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OFFICE OF AUDIT AND INVESTIGATION SERVICES

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

**FINAL REPORT
N° GUA-102**

4 September 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY2

I. OBJECTIVES, SCOPE AND METHODOLOGY5

II. BACKGROUND6

III. DETAILED FINDINGS7

A. OFFICE GOVERNANCE 7

Good practices identified 7

A.1 – OFFICE MANAGEMENT..... 7

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING 7

Prolonged vacancies in key positions were noted 7

Staff members should complete all mandatory and recommended training..... 8

A.3 – RISK MANAGEMENT..... 8

B. PROGRAMME MANAGEMENT 9

B.1 - PROGRAMME PLANNING AND IMPLEMENTATION 9

AWPs need to be finalized on time..... 9

B.2 – NATIONAL EXECUTION 10

The assessment process for government IPs should be strengthened 10

Expenses related to activities managed by the Ministry of Health should be recorded as National Execution ... 11

B.3 – INVENTORY MANAGEMENT..... 12

RH commodities inventory and stock-out levels should be regularly monitored and support be extended to the Ministry of Health to enhance its logistic capabilities..... 12

B.4 – MANAGEMENT OF NON-CORE FUNDING 14

The co-financing agreement with the Ministry of Health should be submitted for Headquarters review..... 14

C. OPERATIONS MANAGEMENT 15

Good practices identified 15

C.1 - HUMAN RESOURCES MANAGEMENT 15

The choice of personnel contractual modalities should respect established policies..... 15

The selection of consultants should be competitive..... 16

C.2 - PROCUREMENT 16

Recurring services should be procured through Long Term Agreements..... 17

C.3 - FINANCIAL MANAGEMENT 17

Strategies to better manage the impact of value-added tax on programme expenses should be explored..... 18

C.4 - GENERAL ADMINISTRATION 18

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY 19

C.6 – SECURITY MANAGEMENT 19

ANNEX 120

GLOSSARY22

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office in Guatemala (the Office) from 17 March to 5 June 2014. The audit covered the period from 1 January to 31 December 2013. Programme delivery and operations activities executed in previous years and in 2014 were covered by the audit, as appropriate.

Background

2. The activities covered by the audit corresponded to the sixth Country Programme 2010-2014, approved by the Executive Board in 2009 with indicative resources of USD 18.3 million. Total expenses covered by the audit amounted to USD 6.5 million, allocated to 10 projects executed by 38 implementing partners (USD 2.5 million) and by UNFPA (USD 4.0 million)¹, funded from core resources (USD 2.1 million) and non-core resources (USD 4.4 million).

3. Approximately 40 per cent of expenses related to the Reproductive Health component, which focused on promoting high quality reproductive health services and reproductive health commodity security. The Gender component accounted for 34 per cent of expenses and focused on addressing gender inequalities and gender based violence, with particular attention to youth and indigenous groups. The Population and Development component accounted for 15 per cent of expenses, with a focus on strengthening national capacity to produce and analyse data including population dynamics, youth, sexual and reproductive health, HIV, and gender data, disaggregated by age, gender, and ethnic group. Management and programme coordination and assistance costs accounted for the remaining 10 per cent of expenses.

Methodology and scope

4. 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 governance, risk management and internal control processes in place. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

5. 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

6. 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 but that one or several issues were identified that may negatively affect the achievement of the objectives of the audited entity. Ratings by key audit area are summarized in the following page.

¹ Source: COGNOS project monitoring reports for the year ended 31 December 2013.

Audit ratings by key audit area		
Office Governance		Partially satisfactory
<i>Office management</i>		<i>Satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Partially satisfactory</i>
<i>Risk management</i>		<i>Satisfactory</i>
Programme Management		Partially satisfactory
<i>Programme planning and implementation</i>		<i>Partially satisfactory</i>
<i>National execution (NEX)</i>		<i>Partially satisfactory</i>
<i>Inventory management</i>		<i>Unsatisfactory</i>
<i>Management of non-core funding</i>		<i>Partially satisfactory</i>
Operations Management		Satisfactory
<i>Human resources management</i>		<i>Partially satisfactory</i>
<i>Procurement</i>		<i>Satisfactory</i>
<i>Financial management</i>		<i>Satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Satisfactory</i>

Key findings and recommendations

7. The audit identified a number of good practices implemented by the Office as well as areas that require management attention, some of operational nature, some related to compliance and reporting matters. Overall, the audit report includes four high priority and eight medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the 12 recommendations, six are of operational nature; five are of compliance nature; and one is related to reporting matters.

Good practices

8. The audit identified several good practices adopted by the Office. An office training plan was prepared covering mandatory training and other staff capacity development needs identified. The Office conducted a survey, supplementing the Global Staff Survey managed by the Division for Human Resources, to obtain feedback from contract personnel; results were analysed and actions taken in those areas requiring management attention (this practice could be considered for replication by other offices). Regular staff meetings were held to ensure continuous coordination and monitoring of Office activities. External members were consistently included in contract personnel recruitment panels to enhance independence and objectivity.

Operational level

9. Programme effectiveness could be enhanced through timelier finalization of annual work plans, a more comprehensive assessment of implementing partners’ capacity, the regular monitoring of reproductive health commodities’ inventory levels and stock-outs, as well as assistance to enhance the logistic capabilities of the Ministry of Health. The procurement process could be streamlined through the award of long term agreements for recurring services. Finally, economy of operations could benefit from a strategy to better manage the impact of value-added tax on programme expenses.

Compliance and reporting levels

10. The Office should ensure that all staff members comply with mandatory and recommended training courses. In programme management, expenses incurred by the Ministry of Health should be reported as national execution as per corporate policy and guidelines. In addition, the Office should submit nonstandard co-financing agreements for Headquarters review before signing them and comply with the reporting requirements included therein. In the area of human resources, the Office should engage personnel under the appropriate contractual modalities and follow a competitive selection process for hiring short-term consultants.

Management response

11. The Country Office appreciates the audit conducted by OAI and overall agrees with its findings and recommendations. Efforts and actions are underway to address the recommendations included in the report.

12. The OAI team would like to thank the management and staff of the Office, the Latin America and Caribbean Regional Office, and 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 to 31 December 2013. Programme delivery and operations activities executed in previous years and 2014 were covered by the audit, as appropriate.
2. 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 governance, risk management and internal control processes implemented for UNFPA's operations in Guatemala.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of the Office's operations;
 - b) The conformity of expenses with the purposes for which funds were appropriated;
 - c) The safeguarding of assets entrusted to the Office;
 - d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
 - e) The reliability of the Office's financial and operational reporting.
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.
5. The engagement was conducted by a team of OASIS audit specialists supported by staff from an external audit firm based in Guatemala, starting on 17 March 2014; a field mission took place from 12 to 30 May 2014. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 30 May 2014. Comments and clarifications provided by management were reflected in a draft report submitted to the Office's management on 4 August 2014, and a final management response received on 21 August 2014.

II. BACKGROUND

6. Guatemala is a lower middle-income country, with a population estimated at 15.5 million in 2013², two-thirds of which are under 30 years of age. The annual population growth rate is estimated at 2.4 per cent. With a Gini coefficient of 0.537, Guatemala is one of the most unequal countries in the world. Fifty-four per cent of the population lives in poverty, rising to 73 per cent among indigenous people³.

7. The total fertility rate stands at 3.6 children per woman, rising to 5.7 among the lowest wealth quintile. The adolescent fertility rate, at 98 per 1,000 women between 15 and 19 years of age, is among the highest in the region. Contraceptive prevalence rate stands at 44 per cent for modern methods and the unmet need of family planning is estimated at 20.8 per cent. In spite of a slight decline in maternal mortality, from 153 deaths per 100,000 live births in 2000 to 140 deaths in 2007, high disparities persist, with a maternal mortality ratio of 219 among girls under 15 and over 300 among indigenous women. Forty-one per cent of births are still delivered by traditional birth attendants. HIV prevalence is estimated at 0.89 per cent, with most new cases among girls between 10 to 14 years of age, and women between 15 and 24. Violence against women is a major concern, with a large number of women suffering verbal, physical and/or sexual violence by their partners; almost 60 per cent of all sexual violence complaints are from girls aged 10 to 19⁴.

8. Guatemala is currently in its sixth Country Programme 2010-2014, approved by the Executive Board in 2009 with indicative resources of USD 18.3 million. Total expenses covered by the audit amounted to USD 6.5 million, allocated to 10 projects executed by 38 implementing partners (USD 2.5 million) and by UNFPA (USD 4.0 million), funded from core resources of USD 2.1 million and non-core resources of USD 4.4 million. Approximately 40 per cent of expenses related to the Reproductive Health (RH) component, which focused on promoting high quality reproductive health services and reproductive health commodity security. The Gender component accounted for 34 per cent of expenses and focused on addressing gender inequalities and gender based violence, with particular attention to youth and indigenous groups. The Population and Development component accounted for 15 per cent of expenses, with a focus on strengthening national capacity to produce and analyse data including population dynamics, youth, reproductive health, HIV, and gender data, disaggregated by age, gender, and ethnic group. Management and programme coordination and assistance (PCA) costs accounted for the remaining 10 per cent of expenses⁵.

9. The UNFPA Office is located in Guatemala City. During the period under review, the Office was managed by a Representative (until August 2013) and by the Assistant Representative (as from September 2013 and until the date of the field audit mission), with the support of the Resident Coordinator in Guatemala.

² World Bank (data.worldbank.org).

³ Draft country programme document for Guatemala 2015-19.

⁴ Draft country programme document for Guatemala 2015-19.

⁵ COGNOS project monitoring reports for the year ended 31 December 2013.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

PARTIALLY SATISFACTORY

Good practices identified

10. The audit identified the following good practices in the area of governance:
- a) An office training plan was developed covering mandatory training requirements and other relevant training needs identified;
 - b) A survey was conducted, supplementing the Global Staff Survey managed by the Division for Human Resources, to obtain feedback from contract personnel (which constitute a significant component of the Office's workforce). Results were analysed and actions taken in those areas requiring management attention (this practice could be considered for replication by other country offices);
 - c) Staff meetings were regularly held (1st Monday: general staff meetings; 2nd Monday programme staff meeting; 3rd Monday: operational staff meeting; 4th Monday: training sessions / learning afternoons) to ensure continuous coordination and monitoring mechanisms of Office activities.

A.1 – OFFICE MANAGEMENT

SATISFACTORY

11. Audit procedures performed in this area included the review of (i) the Office's planning process; (ii) the relevance and level of implementation of the 2013 and 2014 Office Management Plans; (iii) the alignment of the performance plans of key personnel to the Office's priorities; (iv) the effectiveness of management's oversight of programme delivery and operational activities; (v) the accuracy of the 2013 Office's annual report; (vi) the level of familiarization of the Office's personnel with UNFPA's policies and procedures; and (vii) the level of support received from the Regional Office during the periods affected by vacancies in key positions. No reportable issues were identified based on the work performed in this area.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING

PARTIALLY SATISFACTORY

12. Audit work performed in this area included a review of (i) the alignment of the organizational structure and staffing arrangements in place to the requirements for the delivery of the Office's programme and operational activities; (ii) the use of the proper contractual modalities; (iii) the effectiveness of the performance assessment process, and (iv) the relevance and sufficiency of staff development activities conducted during the period under review.

Prolonged vacancies in key positions were noted

13. During the period under review, the Office was impacted by extended vacancies in key positions; some of which lasted to the date of the field audit mission. The Representative position remained vacant from September 2013 until July 2014, following the planned rotation of the incumbent to another Office and the decision made at Headquarters to fill the position from the corporate leadership pool, the latter being operational as from January 2014. The offer that was extended in March 2014 to a candidate from the pool was accepted and the selected person assumed her duties on 1 August 2014. Overall, the recruitment and entry-on-duty processes led to a one-year vacancy in the Representative position.

14. The position of Programme Analyst – Youth was filled in March 2014. It had remained vacant since October 2013, date at which the recruitment for that post was approved following a request made by the Office in October 2012 to replace the previous position of Programme Analyst – Advocacy which had been vacant since October 2011. From October 2011 to the field audit mission date, the position was covered with contract personnel. The Finance Associate position remained vacant from January

2011 to June 2014 (it was filled on 1 July 2014), initially due to the rejection of offers made to qualified candidates and subsequently due to delays created by the Office’s request for an Operations Manager position. The latter was not approved by Headquarters due to budgetary considerations.

15. The audit noted that the Office addressed the challenges resulting from the vacancies in key positions with the support of the Regional Office, the Resident Coordinator, the hiring of contract personnel and a re-distribution of tasks among Office personnel. This resulted in a high workload (as at 30 April 2014, five out of seven staff members had a balance of more than 50 outstanding vacation days). Office Management and concerned staff interviewed indicated that they were confident that the workload would normalize once all vacant positions were filled.

16. No recommendation is provided on this matter given the advanced status of the recruitment processes and management’s indication that a revision of the organizational structure in preparation for the new Country Programme 2015-2019, is planned for the fourth quarter of 2014.

IMPACT *Diminished ability to deliver against the Office’s programme goals.*
 ROOT CAUSE *Guidance - inadequate supervision at Office, Regional Office and Headquarters levels.*
 CATEGORY *Operational.*

Staff members should complete all mandatory and recommended training

17. The audit noted that 17 staff members and service contract holders did not complete one or more mandatory training courses. The courses with the lowest level of completion included (i) Ethics, Integrity and Anti-fraud; (ii) Harassment, Sexual Harassment and Abuse of Authority in the Workplace; and (iii) Procurement – Level I. In addition, personnel involved in programme activities did not complete the recommended Results Based Management e-learning course.

IMPACT *The Office performance may be impacted by personnel capacity gaps.*
 ROOT CAUSE *Guidance - Inadequate supervision at Office level.*
 CATEGORY *Compliance.*

RECOMMENDATION 1 **PRIORITY: MEDIUM**

Complete any outstanding mandatory training courses for all personnel concerned and ensure that all personnel involved in programme activities complete the Results Based Management e-learning course.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*
MANAGEMENT ACTION PLAN: DUE DATE: *30/09/2014*

The Office is conducting separate sessions for staff to complete the mandatory training courses, and periodic monitoring mechanisms are being implemented in order to ensure compliance. Progress has been made to increase compliance from 43 per cent at the time of the audit field mission to 93 per cent at 2 September 2014, and it is expected that 100 per cent of completion will be reached by the end of September 2014.

A.3 – RISK MANAGEMENT **SATISFACTORY**

18. Audit work performed in this area consisted of the review of the last fraud and operational risk assessments, the process followed for identifying risks and the actions undertaken to mitigate them. The audit noted that the risk assessments were developed using a consultative approach involving the Office’s staff, that relevant risks were identified and assessed based on impact and likelihood, and that adequate risk mitigation action plans were developed. No reportable issues were identified based on the audit work performed in this area.

B. PROGRAMME MANAGEMENT

PARTIALLY SATISFACTORY

B.1 - PROGRAMME PLANNING AND IMPLEMENTATION

PARTIALLY SATISFACTORY

19. During the period under review, the Office implemented activities related to four country programme outputs for a total cost of USD 6.0 million, inclusive of PCA costs, with an overall financial implementation rate of 84 per cent (measured based on budgets allocated in Atlas). The implementation was managed through 45 different annual work plans (AWPs) and involved 38 implementing partners (IPs).

20. Work performed in this area focused on three projects with aggregated expenses of USD 4.7 million (78 per cent of total programme implementation expenses) and included (i) the review of a sample of eight AWP related to the projects selected; (ii) the assessment of the process followed to prepare, cost and approve the AWP and monitor their implementation; and (iii) the review of standard progress reports, AWP progress reports, monitoring reports and other evidence of programme implementation, including site visits to five partners involved in the implementation of the projects selected.

AWPs need to be finalized on time

21. The AWP preparation and finalization process was concluded late. The audit noted that more than one third of the 2014 AWP had not been signed as at 30 April 2014, while almost half of the 2013 AWP had been signed after 28 February 2013 (with six of them signed after 30 April 2013). Delays in AWP finalization and signing were attributed by the Office management to (i) donor approvals required for the activities planned for a large gender component programme involving 24 AWP in 2013 and 9 in 2014; (ii) approvals required from the Secretariat for Planning and Programming (SEGEPLAN - *Secretaría de Planificación y Programación de la Presidencia*) before AWP with Government IPs could be signed; and (iii) in 2014, the time required to complete a results gap analysis to ensure that activities planned for the last year of the country programme cycle would help achieve the country programme targets. As a result of the delays, a large part of the activities planned had to be deferred to the second half of year in both 2013 and 2014.

IMPACT *Lack of or delayed implementation of programme activities.*

ROOT CAUSE *Guidance - Inadequate supervision at Office level.*

CATEGORY *Operational.*

RECOMMENDATION 2

PRIORITY: HIGH

Establish and monitor a roadmap with clearly defined milestones and deadlines to allow for the finalization and signing of AWP no later than the first quarter of each year.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31/08/2014*

Within the framework of the new Country Programme cycle, and considering external factors such as the government's approval procedures and timeframe, the Office already has a roadmap to develop and sign multiyear work plans, and conduct capacity assessments, no later than the first quarter of the year, taking into account the multi-year allocation of regular funds provided by Headquarters last February, 2014. The Office will monitor the implementation of the roadmap already established.

B.2 – NATIONAL EXECUTION**PARTIALLY SATISFACTORY**

22. National Execution (NEX) expenses amounted to USD 2.5 million (42 per cent of total programme implementation expenses) in the period under review, representing activities executed by 38 IPs (12 government agencies and 26 non-governmental organizations) engaged by the Office, with a financial implementation rate of 94 per cent (measured based on budgets allocated in Atlas). Expenses incurred by the IPs corresponded primarily to contract personnel costs (USD 1.3 million, or 52 per cent of total NEX expenses), and training and learning costs (USD 0.6, or 24 per cent of total NEX expenses). Funding for activities implemented by government IPs was provided through the direct payment modality (i.e. payments made by the Office directly to the suppliers of goods and services procured by the IPs) for a total of USD 0.7 million.

23. NEX audits performed in 2014 covered 12 IPs with aggregate expenses of USD 1.6 million (64 per cent of total NEX expenses in 2013). Unqualified opinions were issued for all the audits performed. Operating Fund Account (OFA) balances (representing funds transferred to IPs for activities not yet implemented) averaged USD 0.3 million in 2013, and were cleared as at 31 December 2013.

24. Audit work performed in this area included the review of (i) the IP selection and capacity assessment processes; (ii) the existence of appropriate Letters of Understanding signed with the IPs; (iii) the controls implemented for the review, authorization, and processing of fund advance requests and expense reports submitted by IPs through the use of Funding Authorization and Certificate of Expenditure (FACE) forms; (iv) the controls implemented over the OFA, used to record and control the funds advanced to IPs; and (v) the process followed to monitor IP activities, for a sample of eight IPs with NEX expenses totalling USD 1.1 million (44 per cent of total NEX expenses) in the period under review.

25. The audit included testing a sample of 21 direct payments amounting to USD 0.2 million (20 per cent of direct payments made) for appropriateness of business purpose, documentary support and authorization; the review of four 2013 NEX audit reports covering NEX expenses amounting to USD 0.9 million (36 per cent of total NEX expenses in the period under review), as well as site visits to five IPs with the objective of developing an appropriate understanding of (i) their overall control environment as pertains to the UNFPA funded programme activities; (ii) the controls implemented over financial transactions for significant expense categories; and (iii) the process followed by the IPs for the preparation and authorization of the FACE forms and AWP progress reports submitted to UNFPA.

26. The site visits also verified that assets provided to the IPs were safeguarded and used for their intended purposes, and whether there was sufficient evidence of implementation of selected programme activities. In addition, they included inquiries of the IPs as regards their work experience with UNFPA, the support received, monitoring undertaken, quality and frequency of communication, as well as the barriers and other factors potentially impacting the effectiveness of programme implementation.

The assessment process for government IPs should be strengthened

27. The Office assessed all non-governmental IPs at the beginning of the country programme cycle or before engaging them for programme delivery purposes. For that purpose, the Office used either the Implementing Partner Capacity Assessment Tool (IPCAT) or the HACT⁶ micro-assessment checklists supplemented by a thorough assessment of the IP's programmatic capacity; the Office documented the assessment in IP profile documents it developed. However, the assessment of government IPs - all of them funded through the direct payment modality- was limited to the preparation of IP profile documents with a high-level description of the IP capabilities. No comprehensive assessment based on the IPCAT was performed. While the use of the direct payment modality represents a prudent strategy to mitigate financial risk, the lack of comprehensive capacity assessments limited the Office ability to

⁶ Harmonized approach to cash transfers to implementing partners.

systematically identify programmatic and operational IP capacity gaps, and select, implement and monitor appropriate capacity building strategies.

IMPACT	<i>The efficiency and effectiveness of programme implementation may be diminished by IP capacity gaps.</i>
ROOT CAUSE	<i>Guidance – Lack of supervision at Office level.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 3

PRIORITY: MEDIUM

Perform a thorough assessment of the programmatic and financial capacity of all IPs to be engaged for the implementation of the Country Programme 2015-2019, using the Implementing Partner Capacity Assessment Tool (IPCAT) and the micro-assessment checklists per the new HACT framework released in January 2014.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31/12/2014*

As part of the Roadmap’s preparatory phase of the new Country Programme cycle, Implementing Partners’ capacity assessments (IPCAT and HACT micro-assessments), with emphasis on government IPs, are planned to be developed during the last quarter of 2014. UNFPA will coordinate HACT micro-assessments with the UN Operations Management Team

Expenses related to activities managed by the Ministry of Health should be recorded as National Execution

28. The Ministry of Health (MoH - “*Ministerio de Salud Pública y Asistencia Social*”) implemented several activities related to the RH programme component with the technical assistance of the Office. The MoH was not subject to some form of capacity assessment before engaging it. The Office directly executed the procurement of goods and services required to implement the programme activities assigned to this IP, with extensive involvement of the Office’s staff in planning and implementing those activities. All costs incurred for that purpose, which amounted to USD 234,000 in the period under review, were recorded as direct execution by the Office, even though they included activities implemented by the MoH, such as training of midwives.

IMPACT	<i>Under reporting of the extent of National Execution in Guatemala.</i>
ROOT CAUSE	<i>Guidance – Lack of supervision at Office level.</i>
CATEGORY	<i>Reporting.</i>

RECOMMENDATION 4

PRIORITY: MEDIUM

Record expenses related to programme activities implemented by the Ministry of Health as National Execution.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31/01/2015*

The Office will develop, in coordination with the Ministry of Health, the capacity assessments and all programmatic and legal tools for National Execution to begin in 2015. These tools will include an integrated approach of all UNFPA’s cooperation; training activities will also be conducted with MoH staff on national execution modality.

B.3 – INVENTORY MANAGEMENT**UNSATISFACTORY**

29. During the period under review, the Office supplied RH commodities and other inventory items at total cost of USD 1.6 million using funding provided by the MoH (refer to section B.4 infra). Commodities supplied in 2011 and 2012 amounted to USD 3.6 million. The large majority of the commodities supplied consisted of (i) hormonal contraceptives (both injectable and implants), and (ii) condoms procured by UNFPA, leveraging on long-term agreements signed with different contraceptives manufacturers. The commodities were handed-over to the MoH central warehouse upon arrival in Guatemala and no inventory was maintained under the control of the Office at any point during the period under review.

30. Audit procedures performed in this area included a review of the processes and controls implemented in the areas of: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) handover of the commodities to the MoH; and (iv) distribution to the intended beneficiaries and monitoring thereof.

31. Audit work performed also included site visits to the MoH's central warehouse, two regional warehouses and two service delivery points to (i) verify the receipt of the commodities procured by UNFPA; (ii) assess the warehouse controls in place and the reliability of the inventory records maintained; and (iii) test the distribution of the commodities by tracing a sample of deliveries from the central warehouse to the regional warehouses and, from there, to the service delivery points. In addition, the audit included the review of the "BRES" forms⁷ submitted by a sample of ten service delivery points in April 2014 to report commodity stocks, monthly consumption, demand, and needs (BRES form information is input into the MoH's inventory management system to record commodity usage and to estimate demand).

32. Based on the work performed, the audit noted the following matter area that needs immediate management attention.

RH commodities inventory and stock-out levels should be regularly monitored and support be extended to the Ministry of Health to enhance its logistic capabilities

33. The audit visits to service delivery points (SDP) and review of BRES forms revealed that, in the month of April 2014, three service delivery points had experienced stock-outs and seven maintained inventory levels below the minimum of one to three months of estimated consumption for the different categories of contraceptives supplied by UNFPA. No stock-outs were observed at the central and regional warehouses.

34. The audit noted that the Office had not performed regular monitoring of the operating effectiveness of the MoH supply chain or of inventory and stock-out levels, even though the Country Office Action Plan (CPAP) 2012-2014 included an outcome related to increasing the contraceptive prevalence rate (from 48 to 57 per cent), an area where there has been limited progress. However, the audit could not identify any CPAP outputs and indicators related to contraceptive availability.

35. The Office explained that activities to support the MoH in supply chain management had been carried out in the past and included technical assistance for designing the MoH logistic model, IT infrastructure and manual, as well as training of logistic personnel; maintaining the capabilities developed had however proved challenging, due to multiple factors, including institutional and organizational changes and staff turnover at the MoH.

⁷ BRES: Supplies Balance, Requisition and Shipping ("*Balance, Requisicion y Envio de Suministros*") forms are prepared by service delivery points on a monthly basis.

36. Management indicated that a working group composed of several key stakeholders, including other UN agencies and global and regional development partners, had been created at the end of 2013, with the objective of assisting the MoH in improving the public health logistic system. The first activity undertaken under this multi-partner initiative was a logistics diagnostic analysis, which was in its draft stage at the time of writing this report.

37. The audit noted that the draft Country Programme Document 2015-2019 includes an output related to strengthening national capacity for the supply of family planning services, contributing to the outcome target of increasing the contraceptive prevalence rate to 54 per cent (from a baseline of 44 per cent). One of the two indicators designed by the Office for this output is the percentage of health services that continuously provide at least three family-planning modern methods through UNFPA support, starting from a baseline of none and a target 60 per cent.

IMPACT *Essential commodities may not be available for use by the intended beneficiaries.*
 ROOT CAUSE *Guidelines – inadequate planning at Office level.*
 CATEGORY *Operational.*

RECOMMENDATION 5 **PRIORITY: HIGH**

Monitor inventory levels at the central and regional warehouses and service delivery points in order to assess (i) the effectiveness of the supply chain management process in place at the Ministry of Health, and (ii) the need to supply additional inventory to prevent stock-outs

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/12/2014*

UNFPA Guatemala is currently developing a monitoring model of contraceptive supplies jointly with the MoH; this model considers three sources of information: 1. Indirect method: measurement of stocks at SDPs through management of BRES and MoH logistics registry instruments at the national and regional warehouses, and at SDPs; 2. Direct method: a short manual on visits to warehouses and SDPs is being developed jointly with the MoH, which includes interview guides; the MoH authorization is required for its utilization. 3. Training and support to the MoH for the implementation of annual inventories. A report containing information from these three sources will be completed by the end of 2014.

Additionally and simultaneously, UNFPA Guatemala is conducting a National Alliance for Reproductive Health Commodity Security, where other cooperating agencies participate, for the development of a single logistics system at the MoH. In addition, work is being conducted in order to strengthen civil society organizations for social audits on contraceptive supplies stocks.

RECOMMENDATION 6 **PRIORITY: HIGH**

Design and implement appropriate activities under the new Country Programme 2015-2019, to enhance the Ministry of Health capacity to manage RH commodities, in the context of the multi-partner initiative for the public health logistic system.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/06/2015*

Since June 2014, the Office is implementing a monitoring mechanism, in which UNFPA staff and a consultants team assigned to support the MoH ensure that distribution plans are carried out as planned and that the receipt of equipment and supplies is verified, for both local purchases and through PSB. Quarterly spot checks visits are being organized at the local level, and monitoring of the

existence and expiration of the products will be a constant part of internal control standards. These activities will be further strengthened in the new Country Programme 2015-2019, which includes a specific output related to strengthening national capacity for the supply of family planning services, with two indicators about the percentage of health services that continuously provide at least three family-planning modern methods.

B.4 – MANAGEMENT OF NON-CORE FUNDING **PARTIALLY SATISFACTORY**

38. Programme implementation expenses funded from non-core resources amounted to USD 4.4 million (73 per cent of total programme implementation expenses) in the period under review. Of this amount, USD 1.8 million, corresponded to funding provided by a donor to support activities related to the gender programme component and USD 1.6 million to funding provided by the MoH for the procurement of RH commodities.

39. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for the above mentioned co-financing agreements. The audit also included tests of the accuracy of the reports submitted to the donors and of compliance with the new cost recovery policy, as well as inquiries of representatives of the donors regarding their assessment of UNFPA’s performance and achievements. No reportable issues were identified based on the audit work performed, with the exception of the following matter.

The co-financing agreement with the Ministry of Health should be submitted for Headquarters review

40. The procurement of RH commodities for the MoH was funded through a co-financing agreement signed with the Ministry in 2013. The audit noted that the co-financing agreement did not specify the amount of funding to be provided by the Ministry and that it had not been reviewed by the Resource Mobilization Branch or the Legal Unit at Headquarters. The cost of commodities procured by UNFPA was reimbursed by the MoH after their delivery. The Office financed the commodities procurement through a revolving fund created from contributions of the Guatemalan Government and other donors in the period 2002-2006. According to a reconciliation performed by management, the amount of this fund as of May 2014 was USD 0.6 million.

41. The audit noted that, in 2012, the Office did not provide programmatic and financial reports to the MoH, although this was required by the co-financing agreement. A report was provided in 2013 but it did not include the financial status of the fund. The MoH officials interviewed by the audit team did not raise concerns in this regard.

IMPACT	<i>The use of non-standard agreements may expose UNFPA to legal and reputational risks.</i>
ROOT CAUSE	<i>Guidance – Lack of supervision at Office level.</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 7 **PRIORITY: HIGH**

Submit the co-financing agreement with the Ministry of Health for review by the Resource Mobilization Branch and, as applicable, by the Legal Unit at Headquarters.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *30/09/2014*

The Resource Mobilization Branch has already approved the amendment to the co-financing agreement and is in the process of obtaining the Minister of Health’s signature.

RECOMMENDATION 8

PRIORITY: MEDIUM

Engage the Ministry of Health to revisit reporting requirements under the existing co-financing agreement.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30/09/2014*

The Office will complement the 2013 Annual Report provided to the donor, in order to include the financial status of the fund.

The Office will also coordinate with the International Cooperation Unit of the Ministry of Health to revisit with them the co-financing agreement, its reporting requirement and to strengthen its role as a donor.

The Office wishes to emphasize that, as stated on paragraph 39 of the audit report, no reportable issues were identified in 2013 for the other 11 reports corresponding to six donors.

C. OPERATIONS MANAGEMENT

SATISFACTORY

Good practices identified

42. The audit noted the following good practice in the area of operations management, which is in line with UNFPA policy and procedures:

- a) External members were consistently included in contract personnel recruitment panels to enhance independence and objectivity.

C.1 - HUMAN RESOURCES MANAGEMENT

PARTIALLY SATISFACTORY

43. During the period under review, the Office incurred payroll costs amounting to USD 0.6 million (the payroll is managed by the United Nations Development Programme - UNDP). In addition, the Office made extensive use of contract personnel, and engaged 21 individuals under the Service Contract (SC) modality and another 34 under the Special Service Agreement (SSA) modality, for management activities and programme delivery, incurring costs in the amount of USD 0.7 million.

44. Work performed in this area included (i) the analytical review of payroll and contract personnel costs; (ii) a walkthrough of the payroll reconciliation controls at UNDP; (iii) the review of the migration of SC management to UNDP, which took place in March 2014; and (iv) the testing of a sample of eight contracts awarded by the Office, at a cost of USD 0.2 million, for linkage to the corresponding AWP and compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of recruitment, contract award, contract management and calculation and authorization of compensation and benefits. Audit procedures applied also included the review of the Office's leave management process.

The choice of personnel contractual modalities should respect established policies

45. The audit noted that, during the period under review, four SC holders engaged by the Office performed core functions (Communication Specialist, Youth Specialist, and two Programme Assistants) of a continuing nature for which the SC contractual modality is not appropriate. Two of the contractees have been engaged by the Office for more than five years. As mentioned earlier in the report, management indicated that a revision of the organizational structure, in preparation for the new Country Programme 2015-2019, is planned for the fourth quarter of 2014.

IMPACT *Unequal treatment of personnel performing equivalent functions.*
 ROOT CAUSE *Guidance – Lack of supervision at Office level.*
 CATEGORY *Compliance.*

RECOMMENDATION 9

PRIORITY: MEDIUM

Align contracting modalities to the functions expected to be carried out by the contracted individuals and programme needs, in line with established policies.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30/11/2014*

The Office has contacted Headquarters and the Regional Office for a revision of the organizational structure and posts, in preparation for the new Country Programme 2015-2019. The Office is already preparing terms of reference for this mission, which will be a joint Headquarters and Regional Office mission, which is expected to be conducted during the last quarter of 2014.

The selection of consultants should be competitive

46. The review of the award of three out of six SSAs, at a cost of USD 65,000, was not based on a competitive selection process. In all three cases, justification for the lack of competitive selection was documented in a note to the file approved by the Head of the Office. The audit verified that there was the alignment between the nature of the consultancies and the corresponding AWP, terms of reference and the contractees' profiles.

IMPACT *The Office may not contract the best available candidates.*
 ROOT CAUSE *Guidance – Lack of supervision at Office level.*
 CATEGORY *Compliance.*

RECOMMENDATION 10

PRIORITY: MEDIUM

Recruit consultants based on a competitive selection process.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *31/08/2014*

The Office will strictly adhere to this recommendation in order to ensure compliance with the rules and procedures for recruitment to ensure competitive processes. The Office is also strengthening the use of the regional and local roster platform "PALTA", in order to take advantage of it, as a pre-qualification mechanism to facilitate the selection of national and international experts.

C.2 - PROCUREMENT

SATISFACTORY

47. During the period under review, the Office locally procured goods and in the amount of USD 0.6 million, issuing a total of 520 purchase orders. The largest category of goods and services procured corresponded to training and learning services, and to printing and publications. In addition, the Office procured RH commodities and other goods through UNFPA's Procurement Services Branch, based in Copenhagen, Denmark, at a cost of USD 1.6 million.

48. Audit work performed in this area included the review of a sample of 83 local procurement transactions made at a cost of USD 0.3 million (50 per cent of the amount of local procurement), for linkage to the corresponding AWP, compliance with the UNFPA procurement principles⁸ and policies and procedures, and operating effectiveness of controls in the areas of (i) requisitioning; (ii) solicitation and bidding; (iii) bid assessment; (iv) vendor selection; (v) contract award; (vi) purchase order issuance; and (vii) receiving. The audit also included the assessment of the Office’s procurement capacity and of the procurement planning process. No reportable issues were identified based on the audit work performed in this area, with the exception of the following one.

Recurring services should be procured through Long Term Agreements

49. The Office did not follow a competitive bidding process for two out of 20 purchases of training and learning services selected for testing, i.e. the rental of hotel conference rooms at a cost of USD 15,800. With the exception of travel services, the Office had otherwise not awarded any long term agreements (LTAs) for services procured on a recurring basis. The audit verified that the services procured were consistent with the related AWP activities and that, based on comparison with other procurement transactions for similar services, prices charged were not above reasonable market value.

IMPACT *The Office may not obtain appropriate value-for-money.*
 ROOT CAUSE *Guidance – Lack of supervision at Office level.*
 CATEGORY *Operational.*

RECOMMENDATION 11 **PRIORITY: MEDIUM**

Negotiate long-term agreements, ideally at UN interagency level, for hotel accommodation and conference services and any other services, such as printing and publications, regularly procured by the Office.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *31/10/2014*

The UN Country Operations Team is working on establishing joint LTAs for the procurement of repetitive goods and services, such as hotel, office supplies, and vehicles leasing.
The Country Office is simultaneously developing LTAs for services such as hotel services and printing. LTA processes will be held in regions where there is greater demand for hotel services. First LTAs will be effective as from October, 2014.
In addition, the Office is identifying other recurrent goods and services to conduct other LTAs.

C.3 - FINANCIAL MANAGEMENT **SATISFACTORY**

50. During the period under review, the Office processed 1,696 financial transactions, including 1,359 accounts payable vouchers used to process payments, and 218 journal vouchers, used primarily to process adjustments and record expenses reported by IPs. Work performed in this area included the review of (i) the financial management capacity of the Office; (ii) the authorization and proper processing of the financial transactions; (iii) the coding of the transactions to the correct project, activity, general ledger account, IP and funds codes; (iv) the operating effectiveness of the controls over the accounts payable and payments process; (v) the value-added tax (VAT) control arrangements in place; (vi) the budget management process; and (vii) the effectiveness of the financial management accountability process. No reportable issues were identified based on the audit work performed with the exception of the following one.

⁸ Best value for money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

Strategies to better manage the impact of value-added tax on programme expenses should be explored

51. UNFPA direct execution expenses and IP programme implementation costs funded through the direct payment modality are exempt from VAT. However, the exemption does not extend to expenses incurred by IPs and funded through cash advances; these are taxed at a rate of 12 per cent.

52. Management estimated that VAT paid by IPs for goods and services procured using UNFPA funds (primarily consultancies and training and learning costs) amounted to USD 176,000 in 2012 and USD 184,000 for 2013. Although these purchases were taxed, the Office did not consider switching to direct execution or direct payments to manage the amount of tax paid and increase funds available for programme delivery.

IMPACT *Funds available for programme implementation purposes are diminished.*

ROOT CAUSE *Guidelines – Inadequate planning.*

CATEGORY *Operational.*

RECOMMENDATION 12

PRIORITY: MEDIUM

Advocate, in collaboration with the United Nations Country Team, to obtain a value-added tax exemption for purchases of goods and services undertaken by implementing partners; if not possible, re-assess the fund transfer modalities used to maximize programme fund availability.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *30/09/2014*

The Office will submit this issue for consideration to the United Nations Country Team and to the Ministry of Foreign Affairs. So far, the national legal framework does not include the VAT exemption to be granted for IPs.

Simultaneously, the Office is performing an analysis, in collaboration with UNDP, on how to obtain value-added tax exemptions for IP's purchases of goods and services, considering the implementation modalities, national legal framework, IPs capacity development, cost-effectiveness, risks, and impact on the Office's response.

C.4 - GENERAL ADMINISTRATION

SATISFACTORY

53. Work performed in this area focused on travel and asset management.

54. Travel expenses incurred by the Office during the period under review amounted to USD 188,000. A significant portion of the expenses (USD 116,000) corresponded to daily subsistence allowance (DSA) payments for field and monitoring visits, and attendance at training workshops and conferences. Audit work in this area included the testing of a sample of 54 travel-related transactions amounting to USD 38,000 (20 per cent of total travel expenses), for appropriateness of business purpose, compliance with policies and procedures, and operating effectiveness of the controls over (i) the procurement of travel services; and (ii) the authorization, calculation and payment of DSA. The audit also assessed the processes followed for the award of LTAs with travel agencies and to enforce compliance with security clearance requirements. No reportable issues were identified based on the work performed.

55. During the period under review the Office procured fixed assets for its own use and for delivery to IPs at cost of USD 44,000. Audit work performed was limited to a walk-through of the asset management and year-end asset verification processes, as well as the testing of the largest asset purchase (a representational vehicle procured locally at a cost for USD 22,000 or 50 per cent of the value of fixed assets procured in the period under review). No reportable issues were identified based on the work performed.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY

SATISFACTORY

56. This process was assessed as presenting low audit risk. Information and Communications Technology support is provided by UNDP. Work in this area was limited to the review of Atlas user profiles for compliance with segregation of duties requirements and of the mandatory annual certification of Atlas user profiles. No reportable issues were identified based on the work performed.

C.6 – SECURITY MANAGEMENT

SATISFACTORY

57. Work performed in this area included the review of the most recent MOSS (United Nations Minimum Operating Security Standards) assessment, as well as compliance with mandatory security training requirements. No reportable issues were identified based on the work performed.

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

Atlas	UNFPA's ERP (Enterprise Resource Planning) system
AWP	Annual Work Plan
BRES	<i>Balance, Requisición y Envío de Suministros</i> (Supplies Balance, Requisition and Shipping)
Cognos	UNFPA's Management Reporting System
CPAP	Country Programme Action Plan
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditure
HACT	Harmonized Approach to Cash Transfers to Implementing Partners
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Assessment Tool
LTA	Long Term Agreement
MOSS	United Nations Minimum Operating Security Standards
MoH	Ministry of Public Health and Social Welfare
NEX	National Execution
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
PCA	Programme Coordination and Assistance
RH	Reproductive Health
SC	Service Contract
SDP	Service Delivery Point
SSA	Special Service Agreement
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars
VAT	Value Added Tax