



INTERNAL AUDIT DIVISION

REPORT 2015/079

Audit of United Nations Office on Drugs and Crime operations in Peru

Overall results relating to the management of operations in Peru were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

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CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-8
A. Strategic planning and risk assessment	3-5
B. Project management	5-6
C. Regulatory framework	6-8
IV. ACKNOWLEDGEMENT	8
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of United Nations Office on Drugs and Crime operations in Peru

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations Office on Drugs and Crime (UNODC) operations in Peru.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNODC Country Office in Peru (COPER) was established in 1984 and covered operations in Peru and Ecuador. COPER developed the cooperation framework for Peru for the period 2013-2016 in January 2012. The draft cooperation framework focused on the following four areas of work: (i) drugs; (ii) rule of law and counter corruption; (iii) environmental issues; and (iv) regional and international coordination and cooperation.
4. COPER project expenditures for 2013 and 2014 were around \$5.2 and \$5.7 million respectively. COPER was headed by a Country Representative at the P-5 level, assisted by 31 staff on United Nations Development Programme (UNDP) contracts: three on fixed-term contracts, (one National Programme Officer and two General Service staff); 26 on service contracts and two individual contractors.
5. Comments provided by UNODC are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNODC governance, risk management and control processes in providing reasonable assurance regarding the **effective management of UNODC operations in Peru**.
7. The audit was included in the OIOS 2014 internal audit work plan for UNODC due to the high risks associated with the implementation of the UNODC mandate in Peru.
8. The key controls tested for the audit were: (a) strategic planning and risk assessment; (b) project management; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Strategic planning and risk assessment** - controls that provide reasonable assurance that appropriate strategic planning and risk assessment processes are in place and working effectively.
 - (b) **Project management** - controls that provide reasonable assurance that COPER plans and manages its projects effectively and in accordance with relevant UNODC policies and guidelines.
 - (c) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide COPER operations; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit from March to May 2015. The audit covered the period from 1 January 2013 to 31 December 2014.
11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The UNODC governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of UNODC operations in Peru**. OIOS made six recommendations to address issues identified in the audit.
13. Strategic planning and risk assessment was assessed as partially satisfactory. COPER needed to develop a programme planning document with measurable outcomes against which programme status and progress can be monitored, reviewed and reported. While COPER kept an updated risk register for individual projects, it needed to develop a country programme risk register for its country operations. COPER also needed to estimate the funding requirements for its operations and develop a fundraising strategy to ensure sustainability of its operations.
14. Project management was assessed as partially satisfactory. Project planning approval and monitoring practices were in compliance with established guidelines, and funds were set aside for evaluation of the projects. However, COPER needed to consult with UNODC Headquarters to ensure that agreements with external partners for the implementation of one of its projects (project XLAY08) were reviewed and approved in accordance to established guidelines.
15. Regulatory framework was assessed as partially satisfactory because COPER needed to consolidate its procurement plans for all projects and share it with UNDP. Further, COPER needed to establish a mechanism to ensure that advance payments are duly authorized and managed in accordance with established guidelines.
16. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of five important recommendations remains in progress.

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNODC operations in Peru	(a) Strategic planning and risk assessment	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Project management	Satisfactory	Partially satisfactory	Satisfactory	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Strategic planning and risk assessment

Need to develop programme planning documents with measurable outcomes

17. The 2014 guideline “UNODC integrated programme approach” (integrated programming guidelines) required field offices with approved UNODC regional or country programmes to develop written plans against which programme status and progress can be monitored, reviewed and reported on. The guidelines also stated that annual programme implementation plans are necessary for all regional and country programmes that comprise “many interventions”. In addition, the UNODC Programme and Operations Manual required operations with an approved regional or country programme to develop an annual programme implementation plan, which should be the basis to monitor programme progress. However, there were no such requirements established for country operations without approved country programmes, such as COPER. The COPER cooperation framework for the period 2013-2016 was not approved by the host country and therefore, it was not recognized as an approved country programme.

18. In the absence of an approved country programme, COPER had not developed any programmatic planning document with measurable indicators. The cooperation framework for Peru for the period 2013-2016 did not include measurable outcomes. COPER had also not developed an annual work plan with targeted outputs. The cooperation framework covered four areas of intervention and COPER had a portfolio of nine ongoing projects in Peru and two in Ecuador. Therefore, OIOS is of the view that COPER had a programme of work with many interventions and should have developed an integrated programme plan with measurable outcomes for effective performance monitoring at the programme level. The need to develop an integrated programme planning document of UNODC cooperation in Peru was also identified in the “Diagnostic of COPER structure” report (an assessment of COPER organization structure) issued in March 2013.

(1) UNODC should establish requirements for all country offices with several projects and areas of interventions above a predefined level to develop an integrated programme plan with measurable outcomes and baselines and ensure that COPER develops such a plan for its operations.

UNODC accepted recommendation 1 and stated that it will amend the programme guidelines to

enable country offices without approved country or regional programmes to develop an integrated programme framework as recommended. A format/template for this purpose will also be developed. COPER will be required to prepare an integrated programme framework with measurable outcomes and baselines against which reporting will take place as of 2016. The guidelines will be amended in the context of Umoja roll out and first experiences of UNODC as of early 2016. Recommendation 1 remains open pending receipt of the new guidelines to enable country offices without approved country or regional programmes to develop an integrated programme plan.

Need to develop a country programme risk register

19. Risk management is a key element of results-based management and should be taken into consideration when planning and managing the Organization's resources. In 2014, UNODC developed an organization-wide risk register in accordance with the United Nations Secretariat Enterprise Risk Management and Internal Control Policy and Methodology. UNODC also established requirements for Divisions and field offices to develop their own risk register and risk treatment plans.

20. COPER assessed risks at the project level, as required. However, COPER had not developed a programme risk register matrix for the country-programme operations. Risks were identified in the annual oversight report and quarterly monitoring reports but these were not comprehensive. OIOS attributed the deficiency to that fact that prior to the adoption of the enterprise risk management (ERM) in late 2014, field offices without approved work programmes like COPER were not required to develop programme risk registers. COPER needs to develop a risk register as required by the current UNODC guidelines in order to streamline the reporting and management of its risks.

(2) The UNODC Country Office in Peru should develop a programme risk register in accordance with the UNODC guidelines on enterprise risk management.

UNODC accepted recommendation 2 and stated that project-specific and COPER related risks have been elaborated for the past two years as part of the annual programme planning cycle. In accordance with UNODC enterprise risk management framework and timelines, a field office risk register for COPER is currently being prepared and is on course for completion by the end of 2015. Recommendation 2 remains open pending receipt of the programme risk register for COPER.

Need to estimate funding requirements for country operations and develop a fundraising strategy

21. The UNODC fundraising policy requires field offices to undertake and coordinate the local policy dialogue and fundraising initiatives. According to the terms of reference for country offices, country offices were responsible for exploring opportunities to augment the regional office's programme portfolio and ensuring that a resource mobilization strategy is in place. Further, the full cost recovery funding model that UNODC adopted in 2014 requires country and regional operations to ensure financial sustainability, of which fundraising is a key component.

22. The COPER cooperation framework for Peru for the period 2013-2016 estimated funding needs of approximately \$8 to 12 million per year to implement planned activities. In 2013 and 2014, the COPER project portfolio was around \$5 million. COPER maintained a record of fundraising activities for the period 2013-15, which was updated quarterly. However, neither the cooperation framework for Peru for the period 2013-2016 nor the record of fund-raising activities included a targeted amount of funds to be raised for the country operations. COPER had also not updated the estimation of its funding needs after the introduction of the full cost recovery model.

23. Following the adoption of the full cost recovery model, COPER was required to gradually absorb within its project budget direct support costs that were previously financed from Programme Support Costs. In 2014, COPER operating costs of \$130,000 were financed from its project budgets for the first time and in 2015, COPER was required to absorb, in addition to the operating costs, the Representative's salary. COPER estimated a need for \$415,000 for the operating costs and the Representative's salary for 2015. With the project portfolio of \$4,211,951 as of March 2015, COPER had allocated only \$118,000 towards operating costs. If COPER does not increase its project portfolio, there is a high risk that it will not have sufficient funds to cover the operating expenses and/or the Representative's salary for 2015. In 2016, COPER will be required to absorb the remaining costs of two fixed term staff currently supported by the Programme Support Costs budget. COPER needed to assess the needs for its operations based on its capacity to expand its project portfolio.

(3) The UNODC Country Office in Peru should develop a fund-raising strategy with updated estimation of funding needs based on its project capacity and financial requirements.

UNODC accepted recommendation 3 and stated that COPER, in coordination with the Co-financing and Partnership Section, will develop a fundraising strategy which will form part of the programme framework document referred to in the comments on recommendation 1. Recommendation 3 remains open pending receipt of COPER fund-raising strategy with up-to date estimation of funding needs.

Lessons learned from the loss of \$12 million funding pledge had been identified and addressed

24. The United Nations Controller requires all funding agreements with donors (other than the standard agreements already established) to be cleared by the Office of Legal Affairs and approved by its office. On 14 June 2013, following long negotiations which had began in March 2013, one major donor agreed to extend its funding agreement established in 2006 with UNODC in Peru. On 24 July 2013, the donor withdrew its offer because UNODC had not yet obtained approval from the Controller to extend the funding agreement. The loss of pledged funding had a significant impact on COPER, including the separation of 88 staff who had worked with COPER for several years.

25. UNODC indicated that lessons were learned and that the COPER case led to a closer look at the management of risks and related escalation as part of the ERM initiative. Risk 5 under the global United Nations ERM framework identified the lack of standard agreements with some key donors as a risk. The UNODC Financial Resources Management Service (FRMS) is a member of the group established to develop a risk treatment plan for this risk. Further, in May 2015 UNODC updated its risk register to address the risk associated with the absence of standard agreements with donors and identified appropriate risk responses. In view of the measures taken by UNODC in this regard, OIOS did not make a recommendation.

B. Project management

Project planning, approval and monitoring practices were in compliance with established guidelines

26. OIOS reviewed a sample of four on-going projects and noted that the projects were approved as required and the contents were prepared in accordance to the UNODC established guidelines. Risks to the achievement of the project objectives were also assessed and mitigating measures developed as required. Further, in July 2015, COPER took corrective action and allocated funds for evaluation of projects with a duration of more than four years. This would help ensure that funds are available to

evaluate the projects as required by the UNODC evaluation policy. Based on the above, OIOS concluded that arrangements for project planning, approval and monitoring were satisfactory.

Need to ensure that the agreements with external partners for implementation of project XLAY08 were reviewed and approved in accordance to established guidelines

27. In July 2013, COPER approved project XLAY08 with a budget of \$8.1 million and expected implementation between April 2013 and July 2017. Activity 1.1 of the project required the use of grantees/external partners. In March 2014 COPER, in coordination with the donor and the Representatives of the four beneficiary countries, selected 16 external parties to delegate activities with a budget of \$1.9 million made up of individual grants valued between \$125,000 and \$182,000. The first installments of 65 per cent of the pledge amounts were paid during April and May 2014. The selection process was neither aligned with the procurement process nor with the procedures for the selection of grantees or implementing partners. In addition, although the funds were issued as grants, they were recorded under the sub-contract budget line (2100) rather than the grants budget line (2200).

28. COPER explained that the selection process was completed in March 2014 and was done with the involvement of the local UNDP office, one month before the new Framework of Engagement with External Parties (FEEP) was issued. However, COPER did not liaise with the UNODC Headquarters External Party Engagement Unit as required, which could have helped them to identify the appropriate methodology for awarding and recording grant funds. It also did not submit the grants to the UNODC Headquarters Committee on Grants and External Engagements as required. Further, COPER did not inform FRMS of the existence of these agreements with external parties as required by FEEP.

(4) The UNODC Country Office in Peru, in consultation with the External Party Engagement Unit, should ensure that the agreements with external partners for implementation of activities of project XLAY08 are reviewed and approved in accordance with established guidelines, and amounts paid are accurately recorded.

UNODC accepted recommendation 4 and stated that the External Party Engagement Unit conducted a review of the agreements with external partners engaged to implement activities under project XLAY08 and concluded that the agreements are indeed grants, but above the \$60,000 threshold for small grants under the FEEP. Post-facto approval of the grants was granted and expenditures have been re-classified as grants. Based on the action taken by UNODC, recommendation 4 has been closed.

C. Regulatory framework

C1: Procurement

Need to prepare a consolidated procurement plan for all the projects and share it with UNDP

29. The UNDP Procurement Manual requires that consolidated and individual project procurement planning be carried out to foresee the needs, plan for resources and ensure timely procurement action. COPER developed procurement plans at the project level but did not consolidate them at the programme level. Project procurement plans were also not shared with UNDP. There was a risk that COPER missed the opportunity to consolidate its requirements and optimize value for money and efficiency.

(5) The UNODC Country Office in Peru should consolidate the annual project procurement plans in one acquisition plan and share it with the United Nations Development

Programme office in Peru.

UNODC accepted recommendation 5 and stated that project-specific and COPER related procurement plans have been elaborated on an annual basis as part of the annual programme planning cycle. COPER will consolidate the plans into a single procurement plan for submission to UNODC Headquarters and will share the same with UNDP. Recommendation 5 remains open pending receipt of the annual consolidated procurement plan for COPER.

C2: Financial management

Need to ensure compliance with established procedures for approval and use of advances

30. UNODC FRMS had instructed all Representatives: (a) to limit the use of cash for payments due to the intrinsic risks associated with such transactions; (b) that cash advances, including petty cash and imprest funds, could only be authorized by the Chief of FRMS; and (c) that advances had to be short in nature, for one-off transaction and full reconciliation must occur after the event. The 2012 guidelines for year-end closure of accounts for UNODC field offices explained that under no circumstances should cash disbursements be made against receivables as a bridging measure prior to the issuance of allotments.

31. In 2013 and 2014, COPER used cash advances 48 and 11 times respectively, for a total value of \$197,500 (\$181,300 in 2013 and \$16,200 in 2014). These advances were distributed to 22 different staff in amounts ranging between \$238 and \$17,145. COPER did not request delegation of authority from the Chief of FRMS for the use of ad-hoc advances but instead requested approval from UNDP. COPER stated that it believed that UNDP had delegated authority for approving cash advances. Only in November 2014, following the request of FRMS, did COPER share the list of non-authorized cash advances with justification of why the payment of advances was necessary. At the time of the audit, FRMS was considering follow-up actions.

32. OIOS reviewed 23 cash advances totaling \$113,600 (57 percent of total cash advances for the period 2013-2014) and noted that reconciliations were documented and residual amounts were refunded upon completion of activities. COPER had developed operating procedures for the management of cash advances. However the following exceptions were noted which showed the need to strengthen existing procedures:

- (a) A total cash advance of \$42,000 was disbursed to pay for the manual labour of farmers such as cacao grafting and reforestation. Proof of these payments was not recorded after the disbursement of funds.
- (b) Three staff had received multiple advances. One of these had seven overlapping advances on-going at the same time, which increased the risk of error and misuse.
- (c) Four advances to four staff in a total amount of \$14,170 were disbursed in mid-December 2013 to pay for utilities, security, cleaning and mail services related to January and February 2014. The use of 2013 budget allocation to pay for 2014 expenses is contrary to the established guidelines and was not pre-authorized by FRMS.

(6) The UNODC Country Office in Peru should put in place a mechanism to ensure that all cash advances are authorized in advance by the Chief of FRMS and used and managed in accordance with established guidelines.

UNODC accepted recommendation 6 and stated that since the first quarter of 2015, COPER submits

all requests for advances to FRMS through the prescribed workflow application. As per established practice, cash advances are then reviewed by FRMS on the basis of the proposed activities and related cash requirements. Going forward, FRMS plans to perform periodic reviews (2 per year) of all advances and sample field office disbursements to monitor compliance with the procedures on cash advances. Recommendation 6 remains open pending receipt of evidence showing periodic review of cash advances by FRMS.

IV. ACKNOWLEDGEMENT

33. OIOS wishes to express its appreciation to the Management and staff of UNODC for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations Office on Drugs and Crime operations in Peru

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNODC should establish requirements for all country offices with several projects and areas of interventions above a predefined level to develop an integrated programme plan with measurable outcomes and baselines and ensure that COPER develops such a plan for its operations.	Important	O	Receipt of the new guidelines that will enable country offices without approved country or regional programmes to develop an integrated programme plan.	June 2016
2	The UNODC Country Office in Peru should develop a programme risk register in accordance with the UNODC guidelines on enterprise risk management.	Important	O	Receipt of the programme risk register for COPER	December 2015
3	The UNODC Country Office in Peru should develop a fund-raising strategy with updated estimation of funding needs based on its project capacity and financial requirements.	Important	O	Receipt of COPER fund-raising strategy with up-to date estimation of funding needs.	June 2016
4	The UNODC Country Office in Peru, in consultation with the External Party Engagement Unit, should ensure that the agreements with external partners for implementation of activities of project XLAY08 are reviewed and approved in accordance with established guidelines, and amounts paid are accurately recorded.	Important	C	Action completed	Implemented
5	The UNODC Country Office in Peru should consolidate the annual project procurement plans in one acquisition plan and share it with the United Nations Development Programme office in Peru	Important	O	Receipt of the annual consolidated procurement plan for COPER.	January 2016
6	The UNODC Country Office in Peru should put in place a mechanism to ensure that all cash advances	Important	O	Receipt of evidence showing periodic review of cash advances by FRMS.	December 2015

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNODC in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of United Nations Office on Drugs and Crime operations in Peru

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	are authorized in advance by the Chief of FRMS and used and managed in accordance with established guidelines.				

APPENDIX I

Management Response

Management Response

Audit of United Nations Office on Drugs and Crime operations in Peru

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNODC should establish requirements for all country offices with several projects and areas of interventions above a predefined level to develop an integrated programme plan with measurable outcomes and baselines and ensure that COPER develops such a plan for its operations.	Important	Yes	Director, Division for Operations	June 2016	UNODC will amend the programme guidelines to enable country offices without PRC-approved Country or Regional Programmes to develop an integrated programme framework as recommended. A format/template for this purpose will also be developed. COPER will be required to prepare an integrated programme framework with measurable outcomes and baselines against which reporting will take place as of 2016. The guidelines will be amended in the context of UMOJA roll out and first experiences of UNODC as of early 2016.
2	The UNODC Country Office in Peru should develop a programme risk register in accordance with the UNODC guidelines on enterprise risk management.	Important	Yes	Representative, Country Office in Peru	December 2015	Implementation of the recommendation is in progress. Project specific and COPER related risks have been elaborated for the past two years as part of the annual programme planning cycle. In accordance with UNODC ERM framework and timelines, a Field Office Risk Register for COPER is currently being prepared and is on course for completion by the end of 2015.
3	The UNODC Country Office in Peru should develop a fund-raising strategy with updated estimation of funding needs based on its project capacity and financial requirements.	Important	Yes	Representative, Country Office in Peru in coordination with the Chief, Co-financing and Partnership Section	June 2016	COPER, in coordination with the Co-financing and Partnership Section, will develop a fundraising strategy which will form part of the programme framework document referred to in the comments on recommendation 1.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of United Nations Office on Drugs and Crime operations in Peru

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	The UNODC Country Office in Peru, in consultation with the External Party Engagement Unit, should ensure that the agreements with external partners for implementation of activities of project XLAY08 are reviewed and approved in accordance with established guidelines, and amounts paid are accurately recorded.	Important	Yes	Representative, Country Office in Peru in coordination with the Programme Management Officer, External Party Engagement Unit	August 2015	<p>The recommendation has been fully implemented and UNODC requests OIOS to close it.</p> <p>The External Party Engagement Unit (EPEU) conducted a review of the agreements with external partners engaged to implement activities under project XLAY08 and concluded that the agreements are indeed grants, but above the \$60,000 threshold for small grants under the FEPP. Post-facto approval of the grants was granted and expenditures have been re-classified as grants. Documentary evidence will be provided to IAD European Section.</p>
5	The UNODC Country Office in Peru should consolidate the annual project procurement plans in one acquisition plan and share it with the United Nations Development Programme office in Peru.	Important	Yes	Representative, Country Office in Peru	January 2016	<p>Project specific and COPER related procurement plans have been elaborated on an annual basis as part of the annual programme planning cycle. COPER will consolidate the plans into a single procurement plan for submission to UNODC HQs and will share the same with UNDP. Preliminary discussions for semi-annual revisions have also been held with UNDP.</p>
6	The UNODC Country Office in Peru should put in place a mechanism to ensure that all cash advances are authorized in advance by the Chief of FRMS and used and managed in accordance with established guidelines.	Important	Yes	Representative, Country Office in Peru in coordination with the Chief, Accounts Section/Financial Resources Management Service	December 2015	<p>Since Q1 2015, COPER submits all requests for advances to FRMS through the prescribed workflow application. As per established practice, cash advance in are then reviewed by FRMS on the basis of the proposed activities and related cash requirements.</p> <p>Going forward, FRMS plans to perform periodic reviews (2 per year) of all advances and sample field office disbursements to monitor compliance to the procedures on cash advances.</p>