key vacancies at the time of the field audit mission included those of National Programme Officers for Population and Development and for Gender, both of them due to “*cas de force majeure*” over which the Office had no control. Further, the Commodity Security programme administrative assistant position became vacant in the course of the field audit mission. No definite arrangements were in place at that time to ensure continued administrative support to the programme, which is essential in view of the number of activities to be implemented and the large number of commodities supplied. Vacancies in managerial positions and key programme positions could diminish the effectiveness of programme delivery and operations.

High dependency on service contracts

12. The Office has an excessive dependence on service contract holders, several of whom were engaged to perform core functions during the period covered by the audit. Prolonged employment under the service contract modality, even while not in violation of the applicable policies and procedures, results in increased workloads for the Office and could impact the effectiveness of programme delivery and operations due to the restrictions placed on service contract holders (such as lack of access to training programs) and a higher retention risk.

13. Management indicated, in relation to the above mentioned issues, that the organizational structure was under review at the time of the audit field visit, to align it to the requirements of the new CP and the UNFPA Business Plan, which includes increasing the number of fixed term contracts.

IMPACT The effectiveness of programme delivery and operations may be diminished.
 ROOT CAUSE Guidance (inadequate guidance and supervision – Headquarters and Regional Office).
 CATEGORY Strategic.

RECOMMENDATION 1

PRIORITY: HIGH

Promptly fill the position of Representative and increase direct supervision of the Office's operations in the interregnum.

RESPONSIBLE MANAGER: Director LACRO.

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: May 2013

Due diligence was followed in filling the position of Representative following UNFPA Policies and Procedures with support from the Regional Office and HQ. In the meantime, the Office has been headed by Officers in Charge, previously Representatives, to ensure smooth office operations.

RECOMMENDATION 2

PRIORITY: HIGH

In consultation with the Regional Office and DHR, review the Office's organizational structure to incorporate all positions required for effective delivery of the new Country Programme with the most appropriate contracting modalities, and promptly fill vacant positions with qualified staff.

RESPONSIBLE MANAGER: Representative / OIC

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2013

In the context of the process of alignment with the Strategic Plan and the new CP 2013-2017, the Nicaragua Country Office has revised its organizational structure with the support of DHR, and the proposal is currently in the approval phase. Regarding paragraph 11, temporary measures were put in place to support the commodity security programme and efficiently run programme purchases, including the creation of an ad-hoc committee and the contracting of a procurement and logistics specialist (service contract).

B. PROGRAMME MANAGEMENT

SATISFACTORY

Good practices identified

14. The audit identified several the following practices in the area of annual work plan (AWP) management, some of which can be replicated in other offices:

- a) Activities are described in a clear and logical manner;

- b) Project budgets are documented through the so called “*Memorias de calculo*” which detail the inputs required to execute the activities and the assumptions (quantities and unit costs) used to estimate the amounts budgeted; and
- c) The existence of the “*Memorias de calculo*” allows for a clear linkage of the expenditures incurred to the AWP and the related results.

15. The Office conducted an effective “lessons learned” analysis following the NEX audit qualification of two of its most significant implementing partners. Unsupported expenditures were cleared through a well-designed process and programme implementation maintained through a combination of direct payments, reimbursements and the reallocation of unspent advances held by the IPs (see paragraphs 18 to 20 *infra*).

B.1 - PROGRAMME PLANNING, IMPLEMENTATION AND MONITORING

SATISFACTORY

16. During the period under review, the Office implemented 20 projects, four of them under the LACRO Regional Programme, at a cost of USD 14.7 million. The audit included testing of programme planning, implementation and monitoring activities for three of these projects, with aggregated expenditures of USD 7.2 million. No reportable issues were identified based on the audit work performed in this area.

B.2 - NATIONAL EXECUTION (NEX)

PARTIALLY SATISFACTORY

Limited scope of IP assessments

17. The Office completed assessments of its IPs at the time of inception of the seventh CP or when they were subsequently engaged. The assessments, performed by local accounting firms, were focused almost exclusively on the accounting capabilities of the IPs and did not cover any other processes and/or capabilities required for an effective implementation of project activities supported by UNFPA, for example, procurement and project management. Further, the assessment reports did not provide information useful to identify capacity gaps and select capacity building strategies, and allow the Office to focus its monitoring. In addition, the reports provided limited information on the rationale supporting the risk ratings assigned to the IPs.

IMPACT	The effectiveness of programme implementation may be diminished.
ROOT CAUSE	Guidelines (inadequate IP assessment guidelines - Headquarters and Country Office).
CATEGORY	Operational.

RECOMMENDATION 3

PRIORITY: MEDIUM

Expand the scope of IP assessments to: (i) cover all capacity areas and business processes relevant for project implementation purposes; (ii) provide information useful to identify capacity gaps, define capacity building strategies, and focus monitoring activities; (iii) document the rationale underlying risk ratings assigned and conclusions.

RESPONSIBLE MANAGER: Representative / OIC

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2013

The Interagency Operations Group is currently developing a new IP assessment format to be used by UNFPA in the new 2013-2017 programme cycle. This format covers areas recommended by UNFPA and UNDP, such as procurement, contracts and human resources, management.

Also, in order to have a more comprehensive evaluation and risk assessment tool, the program staff will start in 2013 assessing IPs using IPCAT (Implementing Partner Capacity Tool).

Excessive level of advances to IPs in 2010

18. The lead IP for a significant project managed by the Office during the period under review received a qualified 2010 NEX audit opinion. The cause of the qualification was the reporting by the IP as project expenditures of unspent cash advances amounting to USD 800,000. The advances provided by UNFPA could not be spent as planned because several municipalities implementing the project at local level, to which the funds had been in turn transferred, were not able to execute the activities planned, and instead kept the funds received in their bank accounts at the end of the year.

19. The root causes of the NEX audit qualification were the excessive level of advances paid to the lead IP, without a thorough assessment of the ability of the municipalities supported to implement the activities planned, and the lack of clear guidance from the Office with regards to the accounting treatment of the unspent advances for purposes of reporting of project expenditures to UNFPA.

20. Building on the lessons learnt from the audit, the Office, in collaboration with the IP, implemented a well-designed process to clear the unsupported expenditures and maintain programme implementation even after additional cash advances were suspended due to the NEX audit qualification. This was achieved through a combination of direct payments, reimbursements, the reallocation of the unspent advances held by municipalities with implementation delays, and an increased monitoring of the implementation efforts.

IMPACT *Excessive cash advances level; qualified NEX audit opinion; distorted implementation rates.*

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

CATEGORY Operational.

RECOMMENDATION 4 **PRIORITY: MEDIUM**

Link the timing and amount of cash advances to IPs to the activities and budgets per the corresponding AWP and the IPs' ability to implement the activities within the period for which the funding is provided; in so doing, consider splitting significant quarterly advances into multiple tranches to be released after verification of progress in the implementation of activities funded.

RESPONSIBLE MANAGER: Representative / OIC

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: Implemented in December 2012

The Office learnt from this experience. Advances have been reduced in parallel with a smart

analysis of feasible and realistic expenditures and through monthly meetings follow-up.

Additional measures were taken to reduce risk levels. As a result as of December 2012 implementation rate was of 98.4 per cent and OFA was netted to zero for the core programme resources. In March 2013, the one IP that has 2012 OFA of non-core resources will be liquidated and netted to zero.

B.3 - INVENTORY MANAGEMENT

SATISFACTORY

21. 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 Ministry of Health (MoH); it also supplied Sexual and Reproductive Health commodities and medical equipment, with an investment of over USD 2.9 million during the period under review. The programme contributed to significantly improve SRH commodity security in Nicaragua. Noteworthy results achieved include: (i) the inclusion of SRH commodity security in the MoH institutional plans; (ii) the enhancement of the MoH logistic capabilities; (iii) increased government funding for the procurement of SRH commodities; and (iv) an increased availability of SHR commodities, including maternal health lifesaving medicines. A few opportunities for improvement were however noted in this area and are presented below.

Medical equipment affected by quality issues, damaged, not in use or lost

22. During the period under review, the Office provided, at the request of the MoH, medical equipment worth USD 1,000,000, to medical facilities in the three Autonomous Regions in Nicaragua’s Atlantic coast (North Atlantic, South Atlantic and Rio San Juan). In the course of a site visit to one of the facilities supplied, the audit noted 11 damaged items worth USD 30,000. Furthermore, three items procured at a cost of USD 2,000 could not be located during the audit visit, and one item procured worth USD 7,000 (surgery lamp) was never placed in operation. Equipment damages were mainly due to power supply problems and adverse environmental conditions (i.e., corrosion due to high humidity and salinity levels).

23. An independent evaluation conducted by the office of the programme under which the equipment was supplied revealed further problems such as the procurement of oxygen converters which operate with 220 volts electricity (Nicaragua uses the 110 volt system); appliances equipped with electrical plugs not compatible with those used in the country; and products procured based on inaccurate technical specifications provided by the MoH.

24. In addition, some of equipment provided, such as tensiometers and nebulizers, were affected shortly after their delivery by quality problems which prevented their normal utilization. This situation was brought to the attention of the audit in the course of site visits to health facilities and was also mentioned in the above mentioned evaluation report.

25. The audit also identified, based on the review of receiving notes issued by the MoH, several instances of shortages in shipments of hormonal contraceptives and missing parts in deliveries of medical equipment. There is no documented process in place to report and follow-up on these discrepancies, which were however not significant.

IMPACT Adequate value for money not obtained.

ROOT CAUSE Guidelines (inadequate planning).

CATEGORY Operational.

RECOMMENDATION 5

PRIORITY: MEDIUM

Assess the current conditions and usage of medical equipment provided to medical facilities in the autonomous regions (North Atlantic, South Atlantic and Rio San Juan) to determine whether it would be cost effective to repair or replace it.

RESPONSIBLE MANAGER: National Programme Office SRH

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: April 2013

Tensiometers and nebulizers with quality problems are being replaced at the MOH request. Further, the Office will request authorization to locally procure medical equipment requiring installation, periodic maintenance, reagents and operational materials

Terms of reference and specifications of the MoH will be used along with the standards established by PSB. The Office will also explore with PSB the use of vendors with local representation to ensure periodic maintenance when feasible.

RECOMMENDATION 6

PRIORITY: MEDIUM

In coordination with the Procurement Services Branch (PSB), implement processes for (i) the validation of medical equipment technical specifications, taking into consideration the expected conditions of use of the equipment; (ii) the inspection and acceptance of the equipment at the time of its delivery; (iii) the referral of quality problems and shipment shortages to PSB for follow-up and resolution with the vendors.

RESPONSIBLE MANAGER: National Programme Office SRH

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2013

In addition to the improvement in the Terms of Reference and specifications, quality checks are performed according to PSB quality standards. Local procurements are being performed according to PSB quality standards. The Office agreed with PSB the establishment of a local quality control committee, which includes UNFPA staff and MoH specialists. This committee has been functioning to ensure that before awarding the product to a vendor, an inspection is performed in conjunction with the Ministry of Health to verify that the product to be delivered corresponds with the requirements and meets the required quality specifications. These procedures have been implemented since September 2012.

Instances of delays in the distribution of SRH commodities supplied by UNFPA

26. The audit revealed that, overall, SRH commodities and medical equipment supplied by UNFPA during the period under review, at a cost of approximately USD 2.9 million, were received and distributed in a timely manner, with only a few exceptions noted below.

27. As of the end of June 2012, the MoH held a stock of approximately 2.2 million 1cc syringes supplied by UNFPA at a cost of approximately USD 361,000. The syringes were delivered by UNPA, bundled with injectable hormonal contraceptives which were however distributed without the syringes because the MoH stored the latter in a different warehouse.

Approximately 15 per cent of the syringes in stock as at 30 June 2012 were due to expire (as regards their sterile condition) in September 2012. This represents a duplication of costs, to buy additional syringes for administering the contraceptives, and a potential loss, should it not be possible to use the syringes before they expire.

28. The audit also identified a batch of ferrous sulfate delivered in 2010 but not distributed until April 2011, close to the product's expiry date of August 2011. During a warehouse visit, the audit also found over 145,000 units of this product, procured at a cost of USD 7,000, set aside to be destroyed at a regional warehouse as they were expired. In addition, 17,000 units of the product were distributed from another regional MoH warehouse after the product's expiration date.

29. The audit further identified antibiotics worth USD 100,000 supplied in 2010 that had not been distributed as of the end of June 2012, although the batch held in stock was due to expire in September 2012 and there were stock-outs of this product in some of the facilities visited. In addition, there were small stocks of two other antibiotics expiring in September 2012 that had not been distributed as of the end of June 2012.

IMPACT Adequate value for money not obtained.

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

CATEGORY Operational.

RECOMMENDATION 7

PRIORITY: MEDIUM

Monitor regularly the level of SRH commodities held by the MoH to ensure their timely distribution, with special focus on products with high inventory levels or approaching their expiration.

RESPONSIBLE MANAGER: National Programme Office SRH

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2013

The Office, since December 2012, has made an agreement with the MoH to receive quarterly reports on the inventory of delivered products and reports on missing or damaged goods and existing surpluses. A UNFPA project staff member has been assigned to support the Office, to ensure that distribution plans are carried out as planned and verify the receipt of equipment and supplies for both local purchases and through PSB. Quarterly spot checks visits have been organized at a local level since December 2012 and monitoring of the expiration of the products is a constant part of the internal control standards.

Improvement opportunities in inventory facilities and controls

30. Commodities supplied by UNFPA are delivered to the MoH central warehouse in Managua, and shipped from there to regional warehouses and/or to health facilities, which maintain their own warehouses and stock rooms. Three out of five warehouses visited by the audit team were affected by deficiencies such as inappropriate physical security; insufficient space; lack of pallets to stock boxes, which were then deposited directly on the floor; lack of racks; insufficient refrigeration; and garbage disposed next to the warehouse building. Warehouse deficiencies were also noted in the previously mentioned commodity security programme evaluation conducted in 2010.

31. The inventory records at one of the five MoH warehouses selected for physical inspection had not been updated since the end of 2011 and were not available at the time of the visit. It was therefore not possible to perform testing of the timely receipt and existence of the products supplied to that warehouse. Inventory records for the other four warehouses visited were properly maintained.

32. The reports on monitoring visits made by staff of the “*Division General de Insumos Medicos – DGIM*”⁷, which is one of the entities for which UNFPA funds capacity building activities, also revealed opportunities for improving inventory control and the overall reliability of the information of consumptions reported through the logistics systems (SIGLIM⁸ and PASIGLIM⁹) used as a basis to elaborate distributions plans.

33. The Office is aware of the above problems and continues to support activities to strengthen the MoH logistic capabilities.

IMPACT Inability to adequately safeguard the SRH commodities provided.

ROOT CAUSE Resources (insufficient resources and lack of training - IP).

CATEGORY Operational.

RECOMMENDATION 8

PRIORITY: MEDIUM

In collaboration with the GPRHCS and the MoH, determine the root causes of the issues affecting inventory controls at the MoH and address them through capacity development plans in the course of the next Country Programme.

RESPONSIBLE MANAGER: *Representative / OIC*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2014*

In conjunction with a regional Implementing Partner, UNFPA supported capacity building of the MoH staff, particularly those working in the logistics management system and the central warehouse, on topics such as inventory management, cold chain, distribution and logistics chain. In order to strengthen inventory management control, additional training will be provided. In the second phase of the programme, comprehensive training on the logistics chain planning (including inventory management) to all personnel with inventory functions at the MoH warehouse will be included in order to gradually strengthen their capacities on this subject. It is also necessary to finance storage equipment and means of transportation to guarantee the smooth operation of the logistics system.

⁷ Medical Supplies Division – part of the Ministry of Health

⁸ “*Sistema de informacion para la gestion logistica de insumos medicos*”

⁹ “*Proyecto de automatizacion del sistema de informacion para la gestion logistica de insumos medicos*”

B.4 - MANAGEMENT OF NON-CORE FUNDING

SATISFACTORY

34. Thirteen of the projects implemented by the Office were funded from non-core resources provided by seven different donors. Expenditures funded from this source during the period under review amounted to USD 12.0 million. 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 6.4 million. No reportable issues were identified based on the audit work performed in this area.

C. OPERATIONS MANAGEMENT

PARTIALLY SATISFACTORY

Good/right practices identified

35. The audit identified the following good practices in the area of operations management:
- a) Overall, programme and operations staff demonstrated in-depth knowledge of UNFPA policies and procedures;
 - b) Procurement files were complete and documented clearly the bidding and contract award processes and decisions;
 - c) Consultant files were comprehensive and documented clearly the steps taken for staff selection and assessment, as well as the rationale for the decisions made;
 - d) Robust documentary support was maintained for accounting transactions;
 - e) Year-end OFA reconciliations were accurate and well documented; and
 - f) In-depth and well documented reviews were performed of financial reports provided by grantees.

C.1 - HUMAN RESOURCES MANAGEMENT

PARTIALLY SATISFACTORY

Work environment challenges

36. Assessments and surveys conducted by management revealed that the Office faces long-standing work environment issues. These issues, which were also brought to the attention of the audit team by several Office' staff members, require urgent management's attention until their root causes are identified and addressed.

IMPACT	The effectiveness of programme delivery and operations may be diminished.
ROOT CAUSE	Guidance (inadequate guidance and supervision – Headquarters, Regional Office and Country Office).
CATEGORY	Strategic.

RECOMMENDATION 9

PRIORITY: MEDIUM

With appropriate involvement of DHR and LACRO, address the root causes of the work environment issues identified.

RESPONSIBLE MANAGER: *Deputy Representative.*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2013*

The Office has taken action to improve the work environment in line with its 2012 Office Management plan, which included a specific output to address this issue. Two staff retreats were held in July and November 2012, focused on effective communication, decision-making, teamwork and interpersonal relationships.

Personal plans were developed to establish a set of indicators to assess the work environment annually. DHR is helping the Office to address specific staff cases that would need Headquarter involvement and decision-making to find appropriate solutions.

Consultant contracting procedures not consistently followed

37. During the period under review, the Office utilized the services of 42 Special Service Agreements (SSAs) holders and 50 Service Contracts holders, at a total cost, for both contracting modalities, of USD 958,000 and USD 902,000¹⁰ in 2010 and 2011 respectively. The 92 contracts were awarded between 2008 and 2011.

38. The review of a sample of 17 high value contracts revealed the following issues affecting the contracting process:

- a) In two cases (one from 2008 and one from 2010), the selection process was not performed in conformity with the then applicable policies and procedures. In one of the cases, the candidate was chosen from a roster of consultants without a competitive recruitment process. In the other case, the short-listing process performed by a third party vendor engaged to support recruitment activities was not documented;
- b) In two other cases, short-term SSAs were initially awarded and subsequently converted into SCs without undergoing a new competitive selection process;
- c) Selection panels did not include members from other agencies or, in the case of key positions, representatives from the Regional Office, to provide increased transparency over the recruitment process;
- d) In one case, the contract offered (SSA) differed from the vacancy advertised (SC);
- e) Most vacancies were advertised for a limited time-window (7 to 15 calendar days), potentially limiting the number of qualified candidates applying for the positions advertised;
- f) Medical clearance, academic credential verifications and reference checks were not performed or were completed after the start date of the contract; and
- g) Renewals of SSAs were not based on documented performance assessments.

IMPACT The best candidates may not get selected or contracts awarded contravening the applicable policies and procedures.

ROOT CAUSE Guidance (inadequate supervision – Country Office).

CATEGORY Compliance.

¹⁰ General ledger accounts N° 71205, 71210, 71305, 71310, and 71405 (UNFPA implementation).

RECOMMENDATION 10

PRIORITY: MEDIUM

Include at least one external member (i.e., sister agencies staff, donor representatives, or Regional Office staff, as appropriate) in the selection panels to enhance the transparency of recruitment processes and compliance with established selection and award procedures, and offer contract modalities in line with the vacancy announcements publicly advertised.

RESPONSIBLE MANAGER: Representative / OIC

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2013

The Office will strictly adhere to this recommendation in order to ensure compliance with the rules and procedures for recruitment to assure competitive and transparent processes and that selection panels are made as participative as possible.

C.2 – PROCUREMENT

PARTIALLY SATISFACTORY

39. The Office locally procured goods and services in the amount of USD 2.0 million during the period under review. DOS tested a sample of purchases from top vendors and high value transactions, amounting to USD 389,000. It revealed the following exceptions.

No submissions to a local procurement committee and limited control over receipts

40. Purchases from 13 vendors in excess of the cumulative USD 30,000 annual threshold¹¹ were awarded in 2010 and 2011 without first being submitted for approval to the UNDP Contract Approval Committee (CAP), since the office does not have a Local Contract Review Committee (LCRC). Procurement testing performed did not, however, reveal any relevant issues in the bidding, vendor selection and procurement award processes. Furthermore, there were no local procurements in excess of USD 100,000 requiring submission to the corporate Contracts Review Committee (CRC);

41. Overall, there was limited documentary evidence of the receipt and inspection of the goods and services procured before payments were made to the vendors; and in one case, a purchase order was issued after the invoices were received and payment requested.

IMPACT Procurement decisions may not be cost effective. Goods and services procured and paid for may not be received. Workload is increased.

ROOT CAUSE Guidance (inadequate supervision – Country Office).

CATEGORY Compliance.

RECOMMENDATION 11

PRIORITY: HIGH

Submit procurements from a single vendor in excess of the cumulative USD 50,000 annual threshold to the UNDP CAP; alternatively, as a last resort, constitute a separate UNFPA LCRC with at least one member from another UN agency operating in Nicaragua.

¹¹ Increased to USD 50,000 as from 04 June 2012

RESPONSIBLE MANAGER: *Representative / OIC*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2013*

The Office, following up on the auditors' recommendations, took measures to strengthen the capacities of the Office. Two staff members received a one-week course on Level 2 Public Procurement

Also, the Office hired a procurement specialist to improve procurement procedures and vendor controls. The Office will use the local UNDP CAP since a CRC is not feasible at the moment.

RECOMMENDATION 12

PRIORITY: MEDIUM

Complete and document receipt and inspection procedures before any goods or services procured are paid for.

RESPONSIBLE MANAGER: *Operations Manager*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *Implemented in December 2012*

A receipt format was defined in July 2012 and is currently being used to ensure that all goods are inspected and received to entire satisfaction before payment is made.

Opportunities to increase the use of LTAs

42. The audit further noted that the Office has not awarded, either individually or in collaboration with other UN agencies, long term agreements (LTAs) for the procurement of repetitive services such as travel, custom agent and printing services. As a result, it had to undertake burdensome and time-consuming selection processes and was not always able to collect the minimum of three bids for all procurement activities undertaken.

IMPACT Procurement decisions may not be cost effective. Workloads are increased.

ROOT CAUSE Guidance (inadequate supervision – Country Office).

CATEGORY Operations.

RECOMMENDATION 13

PRIORITY: MEDIUM

Negotiate LTAs for the procurement of repetitive goods and services, ideally at interagency level.

RESPONSIBLE MANAGER: *Operations Manager*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2013*

The Interagency Operations Group is working on establishing joint LTAs for the procurement of repetitive goods and services, such as office supplies, internet access and security.

The Office is simultaneously developing LTAs for services such as travel and printing. These LTAs will be effective as from June 2013.

C.3 - FINANCIAL MANAGEMENT	SATISFACTORY
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43. The audit reviewed all financial aspects of the transactions tested and did not reveal any compliance issues. However, one operational matter was noted.

Applicability of VAT to purchases of goods and services made by IPs

44. Goods and services procured directly by UNFPA are exempt from the 15 per cent Value Added Tax (VAT). The audit noted that the VAT exemption had not been extended to purchases made by IPs using funding provided by UNFPA, even in those cases where UNFPA was directly making payments to vendors. The Resident Coordinator indicated to the audit team that, in his opinion, this position could contravene the terms of the agreement between the UN and the Government of Nicaragua, and further, that purchases made for projects funded by UNDP were considered exempt from VAT regardless of the implementation and/or cash transfer modalities followed.

45. The audit team was informed by the Office’s Operations staff that IPs could apply for their own tax exemption. However, it was noted that a majority of the Office’s IPs did not have a tax exemption in place, and that their tax status was not formally assessed at the time they are engaged.

46. Although purchases made by the IPs were taxed, the Office did not consider switching to direct execution for significant purchases in order to save the 15 per cent tax amount and increase funds available for delivering on the programme or assisting them to obtain a VAT exemption.

IMPACT	Cost savings opportunities, increasing funds available for programing, may not be realized.
ROOT CAUSE	Guidelines (inadequate planning).
CATEGORY	Operational.

RECOMMENDATION 14	PRIORITY: MEDIUM
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Confirm, in collaboration with the United Nations Country Team (UNCT), whether UNFPA’s VAT exemption applies to purchases made by IPs. Should that not be the case, assist IPs to apply for their own VAT exemption or switch to a direct implementation modality for activities implemented by non-exempt IPs demanding significant procurement of goods and services.

Responsible Manager: Deputy Representative Status: Agree

Management Action Plan: Due Date: June 2013

The Office has submitted this issue to the UNCT and to the Ministry of Foreign Affairs. So far, the VAT exemption has not been granted for IPs.

Simultaneously, the Office is assisting its IPs in applying for their own tax exemption and the direct payment modality is being used in the meantime.

Inconsistent allocation of indirect costs to projects

47. The Office followed an inconsistent practice for the allocation of indirect costs to programme activities, such as rent and utilities and salaries for posts not funded through the institutional budget.

48. A disproportionate portion of indirect costs allocable to programme activities were charged to one Population and Development project funded from core resources, which in addition received charges for costs such as bonuses paid to SC holders supporting other projects and the purchase of computers for use by the office in general. Several other projects, including those funded from non-core resources, were not allocated indirect costs at all.

IMPACT Project implementation costs may not be accurately measured.

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

CATEGORY Compliance.

RECOMMENDATION 15

PRIORITY: MEDIUM

In collaboration with the Finance Branch, implement a more systematic and fair method for the allocation of office indirect costs to programmatic activities.

RESPONSIBLE MANAGER: Deputy Representative.

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: March 2013

For the new CP, the Office will allocate indirect costs to five AWP's according to the assigned budgets in each of the five outputs of the CP.

C.4 - GENERAL ADMINISTRATION

SATISFACTORY

49. No reportable issues were identified based on the audit work performed in this area, which covered approximately 10 per cent of travel expenditures of USD 456,000 incurred by the Office during the period under review; 38 per cent of fixed assets purchases for use by the Office and its IPs at a cost of USD 558,000; and approximately 52 per cent of occupation, utilities and common services costs aggregating USD 367,000.

C.5 - INFORMATION AND COMMUNICATIONS TECHNOLOGY

SATISFACTORY

50. 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

AWP	Annual Work Plan
CAP	Contract Approval Committee
Cognos	UNFPA’s Corporate reporting system
CP	Country Programme
CRC	Contracts Review Committee
DHR	Division for Human Resources
DOS	Division for Oversight Services
GPRHCS	Global Programme to enhance Reproductive Health Commodity Security
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Tool
LACRO	Latina America and Caribbean Regional Office
LCRC	Local Contracts Review Committee
LMIS	Logistics Management Information System
LTA	Long Term Agreement
M&E	Monitoring and Evaluation
MoH	Ministry of Health
NEX	National Execution
OIC	Officer in charge
OFA	Operating Fund Account
PSB	Procurement Services Branch
SC	Service Contracts
SRH	Sexual and Reproductive Health
SSA	Special Service Agreements
UNCT	United Nations Country Team
UNDP	United Nations Development Programme
USD	United States Dollars
VAT	Value Added Tax