

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

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Report on the audit of UNDP Programme of Assistance to the Palestinian People Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Programme of Assistance to the Palestinian People (the Office) from 24 March to 7 April 2014. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance and strategic management (organizational structure and delegations of authority, leadership/ethics and values, risk management, planning, monitoring and reporting, financial sustainability);
- (b) United Nations system coordination;
- (c) programme activities (programme management, partnerships and resource mobilization, project management); and
- (d) operations (human resources, finance, procurement, information and communication technology, general administration, safety and security, asset management, leave management).

The audit covered the activities of the Office from 1 January 2013 to 31 January 2014. The Office recorded programme and management expenditures totalling \$92 million during the audited period. The last audit of the Office was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." This rating was mainly due to weaknesses in human resource management.

Key recommendations: Total = 4, high priority = 1

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Weaknesses in human resource management (Issue 2)

The Office incorrectly used the service contract modality for personnel performing core office functions. Also, staff had not completed Performance, Management and Development assessments or certain UNDP mandatory training courses.

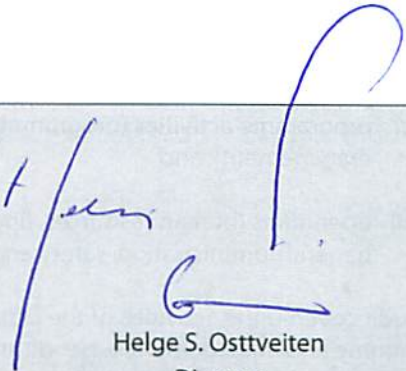
Recommendation: Improve human resource management by: (a) using the proper contract modality, with due consideration to the nature of the post and the duties that personnel will perform; (b) completing without delay the 2013

performance assessments and include 2014 targets for all staff in the online system; and (c) requiring all staff to complete UNDP mandatory training courses.

Management comments and action plan

The Special Representative accepted all of the recommendations and is in the process of implementing them. Comments and additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Ostveiten
Director
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I. About the Office

The Office, located in Jerusalem, represents one of the largest UNDP offices with 73 staff members and 187 service contract holders, and total expenditures of \$90 million in 2013. The Office operates under a 'Development for Freedom' strategic document covering the period from 2012 to 2014. The Office focuses its operations on Governance, Productive Livelihoods, Environment and Infrastructure with programmes distributed among four main portfolios: Poverty Reduction, Democratic Governance, Infrastructure and Engineering, and Environment and Energy. Emphasis is placed on three geographic areas where the needs and challenges are the greatest in terms of achieving sustainable human development and statehood: the Gaza Strip, East Jerusalem and Area C of the West Bank.

II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance and strategic management. Project risk management, planning and reporting in Atlas were well-managed. The existence, adequacy and reliability of controls were satisfactory.
- (b) United Nations system coordination. The United Nations coordination function was entrusted to another United Nations entity. UNDP support services provided to other United Nations agencies and its participation in United Nations Country Team meetings were adequate.
- (c) Programme activities. Progress was made towards more "standardized" programme management after endorsement of the first-ever 'United Nations Development Assistance Framework' in the occupied Palestinian territory covering the period 2014-2016. OAI met with government counterparts and implementing partners, who expressed their appreciation of the Office as a development partner.
- (d) Operations. Adequate controls were established and functioning effectively. No reportable issues were identified.

OAI made four recommendations ranked high (critical) and medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendation:

Improve human resource management (Recommendation 2).

Medium priority recommendations, arranged according to significance:

- (a) Obtain authorization for direct project implementation (Recommendation 1).
- (b) Use electronic banking services (Recommendation 3).
- (c) Improve the use of Atlas for recording and approving procurement processes (Recommendation 4).

The detailed assessment is presented below, per audit area:

A. Governance and strategic management

1. Organizational structure and delegations of authority

Issue 1 Lack of authorization for direct project implementation

UNDP's development work is delivered through two main project implementation modalities. The national implementation of projects in cooperation with national counterparts is the preferred modality, where UNDP acts mainly as the funding agency for projects. In direct implementation, UNDP assumes the role of funding agency and manager, as well as being accountable for achieving project results.

The Office's last authorization for direct project implementation expired after 12 months on 30 June 2012, and the Office did not seek its renewal until March 2014. No authorization had been received at the time of the audit.

The absence of authorization for direct project implementation, including a process for regular review to determine if conditions warranting the authorization are still valid, may result in undertaking projects for which the Office does not have the capacity to implement.

Priority	Medium (Important)
Recommendation 1:	
Obtain authorization for direct project implementation before signing the project documents and periodically determine if the justification for the direct implementation modality remains valid.	
Management action plan:	
Authorization has been requested and management is following up with Headquarters to obtain it as soon as possible. The same safeguards remain in place for full accountability and transparency for UNDP.	
Estimated completion date: June 2014	

B. Operations

1. Human resources

Issue 2 Weaknesses in human resource management

OAI reviewed a sample of 14 personnel contracts, including fixed-term appointments and service contracts (comprising of 8 of 18 selection processes and 6 of 56 separations) to ascertain compliance with relevant policies and procedures and to determine the effectiveness of the selection and separation processes. OAI noted the following shortcomings:

(a) Service contractors used in core functions

The service contract modality is intended to engage individuals in development projects or to conduct UNDP non-core support services that would normally be outsourced to an external company (e.g. custodial, security and information technology services). The service contract guidelines explicitly state that it is inappropriate to use the service contract modality for hiring local office personnel to carry out core functions, which are of a continuing nature and part of UNDP's central work.

The Office engaged 48 individuals under the service contract modality funded from extrabudgetary resources to perform activities that could be considered core office functions in various units located in Jerusalem and Gaza offices. For example, five procurement personnel with service contracts performed procurement functions and handled significant civil work procurement processes. The Office explained that this modality was used for positions where the work was directly related to project implementation activities. However, the Office was not monitoring and recording actual work performed by these individuals in order to allow for the subsequent allocation and charging of expenditures against project budgets. Also, the terms of reference of affected individuals did not include specifications for services provided to particular projects.

(b) Incomplete Performance, Management and Development assessments

A staff performance assessment measures a staff member's contributions toward achieving corporate results, and is a vital tool for career development. At the time of audit, the 2013 Performance Management and Development actions were pending completion and the 2014 assessments had not yet been initiated. Management attributed these issues to the fact that the system was not user-friendly and was extremely time-consuming.

Non-completion of staff performance assessments within the required timeframe may result in failure to provide timely feedback to staff and address potential weaknesses in staff performance. In addition, the lack of agreed upon performance targets may result in supervisors not having the proper criteria for conducting the assessments.

(c) Non-completion of UNDP mandatory training courses

Mandatory training courses are important for ensuring that staff and managers understand the various policies, regulations as well as the goals and objectives of the organization. At the time of the audit, 65 out of 73 staff members had not completed the "Advanced Security in the Field" course, 27 had not completed the "UNDP Legal Framework" course, and 18 had not completed the "United Nations Programme on the Prevention of Harassment, Sexual Harassment and Abuse of Authority in the Workplace" course.

(d) Excessive use of overtime

Exceptionally, personnel may be asked to work overtime, meaning the time worked in excess of the scheduled workday or workweek or on official holidays. The 'UNDP Programme and Operations Policies and Procedures' and the 'Service Contract User Guide' establish that overtime is compensated either by Compensatory Time Off, or an additional cash payment. Overtime for personnel should be normally limited to 40 hours per month, and supervisors are expected to arrange the work of their organizational units so that overtime is an exceptional occurrence.

During 2013, the Office made overtime payments of \$132,100 (ISL 459,800) to 21 staff and service contract holders. In 86 cases overtime exceeded the monthly limit of 40 hours. In one case, overtime was paid to a service

contractor at level 5, although overtime only applied to service contractors up to level 4. Personnel who consistently work overtime may negatively affect their health and safety leading to decreased efficiency.

In response to the draft report, management clarified that overtime was mainly used for certain project personnel and drivers. Corrective measures taken, including the more effective utilization of drivers, improved the situation in 2014. Since management implemented measures to minimize the use of overtime and to make it more efficient, OAI did not make a recommendation concerning overtime.

Priority	High (Critical)
Recommendation 2:	
<p>Improve human resource management by:</p> <ul style="list-style-type: none"> (a) using the proper contract modality, with specific terms of reference, taking due consideration of the accountability and cost recovery in relation to development projects; (b) completing without delay the 2013 performance assessments and include 2014 targets for all staff in the online system; and (c) requiring all staff to complete UNDP mandatory training courses. 	
Management action plan:	
<ul style="list-style-type: none"> (a) Management believes that it uses correct contract modalities, and this has been subject to review by several Headquarters missions, including the Management Consulting Team. However, management will review job descriptions and terms or reference to ensure better clarity on the purpose of positions and whether they serve projects or core functions. (b) Management has been encouraging staff to complete their 2013/ 2014 Performance Management and Development assessments. Management ensures that feedback to all supervisees is also given on a frequent basis and outside the Performance Management and Development system, but realizes that this does not fully substitute for the online system as per current UNDP policies. Management changes in 2013 have rendered the Performance Management and Development process difficult to complete in some cases, but management will ensure maximum compliance. (c) Most staff have already completed the UNDP mandatory courses and the certificates were printed and placed in their personnel files. However, the Learning Management System reporting does not reflect this fact. Therefore, until this technical issue is resolved, our confirmation will be based on the printed hard certificates. We consider our de-facto compliance to be reasonable but will closely monitor minor gaps still existing. Certainly we have full compliance on security courses, 	
Estimated completion date: September 2014	
OAI Response:	
<p>OAI acknowledges the action taken on part (c) of the recommendation. This will be reviewed at a later stage as part of the standard follow-up process of OAI.</p>	

2. Finance

Issue 3 Electronic banking system not utilized

Electronic banking systems refer to a set of computer hardware and software systems and business processes that facilitate the transfer of funds from UNDP bank accounts to vendor accounts. Additionally, these systems allow for UNDP to be notified electronically when any bank transactions take place, including transactions not made by UNDP.

The Office did not have an electronic banking interface with a local bank. After transactions were electronically approved in Atlas, a list of payments was printed and sent to the bank for processing. The Office was under the impression that local banks did not possess the systems that would allow for the electronic exchange of data between Atlas and the bank. However, a brief survey conducted during the audit indicated that local banks did in fact provide electronic services. The Office started discussions with those local banks to assess available options. Management commented that previous attempts at e-banking solutions demonstrated that the local banks were not as advanced as one would assume. They added that the main bottleneck was the banking partners and not UNDP.

By introducing an electronic banking system, the Office would be able to eliminate manual processing that is inherently prone to human error, less efficient and more expensive.

Priority	Medium (Important)
Recommendation 3:	Introduce electronic banking systems after determining their feasibility to enable electronic transfer processes between Atlas and local banks.
Management action plan:	Management noted that it already started working on this issue.
Estimated completion date:	December 2014

3. Procurement

Issue 4 Inadequate use of Atlas for procurement processes

UNDP policies and procedures require complete and accurate recording in Atlas of all business transactions, including purchases. OAI reviewed a sample of 25 procurement cases valued \$19 million and noted the following weakness in recording procurement processes in Atlas:

- Atlas purchase orders, which are mandatory for all goods, services and small works valued above \$2,500, have to be raised for the full contracted amount at the time the contract is signed by both parties to reserve the necessary funds. The Office signed contracts, but did not raise purchase orders in Atlas for all procurements of goods and services. It only raised purchase orders for amounts due for

payment. Thus, procurement activities were not properly reflected in the procurement reports reviewed by the Headquarters units. For example, in five civil works procurement cases valued at \$8 million, the Office initially created purchase orders in Atlas for only 20 percent of the total value representing advance payments. Similarly, for two individual contracts valued at \$97,000, the Office raised purchase orders in Atlas only when the amount was due for payment.

The Office explained that the contracts were split into several purchase orders due to a lack of funds for the entire contract amount, as donors usually released funds in tranches based on work progress and submission of financial reports. However, in OAI's view, this practice may result in the purchase order not being approved by the required level of procurement authority and may increase the risks of not having sufficient funds when payments become due.

- The Office is required to record receipts in Atlas to confirm that goods and services were received in accordance with the terms and conditions agreed to in the contract or purchase order before approving payment. The date of the receipt is important for recording expenses to the relevant accounting period. OAI reviewed 41 payment vouchers and identified 12 purchase orders that did not have receipts in Atlas. This practice increases the risk of paying for goods that are not delivered.

Priority	Medium (Important)
Recommendation 4:	
Improve the use of Atlas for recording and approving procurement processes by:	
<ul style="list-style-type: none"> (a) signing contracts with vendors only when sufficient funds have been received and raising purchase orders for the entire contracted amount in Atlas; and (b) entering the receipt of goods and services in Atlas in a timely manner in order to recognize and record relevant expenses and assets in the proper accounting period. 	
Management action plan:	
Management will implement the recommendation.	
Estimated completion date: December 2014	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.