



United Nations Population Fund

Ensuring Reproductive Rights for All

OFFICE OF AUDIT AND INVESTIGATION SERVICES

REMOTE AUDIT AND MONITORING

**UNFPA OFFICES IN THE
LATIN AMERICA AND CARIBBEAN REGION**

FINAL REPORT

Nº IA/2018-03

12 February 2018

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. OBJECTIVES, SCOPE AND METHODOLOGY	4
II. BACKGROUND	5
III. DETAILED FINDINGS.....	6
A. PROGRAMME MANAGEMENT	6
A.1 – NATIONAL EXECUTION.....	6
<i>More rigorously document the justification for selecting strategic partners</i>	<i>6</i>
<i>More thoroughly apply controls over FACE form review and approval</i>	<i>6</i>
A.2 – INVENTORY MANAGEMENT	7
<i>Develop a monitoring model of contraceptive supplies jointly with the Ministry of Health</i>	<i>7</i>
<i>Work towards enabling a faster customs clearance process</i>	<i>8</i>
A.3 – GRANTS MANAGEMENT	8
<i>Utilize grants for capacity-building purposes</i>	<i>8</i>
B. OPERATIONS MANAGEMENT.....	9
B.1 – HUMAN RESOURCES	9
<i>Strengthen supervision to enhance the respect of applicable rules and procedures</i>	<i>9</i>
B.2 – PROCUREMENT	10
<i>Enhance a more robust and consistent application of procurement policies and procedures.</i>	<i>10</i>
<i>Include all relevant and required information in purchase orders</i>	<i>11</i>
B.3 – FINANCIAL MANAGEMENT	12
<i>Commit funds in Atlas before completing transactions</i>	<i>12</i>
<i>Improve financial transaction coding.....</i>	<i>13</i>
B.4 – TRAVEL.....	13
<i>Improve travel planning</i>	<i>13</i>
B.5 – ASSET MANAGEMENT	14
ANNEX I – DEFINITION OF AUDIT TERMS	15
ANNEX II- AUDIT COVERAGE AND FINDINGS.....	17
GLOSSARY	18

EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed a remote audit (the audit) of the UNFPA Offices in the Latin America and Caribbean (LAC) region (the LAC Offices). The audit covered selected programme and operations management activities and transactions executed by the LAC Offices in the period from 01 January 2015 to 26 October 2016.

Background

2. The UNFPA LAC region comprises 20 Country Offices, operating in an environment with significant contrasts, from wealth to extreme poverty disproportionately affecting minority groups and millions living in precarious settlements. The Region is supported and overseen from a Regional Office located in Panama City, Panama, and a Sub-Regional Office located in Kingston, Jamaica.

3. Expenses incurred by LAC Offices in the period under review amounted to USD 103.0 million, corresponding to activities and transactions executed either directly by the LAC Offices (USD 82.4 million) or by 144 Implementing Partners (USD 20.6 million). Expenses were funded from core resources of USD 62.5 million and non-core resources of 40.5 million.¹

Methodology and scope

4. The audit was conducted in conformance 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 operations and internal control processes in place. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions. The work was conducted out of Headquarters and no field missions to any of the LAC Countries were undertaken.

5. The scope of the audit included the assessment of the operating effectiveness of internal controls over national execution; inventory management; grants; human resources management; procurement; financial management; travel; and asset management activities and transactions. Activities and transactions reviewed were selected using a risk-based approach. Staff payroll expenses, amounting to USD 33.2 million in the period under review, were excluded from the scope of the audit as payroll is managed by another United Nations organization on behalf of UNFPA which relies on the internal controls implemented by that organization.

Audit rating

6. The overall audit rating is **“Some improvement needed”**, which means that the assessed controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

7. Ratings by key audit area are summarized in the following table.

¹ Based on 2015 and 2016 Atlas expense figures

Audit ratings by key audit area		
Programme management		<i>Some improvement needed</i>
<i>National execution</i>		<i>Some improvement needed</i>
<i>Inventory management</i>		<i>Some improvement needed</i>
<i>Grants management</i>		<i>Some improvement needed</i>
Operations management		<i>Some improvement needed</i>
<i>Human resources management</i>		<i>Major improvement needed</i>
<i>Procurement</i>		<i>Major improvement needed</i>
<i>Financial management</i>		<i>Some improvement needed</i>
<i>Travel</i>		<i>Some improvement needed</i>
<i>Asset management</i>		<i>Effective</i>

Key findings and agreed management actions

8. The audit identified a number of areas that require Management attention, related to operational, compliance and reporting matters. Overall, the audit report includes four high priority and six medium priority agreed-upon management actions to help the Offices improve its programme delivery and operations.

Operational level

9. The justification for selecting strategic Implementing Partners and documenting exceptions to the competitive process should be strengthened.

10. The processing of Funding Authorization and Certificate of Expense (FACE) forms, which are used by Implementing Partners to request funding and report expenses incurred for nationally executed programme activities, should be improved to reflect, and allow verifying, the authorized Implementing Partner officer’s name and title who certifies funding requests. Further, the systematic use of the FACE form checklist would help detect and address timely processing issues.

11. The customs clearance process of internationally-procured inventory should be expedited to reduce the risk of spoilage and incurring unnecessary costs.

Compliance level

12. More stringent respect of UNFPA policies and procedures was noted in several areas and many Countries. Additional training should be contemplated in some Offices to better address these issues.

13. In the area of grants management, the implementation modality should be exclusively used for capacity-building purposes.

14. Contract personnel management needs some improvement, e.g. regarding the alignment of individual consultants’ compensation levels to established pay-scales, or the hiring of individuals as opposed to engaging an entity under that modality.

15. Further strengthening is needed in the procurement process, with more thorough procurement planning and stronger better goods receipt and inspection actions, verifying physical quantities and the integrity of goods as well as matching receipts to corresponding orders and transportation documents.

16. Of particular relevance, LAC Offices need to ensure that financial resources are timely committed in Atlas at the time of contract award, minimizing the issuance of *ex post-facto* requisitions and purchase orders.

17. Some improvement is also required in travel planning, submitting travel requests at least 21 days before travel date.

Reporting level

18. To enhancing financial reporting and the use of financial information for monitoring and decision-making, financial transaction coding (account and funding code) needs to be more accurate through training of relevant staff as well as implementing more stringent supervisory controls.

Agreed Management actions

19. The LAC Regional Office Management, in general terms, agrees with the findings, noting that some of the actions to address them have already been taken. In particular, specific trainings on operations management relating to the Procurement and Individual Consultants policies were undertaken in 2015 and 2016. The Regional Office plans to further undertake the following actions to address the recommendations raised in this report: (a) discuss with the individual Country Offices on how to ensure compliance with the recommendations; (b) establish action plans on how to address each of the issues raised and, where necessary, coordinate these with Headquarter units; (c) coordinate webinars with the respective Country Offices to guide implementation of the recommendations and, where necessary, coordinate these with Headquarter units; (d) strengthen procurement planning and compliance with procurement policies through webinars coordinated with the Procurement Services Branch; and (e) send reminders on compliance with the travel policy, including re-emphasizing the need for better travel planning. Additional agreed Management actions as regards the issues noted are reflected in Section III of the report.

20. The audit team would like to thank the Management and personnel of the Offices in LAC region for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The objective of the remote audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance on the operating effectiveness of internal controls over activities and transactions executed by the LAC Offices (see list in para 6) in the period from 01 January 2015 to 26 October 2016, for the following processes:

- Programme management
 - a) National execution;
 - b) Inventory management; and
 - c) Grants management.
- Operations management
 - a) Human resources management;
 - b) Procurement;
 - c) Financial management;
 - d) Travel; and
 - e) Asset management.

2. The audit included such tests, as considered necessary in the circumstances, to obtain reasonable assurance with regards to the following control objectives:

- a) The appropriateness of the activities and transactions reviewed in the context of the Offices' programmes;
- b) The operating effectiveness of the internal controls in place over the activities and transactions;
- c) The level of compliance with the rules, regulations, policies and procedures applicable to the activities and transactions; and
- d) The accurate recording of the activities and transactions.

3. Audit procedures applied as part of the audit included the analytical review of Atlas financial information; the review of supporting documents, records and other documentary evidence related to the activities and transactions reviewed; and inquiries from Management on matters arising from the procedures applied. All work was conducted out of Headquarters and no field missions were undertaken to any of the LAC Offices.

4. Activities and transactions reviewed were selected using a risk-based approach. Staff payroll transactions were excluded from the scope of the audit as they are managed by another United Nations organization on behalf of UNFPA, which relies on the internal controls implemented by that organization.

5. The engagement was conducted by a team of OAI audit specialists, starting on 01 November 2016. The audit was affected by staffing constraints due to unforeseeable circumstances. Findings resulting from the audit and potential management actions to address them were discussed with Management at an exit meeting held on 16 November 2017. Comments received and clarifications provided at the exit meeting and throughout the report preparation period were incorporated in a draft submitted to the LAC Office on 28 November 2017. Final management actions agreed with LACRO, received on 08 February 2018, are reflected in the report.

II. BACKGROUND

6. The UNFPA LAC region comprises the Regional Office, located in Panama City, Panama; a Sub-Regional Office located in Kingston, Jamaica; and 20 Country Offices (in alphabetical order): Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

7. Latin America and the Caribbean is made up of upper and lower middle-income countries with a diverse population in terms of culture, ethnicity and income level. In recent years, economic growth combined with implementation of inclusive social policies has lifted about 70 million people out of poverty. However, the United Nations Development Programme (UNDP) estimates that between 25 million and 30 million people are vulnerable to falling back into poverty. Although income inequality has fallen in recent years, Latin America remains the most unequal region in the world. Of the total population of 634.4 million in the region, 165.8 million people (26 per cent) are in the 10–24 year-old age-group.

8. Latin America and the Caribbean has a higher modern contraceptive prevalence rate than other regions of the world (67 per cent), but contraceptive security has not been achieved. The region has the highest percentage of unintended pregnancies in the world (56 per cent). Unmet need for contraception ranges from 31 per cent for women in the lowest income quintile to 19 per cent for women in the highest income quintile. About 3.4 million adolescents have unmet contraceptive needs. The regional maternal mortality ratio in 2016 was to 67 per 100,000 live births.

9. Gender inequality continues to limit women’s and girls’ freedom despite legislative frameworks to address violence against women, progress in women’s education, and economic, social and political participation. One in three women over 15 years of age has suffered some type of sexual violence; of the 25 countries with the highest femicide rates in the world, 14 are in Latin America and the Caribbean.

10. Expenses incurred in the period under review amounted to USD 103.0 million, corresponding to activities and transactions executed directly by the LAC Offices (USD 82.3 million – ‘direct execution’) and by 144 Implementing Partners (IP; USD 20.6 million – ‘national execution’ or NEX). Major individual expense categories are presented in **Table 1** below.

Table 1 - Key expense categories for the period in scope

Activities implemented by	Value in USD million	Percentage of total	Percentage within each category
LAC Offices	82.4	80%	100%
Staff payroll	33.2	32	40
Procurement of other goods and services	15.7	15	19
Contract personnel costs	11.7	11	14
Procurement of inventory items	9.8	10	12
Travel	5.0	5	6
All other (aggregated)	7.0	7	8
Implementing partners (NEX expenses)	20.6	20%	100%
Consultancies and salaries	7.8	8	38
Procurement	6.0	6	29
Training	4.8	5	23
All other costs (aggregated)	2.0	2	10
TOTAL	103.0	100%	--

11. Expenses were funded from core resources of USD 62.5 million and non-core resources of USD 40.5 million.² Approximately USD 85.4 million corresponded to programme expenses, with 44 per cent allocated to the Reproductive Health component (USD 37.4 million), approximately 18 per cent to the Gender component (USD 15.6 million), 18 per cent to the Adolescents component (USD 15.1 million), 17 per cent to the Population and Development component (USD 14.2 million), and 4 per cent to Organizational efficiency and effectiveness (USD 3.2 million).³

² Based on 2015 and 2016 Atlas expense figures

³ UNFP Annual Report for 2015 <http://www.unfpa.org/annual-report/Section504>

III. DETAILED FINDINGS

A. PROGRAMME MANAGEMENT

SOME IMPROVEMENT NEEDED

A.1 – NATIONAL EXECUTION

SOME IMPROVEMENT NEEDED

11. During the period under review, IPs engaged by the LAC Offices for the implementation of programme activities incurred expenses amounting to USD 20.5 million. Per the available general ledger information, expenses incurred by IPs corresponded primarily to consultancies and salaries, procurement, and training costs (see details in Table 1).

12. Audit work performed in this area included an analytical review of NEX expenses in the period covered, as well as detailed testing of: (a) the selection, capacity assessment registration process and existence of IP agreements, for a sample of 14 IPs initially engaged for programme delivery; and (b) a sample of 44 Funding Authorization and Certificate of Expenditure (FACE) forms (amounting to approximately USD 3.6 million or 17 per cent of NEX expenses in the period under review), as regards: (i) existence of appropriate agreements and signed workplans with the concerned IPs; (ii) controls implemented for the review, authorization and processing of the FACE forms; (iii) reconciliation, for a sample of activities, of expenses reported in the FACE forms to transaction details and copies of supporting documents obtained from the concerned IPs; (iv) submission of Workplan Progress Reports by the IPs; and (v) controls implemented over the Operating Fund Account, used to record and control the funds advanced to the IPs.

13. Based on the work performed the audit identified the following matters in need of Management attention.

More rigorously document the justification for selecting strategic partners

14. The audit reviewed the process followed for the selection of 14 IPs, corresponding to nine different Offices, including 13 that were granted the consideration of ‘strategic partners’ and for which no competitive selection was undertaken. The review indicated that for three of these partners (involving three Offices), reasons for the non-competitive process were insufficiently documented: In two instances, the unique capacity of the Implementing Partner (IP) to promote UNFPA’s mandate was not clearly described; in the other, this capacity was not documented at all.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>The IP engaged may not satisfy the requirements to be selected on a non-competitive basis, diminishing the possibility to implement workplans with the highest quality and cost-effectiveness, and increasing the Fund’s reputational risk.</i>
CATEGORY	<i>Operational.</i>

AGREED MANAGEMENT ACTION No. 1

PRIORITY: MEDIUM

Following the issuance of the policy and procedures on the ‘Selection, Registration and Assessment of Implementing Partners’ in 2016, the Heads of LAC Offices will be required to enforce use of the policy-recommended template, in their respective Country Offices, to document comprehensive justifications for the selection of strategic partners, including their unique capabilities and other rationale underlying their selection. The LAC Regional Office will monitor compliance thereof.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
Heads, LAC Offices and International Operations Manager, LACRO

DUE DATE: *March 2019*

More thoroughly apply controls over FACE form review and approval

15. While not individually significant or pervasive in nature, the audit revealed exceptions for 17 out of the 44 (39 per cent) FACE transactions tested (USD 3.6 million). These exceptions are reflective of gaps in the effectiveness of FACE form review and approval. They included: (a) three instances where FACE forms did not indicate the name and title of the IP approvers – which could prevent verification against authorized IP approver information (USD 0.3 million); (b) one instance where the workplan and the letter of understanding were signed but not dated

(USD 11,625); and (c) 13 instances of lack of completion of the FACE form checklist, designed to ensure that FACE forms are subject to a rigorous and well documented review (USD 1.2 million).

16. Further, the audit was not provided with (i) the list of expenses reported by one of the IPs selected for testing, amounting to USD 0.1 million; and (ii) evidence supporting expenses amounting to USD 0.2 million reported by two other IPs selected for testing. This matter was communicated to the concerned LAC Office for remedial action.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>Errors and other issues may not be identified and remediated in a timely and effective manner.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION No. 2

PRIORITY: MEDIUM

With the Global Programming System Phase II roll-out, the names and titles of Implementing Partner approvers are now required on all FACE forms. Heads of the LAC Offices and Programme Managers will enforce the application of procedures and supervisory controls over the processing of FACE forms and preparation of Implementing Partner Agreements to ensure that they include all the requisite details. Although FACE form checklists are currently not mandated by applicable policy, the LAC Regional Office will encourage their use and filing by the respective Country Offices.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
Heads, LAC Offices; Programme Managers, LAC Offices; and International Operations Manager, LACRO

DUE DATE: *March 2019*

A.2 – INVENTORY MANAGEMENT

SOME IMPROVEMENT NEEDED

17. During the period under review, LAC Offices supplied inventory worth USD 9.8 million, consisting primarily of dignity and hygiene kits for humanitarian response activities. The inventory supplied was procured by the UNFPA Procurement Services Branch (PSB), based in Copenhagen, Denmark (USD 6.2 million) and by the LAC Offices (USD 3.6 million).

18. Audit work in this area included an analytical review of inventory transactions in the period covered by the audit, as well as detailed tests of a sample of 34 transactions amounting to USD 6.0 million (14 transactions amounting to USD 5.5 million supplied by PSB and 20 transactions amounting to USD 0.5 million locally procured), which represents 62 per cent of the inventory supplied, as regards: (a) linkage to annual workplans or other appropriate evidence of the transactions’ business purpose, and (b) compliance with the applicable policies and procedures, and operating effectiveness of controls in the areas of: (i) requisitioning; (ii) custom clearance, receiving and inspection; (iii) handover of the inventory to IPs; and (iv) transaction recording. For locally procured inventory, audit work also included a review of the related procurement processes (refer to section B.2 of the report for details on the work performed).

19. From the work performed, the audit noted the following matters that requires Management attention:

Develop a monitoring model of contraceptive supplies jointly with the Ministry of Health

20. In its review of contraceptives internationally procured by PSB, the audit noted that air shipment was selected as mode of transportation for 10 out of the 14 transactions tested (71 per cent). After inquiry from PSB, this choice was fully justified for five transactions, in view of the differential between air and sea freight costs, delivery dates, and risk of damage and theft.

21. As for the remaining five transactions, which affected one CO, the use of air shipment does not appear fully justified. The CO is of the opinion that, in choosing the most appropriate transportation mode, stock levels and arrival times are key factors, and price is not the exclusive criterion. It was noted that in the ‘inventory’ section of its 2014 internal audit report of the same CO, OAS had already reported the need to more regularly monitor Reproductive Health inventories and stock-out levels and to support the Ministry of Health to enhance its logistic capabilities – in order to ensure, ultimately, contraceptive availability and minimize costs.

22. No new agreed management action is raised as regards this matter because the action plan related to the 2014 recommendation is still under implementation.

ROOT CAUSE	<i>Guidelines: Inadequate planning.</i>
IMPACT	<i>Higher shipping costs may be incurred, reducing funding available for programmatic activities.</i>
CATEGORY	<i>Operational</i>

Work towards enabling a faster customs clearance process

23. The review revealed five instances in one Office, amounting to USD 2.2 million, where the customs clearance process of internationally procured Reproductive Health commodities shipped by air took over a month to complete. During this period, commodities were stored at the port of entry.

24. Any delay in customs clearance offsets the benefit of reduced lead time to distribute commodities to IPs and beneficiaries. Such delay also reduces commodities shelf-lives given commodities' expiration dates; it results in unnecessary storage and demurrage costs and increases exposure to risks of damage.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>Beneficiaries experience delays in receiving commodities, with reduced commodities shelf-lives and while unnecessary transportation, demurrage and storage costs are incurred; damage risk is increased.</i>
CATEGORY	<i>Operational</i>

AGREED MANAGEMENT ACTION NO. 3

PRIORITY: HIGH

The LAC Regional Office will communicate with the respective Heads of LAC Offices to address root causes of delays in the customs clearance processes and/or explore other practical options, such as early procurement planning and ordering, to lessen the impact of the delays on programmatic activities. The Regional Office, however, notes that the delays may be beyond the control of the affected Country Offices, as customs procedures are typically under Government control. The Regional Office anticipates that the new inventory management policy, to be launched shortly in 2018, will address some of the issues identified by the audit.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:

DUE DATE: March 2019

Heads, LAC Offices; Programme Managers (Supply Chain Management Focal Points), LAC Offices; and International Operations Manager, LACRO

A.3 – GRANTS MANAGEMENT

SOME IMPROVEMENT NEEDED

25. During the period covered by the audit, 41 grants were awarded by LAC Offices amounting to USD 0.6 million.

26. Work performed in this area included the review of 13 grants awarded by eight Offices (amounting to USD 0.3 million) – that represents 32 per cent of grants awarded and 54 per cent of incurred expenses, respectively.

27. Based on the work performed the audit identified the following matters in need of Management attention:

Utilize grants for capacity-building purposes

28. The audit noted that a grant, in the amount of USD 21,218, was awarded to a Civil Society Organization with a view to developing a research programme on adolescent pregnancy. The grant included programmatic activities such as workshops, video, and media announcements – deviating from the applicable policy which requires that grants be solely used for capacity-building purposes.

29. Accordingly, although the programmatic activities were implemented by an external partner, the grant was reflected as UNFPA direct execution, instead of NEX activities – thereby understating the extent of NEX activities and being excluded from the scope of NEX assurance.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>The reported extent of national execution is understated. Management may not be able to obtain sufficient assurance about the proper use of funds provided through grants.</i>
CATEGORY	<i>Compliance.</i>

AGREED MANAGEMENT ACTION NO. 4

PRIORITY: MEDIUM

The Regional Office will follow up with the respective Head of Office to prevent a recurrence of the issue and re-emphasize the intended use of the grant modality to all Country Offices, with close monitoring of compliance thereof.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:

Heads, LAC Offices and International Operations Manager, LACRO

DUE DATE:

March 2019

B. OPERATIONS MANAGEMENT

SOME IMPROVEMENT NEEDED

B.1 – HUMAN RESOURCES

MAJOR IMPROVEMENT NEEDED

30. During the period under review, LAC Offices incurred staff payroll expenses amounting to USD 33.2 million (out of audit scope). In addition, the Offices made use of contract personnel and engaged 419 individuals under service contracts (SCs), at a cost of USD 6.7 million, and 1,764 individual consultants, at a cost of USD 5.0 million, for operational and programme delivery activities.

31. Audit tests performed included an analytical review of contract personnel transactions as well as detailed tests of a sample of 25 contracts awarded by 15 different Offices at a cost of USD 1.1 million (9.4 per cent of the contract personnel costs), as regards: (a) linkage to annual work plans or other appropriate evidence of the business purpose of the transactions; (b) use of appropriate personnel contracting modalities; and (c) compliance with the applicable policies and procedures and operating effectiveness of controls in the areas of: (i) recruitment; (ii) contract award and management; (iii) performance assessment; (iv) transaction recording; and (v) payments. Audit procedures applied also included testing of 12 payments of staff benefits and entitlements amounting to approximately USD 0.3 million.

32. Based on the work performed, the audit noted the following matter that needs Management attention.

Strengthen supervision to enhance the respect of applicable rules and procedures

33. The audit revealed 10 instances out of the 25 contracts tested where rules and procedures should have been applied more rigorously:

- One exception – where the certificate of payment of one consultant was not countersigned by the Head of the Office as required by policy. This matter has been referred to the Investigations Branch for further review;
- Three instances – where pay rates exceeded approved pay ranges, resulting in additional consultancy costs of USD 21,230 and inconsistencies in the treatment of individual consultants. Further, feedback from the affected Offices indicated some confusion regarding the application of the policies applicable to individual consultants;
- A further instance – where one individual consultant contract, out of the 25 reviewed, was executed by three different individuals (including the contract holder) who had all been assessed as part of the submittal prior to awarding the contract. Three separate individual consultant contracts should have been issued instead;
- Two further exceptions – where the terms of reference did not indicate the required number of years of experience. This is a key component necessary to: (a) evaluate the suitability of prospective consultants; and (b) determine the individual consultant fee level. Further, (c) the signature of the requesting officer and corresponding date were missing; and

- Three further instances affecting one CO – where the mandatory competitive process for awarding the service contract was not undertaken. Instead, the contracts were awarded based on the good performance of the service holder who had been previously employed by the CO on an individual consultancy contract.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level</i> <i>Human error: unintentional mistakes committed by staff entrusted to perform assigned functions</i>
IMPACT	<i>Non-compliance with policies and procedures increases the risk of unauthorized payments, legal liability and unauthorized access to UNFPA premises and asset; it may result in inconsistencies in the treatment of individual consultant rates with subsequent financial loss, and diminish competitiveness in the selection of personnel.</i>
CATEGORY	<i>Compliance</i>

AGREED MANAGEMENT ACTION NO. 5

PRIORITY: HIGH

The LAC Regional Office, through its Director, will issue a memorandum to the Heads of LAC Offices emphasizing the need to strengthen supervisory controls over the management of individual consultants and service contracts. The memorandum will be augmented by a webinar on the subject matter.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:
Heads, LAC Offices; Human Resources Strategic Partner; and International Operations Manager, LACRO

DUE DATE: *March 2019*

B.2 – PROCUREMENT

MAJOR IMPROVEMENT NEEDED

34. During the period under review, the LAC Offices locally procured goods and services, at a cost of approximately USD 24.7 million. The most significant products or services procured locally were inventory, event services for workshops and trainings; facilities services; assets and office supplies.

35. Audit work in this area included an analytical review of local procurement transactions in the period under review, as well as detailed tests of a sample of 161 local purchases made at a cost of USD 2.8 million (10 per cent of the total of locally managed procurement transactions), as regards: (a) linkage to annual workplans or other appropriate evidence of the business purpose of the transactions, and (b) compliance with the UNFPA procurement principles and applicable policies and procedures, and operating effectiveness of controls in the areas of: (i) procurement planning; (ii) requisitioning; (iii) solicitation and bidding; (iv) bid assessment; (v) vendor selection; (vi) contract award; and (vii) accounts payable and payments.

36. Based on the work performed, the following matters require Management attention.

Enhance a more robust and consistent application of procurement policies and procedures.

37. From its review of the sample of 161 local procurement transactions, the audit noted 48 exceptions (30 per cent) where a stricter application of existing rules and procedures could have helped the COs to achieve better value for money, notably:

- Two exceptions amounting to USD 64,919, involving two Offices, where the contract was awarded using an informal method of solicitation (request for quotations). Yet the number of suppliers invited to submit quotations was less than the three recommended and the reasons thereof were not recorded in writing, as required by policy. The respective Office Management informed the audit that more suppliers had been contacted but had not responded. The audit was not provided with evidence of these invitations;
- Four instances related to the emergency procurement of dignity kits by one Office, amounting to USD 118,111, where the same vendors were consistently bidding for all four solicitations (three simultaneously and one within less than three months). Further, the corresponding contracts were awarded at disproportionate prices compared to applicable prices obtained by other Offices. This case was referred to the OASIS Investigations Branch for further review;

- Receiving and Inspection reports were not provided for 23 out of 161 transactions (14 per cent) to demonstrate receipt of goods and evidence of completion of receiving and inspection controls. Receiving and inspection reports should be prepared to document inspection of physical quantities and integrity of goods and services procured as well as to allow for matching to corresponding orders and bills of lading, or other transportation documents;
- Eight instances, involving four Offices, where the Office procured dignity and/or hygiene kits using approved fast-track procedures, but did not complete a needs assessment and/or produce a procurement plan for approval by the Head of Office before using the fast track procedure, as required by applicable policy;
- Four additional instances of absence of procurement plans were identified, affecting training and learning contracts affecting staff and IPs in four different Offices, which may disturb the cost-effective application of procurement policies; and
- Other exceptions noted by the audit, while not individually significant or pervasive in nature, indicate non-compliance with procurement policies and procedures. The most notable of these exceptions were: (a) three instances where the solicitations remained open for less than the minimum tender period prescribed by policy; (b) one instance where the request for quotations for the acquisition of dignity kits in response to an emergency was launched before the emergency procedure was formally authorized; (c) one instance where the requisition form for the purchase of office machinery was issued at a late stage in the procurement process, after the evaluation of proposals had been done; and (d) one instance amounting to USD 67,061 where a procurement contract was not submitted to the Local Contracts Review Committee for review and approval.

ROOT CAUSE *Guidelines: Inadequate planning.
Guidance: Inadequate supervision at Office level.*

IMPACT *The efficiency and effectiveness of the procurement process may be diminished by lack of compliance with policies and procedures and negatively impact commodity availability and originate stock-outs, impairing the ability of Management to obtain adequate assurance about the conformance of the goods received to those ordered*

CATEGORY *Compliance*

AGREED MANAGEMENT ACTION NO. 6 **PRIORITY: HIGH**

The LAC Regional Office notes that most of the observations relate to the implementation of fast track procurement procedures. While the Regional Office will re-emphasize the need to comply with the procedures to the respective Country Offices, the regional learning plan for 2018 will include training on procurement policies and procedures, with an invitation to the Procurement Services Branch to facilitate for a clearer understanding of the key procedures. The training will be primarily directed to our programme management colleagues who are involved in procurement decisions and/or activities.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION: DUE DATE: MARCH 2019
Heads, LAC Offices and International Operations Manager, LACRO, with the support of the Chief, Procurement Services Branch

Include all relevant and required information in purchase orders

38. Seven purchase orders out of 161 reviewed included insufficient elements to proceed with the purchase. Missing details included e.g. descriptions of goods and quantities of items to be purchased. As established by policy, action to commit expenses shall be based on a purchase order in the absence of a written contract, agreement or other form of undertaking, which entails a need for the clear and detailed definition of applicable requirements for the goods or services procured in the purchase order.

ROOT CAUSE *Guidance: inadequate supervision at Office level.*

IMPACT *The purchase order approver may not have all required information to make an informed purchase decision. Goods supplied may not meet required specifications.*

CATEGORY *Compliance.*

AGREED MANAGEMENT ACTION NO. 7

PRIORITY: MEDIUM

The LAC Regional Office will develop an appropriate checklist and share it with the respective Country Offices for immediate use. In addition, the Regional Office, through its Director, will issue a memorandum with a clear reminder on this specific issue and monitor compliance thereof.

MANAGERS RESPONSIBLE FOR IMPLEMENTATION:

DUE DATE: March 2019

Heads, LAC Offices and International Operations Manager, LACRO

B.3 – FINANCIAL MANAGEMENT

SOME IMPROVEMENT NEEDED

39. During the period under review, the LAC Offices processed approximately 31,600 financial transactions, including 26,300 Accounts Payable Vouchers used for payments; and 2,090 Accounts Payable Journal Vouchers, used primarily to process adjustments and record expenses reported by IPs. The remaining transactions corresponded to payroll and other automated transactions, mainly of an accounting nature (e.g., accruals, asset and inventory capitalization, exchange gains and losses, etc.), which were not tested as they were assessed to present low risk.

40. Work performed in this area included detailed tests, for all transactions within the scope of the audit (i.e. 353 transactions), as regards: (a) the authorization and proper processing of the related financial transactions; (b) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; and (c) the operating effectiveness of the accounts payable and payments process controls.

41. From the work performed, the audit noted the following matters that required Management attention.

Commit funds in Atlas before completing transactions

42. Requisitions and purchase orders for 34 transactions (approximately 12 per cent of the transactions reviewed) were issued and approved on an “*ex post facto*” basis, either after notifying suppliers of the contract award or after receiving the goods and services procured. Transactions affected included: (a) 2 out of 13 consultancy contracts tested – for which Atlas requisitions were approved after commencement of service; (b) 7 out of 64 travel services transactions tested – for which the requisition and purchase order were issued and approved after travel date; (c) 4 out of 34 inventory management transactions tested – for which both the requisition and the purchase order were raised after the receipt of goods; (d) one out of 12 asset transaction tested – for which the requisition and purchase order were raised after receipt of the assets, and; (e) 20 out of 161 procurement transactions tested – for which the requisition and purchase order were raised after the goods were received or the service was rendered.

43. Processing of requisitions and purchase orders on an “*ex post facto*” basis could significantly diminish the effectiveness of UNFPA’s commitment controls, creating the risk that resources are no longer available to pay for goods and services procured if the required funds are committed for other purposes before the transactions are processed.

ROOT CAUSE	<i>Guidance: Inadequate supervision at Office level.</i>
IMPACT	<i>Buying goods and services without committing the necessary funds in Atlas reduces the effectiveness of budgetary management controls, exposing the Offices to the risk of not having sufficient resources to settle obligations.</i>
CATEGORY	<i>Compliance.</i>

AGREED MANAGEMENT ACTION NO. 8

PRIORITY: HIGH

The Heads of LAC Offices will enforce the requirement for requisitions and purchase orders to be raised in Atlas before placing orders for goods and services. The LAC Regional Office will issue a formal reminder to all Country Offices and monitor compliance thereof. Further, procurement planning will be made mandatory to ensure timely approval of requisitions and purchase orders.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

DUE DATE: March 2019

Heads, LAC Offices and International Operations Manager, LACRO

Improve financial transaction coding

44. The audit noted seven instances of recording of expenses, in the amount of USD 74,923, charged to incorrect general ledger accounts. Further, the audit noted that, as part of the 2015 and 2016 financial statements’ preparation process, the Headquarters Finance Branch had to process 71 reclassification adjustments of transactions incorrectly recorded by LAC Offices in the amount of USD 1.8 million.

45. This problem could result from (a) insufficient knowledge of UNFPA accounting policies; (b) insufficient diligence by approving managers who are responsible, inter alia, for ensuring that transactions are coded in Atlas to the correct account and project codes; and (c) inadequate or lack of supervisory controls by staff with other financial control attributions, e.g. an operating manager.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level. Human error: unintentional mistakes.</i>
IMPACT	<i>Accounting data inaccuracies limit Management’s ability to use the information for monitoring and could distort the presentation of UNFPA financial information.</i>
CATEGORY	<i>Reporting.</i>

AGREED MANAGEMENT ACTION No. 9 **PRIORITY: MEDIUM**

The International Operations Manager, LACRO will coordinate with Operations Managers and/or other relevant financial management personnel at the Country Offices to conduct a systematic review of the account codes in use and put in place supervisory controls at the transaction requisitioning stage, including the use of accounts payable checklists, to ensure that the correct account codes are used.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: DUE DATE: *March 2019*
International Operations Manager, LACRO

B.4 – TRAVEL

SOME IMPROVEMENT NEEDED

46. Travel expenses incurred by LAC Offices during the period under review amounted to USD 5.0 million. A significant portion thereof corresponded to Daily Subsistence Allowance (DSA) payments for training workshops, meetings, and consultancies.

47. Audit work performed in this area included an analytical review of travel transactions in the period under review, as well as detailed testing of a sample of 64 travel transactions amounting to approximately USD 0.28 million (5.4 per cent of total travel expenses), as regards: (a) linkage to annual workplans or other appropriate evidence of the business purpose of these transactions; and (b) operating effectiveness of controls in the areas of: (i) procurement of travel services; (ii) security clearance; (iii) authorization, computation and payment of DSA; and (iv) submission and approval of travel expense reports.

48. From the work performed, the audit noted the following issues that require Management attention.

Improve travel planning

49. The travel policy requirement to purchase airline tickets at least 21 days in advance was not consistently followed. The review of a 64 travel requests identified 23 instances, involving 29 travellers, where requests were submitted outside the policy, ranging between 18 days prior to travel date to 80 days after travel date. Six out of these 23 instances could not qualify for emergency needs (e.g., participation in training events).

50. While the testing did not reveal any significant price differentials when comparing prices paid to current prices (absent contemporaneous quote), the possibility exists that Country Offices may not be able to obtain the lowest fare available.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Late procurement of tickets may prevent the Offices from obtaining the lowest fares available.</i>
CATEGORY	<i>Compliance.</i>

AGREED MANAGEMENT ACTION No 10

PRIORITY: MEDIUM

The Heads of LAC Offices will raise staff awareness to better plan non-emergency travel and submit travel requests in advance of travel dates, within applicable policy requirements (which changed subsequent to the audit). The LAC Regional Office, however, notes that many of the delays in booking and purchasing airline tickets were due to last minute requests by external stakeholders to the Country Offices to coordinate travel with them. In addition, the coordination of travel was sometimes dependent on other UNFPA business units and not necessarily the Country Offices.

MANAGER RESPONSIBLE FOR IMPLEMENTATION:

Heads of LAC Offices and International Operations Manager, LACRO

DUE DATE:

March 2019

B.5 – ASSET MANAGEMENT

EFFECTIVE

51. During the period under review, the LAC Offices procured fixed assets for their own use and that of IPs, at a cost of USD 1.5 million. The most significant fixed assets categories procured were information technology and audio-visual equipment, office machinery and motor vehicles.

52. Audit work in this area included the review of a sample of 12 assets procured in the period covered by the audit, for use either by Offices or IPs at a cost of USD 0.4 million – which represents 2 per cent of the transactions in this period and 28 per cent of the value of fixed assets procured – for appropriateness of business purpose and compliance with the asset management policies and procedures.

53. Based on the work performed in this area, no reportable matters have been identified.

ANNEX I – DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016⁴, are explained below:

<ul style="list-style-type: none"> ▪ Effective 		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area’s objectives.</p>
<ul style="list-style-type: none"> ▪ Some improvement needed 		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> ▪ Major improvement needed 		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> ▪ Not effective 		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area’s objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

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.

⁴ Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories 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 management actions, 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

ANNEX II – AUDIT COVERAGE AND FINDINGS
By transaction type⁵

Type of Transaction	Population		Sample Tested		Issues Noted	
	<i>Nbr</i>	<i>000 USD</i>	<i>Nbr</i>	<i>000 USD</i>	<i>Nbr</i>	<i>000 USD</i>
Personnel	2,183	11,700	25	1,102	15	329
Inventory	977	9,751	34	6,011	47	9,568
Procurement	13,279	15,671	129	2,800	47	530
Fixed assets	647	1,456	12	409	3	41
Travel	5,531	5,010	64	281	26	119
Grants	41	634	13	345	1	21
Other	1,461	4,893	32	600	0	0
NEX	1,301	20,628	44	3,562	23	1,801
Total	25,420	69,745	353	15,110	162	12,409

By business unit

Business Unit	Population		Sample tested		Issues noted	
	<i>Nbr</i>	<i>000 USD</i>	<i>Nbr</i>	<i>000 USD</i>	<i>Nbr</i>	<i>000 USD</i>
Argentina	405	712	14	187	5	101
Bolivia	2,181	2,667	14	399	6	38
Brazil	1,606	3,877	20	708	4	12
Chile	182	367	3	41	2	53
Colombia	1,130	4,540	12	533	1	277
Costa Rica	659	1,344	16	873	13	684
Cuba	319	1,509	9	300	3	100
Dom. Republic	699	1,022	8	90	3	5
Ecuador	847	1,312	13	168	9	28
El SLV	1,013	3,182	15	274	11	201
Guatemala	1,547	10,829	27	5,774	26	8,769
Honduras	1,546	5,534	18	771	2	38
Haiti	1,204	6,940	32	935	12	218
Nicaragua	1,572	3,132	18	486	6	137
Mexico	1,083	2,113	11	198	0	0
Panama	573	1,252	10	231	6	135
Paraguay	994	1,307	11	207	6	346
Peru	1,153	1,762	13	197	10	200
Uruguay	739	2,423	6	385	4	282
Venezuela	483	1,059	6	126	5	20
SRO Jamaica	1,671	3,082	18	1,119	12	616
RO Panama	3,814	9,780	59	1,108	16	149
Total	25,420	69,745	353	15,110	162	12,409

⁵ The number of issues noted represents the total number of individual issue cases per area, which have been aggregated from the various observations presented throughout this report.

GLOSSARY

Acronym	Description
Atlas	UNFPA’s Enterprise Resource Planning system
DSA	Daily Subsistence Allowance
FACE	Funding Authorization and Certificate of Expenditure form
IP	Implementing Partner
LAC	Latin America and Caribbean Region
LACRO	Latin America and Caribbean Regional Office
LTA	Long-Term Agreement
NEX	National Execution
OAIS	Office of Audit and Investigation Services
PSB	Procurement Service Branch
UNFPA	United Nations Population Fund
USD	United States Dollars