INTERNAL AUDIT DIVISION

REPORT 2014/080

Audit of the United Nations Office on Drugs and Crime operations in Panama

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

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

14 August 2014
Assignment No. AE2014/366/01

CONTENTS

AUDIT REPORT

Audit of the United Nations Office on Drugs and Crime operations in Panama

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Office on Drugs and Crime (UNODC) operations in Panama.

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 operations in Panama were implemented by the UNODC Regional Office for Central America and the Caribbean in Panama (ROPAN). To provide better service to Member States in the region, UNODC decided to support its Regional Office in Mexico by establishing a regional programme office in Panama in June 2010. This office later evolved to become ROPAN, and became functional in March 2012.

4.   ROPAN covered 24 countries in the region. In Central America these included: Belize; Costa Rica; Dominican Republic; El Salvador; Guatemala; Honduras; Nicaragua; and Panama; and in the Caribbean: Antigua and Barbuda; Bahamas; Barbados; Cuba; Dominica; Grenada; Guyana; Haiti; Jamaica; Montserrat; Saint Lucia; Saint Kitts and Nevis; Saint Vincent and the Grenadines; Suriname; Trinidad and Tobago; and Venezuela. In addition to the Regional Office located in Panama, ROPAN managed four Programme Offices located in El Salvador, Guatemala, Costa Rica and Dominican Republic.

5.   Based on the overall strategic approach of UNODC, ROPAN established strategies and programmes at the national, regional and inter-regional levels. These were designed to support governments in different areas covered by the UNODC mandate, while also lending significant technical support to the achievement of the Millennium Development Goals. ROPAN implemented a wide range of projects which covered criminal justice, airport security and container control, drug demand reduction, human trafficking, organized crime, research and trend analysis for law enforcement, citizens' security and anti-corruption. New initiatives focusing on financing of terrorism, firearms trafficking, smuggling of migrants and cyber-crime were also being considered.

6.   In 2014, ROPAN managed 17 projects with a total multi-year portfolio amounting to $20.3 million. This included segments of five global programmes managed from UNODC headquarters in Vienna with an allocated amount of $1.7 million for 2014. The annual expenditures of ROPAN had increased from $250,000 for three projects in 2012 to $3.3 million for 17 projects in 2013.

7.   The ROPAN staffing table for 2014 included 44 posts. The Office was headed by a Regional Representative at the P-5 level, supported by six international professional staff, one national officer, 35 service contract staff, a consultant, two individual contractors and two interns. One professional post and 12 service contract posts were vacant at the time of the audit.

8.   Comments provided by UNODC are incorporated in italics.

II.   OBJECTIVE AND SCOPE

9.   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 Panama**.

10.   The audit was included in the 2014 internal audit work plan for UNODC because ROPAN was identified as high risk due to the fact that the region was operationally and politically important for UNODC and the Regional Office was growing rapidly given its wide geographical coverage and increasing project portfolio. Also, OIOS had previously not audited UNODC operations in Panama.

11.   The key controls tested for the audit were: (a) strategic planning and risk management; (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 management** - controls that provide reasonable assurance that strategic planning at ROPAN is implemented and reported upon in compliance with relevant mandates, rules and regulations; risks relating to its activities are identified and assessed; and action is taken to mitigate risks.

(b)   **Project management** - controls that provide reasonable assurance that ROPAN manages its projects adequately and achieves project objectives in an efficient and effective manner, in accordance with relevant UNODC policies and guidelines.

(c)   **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of ROPAN in the areas of administration, financial management, human resources management, procurement, asset management and staff safety and security; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

12.   The key controls were assessed for the control objectives shown in Table 1.

13.   OIOS conducted this audit from February to May 2014. The audit covered the period from 1 January 2012 to 31 December 2013.

14.   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

15.   The UNODC governance, risk management and control processes examined were assessed as **partially satisfactory**[1] in providing reasonable assurance regarding the **effective management of UNODC operations in Panama**. OIOS made two recommendations to address the issues identified in the audit.

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[1] Partially satisfactory overall ratings apply to audit results concluding that important but not critical deficiencies exist in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control or business objectives under review.

16.   Strategic planning and risk management were assessed as partially satisfactory because UNODC needed to develop an alternative modality and related procedures for preparing regional strategic plans for internal purposes in those cases where it is not feasible for political or strategic reasons to adopt a formal regional programme, as was the case with the ROPAN Regional Programme for Central America. There was also a need for UNODC to reinforce its risk assessment pertaining to the new Full Cost Recovery funding model and develop an appropriate risk mitigation strategy. For ROPAN, the full cost recovery principle is one of its key strategic issues for the coming years.

17.   Project management was assessed as satisfactory because controls relating to project planning and approval were operating as intended, monitoring and reporting of projects were satisfactorily performed, and project evaluation activities were conducted in accordance with the requirements of the UNODC Programme and Operations Manual.

18.   Regulatory framework was assessed as satisfactory because the working arrangements with the United Nations Development Programme (UNDP) were functioning satisfactorily, the procurement processes complied with the applicable procedures, and adequate controls were in place for official travel, as well as petty cash and disbursements. ROPAN also satisfactorily complied with the applicable security standards.

19.   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 two important recommendations remains in progress.

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 Panama	(a) Strategic planning and risk management	Partially satisfactory	Partially satisfactory	Not assessed	Satisfactory
	(b) Project management	Satisfactory	Satisfactory	Not assessed	Satisfactory
	(c) Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Strategic planning and risk management

There was no formal regional programme for the Central America region in line with the Integrated Programme Approach

20.   For ROPAN activities in the Caribbean, the Regional Programme for the Caribbean for 2014-2016 was developed in close collaboration with Member States and other stakeholders in the region and reflected their key priorities. It was prepared using the results-based management approach and, after internal endorsement and approval, it was formally launched in April 2014. The regional programming

process for the Caribbean region was therefore in accordance with the procedures set out under the UNODC Integrated Programme Approach and as described in the Programme and Operations Manual.

21.   However, for ROPAN activities in Central America for 2013 and beyond, consultations conducted in 2013 by ROPAN with Member States in the region indicated that the key stakeholders were not in favour of developing a formal UNODC Regional Programme for Central America. Instead, Member States encouraged UNODC to focus its activities on supporting the implementation of the Central American Security Strategy. ROPAN and UNODC headquarters in Vienna discussed alternatives to the development of a regional programme and agreed to prepare a document for internal purposes outlining the key areas of UNODC action in Central America and linking the ROPAN work in the region both to the overall strategy of UNODC and to the Central American Security Strategy. During the audit, ROPAN drafted a document entitled Programmatic Actions in Central America in the Context of the UNODC Strategic Framework 2014-2015. It contained a logical framework with performance indicators which would make it possible to monitor and evaluate the implementation of the Central America project portfolio and to serve as a basis for reporting on programme implementation to senior management and external parties. The document was subsequently approved in July 2014 by the Director of the UNODC Division for Operations.

22.   Although the drafting of an internal strategy document for the Central America region was a positive initiative given the circumstances, the fact that no formal UNODC regional programme document for the region had been developed in consultation with Member States and approved by the UNODC Executive Director was a departure from the Integrated Programme Approach. UNODC therefore needed to develop an alternative modality for the strategic programming approach to be taken in cases where countries, for political or other reasons, are not in favour of signing regional programme documents with UNODC. This would help mitigate the risks related to possible gaps in regional programming, especially those pertaining to fund allocation, monitoring of implementation of activities and programme reporting.

> **(1) UNODC should develop an alternative modality and related procedures for the preparation of regional strategic plans in cases where it is not feasible for political or strategic considerations to adopt a formal regional programme in line with the Integrated Programme Approach.**
>
> *UNODC accepted recommendation 1 and stated that in very limited and controlled cases, i.e. where a Regional/Country Programme was not developed due to political or strategic considerations, an internal results-based tool would be developed. This document would then be used as the basis for corporate reporting and oversight through the UNODC Programme Review Committee.* Recommendation 1 remains open pending receipt of documentation on actions taken by UNODC to deal with situations where it is not feasible to adopt a formal regional programme.

Need for UNODC to reinforce the risk assessment related to the new Full Cost Recovery funding model

23.   The United Nations General Assembly attaches particular importance to the implementation of the full cost recovery principle throughout the United Nations System. In its resolution 62/208 of 14 March 2008, it requested the United Nations System to standardize concepts, practices and cost classification related to cost recovery, while maintaining the principle of full cost recovery in the administration of all extra-budgetary contributions. In view of its funding structure – including its financial constraints, hidden costs not being recognized, perceived lack of transparency and cross-subsidization among funding sources – UNODC decided to transition in the biennium 2014-2015 to a Full Cost Recovery (FCR) funding model that would utilize General Purpose Funds, Special Purpose Funds

and Programme Support Costs more clearly for their intended purposes, create transparent costing of programmes and enable long term financial sustainability.

24.　　FCR was one of the key strategic issues for ROPAN in the coming years.　In April 2014, it prepared its own FCR risk matrix, which stated that there was no major risk to the FCR transition for the rest of 2014.　However, for 2015 and beyond, there were risks linked to the growth of the ROPAN project portfolio due to potential negative reaction to the new funding model by its key donors.　Consequently, ROPAN was undertaking proactive risk mitigation is such areas as sustained engagement of key donors, expansion of the donor base, securing long-term host country funding and anchoring a higher number of global and regional projects.

25.　　UNODC stated that a FCR (Steering) Committee was formed at UNODC headquarters in early 2014 and by May 2014 had already held eight meetings to discuss and respond to FCR related risks.　Risk identification at the field office level had also been done, while more analysis at the project and individual donor level was ongoing.　UNODC also stated that it continued to monitor the implementation of FCR in view of the lessons learned and to evaluate possible courses of actions to take.　OIOS noted the progress made and but is of the opinion that the risk identification done by field offices needed to be complemented by the identification and assessment of mission-critical risks and risk responses pertaining to the implementation of FCR in UNODC as a whole.　Such actions should also ensure that key change management aspects would be duly considered and that the buy-in from UNODC staff and stakeholders would be obtained for implementing the FCR funding model as intended.

> **(2) UNODC should reinforce the identification and assessment of risks pertaining to the implementation of its Full Cost Recovery funding model and develop a mitigation strategy to address them.**
>
> *UNODC accepted recommendation 2 and stated that in July 2014, as part of the United Nations Secretariat Risk Management initiative, UNODC launched a Corporate Risk Register after endorsement by the UNODC Executive Committee. The implementation of the FCR funding model and the mitigating strategies were highlighted in the register as a separate item. Also in July 2014, a FCR Action Plan that covered the major risks was sanctioned by the UNODC Executive Director and was currently under implementation. UNODC was also in the process of synchronizing the Field Office FCR Risk Registers to the FCR Action Plan and Risk Response Plans of the Corporate Risk Register.* Recommendation 2 remains open pending receipt of documents resulting from the synchronization of the Field Office FCR Risk Registers to the UNODC FCR Action Plan and Field Office Risk Response Plans of the UNODC Corporate Risk Register.

B.　　Project management

Controls over project planning and approval were working as intended

26.　　Project planning and approval procedures at ROPAN were undertaken in accordance with the Programme and Operations Manual.　OIOS reviewed a sample of 11 ROPAN projects and concluded that they were all results-oriented and prepared using the log frame approach as required. The project performance indicators were specific, measurable, achievable, relevant and time-bound.　Each of the projects had been submitted for approval through the UNODC Programme and Financial Information Management System (ProFi) system. All of the projects also had annual work plans.

Project monitoring and reporting were performed satisfactorily

27.   In 2012, ROPAN launched the post of a Programme Management Officer, which was initially funded by the Government of Panama and was envisaged as the oversight, monitoring and evaluation focal point of the office. The post was filled in May 2013. All ROPAN projects from the sample reviewed by OIOS prepared Semi-Annual and Annual Project Progress Reports, as well as financial statements, which were posted in ProFi in a timely manner. Further, ROPAN submitted its Summary of Achievements, Quarterly Monitoring Reports and the Annual Internal Oversight Report to headquarters according to the established framework. OIOS therefore concluded that project monitoring and reporting were undertaken satisfactorily in accordance with the Programme and Operations Manual.

Project evaluation activities were in accordance with the requirements of UNODC Programme and Operations Manual

28.   ROPAN had an evaluation budget set aside for projects exceeding $1 million, and no project approval or revision could go without inclusion of the corresponding evaluation budget. Since 2012, three independent final project evaluations and one independent mid-term evaluation were conducted. Two other final independent evaluations and two participatory self-evaluations were planned to be performed in 2014 in accordance with the annual evaluation plan submitted to UNODC headquarters. OIOS therefore concluded that ROPAN project evaluation activities were in accordance with the Programme and Operations Manual.

C.   Regulatory framework

Working arrangements between ROPAN and UNDP were satisfactory

29.   ROPAN and the UNDP Regional Service Centre for Latin America and the Caribbean applied the Memorandum of Understanding signed between UNDP and UNODC in 2004. They had also developed a detailed Internal Control Framework showing the segregation of duties and responsibilities of the two offices. Charges for the services rendered by UNDP were made based on the UNDP Universal Price List and the cost band applied to Panama which was "Mid-Low Cost". ROPAN regularly monitored the timeliness of the delivery of services provided by UNDP and developed a Programme Evaluation and Review Technique network chart to analyze and reduce the timing needed to complete the steps in the different administrative and financial processes.   OIOS therefore concluded that the working arrangements with UNDP were satisfactory.

Procurement actions complied with applicable procedures

30.   In accordance with the Memorandum of Understanding with UNDP, UNDP performed the procurement actions for contract values above $5,000 including the engagement of individual contractors. For amounts below the $5,000 threshold, ROPAN conducted the selection of the vendors and the solicitation of bids and UNDP approved the selection and issued the contract. Based on a sample of procurement cases reviewed, OIOS concluded that the established procedures were followed and the provisions of the United Nations Procurement Manual and UNDP procurement rules were complied with. In addition, the audit confirmed that individual contractor remuneration rates were based on the established UNDP rates, as required. ROPAN also participated in the UNDP initiative on the common procurement team at the country level. This had already resulted in a contract for a private security agency for all the participating agencies. The common procurement for a travel agency was ongoing. A procurement officer was being recruited for ROPAN to strengthen the growing procurement needs of the office.

<u>Applicable travel policies were complied with</u>

31.   ROPAN travel requirements were met in accordance with the United Nations administrative instruction on official travel. A specific directive was also issued by the Regional Representative in this regard. Official travel of all ROPAN staff including project personnel within and outside the region was approved by the Regional Representative and the chief of the relevant section at headquarters. The travel of the Regional Representative within the region and outside the region was approved by the Chief, Integrated Programming and Oversight Branch at UNODC headquarters. The 16-day advance booking rule was also respected and, in exceptional cases, appropriate justification was recorded before travel was approved. The annual work plan of each project contained a travel plan. Any exceptional travel under a project was required to be authorized with justification.   OIOS therefore concluded that ROPAN generally complied with the applicable travel policies and instructions.

<u>Controls over petty cash and disbursements were operating satisfactorily</u>

32.   Payment requests were duly authorized and certified through the ProFi system, in accordance with the UNODC requirements. ROPAN also performed a reconciliation of the Universal Price List charges made by UNDP to identify overpayments and duplicate payments. For January 2014, the reconciliation resulted in identifying five duplicate payments for a total amount of $14,230. Recovery action had already been initiated by ROPAN which UNDP acknowledged and confirmed that the reversal of the payment would be made in the next billing cycle. ROPAN was authorized by the Financial Resources Management Service in headquarters to set up a petty cash fund of $500 which was kept in a locked safe. Instructions for the replenishment of and reporting on the petty cash, as well as surprise cash counts, were issued. Delegation of authority was issued to a designated staff member for managing the fund. OIOS therefore concluded that the controls over petty cash and disbursements were operating as intended.

<u>ROPAN ensured satisfactory compliance with the applicable security standards</u>

33.   ROPAN had taken appropriate steps to comply with the Minimum Operating Security Standards (MOSS). The United Nations Department of Safety and Security (UNDSS) had undertaken a survey to assess the MOSS compliance of all offices under ROPAN authority in 2012. Based on the actions taken by ROPAN, OIOS concluded that ROPAN had satisfactorily addressed and complied with the MOSS requirements.

IV.   ACKNOWLEDGEMENT

34.   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 the United Nations Office on Drugs and Crime operations in Panama

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	UNODC should develop an alternative modality and related procedures for the preparation of regional strategic plans in cases where it is not feasible for political or strategic considerations to adopt a formal regional programme in line with the Integrated Programme Approach.	Important	O	Submission to OIOS of documentation on the actions taken by UNODC to deal with situations where it is not feasible to adopt a formal regional programme in line with the Integrated Programme Approach.	31 December 2014
2	UNODC should reinforce the identification and assessment of risks pertaining to the implementation of its Full Cost Recovery funding model and develop a mitigation strategy to address them.	Important	O	Submission to OIOS of documents resulting from the synchronization of the Field Office FCR Risk Registers to the UNODC FCR Action Plan and Field Office Risk Response Plans of the UNODC Corporate Risk Register.	31 October 2014

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[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.

APPENDIX I

Management Response

Management Response
Audit of the United Nations Office on Drugs and Crime operations in Panama

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNODC should develop an alternative modality and related procedures for the preparation of regional strategic plans in cases where it is not feasible for political or strategic considerations to adopt a formal regional programme in line with the Integrated Programme Approach.	Important	Yes	Director, Division for Operations, in coordination with the Project Coordinator, Strategic Planning Unit	December 2014	UNODC agreed that in very limited and controlled cases, i.e. where a Regional/Country programme is not developed due to political/strategic considerations, an internal results-based tool will be developed. This document will then be used as the basis for corporate reporting and oversight through the Programme Review Committee (PRC).
2	UNODC should reinforce the identification and assessment of risks pertaining to the implementation of its Full Cost Recovery funding model and develop a mitigation strategy to address them.	Important	Yes	Directors, Division for Management and Division for Operations (as chairs of the FCR monitoring committee)	October 2014	UNODC agrees with the recommendation. In July 2014, as part of the UN Secretariat Risk Management initiative, UNODC launched a Corporate Risk Register after endorsement by the Executives Committee. The implementation of the Full Cost Recovery (FCR) funding model and the mitigating strategies are highlighted in the register as a separate item. Also in July, a Full Cost Recovery Action Plan that covers the major risks has been sanctioned by UNODC's Executive Director and is currently under implementation. Copies of the Risk Register and the Action Plan have been

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[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 the United Nations Office on Drugs and Crime operations in Panama

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						provided to the European Audit Section, IAD Geneva. UNODC is now in the process of synchronizing the Field Office FCR risk registers to the FCR Action Plan and risk response plans of the Corporate Risk Register.