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OFFICE OF AUDIT AND INVESTIGATION SERVICES

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

FINAL REPORT

N° VEN101

22 January 2015

TABLE OF CONTENTS

EXECUTIVE SUMMARY1

I. OBJECTIVES, SCOPE AND METHODOLOGY4

II. BACKGROUND5

III. DETAILED FINDINGS6

A. OFFICE GOVERNANCE..... 6

Good practices identified 6

A.1 – OFFICE MANAGEMENT 6

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING..... 6

Align better the organizational structure and personnel of the Office to programme needs 6

A.3 – RISK MANAGEMENT..... 7

Update and formalize the fraud and operational risk assessment 7

B. PROGRAMME MANAGEMENT..... 8

Good practices identified 8

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION 8

Re-assess the choice of programme implementation modalities 8

B.2 – NATIONAL EXECUTION 10

Conduct more robust IP capacity assessments 10

B.3 – MANAGEMENT OF NON-CORE FUNDS 11

Strengthen due diligence and monitoring of agreements with private sector funding sources 11

C. OPERATIONS MANAGEMENT 12

Good practices identified 12

C.1 - HUMAN RESOURCES MANAGEMENT 12

C.2 - PROCUREMENT 13

Significantly enhance the Office’s procurement capacity and supervisory controls 13

C.3 - FINANCIAL MANAGEMENT 15

Improve budget management controls 15

Strengthen financial verification and validation controls 16

C.4 – GENERAL ADMINISTRATION 17

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY 18

ANNEX 1.....19

GLOSSARY21

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS)¹ performed an audit of the UNFPA Country Office in Venezuela (the Office) starting on 12 August 2013. A field mission was conducted from 30 September to 11 October 2013. The audit covered the period from 1 January 2011 to 31 August 2013. Transactions and events pertaining to other periods were reviewed as appropriate. In view of the preliminary findings, the audit was put on hold pending completion in November 2014 of an in-depth review of selected transactions.

Background

2. The activities covered by the audit correspond to Venezuela's second Country Programme 2009-2013, approved by the Executive Board in 2008, and extended for a one-year period through 2014, with a resource allocation of USD 12 million for the original five-year programme cycle. The Venezuelan government requested the extension of the United Nations system organizations' country programmes through 2014 to ensure that the formulation of the next United Nations Development Assistance Framework and organization programmes would take into account the priorities and policies of the Government's new social and economic development plans. The one-year extension was approved by the Executive Board in March 2013.

3. Total expenses in the period covered by the audit amounted to USD 15.5 million, allocated to 45 projects implemented and executed by UNFPA and 20 implementing partners, funded from core resources of USD 3.8 million and non-core resources of USD 11.7 million. Approximately 82 per cent of the expenses were allocated to promoting Sexual and Reproductive Health. The Population and Development and Gender programme components accounted for approximately six and four per cent, respectively, of expenses. Activities for young people were mainstreamed into each of the above programme components. Management and programme coordination and assistance costs accounted for the remaining eight 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.

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 '**Unsatisfactory**', which means that governance, risk management and internal control processes were either not established or functioning well. The issues were such that the achievement of the objectives of the Office could be seriously compromised. Ratings by key audit area are summarized in the following page:

¹ At the time, Division for Oversight Services.

Audit ratings by key audit area		
Office Governance		Unsatisfactory
<i>Office Management</i>		<i>Satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Unsatisfactory</i>
<i>Risk Management</i>		<i>Partially satisfactory</i>
Programme Management		Unsatisfactory
<i>Programme planning and implementation</i>		<i>Partially Satisfactory</i>
<i>National execution (NEX)</i>		<i>Partially Satisfactory</i>
<i>Management of non-core funding</i>		<i>Unsatisfactory</i>
Operations Management		Unsatisfactory
<i>Human resources management</i>		<i>Satisfactory</i>
<i>Procurement</i>		<i>Unsatisfactory</i>
<i>Financial management</i>		<i>Partially satisfactory</i>
<i>General administration</i>		<i>Satisfactory</i>
<i>Information and communications technology</i>		<i>Satisfactory</i>
<i>Security management</i>		<i>Not assessed – low risk area</i>

Key findings and recommendations

7. The audit identified several good practices adopted by the Office. A database application system was developed to track progress in the implementation of management decisions and the status of actions plans, enhancing the Office management process. Also, the Office was selected in 2013 as the Latin America and the Caribbean region winner of the UNFPA Good Practices Competition. In addition, the Office developed tools for a better management of individual consultancies.

8. The audit identified, however, several areas that require immediate management attention. The report includes six high priority and six medium priority recommendations designed to help the Office and the Organization address the issues found.

Strategic

9. The Office needs to review its organizational structure and personnel to support effective programme delivery and the implementation modalities selected. The Office should also update and formalize its fraud and operational risk assessment.

10. Further, the Organization should review the strategy and modalities for collaboration with private sector entities to ensure that said collaboration contributes to advancing UNFPA’s mandate.

Operational

11. The Office should re-assess the programme implementation and cash transfer modalities based on a detailed assessment of risks faced and of the technical and managerial capacity of implementing partners. The assessment of the later should be strengthened and well documented.

12. The Office should develop and maintain detailed and well documented workplan costing sheets to improve its monitoring of operations. It should put in place more systematic allocation of costs to projects and better controls on the receipt of goods and services prior to payment. In addition, the Office should strengthen its procurement skill set and capability.

Reporting

13. The Office should ensure that expenses are correctly reported based on the chosen implementation arrangements, be it direct implementation or national execution. It should also put in place better controls to ensure that expenses are charged to the appropriate accounts.

Compliance

14. The Office should significantly enhance its procurement practices to ensure that these are in compliance with UNFPA's procurement procedures.

Management response

15. The Venezuela Country Office would like to thank the professional work performed by O AIS and at the same time expresses its overall agreement with the findings. The Assistant Representative, as the manager based at the Office, initiated corrective actions immediately after the completion of the field audit mission, and as a result some of the recommendations have already been implemented. In general terms, the management response -which is detailed in the report- consists in a mission and support from the Regional Office for the review of the organizational structure, the update of documents, the engagement of an external company to perform evaluations of potential IP's based on UNFPA guidelines, the review of the processes that presented weakness and challenges and training in procurement, work plan management and project management. On the other hand, the Office is designing and will establish several new tools and processes to enhance the internal controls and guidance to ensure compliance with UNFPA procedures. A whole new strategy for resource mobilization is in place with total alignment to the UNFPA mandate and supported by the Regional Office and the headquarters Resource Mobilization Branch.

16. The O AIS team would like to thank the management and staff of the Office, the Latin American and the Caribbean Regional Office and of the different headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2011 to 31 August 2013. Transactions and events pertaining to other periods were reviewed 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 Venezuela.
3. The audit included such tests, as considered necessary in the circumstances, to obtain reasonable assurance with regards to:
 - a) The conformity of expenses with the purposes for which funds were appropriated;
 - b) The safeguarding of assets entrusted to the Office;
 - c) The level of compliance with applicable rules, regulations, policies and procedures; and
 - d) 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 OAI internal audit staff, augmented with staff from a local external audit firm, and started on 12 August 2013; a field mission took place from 30 September to 11 October 2013. The findings and recommendations resulting from the audit were discussed with the Office's management at an exit meeting held on 10 October 2013, and comments and clarifications were provided by management at the exit meeting until 15 November 2013. In view of the preliminary findings, the audit was put on hold pending completion in November 2014 of an in-depth review of selected transactions. A draft report was submitted to the Office's management on 2 December 2014, and a final management response received on 19 January 2015.

II. BACKGROUND

6. The Bolivarian Republic of Venezuela is an upper middle-income country, with a population estimated at 29.9 million and a total per capita Gross Domestic Product (GDP) of USD 12,700.² The birth rate dropped from 32.8 to 21.5 births per 1,000 persons over the last fifteen years.³ The maternal mortality ratio has remained virtually unchanged from 1990, and stands at 92 deaths per 100,000 live births.⁴ Rapid urbanization has had a significant social impact, particularly with regard to the growth of informal employment and security concerns in the largest urban areas where a large part of the population lives.

7. The activities covered by the audit correspond to Venezuela's second Country Programme (CP) 2009-2013, approved by the Executive Board in 2008, and extended for a one-year period through 2014, with a resource allocation of USD 12 million for the original five-year programme cycle. The Venezuelan government requested the extension of the United Nations system organizations' country programmes through 2014 to ensure that the formulation of the next United Nations Development Assistance Framework and organization programmes would take into account the priorities and policies of the Government's new social and economic development plans. The one-year extension was approved by the Executive Board in March 2013.

8. Total expenses in the period covered by the audit amounted to USD 15.5 million, allocated to 45 projects implemented and executed by UNFPA and 20 implementing partners, funded from core resources of USD 3.8 million and non-core resources of USD 11.7 million. Approximately 82 per cent of the expenses were allocated to promoting Sexual and Reproductive Health (SRH). The Population and Development and Gender programme components accounted for approximately 6 and 4 per cent, respectively, of expenses. Activities for young people were mainstreamed into each of the above programme components. Management and programme coordination and assistance costs (PCA) accounted for the remaining 8 per cent of expenses.

9. The Office was first established in 2001 and is located in the city of Caracas, Venezuela. During the period under review, the Office was managed by a non-resident Representative, based in Bogota, Colombia, and an Assistant Representative based in Caracas.

² 2012 - World Bank.

³ Information obtained from the 2009-2013 Country Programme documents.

⁴ Trends in Maternal Mortality: 1990 to 2010. Estimates published by WHO, UNICEF, UNFPA and the World Bank (2012).

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

UNSATISFACTORY

Good practices identified

10. The audit identified the following good practices in the area of Office Governance:
- a) The Office organizes weekly meetings of programme and operations staff. These meetings are used as a management tool to share information, report on the status of implementation of activities and discuss the programmatic and operational challenges faced by the Office; and
 - b) Meeting discussions and agreed action plans are logged into a database system, developed by the Office in 2012, to track progress in their implementation and status.

A.1 – OFFICE MANAGEMENT

SATISFACTORY

11. Work performed in this area involved an assessment of the internal planning and management processes established by the Office to support the delivery of its CP, and included the review of the Office Management Plans, Country Office Annual Reports and minutes of management and programme and operations staff meetings, information per the database system implemented to document and track management action plans, and inquiries of management and staff. No reportable issues were identified based on the audit work performed in this area.

A.2 - ORGANIZATIONAL STRUCTURE AND STAFFING

UNSATISFACTORY

12. At the time of the field audit mission, the Office had 12 staff members, including eight persons hired under fixed term positions, two of which were created in 2012 to replace positions previously filled through Service Contracts (SC). Four UN Volunteers (UNVs) worked as programme assistants. As explained in section C.1 of the report, during the period under review, the Office also engaged a large number of personnel under the SC and Special Service Agreement (SSA) modalities to perform various management and programmatic activities.

13. Work performed in this area included a review of the adequacy of the organizational structure and the number and capabilities of personnel vis-à-vis the needs of CP delivery and operations management. The following issue requiring immediate management attention was identified as a result of the work performed.

Align better the organizational structure and personnel of the Office to programme needs

14. Between 2009 and 2013, the programme almost doubled in size, with a total budget allocation and expenses of USD 26 million and USD 19 million, respectively, compared to an indicative resource allocation of USD 12 million per the CP document approved in 2008. Most of the increase took place from 2011 onwards, with expenses growing by almost 300 per cent compared to 2009.

15. In addition, the Office resorted primarily to the direct implementation modality (DEX) for the delivery of its programme in the period 2011 to 2013, with a large volume of procurement of SRH commodities, as well as of advocacy and educational materials managed by the Office on behalf of the Ministry of Health (MoH) and a private donor respectively, at a cost of approximately USD 9.5 million in the abovementioned period. The use of DEX and the significant procurement volume resulted in a large

increase of more than 330 per cent in the annual number of financial transactions⁵ processed by the Office, from 600 in 2010 to more than to 2,872 in 2013.

16. The audit noted that, in spite of such a large increase in programme size and complexity as well as in transaction volume, staffing levels increased by one position only, compared to the seven positions initially approved at the time of CP inception. While efforts were made by Management to augment capacity through short-term consultancies and UNVs, the significant increase in financial resources managed and the resulting complexity and workload create the risk that the structure and personnel arrangements in place may no longer be adequate to support CP delivery and operational needs in an effective, controlled and financially sustainable manner.

IMPACT	<i>The lack of alignment of the organizational structure and staffing may impact negatively on programme and operational performance.</i>
ROOT CAUSE	<i>Guidelines (inadequate planning). Resources (insufficient human resources).</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 1

PRIORITY: HIGH

In consultation with the Division for Human Resources and the Latin American and the Caribbean Regional Office, complete a review of the Office organizational structure and personnel to determine whether they are aligned to programme delivery and operational requirements.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office and the Latin American and Caribbean Regional Office have coordinated a mission of the Human Resources regional advisor (HR Strategic Partner) to conduct an assessment of the organizational structure and personnel of the Office vis-a-vis the new country programme 2015-2019 in order to recommend the modalities to be adopted for the Office to guarantee appropriate performance and programme delivery.

A.3 – RISK MANAGEMENT

PARTIALLY SATISFACTORY

17. Work performed in this area included the review of the Office’s last fraud and operational risk assessment, the process followed for identifying risks and the actions undertaken to mitigate them.

Update and formalize the fraud and operational risk assessment

18. A detailed and comprehensive fraud and operational risk assessment was last completed in 2011, and has not been updated in either 2012 or 2013. Other mechanisms, such as weekly staff meetings, were used instead to report and discuss programme related issues and risks. However, there was no systematic and disciplined process to collect, log, assess and prioritize risks, develop response action plans, and track their implementation.

⁵ Regular vouchers and journal payment vouchers

IMPACT *The Office may not be able to identify and manage critical risks in a timely, structured and systematic manner, resulting in inability to achieve its objectives.*

ROOT CAUSE *Guidance (Lack of guidance at Office level).*

CATEGORY *Strategic.*

RECOMMENDATION 2

PRIORITY: MEDIUM

Update the fraud and operational risk assessment on an annual basis and establish a systematic mechanism to identify, prioritize and log risks, develop action plans to address them and track their implementation.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

A new fraud and operational risk assessment and action plan will be prepared and will be updated annually. The Assistant Representative has been designated as responsible for follow-up actions of the plan and will have quarterly follow-up meetings with the Representative/Country Director to address arising issues.

B. PROGRAMME MANAGEMENT

UNSATISFACTORY

Good practices identified

19. The Office was selected in September 2013 as the Latin America and the Caribbean Region winner of the 2013 UNFPA Good Practices Competition on Programme Monitoring.

B.1 – PROGRAMME PLANNING AND IMPLEMENTATION

PARTIALLY SATISFACTORY

20. During the period under review, the Office implemented activities relating to three outputs areas with total expenses of USD 14.8 million, inclusive of PCA costs, with an average implementation rate of 75 per cent in the period 2011-2012. Work performed in this area included (i) the review of the process followed to prepare and approve the workplans in 2012 and 2013; and (ii) the review of workplans, workplan monitoring tools, mission reports, standards progress reports and other evidence of programme planning, implementation and monitoring activities for project activities implemented in 2012.

21. During the period under review, the Office undertook the procurement on behalf of the MoH and a private donor, of SRH commodities and advocacy and educational materials, respectively, at an aggregate cost of USD 9.5 million (approximately 65 per cent of total expenses incurred). Other significant programme activities focused primarily on SRH, family planning and young people, and were implemented at a cost of USD 4.7 million, with the involvement of approximately 15 different IPs. The remaining programme activities were implemented by IPs, through cash advances provided by UNFPA, at a cost of USD 0.5 million. The audit noted one area that requires the Office's attention.

Re-assess the choice of programme implementation modalities

22. The Office implemented a significant component of its programme in collaboration with several IPs (most of them governmental agencies), based on workplans signed with each of them detailing activities to be executed and related outcomes. In multiple instances, the IPs managed the procurement of goods and services (including consultancies) required to deliver the programme activities, UNFPA's intervention being limited to proceeding with the corresponding payments. In other cases, UNFPA

undertook procurement and recruitment activities on behalf of the IPs which retained the responsibility for implementing the related activities. As a consequence, the Office experienced a high workload, with the need to manage directly the payment cycle for a large number of transactions originating from IPs, as well as to undertake the procurement of good and services necessary to implement the workplans.

23. The Office indicated that the “hybrid DEX/NEX” implementation modality was chosen to reduce financial and implementation risk. The decision to adopt it was however not supported by a thorough review of the IPs’ technical and managerial capacity, and that of the UNFPA Office, as is required by the UNFPA guidelines. Further, it was noted that the Office organizational structure had not been designed to handle such a workload.

24. In addition, the audit noted that the Office recorded all expenses related to the workplans’ implementation as direct implementation modality (DEX). The audit is of the view that, in light of the implementation arrangements in place, a portion of the related financial transactions should have been treated as direct payments or reimbursements and therefore reported as national execution (NEX). The testing of financial transactions revealed several examples thereof; however, the extent to which NEX expenses may have been understated could not be fully quantified during the audit.

IMPACT *Potential loss of programme effectiveness and operational efficiency.*
 ROOT CAUSE *Guidance (Lack of or inadequate guidance at the Office level).*
 CATEGORY *Operational (Recommendation 3) and Reporting (Recommendation 4).*

RECOMMENDATION 3 **PRIORITY: HIGH**

Reassess the programme implementation and cash transfer modalities based on a detailed assessment of the Office and of the Implementing Partners’ technical and managerial capacity.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2015*

This issue is being addressed. The Office has moved towards engaging more IPs under the NEX modality. The Office has already worked in 2014 with several IPs as NEX implementation, and it is intended to extend NEX in the next cycle of cooperation 2015-2019 to other implementing partners once the assessments are completed. In addition, with the training that was provided to the Office’s personnel on the Global Programming System and its subsequent implementation, the issue of the “hybrid NEX/DEX” was finally resolved.

RECOMMENDATION 4 **PRIORITY: HIGH**

Ensure that expenses are correctly reported based on the chosen implementation arrangements.

RESPONSIBLE MANAGER: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *June 2015*

It is associated with the previous recommendation and it is being resolved with the implementation of the new Global Programming system and training already conducted in the Office on the new Policies and Procedures on workplan management.

B.2 – NATIONAL EXECUTION

PARTIALLY SATISFACTORY

25. During the period under review, the Office provided funding in the amount of USD 0.5 million (approximately 3 per cent of total expenses) for the implementation of programme activities by one government agency and five non-governmental organizations.

26. Audit procedures performed in this area included the review of IP profiles and capacity assessments, the IP selection process and the oversight activities established by the Office to manage performance and deliverables by the IPs engaged under both NEX and DEX modalities. The review covered 20 IPs with workplans reflecting budgets totaling USD 5.6 million in 2012. The audit also assessed the Operating Fund Account (OFA) process controls, through the testing of cash advances and certificates of expenses for two IPs with expenses totaling USD 0.4 million.

27. Overall, the Office maintained adequate controls over cash advances provided to its IPs. The audit noted however one area that requires the Office’s attention.

Conduct more robust IP capacity assessments

28. During the audit period, the Office did not systematically carry out capacity assessments prior to engaging IPs for project implementation. Only four of the twenty IPs engaged in 2012 were assessed using the Implementing Partner Capacity Assessment Tool (IPCAT) and were subsequently registered in the Implementing Partner Management Information System (IPMIS). No HACT (Harmonized Approach to Cash Transfers) micro-assessments were performed.

29. Further, for those IPs assessed, the audit found that the assessment was insufficient, in particular regarding financial and operational capacity, to determine the most appropriate cash transfer modality as well as the scope and frequency of monitoring and assurance activities required given the capacity level and internal control systems in place.

IMPACT	<i>The engagement of IPs with weak capacity may impair the achievement of programme objectives.</i>
ROOT CAUSE	<i>Guidance (inadequate supervision at the Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 5

PRIORITY: MEDIUM

Complete robust and well documented assessments of the technical, financial and operational capacity of all IPs engaged for programme implementation, to determine the most appropriate implementation and cash transfer modalities as well as on the scope and frequency of monitoring and assurance activities.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2015*

The Office will hire an independent specialized company to conduct evaluations of the potential IPs that have been identified in the new CP document, using the IPCAT and micro micro-assessment tools. The Office will register the selected IPs in IPIMS. The Office will promote the establishment of a HACT working group as a sub-group of the UNCT to use the same standardized approach for the IPs that are shared by more than one agency, and to leverage the experience and knowledge of agencies that have successfully implemented HACT in the country.

B.3 – MANAGEMENT OF NON-CORE FUNDS

UNSATISFACTORY

30. During the period under review, the Office mobilized non-core resources totaling USD 17 million (approximately 80 per cent of total programme resources). The largest contribution, for a total of USD 11.7 million, was received from the MoH for the procurement of SRH commodities which allowed the MoH to gain access to quality-assured contraceptives at very competitive prices, leveraging on the long-term agreements signed by UNFPA with multiple contraceptives manufacturers. The Procurement Services Branch (PSB) of UNFPA, based in Copenhagen, Denmark managed the corresponding procurement transactions and the product ownership was transferred to the MoH upon arrival in Venezuela. The second largest contribution agreement, for a total of USD 4.2 million, was entered into with a private donor for the printing and distribution of advocacy and education materials.

31. Audit procedures performed in this area included the review of the resource mobilization strategy and plan; contribution agreements; donor reports; and compliance with expense eligibility requirements for the two major agreements mentioned in paragraph 30 which accounted for 95 per cent of the non-core funds mobilized during the period. The audit noted one area that needs the attention of the Office, the Regional Office and Headquarters management, as described below.

Strengthen due diligence and monitoring of agreements with private sector funding sources

32. Under the agreement with the private donor, the Office procured, at a cost of USD 2.9 million, advocacy and educational materials to be sold through the nationwide distribution channels of the private donor’s publication network.

33. The audit noted that, contrary to the policy on co-financing issued in March 2010, there was no evidence of review and vetting to determine whether the programmatic side of the agreement was in line with UNFPA’s priorities and whether the implementation modality adopted for this arrangement (*de facto* third party procurement of printing services) was appropriate. Further, the publications’ content, including that provided by UNFPA, was not subject to any quality assurance review and vetting by UNFPA. It was further noted that no printing activities took place after 2013.

34. While the audit acknowledges that the approach taken by the Office with a private donor was innovative, it remains unclear whether its implications were thought through and how this undertaking was conducive to furthering the achievement of the Office programme objectives and UNFPA’s mandate.

IMPACT	<i>Potential for reputational risk and conflict of interest, as well as loss of focus on UNFPA’s mandate.</i>
ROOT CAUSE	<i>Guidelines (Lack of or inadequate corporate policies or procedures).</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 6

PRIORITY: HIGH

Enhance the strategy and modalities for collaboration with private sector entities, which ensure that proposed interventions are in line with UNFPA’s mandate, strategic plan and priorities and are consistent with the Organization’s governance processes.

RESPONSIBLE MANAGER: *Director, Information and External Relations Division - IERD* STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: July 2015

Under the leadership of the IERD, over the last three years UNFPA has (i) developed more robust procedures for selecting private sector partners, including due diligence screening and risk management; (ii) developed specific standard agreements and refined procedures for negotiating partnerships with the private sector; (iii) developed training tools on how to build private sector partnerships; (iv) appointed Resource Mobilization and Partnership Advisers at regional office level and Private Sector Specialists at headquarters level, to have more capacities to oversee and guide UNFPA in mobilizing private sector partners and funding; and (v) and, most importantly, provided hands-on support and facilitated learning and training to enhance capacities at country office level to safely and successfully build new partnerships and mobilize more resources from private sector. An updated corporate UNFPA Resource Mobilization strategy, including private sector partnerships, is under development for Board approval this year. The valuable lessons learned from this example will be taken into account in this new strategy. IERD will continue to invest in UNFPA systems and capacities for growing the value of all partnerships and resources that are aligned with the UNFPA Strategic Plan and its programmes.

As regards resource mobilization efforts in Venezuela, every previous project with the private sector has been terminated and will be formally closed in the first quarter of 2015. A new private sector strategy has been developed by the Office with participation of the regional Resource Mobilization Advisor. New engagements with the private sector are closely worked with the headquarters Resource Mobilization Branch, including prescreening and agreements.

C. OPERATIONS MANAGEMENT

UNSATISFACTORY

Good practices identified

35. The audit noted the following good practices established by the Office in this area:
- a) The Office developed a database tool to handle the recruitment and management of SCs and SSAs. The tool was introduced in 2013 to maintain records and resumes of consultants up-to-date; it is also used to formalize and enhance independent screening, selection and appraisal by the Office hiring managers; and
 - b) The Office took positive steps to contain travel costs by planning and prioritizing staff travel.

C.1 - HUMAN RESOURCES MANAGEMENT

SATISFACTORY

36. During the period under review, the Office made extensive use of SCs and SSAs for management and programme delivery activities, including support to projects managed by IPs. Overall, more than 155 consultants were hired between 2011 and 2013, for varying contractual periods, at an aggregate cost of USD 656,000. In response to changes in labor laws in Venezuela and as part of a UN Country Team joint initiative, the Office engaged, starting in 2010, a staffing firm to administer the short-term consultancies' contracting and administration processes. The Office continued to make hiring decisions and performance assessments, in consultation with IPs where appropriate. Sixteen short term consultancies were also contracted through the staffing firm, at a cost of USD 282,000 (inclusive of vacation entitlements and local labor benefits⁶) between 2011 and 2013.

37. Audit work performed in this area included analytical reviews of payroll and consultancy

⁶ Such as social security, insurance and pension benefits.

expenses, the review of a sample of contracts valued at USD 262,000 managed by the staffing firm and for 10 SSAs awarded by UNFPA at a cost of USD 283,000, for compliance with the applicable recruitment policies and procedures, linkages to workplans, proper calculation and authorization of payments.

38. The audit noted a number of minor gaps in the hiring process, that were addressed by the Office at the time of the field audit mission, through the use of the database tool (mentioned in paragraph 35 a) above) which formalizes and systematizes the screening, selection and performance appraisal processes. No recommendation is therefore provided with regards to these issues.

C.2 - PROCUREMENT

UNSATISFACTORY

39. The audit noted a significant procurement activity during the period under review, with over 800 purchase orders (POs) issued, at a cost of USD 11.7 million between January 2011 and August 2013. Of this amount, USD 6.2 million corresponded to the procurement, managed by PSB, of SRH commodities under the agreements signed with the MoH. Locally managed procurement amounted to USD 5.2 million, representing approximately 45 percent of total purchases made, including the procurement of advocacy and educational materials mentioned in paragraph 30.

40. The audit reviewed a sample of 15 locally managed procurement transactions amounting to USD 2.9 million. Work performed in this area included testing for compliance with procurement policies and procedures in the areas of needs assessment, bidding, vendor selection, procurement committee review and approval, contract award and accounts payable and payment. The audit also performed testing of six POs issued by PSB for the procurement of SRH commodities at a cost of USD 4.7 million, based on requisitions created by the Office, to assess the effectiveness of the procurement planning and commodity delivery processes. Two significant issues were identified as a result of the work performed.

Significantly enhance the Office's procurement capacity and supervisory controls

Procurement of advocacy and educational materials

41. The audit testing of six POs with a value of USD 2.6 million, issued against three contracts awarded in 2010, 2012 and 2013 respectively, to an international supplier for the printing of the advocacy and educational materials revealed multiple deviations from UNFPA's procurement procedures.

42. With regards to the first contract, four companies responded to the invitation to bid (ITB), issued in 2010. Two of the bids received were disqualified for failing to meet the minimum ITB criteria. The audit noted that the other two bids, which were assessed as technically qualified (i.e., in compliance with the ITB criteria), were submitted by subsidiaries of the same parent company. No disclosure of this situation - of which Management represented that they were unaware - was made to the HQ Contract Review Committee (CRC) which approved the contract award.

43. The local panel that assessed the proposals and made the procurement recommendation for consideration by the CRC was composed of a representative from the donor, a procurement consultant employed by the project funded by the donor and the UNFPA administrative assistant. This arrangement may have compromised the independence and objectivity of the proposal assessment, as some of the committee members had an inherent position of power and authority over the other members.

44. Upon review of content of the procurement file, the audit noted a pro-forma invoice dated February 2010 and issued by the vendor awarded the contract, showing a price quotation of USD 1.9 million for the same materials subsequently procured from this vendor. There is a risk that the vendor that was awarded the contract received notice of the bid and product specifications ahead of the

ITB process. Management informed the audit team that the donor funding the procurement contacted the vendor unilaterally as part of the donor’s market research. No documentation was provided to the audit team to substantiate this representation.

45. The audit also noted that information on the bid and product specifications appears to have been provided to the vendor ahead of the bidding process carried out to award the 2012 contract.

46. The solicitation documents for the 2012 ITB were published on the United Nations Global Marketplace (UNGM) for 18 calendar days. UNFPA procurement procedures establish a solicitation period of at least 21 days. The audit is of the view that, considering the nature of the goods to be procured and the materiality of the procurement, a longer solicitation period should have been allowed to encourage competition through the submission of bids by a larger number of potential suppliers. Additional audit tests revealed that three POs issued in March 2013 against the 2012 contract, for a value of USD 245,000, were approved and paid within four days, a timeframe too short to allow for printing and delivery (from the country of printing to Venezuela) to take place; thus, this is indicative that the POs were issued after the transactions had actually been concluded. A fourth PO, in the amount of USD 47,520, for materials not included within the scope of the contract awarded, was approved based on a donor internal procurement process, outside of the UNFPA procurement procedures and practices, and without any evidence maintained on file regarding the soundness of the procurement process followed by the donor.

Other local procurement activities

47. Additional procurements tests performed revealed several instances of non-compliance with and inconsistent application of UNFPA procurement policies and procedures, as detailed below:

- a) Documentation evidencing a competitive selection process was not available on file for six of the POs tested with a value of USD 150,000;
- b) Ten POs, with a value USD 1.5 million, were issued to allow payments once the procurement of goods and services had been awarded and completed;
- c) A purchase of computers, at a cost of USD 104,000, was not cleared by the Management Information Services Branch, as required by the applicable procurement and Information Communication and Technology policies. The PO was issued against a local UNDP LTA which was not available at the Office. However, there was evidence of the approval by UNDP and UNFPA of the use of the LTA for this transaction; and
- d) Ninety-four per cent (USD 2.7million) of POs did not specify a shipping address and 98 per cent (USD 2.8 million) did not include a detailed description of the nature of the goods and services procured.

IMPACT	<i>Inability to attain the principles of fair and transparent procurement and effective completion to provide best value for money and protect the interest of UNFPA.</i>
ROOT CAUSE	<i>Guidance (lack of supervision by the Office and the Regional Office). Resources (Lack of dedicated procurement resources and lack of training).</i>
CATEGORY	<i>Compliance (Recommendation 7) and Operational (Recommendation 8).</i>

RECOMMENDATION 7

PRIORITY: HIGH

Enforce compliance with UNFPA procedures for any procurement activities executed under UNFPA responsibility and implement supervisory controls to ensure the procurement processes are fair and competitive.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *February 2015*

The Office has already completed a procurement training course for its personnel that included in-depth analysis of the procurement procedures and the internal control framework, emphasizing procurement principles of best value for money, fairness, integrity and transparency as well as solicitation methods. The Finance Associate will review all procurement of the Office. All the processes of procurement must now pass through her hands and all procurement processed to ensure compliance with UNFPA Rules and Regulations and procedures.

RECOMMENDATION 8

PRIORITY: HIGH

Perform an assessment of the Office's procurement capacity vis-a-vis the needs arising from the programme design and implementation modalities selected, as a basis to identify and implement capacity enhancement activities, including procurement and Atlas training for current staff; recruitment of dedicated procurement resources; and issuance of standard operating procedures, as appropriate.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

Training has been provided, as indicated in the response to Recommendation No. 7. If the projects under the new cycle of cooperation require a larger procurement, the Office will proceed to increase the capacity of the Office to carry out procurement and implementation of activities.

C.3 - FINANCIAL MANAGEMENT

PARTIALLY SATISFACTORY

48. Audit work performed in this area included the review of the accuracy, authorization and proper processing of purchase orders; journal entries, accounts payable vouchers and accounts payable journal vouchers; as well as the coding of transactions to the correct expense accounts, fund codes and ATLAS projects. The audit also assessed the budgeting process by reviewing supporting budget sheets and the mapping of five ATLAS projects, with a total value of USD 6.2 million, to the corresponding workplans to assess the proper administration of budgets and recording of financial transactions.

Improve budget management controls

49. The audit review of the 2012 workplans implemented in collaboration with five IPs, with an aggregated budget of USD 6.2 million, and a walk-through of the budget formulation and approval processes revealed that workplan budgets were not systematically estimated and supported by detailed costing sheets.

50. Revisions to ATLAS project budgets were also not adequately documented to explain and justify the decisions regarding re-programming of funds. The audit reconciliation of workplan and ATLAS budgets for a sample of five Atlas projects revealed a net unreconciled difference of USD 200,000. The audit also noted 129 budget revisions made to ATLAS without adequate trail and documented explanations. As a result, the audit was not able to reliably determine whether expenses charged to the Atlas projects were linked to the activities to be carried out per the corresponding workplans. It should be noted, as regards this finding, that the new functionality put in place in Atlas in late 2014 will solve the issue of linking workplan activities to their corresponding budget.

IMPACT *Inability to monitor programme implementation through budgetary controls.*
 ROOT CAUSE *Guidelines (inadequate Office process).*
 CATEGORY *Operational.*

RECOMMENDATION 9

PRIORITY: MEDIUM

Develop detailed workplan budget costing sheets and update them regularly for budget revisions made during the implementation period, keeping adequate documentation and audit trail.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *February 2015*

The Country Office has already established a system using MS Project to document, in a detailed manner, the activities and costing of project activities. It includes monthly reporting for the accountability of projects with review of financial implementation of activities and programmatic review with detailed breakdown of tasks performed and pending. The Office has designed a project management strategy with regular meetings between the project manager, the finance associate, communications, procurement and monitoring and evaluation focal points, to resolve matters of day-to-day management of projects. The office will train staff on project management based on the policies and procedures manual and guidelines of UNFPA.

Strengthen financial verification and validation controls

51. The Office processed almost 2,900 vouchers for an amount of USD 9.3 million during the period 2011 to 2012. The audit tests performed revealed the following:

- a) Office expenses for services such as building maintenance costs, insurance and telephony services amounting to USD 57,000 were not allocated over programme funds and the institutional budget following any systematic or proportionate basis;
- b) Grants payments totaling USD 119,500 were incorrectly recorded and reported as consultancy expenses, contrary to the Guidelines for the Implementation of the Institutional Budget 2013 issued 11 December 2012; and
- c) Receiving and inspection procedures to ensure that that goods or services had been received satisfactorily before payments were effected were not carried out or documented systematically.

IMPACT *Increased risk of inaccurate recording and reporting of expenses and payment for goods and services not received.*

ROOT CAUSE *Guidance (inadequate supervision by the Office).
Guidelines (Lack of or inadequate Office policies or procedures).*

CATEGORY *Operational (Recommendations 10 and 11) and Reporting (Recommendation 12).*

RECOMMENDATION 10

PRIORITY: MEDIUM

Develop standard operating procedures for a more systematic allocation of costs to projects funded from programme funds and the institutional budget.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

The Office will develop, with the support and oversight of the Regional Office, the standard operating procedures to guarantee a systematic allocation of costs to projects and the institutional budget.

RECOMMENDATION 11

PRIORITY: MEDIUM

Institute verification process to certify and document that goods and services have been satisfactorily received before payments are effected.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *January 2015*

The Office will institute a process to certify and document the reception of all goods and services before payments. The process will be closely monitored for compliance.

RECOMMENDATION 12

PRIORITY: MEDIUM

Implement supervisory controls for charging expenses to the appropriate Atlas accounts.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *March 2015*

A catalog of most commonly used accounts will be developed for consultation of Office personnel, and will be complemented with additional financial training. Once the catalog has been developed and shared, and personnel trained, the Office will institute four levels of control: First, at the time of preparation of workplans by using the Global Programming System, the accounts to be used will be indicated by the project manager and reviewed by the Finance Associate and the Assistant Representative before approval. Second, at the time of approving requisitions, the accounts will be reviewed as part of the approval process. Third, the Buyer will make an additional review of the Atlas accounts at the time of preparation of purchase orders. Finally, at a monthly meeting between the Assistant Representative and the Finance Associate, the accounts used will be reviewed using a breakdown of accounts report, and errors will be corrected if any arise.

C.4 – GENERAL ADMINISTRATION

SATISFACTORY

52. Audit work in this area focused on the travel and asset management processes. Travel costs in the period under review totaled USD 478,000. Audit procedures carried out in this area, which was assessed as lower risk, included a walk-through of the travel management process and an analytical review of travel expenses totaling USD 322,000. No reportable issues were identified based on the audit work performed.

53. Fixed assets reported as at 31 December 2012 amounted to a net value of USD 970,000. This amount includes the net value of the offices occupied by UNFPA in Venezuela (USD 800,000), which were acquired in 2007, the valuation of which was determined by the Headquarters Finance Branch in accordance with IPSAS. The audit also reviewed the fixed asset certification process carried out by the Office, focusing on compliance with applicable asset management policies and procedures. No reportable issues were identified based on the audit work performed.

C.5 – INFORMATION AND COMMUNICATION TECHNOLOGY

SATISFACTORY

54. Work in this area was limited to the review of compliance with the mandatory annual certification of Atlas access rights and the local network back-up facilities and controls in place. The Atlas access rights profiles were reviewed and updated, as appropriate, in a timely manner. 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
CP	Country Programme
CRC	Contract Reviews Committee
DEX	Direct Execution/implementation
GDP	Gross Domestic Product
HQ	Headquarters
IP	Implementing Partner
IPCAT	Implementing Partner Capacity Assessment Tool
IPIMS	Implementing Partner Information Management System
IPSAS	International Public Sector Accounting Standards
ITB	Invitation to Bid
LTA	Long term agreement
MoH	Ministry of Health
M&E	Monitoring and Evaluation
NEX	National Execution
OFA	Operating Fund Account
PCA	Programme Coordination and Assistance
PO	Purchase Order
PSB	Procurement Services Branch
RFQ	Request for quotation
SSA	Special Service Agreement
SC	Service Contract
SRH	Sexual and Reproductive Health
UNCT	United Nations Country Team
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNGM	United Nations Global Marketplace
UNFPA	United Nations Population Fund
UNV	United Nations Volunteer
USD	United States Dollars