



**United Nations Population Fund**

*Delivering a world where every pregnancy is wanted,  
every childbirth is safe and  
every young person's potential is fulfilled.*

## **OFFICE OF AUDIT AND INVESTIGATION SERVICES**

**REMOTE AUDIT AND MONITORING**

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

**FINAL REPORT**

Nº IA/2018-07

**27 June 2018**

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## 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 27 October 2016 to 30 June 2017.

### 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 by 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 33.0 million, corresponding to activities and transactions executed either directly by the LAC Offices (USD 27.6 million) or by 149 Implementing Partners (USD 5.4 million). Expenses were funded from core resources of USD 22.8 million and non-core resources of USD 10.2 million.<sup>1</sup>

### 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 an 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. Of the USD 33.0 million expenses in the period under review, staff payroll expenses, amounting to USD 11.5 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.

<sup>1</sup> Based on 2016 and 2017 Atlas expense figures

Audit ratings by key audit area		
<b>Programme management</b>		<b>Some improvement needed</b>
<i>Programme planning and implementation</i>		<i>Effective</i>
<i>National execution</i>		<i>Some improvement needed</i>
<i>Inventory management</i>		<i>Some improvement needed</i>
<i>Grants management</i>		<i>Effective</i>
<b>Operations management</b>		<b>Some improvement needed</b>
<i>Human resources management</i>		<i>Some 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 five medium priority agreed-upon management actions to help the LAC Offices improve their programme delivery and operations.

#### *Operational level*

9. 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, needs improvement with regard to the controls applied in their review and approval.

10. The customs clearance process for internationally-procured inventory should be expedited to reduce the risk of spoilage and incurrence of onerous storage and demurrage costs.

#### *Compliance level*

11. Significant improvement, through training and strict application of rules and regulations, is needed in the area of procurement particularly with regard to the requisitioning process, choice of methods of solicitation, the composition of and evaluation processes followed by procurement evaluation committees and application of receiving and inspection controls for procured goods.

12. Contract personnel management could be enhanced through better description of position requirements and the nature of functions to be carried out in the contractual terms of reference.

13. LAC Offices need to timely commit financial resources in Atlas at the time of making local procurement contract awards in order to minimize the issuance of *ex post-facto* requisitions and purchase orders.

14. Further, LAC Offices should improve their travel management practices with regard to the timely submission of travel requests within applicable policy requirements.

#### *Reporting level*

15. There is a need to improve financial transaction coding through training of relevant staff, as well as implementing more stringent supervisory controls.

#### *Agreed Management actions*

16. The LAC Regional Office Management, in general terms, agrees with the audit findings. It should be noted that some of the agreed Management actions have already been undertaken. In particular, specific operations management trainings relating to the Procurement and Individual Consultants policies were undertaken in 2015 and 2016, in addition to a webinar organized in 2017 and a planned certification of the regional procurement focal point in CIPS II (Chartered Institute of Procurement & Supply).

17. The Regional Office plans to further undertake the following actions to address the agreed Management actions raised in this report: (a) discuss with individual LAC Offices on how to ensure compliance with the actions; (b) establish action plans on how to address each of the issues raised and, where necessary, coordinate these with the relevant Headquarter units; (c) coordinate webinars with the respective LAC Offices to guide implementation of the actions and, where necessary, coordinate these with the relevant 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, 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.

18. 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 paragraph 6) in the period from 27 October 2016 to 30 June 2017, for the following processes:

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

3. Audit procedures applied included an 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 15 November 2017, and a draft report submitted to the LAC Regional Office (LACRO) on 30 April 2018. Final management actions agreed with LACRO, received on 26 June 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 a region of contrasts and diverse challenges. While the region has the largest number of young people in its history (26 per cent are in the 10–24 year-old age-group), it also includes countries with a rapidly increasing share of the population that is older. In recent years, economic growth and inclusive social policies have lifted about 70 million people out of poverty and, although income inequality has fallen, Latin America remains the most unequal region in wealth distribution.

8. Despite a higher modern contraceptive prevalence rate (67 per cent) in comparison to other regions of the world, contraceptive security has not been achieved. The region has the highest percentage of unintended pregnancies in the world (56 per cent). Unmet needs for contraception range 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.<sup>2</sup>

9. Gender inequality continues to limit women’s and girls’ freedom despite several legislative frameworks that aim 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 form 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 33 million, corresponding to activities and transactions executed either directly by the LAC Offices (USD 27.6 million – ‘direct execution’ or ‘DEX’) or by 149 Implementing Partners (USD 5.4 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<sup>3</sup>**

Activities implemented by	Value in USD million	Percentage of total	Percentage within each category
<b>LAC Offices</b>	<b>27.6</b>	<b>84</b>	<b>100</b>
Staff payroll	11.5	35	42
Procurement of other goods and services	5.7	17	21
Contract personnel costs	4.0	12	14
Procurement of inventory items	2.5	8	9
Travel	1.5	5	5
All other (aggregated)	2.4	7	9
<b>Implementing Partners (NEX expenses)</b>	<b>5.4</b>	<b>16</b>	<b>100</b>
Consultancies and salaries	2.0	6	38
Procurement	1.6	5	30
Training	1.3	4	24
All other costs (aggregated)	0.5	1	8
<b>TOTAL</b>	<b>33.0</b>	<b>100</b>	<b>--</b>

11. Expenses were funded from core resources of USD 22.8 million and non-core resources of USD 10.2 million.<sup>4</sup> Approximately USD 23.2 million corresponded to programme expenses, with 48 per cent allocated to the Reproductive Health component (USD 11.2 million), approximately 16 per cent to the Gender component (USD 3.6 million), 17 per cent to the Adolescents component (USD 4 million), 15 per cent to the Population and Development component (USD 3.5 million), and 4 per cent to Organizational efficiency and effectiveness (USD 0.9 million).<sup>5</sup>

<sup>2</sup> UNFPA Annual Report for 2016 <http://www.unfpa.org/annual-report>

<sup>3</sup> Based on 2016 and 2017 Atlas expense figures

<sup>4</sup> Based on 2016 and 2017 Atlas expense figures.

<sup>5</sup> UNFP Annual Report for 2016 <http://www.unfpa.org/annual-report>

### III. DETAILED FINDINGS

#### A. PROGRAMME MANAGEMENT

**SOME IMPROVEMENT NEEDED**

##### A.1 – WORKPLAN MANAGEMENT ACTIVITIES

**EFFECTIVE**

12. During the period under review, the LAC Offices implemented programme activities that were managed through 283 workplans,<sup>6</sup> inclusive of 40 UNFPA workplans, amounting to USD 95.0 million. A large portion of the expenses related to UNFPA-implemented activities corresponded to procurement and contract personnel costs.

13. Audit procedures performed focused on the analysis of 34 workplans generated and maintained using the Global Programming System (GPS), with aggregate total expenses of USD 4.4 million during the period under review (5 per cent of programme implementation expenses). The review was limited to specific procedures and analysis of GPS data during the audit period and was based only on the information available as at 03 November 2017. The procedures included follow-up inquiries from the Offices' focal points on identified potential exceptions or inconsistencies in data generated from GPS.

14. Based on the audit work performed in this area, the audit noted the following matter that needs Management attention.

*Enhance the use of the Global Programming System for programme planning*

15. One workplan reviewed by the audit resulted in higher actual support costs paid in comparison to the support costs agreed with the IP (12 per cent support costs agreed with the IP versus 49 per cent support costs actually paid, for a total excess payment of USD 24,000). The LAC Office affected explained that the overpayment was due to a budget allocation error that occurred in recording support costs in GPS.

16. Further, two other workplans amounting to USD 0.6 million and relating to two LAC Offices, had differences between the workplan budget amounts and the Atlas 'Commitment Control' budgeted amounts in GPS, for an absolute total value of USD 0.4 million. Detailed review of the workplans revealed that the difference occurred because the latest signed versions of the workplans were not uploaded into GPS at the time of the audit. Office Management at the two LAC Offices did not provide explanations or justifications for the differences. The audit notes that workplans with budget amounts reconciled to 'Commitment Control' budgets were uploaded in GPS subsequent to the audit fieldwork.

ROOT CAUSE	<i>Human error: un-intentional mistakes committed by staff. Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Excess support costs reimbursed to the IP resulted in financial loss to UNFPA. The effectiveness of budgetary controls is diminished.</i>
CATEGORY	<i>Compliance Operational</i>

#### **AGREED MANAGEMENT ACTION NO. 1**

**PRIORITY: MEDIUM**

*Periodic reviews of Cognos<sup>7</sup> reports to timely detect errors will be undertaken, with the involvement of the Operations Management team, by the concerned LAC Office where the overpayment of support costs occurred, and a mandatory exercise to adjust budgets and workplans conducted, on a quarterly basis, for the entire project/programme portfolio. The LAC Offices will strengthen internal control in order to ensure timely submission and approval of GPS revision documents. This will include refresher training of Programme Officers and Project Coordinators on GPS.*

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

DUE DATE: *June 2019*

<sup>6</sup> Source: Global Programming System (GPS) data extracted in March 2018

<sup>7</sup> UNFPA's Management Reporting System

**A.2 – NATIONAL EXECUTION**

**SOME IMPROVEMENT NEEDED**

17. During the period under review, Implementing Partners (IPs) engaged by the LAC Offices for the implementation of programme activities incurred expenses amounting to USD 5.4 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).

18. Audit work performed in this area included an analytical review of NEX expenses in the period under review, as well as detailed testing of: (a) the selection, capacity assessment, registration process and existence of IP agreements, for a sample of four IPs initially engaged for programme delivery; and (b) a sample of 27 Funding Authorization and Certificate of Expenditure (FACE) forms (amounting to USD 1.57 million or 29 per cent of NEX expenses in the period under review), as regards: (i) the 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.

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

More thoroughly apply controls over FACE form review and approval

20. Out of the 27 FACE forms reviewed, seven relating to two IPs had expense entries amounting to USD 0.2 million that, although supported by documentation provided by the IPs, could not be traced to the IP’s accounting records initially resulting in a lack of audit trail. The concerned IP, however, subsequently provided adequate supporting documents for the expenses incurred.

21. Further, while not individually significant or pervasive in nature, the audit revealed exceptions for 5 out of the 27 FACE forms tested (USD 0.1 million) where UNFPA approvers were not identified by name and title on the forms, which could prevent verification against authorized UNFPA approvers. The exceptions are reflective of gaps in the effectiveness of the FACE form review and approval process. In another instance, an IP agreement did not indicate the dates of approval by both UNFPA and the concerned IP.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>Increased risk of financial loss to UNFPA. Errors and other issues may not be identified and remediated in a timely and effective matter.</i>
CATEGORY	<i>Operational Compliance</i>

**AGREED MANAGEMENT ACTION No. 2**

**PRIORITY: MEDIUM**

*The issues related to signatures and the related authorized signatories, including dates of approval, have now been addressed with the launch of GPS Phase II in the region.*

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

DUE DATE: *December 2018*

**A.3 – INVENTORY MANAGEMENT**

**SOME IMPROVEMENT NEEDED**

22. During the period under review, LAC Offices supplied inventory worth USD 2.5 million, consisting primarily of Reproductive Health commodities and 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 2.1 million) and by the LAC Offices (USD 0.4 million).

23. 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 10 transactions amounting to USD 1.2 million (four transactions amounting to USD 1.0 million supplied by PSB and six transactions amounting to USD 0.2 million locally procured),

representing 48 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) customs 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).

24. From the work performed, the audit noted the following matters that require Management attention.

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

25. In its review of contraceptives internationally procured by PSB, the audit noted that air shipment was selected as a mode of transportation for all 10 transactions tested. Following inquiry by the audit of PSB, the choice was fully justified for three transactions, in view of the differential between air and sea freight costs, delivery dates, and risk of damage and theft. As for the remaining transactions (amounting to USD 0.3 million) affecting one LAC Office, the use of air shipment did not appear to be fully justified. The affected LAC Office audit explained that the use of air transportation was at the insistence of a key Government IP, which considered stock levels and arrival times as the main criteria in choosing the mode of transportation rather than the costs involved.

26. The audit notes that OAS had issued a recommendation in its 2014 internal audit report to the same LAC Office, expressing 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 transportation and other costs. The recommendation was closed in 2018, during the fieldwork of this audit, on the basis of new guidelines on inventory management that extensively address monitoring of inventory commodities and minimization of costs. Therefore, no new agreed management action is raised as regards this matter.

ROOT CAUSE *Guidelines: inadequate planning.*  
 IMPACT *Higher shipping costs are incurred, reducing funding available for programmatic activities.*  
 CATEGORY *Operational*

*Enhance inventory receiving and inspection controls*

27. All inventory transactions reviewed did not have any evidence of preparation of detailed ‘Receipt and Inspection’ reports upon the physical receipt of reproductive health commodities and other inventory items, as stipulated in the inventory management policies and procedures in force at the time.<sup>8</sup>

ROOT CAUSE *Guidance: inadequate supervision at Office level.*  
 IMPACT *Receipt and inspection of inventory items may not be sufficiently established and timely action may not be taken as regards non-conformance of the ordered goods, shortages, and damage.*  
 CATEGORY *Compliance*

**AGREED MANAGEMENT ACTION NO. 3** **PRIORITY: HIGH**

*Further to the audit recommendation, LAC Offices will implement the new inventory management policy as it pertains to inventory receiving and inspection and start using the more stringent Receipt and Inspection report mandated therein. In the past, there have been conflicting interpretations of the requirements of the regular procurement policy and the previous inventory management policy with regard to the use of Receipt and Inspection forms in all cases. The new inventory management policy provides some clarity.*

*On the development of a monitoring model of contraceptive supplies, work is ongoing in LACRO on the issue and proposals are in the pipeline to be implemented by the respective LAC Offices.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Heads, LAC Offices; Programme Managers, LAC Offices; and International Operations Manager, LACRO* DUE DATE: *June 2019*

<sup>8</sup> ‘Receipt and Inspection’ reports should be prepared following the completion of customs clearance procedures, inspection and verification of correspondence of physical quantities and integrity of goods to the order and the bill of lading/other available transportation documentation

Work towards enabling faster handover of commodities to IPs

28. The audit noted two instances in one LAC Office, amounting to USD 0.7 million, where internationally-procured Reproductive Health commodities shipped by air took over six months for the concerned Office to hand over to an IP. The concerned LAC Office explained that the delay in handing over the commodities to the IP was occasioned by managerial changes at the IP that delayed taking custody of the commodities. Delays in handing over commodities offset the benefits of air transportation, which include reduced lead times, in the distribution of commodities to IPs and beneficiaries. The delays also reduce commodity shelf-lives given their fixed expiration dates, result in unnecessary storage and demurrage costs, and increase exposure to risks of damage.

ROOT CAUSE	<i>Other: factors beyond the control of the LAC Office.</i>
IMPACT	<i>Beneficiaries experience delays in receiving commodities with reduced shelf-lives; unnecessary transportation, demurrage and storage costs are incurred, and the risk of damage is increased.</i>
CATEGORY	<i>Operational</i>

**AGREED MANAGEMENT ACTION NO. 4** **PRIORITY: HIGH**

*The concerned LAC Office will be reminded to address the recommendation through continuous communication and engagement with the Government. As indicated, since it is out of the control of the LAC Office, the most feasible solution is to ensure documented processes are kept on file as relates to the efforts made in order to avoid the risks associated with the delays.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION: DUE DATE: June 2019  
*Head of LAC Office and International Operations Manager, LACRO*

**A.4 – GRANTS MANAGEMENT** **EFFECTIVE**

- 29. During the period covered by the audit, four grants were awarded by LAC Offices amounting to USD 82,000.
- 30. Work performed in this area included the review of two grants awarded by one LAC Office amounting to USD 36,000 – representing 50 per cent of all grants awarded in the region and 44 per cent of grant expenses incurred during the period under review.
- 31. Based on the work performed, the audit did not identify any reportable issue.

**B. OPERATIONS MANAGEMENT** **SOME IMPROVEMENT NEEDED**

**B.1 – HUMAN RESOURCES** **SOME IMPROVEMENT NEEDED**

- 32. During the period under review, LAC Offices incurred staff payroll expenses amounting to USD 11.5 million (out of audit scope). In addition, the Offices made use of contract personnel and engaged 126 individuals<sup>9</sup> under service contracts (SC), at a cost of USD 2.1 million, and 563 individual consultants, at a cost of USD 1.8 million, for operational and programme delivery activities.
- 33. Audit tests performed included an analytical review of contract personnel transactions, as well as detailed tests of a sample of 15 contracts (7 SCs and 8 individual consultant contracts) awarded by 11 different LAC Offices at a cost of USD 0.3 million (7.5 per cent of contract personnel costs), as regards: (a) linkage to annual workplans 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 11 payments of staff benefits and entitlements amounting to USD 0.1 million.

<sup>9</sup> Based on Cognos figures (23 February 2018).

34. 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 for managing personnel

35. From its review of the 15 contracts, the audit noted 21 instances where rules and procedures should have been applied more rigorously:

- The terms of reference for six contracts did not include all the information required by applicable policy. One or more of the following elements were missing from the contracts:
  - Measurable outputs of the work assignment;
  - Reporting structure;
  - Performance Indicators for evaluation of results;
  - Minimum qualifications and experience; and
  - Duration of the service.
- The minimum qualifications and experience – key components necessary in: (a) evaluating the suitability of prospective consultants and contract holders; and (b) determining fee levels – were missing in five contracts reviewed.
- Seven SC holders were deemed by the audit to be performing core functions of a continuing nature, in view of the fact that they had served for more than five years under this contracting modality.
- Other exceptions noted by the audit, while not pervasive in nature, indicate non-compliance with policies and procedures. The most notable of these exceptions were: (a) one instance where the SC position was not advertised; (b) one case where an individual consultant commenced work before signing a contract; (c) one case where a performance evaluation report was not prepared for an individual consultant; and (d) three instances where there was no evidence that health statements and certifications of health insurance were obtained from individual consultants as part of the policy-specified verification process before contract awards.

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

IMPACT *Non-compliance with policies and procedures may diminish competitiveness in the selection of personnel, result in inconsistencies in the treatment of contract personnel, limit performance evaluations and may create legal liability.*

CATEGORY *Compliance*

**AGREED MANAGEMENT ACTION No. 5**

**PRIORITY: MEDIUM**

*A revised webinar will be organized for all the LAC Offices on the Individual Consultants policy and the consultants monitoring tool to ensure compliance with the requirements as pertains to: (a) individual consultancies, where emphasis will be placed on the need to ensure that terms of reference are complete and requirements are complied with as per policy; (b) service contracts, (i) given that it is a United Nations Development Programme (UNDP) policy in use at UNFPA, the planned webinar will be coordinated with UNDP to ensure a clear understanding and interpretation of the policy, and (ii) on the issue of Service Contracts, LACRO has taken note of the finding and is willing to explore the possibility of converting Service Contract posts that are performing core functions in LAC Offices and the Regional Office to fixed-term posts subject to funding availability under the relevant budgets of the respective business units.*

*LACRO, in consultation with Headquarters, will also explore the feasibility of establishing a service centre model at the Regional Office to support the LAC Offices as part of the Comprehensive Resources Review. The action will be dependent on guidance and support from the relevant units at Headquarters in Country Office human resource realignment exercises.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION:  
Resource Strategic Partner, LACRO

DUE DATE: June 2019

**B.2 – PROCUREMENT****MAJOR IMPROVEMENT NEEDED**

36. During the period under review, the LAC Offices locally procured goods and services at a cost of approximately USD 6.6 million. The most significant products or services procured were inventory, event services for workshops and trainings, facilities services, assets, and office supplies.

37. Audit work performed 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 61 local purchases made at a cost of USD 1.14 million (17 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; (b) compliance with the UNFPA procurement principles<sup>10</sup> and applicable policies and procedures; and (c) 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.

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

*Enhance a more robust and consistent application of procurement policies and procedures at local level*

39. From its review of the 61 local procurement transactions, the audit noted 60 exceptions (98 per cent) where a stricter application of existing rules and procedures could have helped the LAC Offices achieve better value for money:

- Two contracts for the refurbishment of several maternity wards (USD 95,442) and purchase of office machinery (USD 80,247) issued by one LAC Office, each with individual contract amounts in excess of the USD 50,000 threshold requiring the use of formal methods of solicitation as per policy, were split into several lots in order to apply an informal method of solicitation (Request for Quotation) in selecting the suppliers. A formal method of solicitation would have achieved wider circulation and more open international competition, resulting in savings for UNFPA.
- The audit identified seven instances relating to six LAC Offices where requisitions were raised late in the procurement process, i.e. after evaluation of offers or contract awards – contrary to the policy requirement that the procurement process should begin following the receipt of a funded and complete requisition. In one instance, late issuance of a requisition necessitated the modification of contractual specifications because sufficient funds had not been encumbered to cover the contract cost – thereby negatively impacting the fairness of the procurement process.
- The audit noted two instances for the purchase of dignity kits in the amount of USD 0.1 million, relating to one LAC Office, where the requests for quotation under-specified the required goods. The specifications provided lacked details such as the physical characteristics and dimensions of the goods that would have enabled more informed quotations on the part of suppliers. Taking into account the fact that, typically, the most economical, technically compliant quotations are awarded under the request for quotation solicitation method, the audit is of the view that it is essential to clearly identify the specifications of the goods to be supplied.
- Evaluation committee meeting minutes for three procurement transactions amounting to USD 0.2 million made by one LAC Office were not made available for review by the audit. The concerned LAC Office explained that the minutes were misplaced. In another procurement transaction relating to another LAC Office, the audit noted multiple exceptions in the process followed by the evaluation committee which may have impacted its ability to fairly assess the bids: (a) offers that were considered to be non-compliant in the technical examination of bids were evaluated alongside those that were compliant; (b) the analysis of bid offers was mathematically inaccurate and, as a result, the price offered by one of the competing suppliers was erroneously estimated by the committee; and (c) reasons for the disqualification of offers with lower prices than the selected offer were not provided in the evaluation report.
- For 7 out of the 61 transactions tested (11 per cent), receiving and inspection reports, proving the actual receipt of goods and the application of receiving and inspection controls, were not provided by three LAC Offices. Receiving and inspection reports should be prepared to document inspection of physical

<sup>10</sup> Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of UNFPA interests

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.

- Five instances were found where a LAC Office procured dignity kits for USD 0.1 million using the approved fast-track procedures without having completed a needs assessment and/or prepared a procurement plan for approval by the Head of Office before using the fast track procedure, as required by applicable policy. The audit noted that the concerned LAC Office purchased an additional USD 46,906 worth of dignity kits, at considerably higher unit prices, shortly after the first contract. Better planning could have resulted in cost savings for UNFPA.
- 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) two instances where solicitations remained open for less than the minimum tender period prescribed by policy; (b) three instances amounting to USD 86,209 where invitations to submit quotations were neither prepared nor filed; and (c) five cases where procurement award forms were not completed and approved by the evaluation committee, thereby diminishing accountability for and transparency of the process followed.

ROOT CAUSE	<p><i>Guidelines: inadequate planning.</i></p> <p><i>Guidance: inadequate supervision at Office level.</i></p> <p><i>Resources: inadequate training.</i></p>
IMPACT	<p><i>The efficiency and effectiveness of the local procurement process may be diminished by lack of compliance with policies and procedures – which may impair the transparency and fairness of the procurement process and Management’s ability to obtain adequate assurance about the conformance of the goods received to those ordered.</i></p>
CATEGORY	<p><i>Compliance</i></p>

<b>AGREED MANAGEMENT ACTION NO. 6</b>	<b>PRIORITY: HIGH</b>
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- *Appropriate training was organized for LAC Offices in February 2018 through a webinar. LACRO is also working with the Procurement Services Branch to ensure that the regional procurement focal person receives additional certification in CIPS.*
- *The LAC Heads of Office will ensure appropriate attention and supervision is provided to procurement processes. This will be emphasized to the LAC Offices by LACRO Senior Management.*
- *LACRO will re-emphasize the importance of procurement planning to LAC Offices by setting up a repository for procurement plans.*
- *There will be improved monitoring by LACRO to ensure compliance and provision of support when the need arises.*

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>Heads of LAC Offices and International Operations Manager, LACRO</i>	<u>DUE DATE:</u> <i>June 2019</i>
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<b>B.3 – FINANCIAL MANAGEMENT</b>	<b>SOME IMPROVEMENT NEEDED</b>
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40. During the period under review, the LAC Offices processed 13,494 financial transactions, including: 9,392 Accounts Payable Vouchers (used for payments); and 626 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.

41. Work performed in this area included tests of detail, for all transactions within the scope of the audit (i.e. 142 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.

42. From the work performed (see also details in Annex II), the audit noted the following matters that require Management attention.

Commit funds in Atlas before completing transactions

43. Requisitions and purchase orders for eight transactions (approximately 6 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) two out of six local inventory management transactions tested – for which both the requisition and the purchase order were raised after the receipt of goods and; (b) 6 out of 61 local procurement transactions tested – for which the requisition and purchase order were raised after the goods were received or the service was rendered.

44. 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 may be committed for other purposes before settling the obligations related with the goods and services procured.

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>

<b>AGREED MANAGEMENT ACTION No. 7</b>	<b>PRIORITY: HIGH</b>
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*The LAC Offices will be reminded about the importance of better planning and the importance of committing funds before contracting with vendors through requisitions.*

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>Operations Manager, LACRO</i>	<u>DUE DATE:</u> <i>May 2019</i>
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Improve financial transaction coding

45. The audit noted 12 instances of expense transactions, in the amount of USD 0.4 million, charged to incorrect general ledger accounts.

46. 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, such as an operations manager.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i> <i>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>

<b>AGREED MANAGEMENT ACTION No. 8</b>	<b>PRIORITY: MEDIUM</b>
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*LACRO will encourage multiple checks on the use of account codes through reference to the account code dictionary, with specific review at the payment level and also ensure the use of the accounts payable checklist. Verification of account codes will be performed at multiple levels from the requisition (requester) followed by the Purchase Order (buyer) and finally reviewed by Finance (accounts payable).*

<u>MANAGER RESPONSIBLE FOR IMPLEMENTATION:</u> <i>International Operations Manager, LACRO</i>	<u>DUE DATE:</u> <i>May 2019</i>
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**B.4 – TRAVEL**

**SOME IMPROVEMENT NEEDED**

47. Travel expenses incurred by LAC Offices during the period under review amounted to USD 1.5 million. A significant portion thereof corresponded to Daily Subsistence Allowance (DSA) payments for training workshops, meetings, and consultancies.

48. 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 18 travel transactions amounting to approximately USD 0.1 million (7 per cent of total travel expenses), as regards: (a) linkage to annual workplans or other appropriate evidence of the business purpose of the 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.

49. From the work performed, the audit noted the following issue that requires Management attention.

Improve travel planning

50. The audit review of 18 travel requests identified four instances, involving seven travellers, where the travel tickets were not purchased at least 21 working days in advance of the travel date, as required by the policy in force at the time. None of the instances qualified as being for emergency needs. The audit notes that some of the transactions reviewed were originated outside the Office, by LACRO for the travel of Office staff to attend meetings and events, sometimes at short notice.

51. 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 *Guidance: inadequate supervision at Office level.*

IMPACT *Late procurement of tickets may prevent the Offices from obtaining the lowest fares available.*

CATEGORY *Compliance*

**AGREED MANAGEMENT ACTION No. 9**

**PRIORITY: MEDIUM**

*With the changes to the travel policy that reduce the time necessary to process travel from 21 days to 14 days pertaining to economy class tickets, LAC Offices will ensure compliance. LACRO is also implementing a travel planning tool at the Regional Office level and will be shared with the LAC Offices as well.*

MANAGER RESPONSIBLE FOR IMPLEMENTATION:  
*International Operations Manager, LACRO*

DUE DATE: *May 2019*

**B.5 – ASSET MANAGEMENT**

**EFFECTIVE**

52. During the period under review, the LAC Offices procured fixed assets for their own use and that of IPs, at a cost of USD 1.0 million. The most significant fixed assets categories procured were information technology and audio-visual equipment, office machinery and motor vehicles.

53. 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 40 per cent of the value of fixed assets procured – for appropriateness of business purpose and compliance with the asset management policies and procedures.

54. Based on the work performed in this area, no reportable matters were 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 2016<sup>11</sup>, are explained below:

<ul style="list-style-type: none"> <li>▪ <b>Effective</b></li> </ul>		<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"> <li>▪ <b>Some improvement needed</b></li> </ul>		<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"> <li>▪ <b>Major improvement needed</b></li> </ul>		<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"> <li>▪ <b>Not effective</b></li> </ul>		<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.

<sup>11</sup> 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

### Global programming system tests

Type of transaction	# of transactions	Transactions tested	Exemptions noted
WP with no snapshot uploaded to GPS	4	2	-
WP with multiple reviews	108	9	2
Budgeted support cost above agreed level	7	4	1
WP not approved as at 31 March	77	15	-
<b>Total</b>	<b>196</b>	<b>30</b>	<b>3</b>

### By type of expense

Transaction	Population		Sample tested		Issues noted	
	# of vouchers	000 USD	# of vouchers	000 USD	# of vouchers	000 USD
Personnel	1,376	3,960	15	238	9	169
Inventory	293	2,457	10	1,183	9	1,180
Procurement	3,537	5,728	46	684	17	262
Fixed assets	94	1,026	9	376	6	136
Travel	1,819	1,503	18	123	4	28
Grants	4	82	2	36	-	-
Other	1,355	1,310	14	227	-	-
NEX	875	5,369	28	1,538	7	206
<b>Total</b>	<b>9,353</b>	<b>21,435</b>	<b>142</b>	<b>4,405</b>	<b>52</b>	<b>1,981</b>

***By business unit***

Business unit	Population		Sample tested		Issues noted	
	# of vouchers	000 USD	# of vouchers	000 USD	# of vouchers	000 USD
Argentina	117	155	1	5	1	5
Bolivia	822	1,768	11	157	4	49
Brazil	418	748	3	28	1	12
Chile	47	38	-	-	-	-
Colombia	400	1,656	9	402	2	53
Costa Rica	199	191	2	20	-	-
Cuba	139	430	1	11	1	11
Dominican Republic	200	357	2	30	2	30
Ecuador	239	459	1	0.9	-	-
El Salvador	695	1,414	4	53	2	38
Guatemala	532	2,577	9	818	5	767
Honduras	513	1,572	13	1,019	3	26
Haiti	649	2,386	20	436	10	274
Nicaragua	297	441	10	124	2	20
Mexico	627	770	9	193	3	70
Panama	197	257	1	1	1	1
Paraguay	328	390	1	4	-	-
Peru	418	895	13	295	5	182
Uruguay	310	1,003	4	287	2	285
Venezuela	208	378	2	3	-	-
SRO Jamaica	378	562	6	78	-	-
RO Panama	1,331	2,988	20	440	8	158
<b>Total</b>	<b>9,064<sup>12</sup></b>	<b>21,435</b>	<b>142</b>	<b>4,405</b>	<b>52</b>	<b>1,981</b>

<sup>12</sup> The total number of vouchers do not add up in the above tables (by transaction type and by business unit) because some vouchers may impact multiple countries and/or areas.

## GLOSSARY

<b>Acronym</b>	<b>Description</b>
<b>Atlas</b>	UNFPA’s Enterprise Resource Planning system
<b>CIPS</b>	Chartered Institute of Procurement & Supply
<b>COGNOS</b>	UNFPA’s Management Reporting System
<b>DSA</b>	Daily Subsistence Allowance
<b>FACE</b>	Funding Authorization and Certificate of Expenditure form
<b>GPS</b>	Global Programming System
<b>IP</b>	Implementing Partner
<b>LAC</b>	Latin America and Caribbean Region
<b>LACRO</b>	Latin America and Caribbean Regional Office
<b>LTA</b>	Long-Term Agreement
<b>NEX</b>	National Execution
<b>OAIS</b>	Office of Audit and Investigation Services
<b>PSB</b>	Procurement Service Branch
<b>SC</b>	Service Contract
<b>SRO</b>	Sub-Regional Office
<b>UNFPA</b>	United Nations Population Fund
<b>UN-RIAS</b>	United Nations Representatives of Internal Audit Services
<b>USD</b>	United States Dollars
<b>WP</b>	Workplan