



## INTERNAL AUDIT DIVISION

### REPORT 2017/077

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Audit of the United Nations Office on  
Drugs and Crime Framework for  
Engagement of External Parties

There was a need to review and update the  
framework and strengthen its application  
based on experience and new guidelines  
issued by Headquarters

9 August 2017

Assignment No. AE2017/365/01

# **Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective use of the Framework for Engagement of External Parties (FEEP) to engage and manage external parties in the implementation of projects of the United Nations Office on Drugs and Crime (UNODC). The audit covered the period from January 2014 to December 2016 and included a review of policy development and oversight, selection process, contractual documents, monitoring and reporting.

FEEP generally achieved its main objectives which were to clarify engagement modality choices, increase transparency in awards, clarify responsibilities during contract management, enhance accountability and strengthen controls on disbursement and closure of external party agreements. However, there was need to strengthen some aspects of the framework and its implementation, taking into consideration the preliminary guidance on implementing partners issued by the Office of Programme Planning, Budget and Accounts (OPPBA), the new Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, and feedback from users.

OIOS made 10 recommendations. To address issues identified in the audit, UNODC and the United Nations Office at Vienna (UNOV) needed to:

- Review and update the FEEP Manuals taking into account the survey results and decisions and guidance issued by OPPBA;
- Develop additional guidelines and a training programme to improve the understanding and application of FEEP;
- Clarify with OPPBA whether governments can be engaged as implementing partners and revise FEEP accordingly;
- Document the end-to-end process for engaging in partnerships with rural associations in Colombia;
- Finalize the terms of reference of the External Party Engagement Unit;
- Liaise with the Office of Central Support Services at Headquarters for formal guidance on dealing with non-commercial vendors including government institutions to assure efficiency and due diligence in the procurement process;
- Establish expected timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants and develop a tool to track the timelines and report delays;
- Update the template of legal instruments used to engage implementing partners and grantees to address best practice, the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework, and the guidance issued by OPPBA on implementing partners;
- Clarify and strengthen the audit clause in agreements with implementing partners and grantees to enhance oversight; and
- Advise Division Directors to ensure that budgets are reviewed and adequately supported, and all financial and substantive reports are submitted and reasons for non-compliance are explained.

UNOV/UNODC accepted the recommendations and has initiated action to implement them.

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# Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Office on Drugs and Crime (UNODC) Framework for Engagement of External Parties (FEEP).

2. To achieve their mandates, United Nations programmes often engage with external parties to implement projects, outputs or activities. FEEP was developed to guide programme implementation using external parties for UNODC and other programmes supported by the United Nations Office at Vienna (UNOV). FEEP was developed over a two-year period and was built on guidance from the Office of Central Support Services (OCSS) at United Nations Headquarters and best practices drawn from other United Nations entities. FEEP was approved by the UNODC Executive Committee in April 2014 and rolled out in the same month.

3. FEEP aims at providing a risk-based approach to external relationships for programme implementation and lays down the key principles for selection of external parties including: (a) fairness, integrity and transparency; (b) effective competition; (c) value for money; and (d) interest of the United Nations. It outlines the engagement modality choices between direct implementation (through procurement, hiring of consultants or grantees) and indirect implementation via implementing partners. The main determinant for the engagement modality is the nature of outputs sought from the external party and not the type of external party (commercial or non-commercial). The detailed processes supporting FEEP were documented in two manuals – the Implementing Partners Manual and the Grants Manual. These manuals address both the award and post-award management processes and controls, including performance monitoring and closure. In addition, FEEP relied on the United Nations Procurement Manual to align engagement relationships that were of procurement nature.

4. The External Party Engagement Unit (EPEU) under the Office of the Director, Division for Management of UNOV was responsible for supporting and overseeing the implementation of FEEP. EPEU was headed by a chief who reported to the Senior Programme Manager, Business Process Reengineering and Change Management. The Committee on Grants and External Engagements (COGEE) was established to review engagement proposals and advise the Director, Division for Management about compliance with established policies and procedures for the selection of implementing partners and grantees. During 2014-2016, UNOV/UNODC engaged 91 grantees and 243 implementing partners of which 227 were Memorandum Agreements as shown in Table 1.

**Table 1: UNODC engagement with implementing partners and grantees: 2014-2016**

	Implementing partners			Grants		
	No. of Implementing Partners approved	Budget (\$)	Number of Memorandum Agreements approved	Budget (\$)	No. of grants approved	Budget (\$)
2014	1	622,900	112	13,787,535	25	653,555
2015	9	10,633,454	59	8,890,673	34	1,159,292
2016	6	9,057,579	56	17,131,183	32	723,566
Total	16	20,313,937	227	39,807,391	91	2,536,413

5. Comments provided by UNODC are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective use of FEEP to engage and manage external parties in the implementation of UNODC projects.

7. This audit was included in the 2017 risk-based work plan of OIOS due to the financial, operational, reputational and fraud risks associated with selecting and managing external parties.

8. OIOS conducted this audit from February to May 2017. The audit covered the period from January 2014 to December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the selection and management of external parties, which included: policy development and oversight, selection process, contractual documents, monitoring and reporting. The audit did not include a detailed review of the selection and management of the Memorandum Agreements of the office in Colombia. This will be covered in the audit of the UNODC Colombia office since the selection and management is done locally.

9. The audit methodology included: (a) interviews with key personnel; (b) survey of staff; (c) review of relevant documentation; (c) analytical reviews of data; and (d) sample tests.

## **III. OVERALL CONCLUSION**

10. FEEP generally achieved its main objectives which were to clarify engagement modality choices, increase transparency in awards, clarify responsibilities during contract management, enhance accountability and strengthen controls on disbursement and closure of external party agreements. However, there was need to strengthen some aspects of the framework and its implementation, taking into consideration the preliminary guidance on implementing partners issued by the Office of Programme Planning, Budget and Accounts (OPPBA), the new Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat and feedback from users. UNOV/UNODC also needed to document the selection process adopted in Colombia and finalize the terms of reference of EPEU. There were gaps and deficiencies in the use of the procurement process to engage non-commercial vendors including government institutions which needed to be addressed with support from OCSS. There was also a need to establish a mechanism to monitor the timeliness and efficiency of the selection process; update the legal instruments to include all the best practices and new policies; and strengthen the budgeting and monitoring of implementing partners and grants.

## **IV. AUDIT RESULTS**

### **A. Policy development and oversight**

#### FEEP was developed in the absence of an Organization-wide framework

11. The 2015 report of the Board of Auditors (A/71/5 (Vol. I)) stated that the United Nations Secretariat's legal framework for working with implementing partners does not flow from the Organization's Financial Regulations and Rules (FRR). The Office of Legal Affairs (OLA) advised that under the existing FRR, Secretariat offices and departments do not have authority to give grants (and engage implementing partners) to support the implementation of the outside entities' projects unless an express

authorization is provided by the General Assembly. UNODC is affected by this situation because it does not have express authority from the General Assembly to issue grants or engage implementing partners except with regard to the Trust Fund for Victims of Human Trafficking. The Secretariat acknowledged the gap in the FRR and committed to revise them. OPPBA issued preliminary guidance on implementing partners in 2016.

12. In the absence of a Secretariat-wide framework, UNOV/UNODC took the initiative to develop FEEP. UNOV/UNODC indicated that prior to this, the practices in place were ad-hoc and engagement modalities were not clearly categorized. OIOS noted that FEEP was designed to address major risks inherent in the selection and management of grants and implementing partners and to ensure a transparent and competitive selection process. FEEP incorporates recommendations made in the Joint Inspection Unit's report on the review of management of implementing partners in United Nations system organizations (JIU/REP/2013/4). OIOS noted that there was a High-Level Committee on Management working group on the definition of partnership, and UNODC/UNOV representatives were part of this working group. FEEP will need to be updated to align with any decisions of the working group and any additional guidance issued by Headquarters. Since UNOV/UNODC was following up with OPPBA regarding the changes to the FRR and was also part of the working group on the definition of partnership, OIOS did not make a recommendation on this issue.

#### Need to review and address issues raised by programme managers on the use of FEEP

13. In 2016, EPEU undertook a desk review to improve and streamline the FEEP manual. EPEU indicated that it intended to complete the review after the audit and had therefore not circulated the draft to stakeholders for comments. OIOS, in consultation with EPEU, administered a survey of selected programme officers in the field and UNODC headquarters to solicit feedback on various aspects of FEEP. The survey results, which were consistent with information that OIOS obtained from interviews with 25 programme officers/managers, showed that broadly, most staff saw the benefits of having FEEP particularly as a means of ensuring that the selection process is transparent, impartial and objective. Only 11 per cent of the survey respondents indicated that they did not see any benefit of FEEP. About 90 per cent of the respondents indicated that they had fair to very good knowledge of FEEP.

14. In terms of areas for improvement, programme managers provided feedback and comments on various aspects of FEEP, including: (i) timeliness and efficiency of the selection process; and (ii) reporting and monitoring of grants and implementing partners. In addition, the survey results and interviews with programme managers showed that there were situations where programme managers still found it challenging to use FEEP. The situations mentioned included: (i) cases where government institutions or non-governmental organizations (NGOs) were beneficiaries of services being procured; (ii) situations where building the capacity of the external partner was one of the project's objectives; and (iii) situations where programme managers were of the view that it may not be in the interest of the Organization to hold the implementing partners accountable for the outcome, which was a requirement to engage an implementing partner. With regard to grants, some programme managers provided examples of situations where they found that limiting grants to one-off activities with innovative aspects was a limitation. Email correspondence showed that programme managers had in the past raised questions relating to the situations noted above when they were dealing with specific cases of engagement of external parties, and that EPEU and the Procurement Unit had provided advice on a case by case basis.

15. FEEP significantly changed the way UNOV/UNODC engaged external partners and is still relatively new. OIOS is of the view that as part of the change consolidation process, it is necessary for UNOV/UNODC to review and determine how the situations programme managers described as challenging could be addressed more holistically through additional guidance, training, lessons learned from past cases, and sharing of best practices. OIOS is also of the view that some of the challenges were linked to the need

for more guidance in the use of the procurement process to engage governments and NGOs, as discussed later in the present report. Some aspects of the challenges encountered were related to policy issues, particularly the manner in which FEEP defined grants and implementing partners. Since there was a working group dealing with the issue of definitions, and efforts to address the gap in the FRR were also ongoing, any changes to FEEP would need to take into account the decisions and guidance that may be issued by Headquarters. UNOV indicated that the working group is likely to finalize its work by the end of 2017.

**(1) The UNOV/UNODC Division for Management should review and update the FEEP Manuals taking into account the survey results and decisions and guidance issued by OPPBA.**

*UNOV/UNODC accepted recommendation 1 and stated that the Division for Management will review and update the FEEP manuals taking into account the survey and when decisions and further guidance are promulgated by OPPBA. Non-policy related changes may be considered in the interim to clarify language and enhance readability of the manuals. Recommendation 1 remains open pending receipt of evidence that the FEEP manuals have been reviewed and updated taking into account the survey results, decisions and guidance issued by OPPBA, and feedback received from programme managers.*

**(2) The UNOV/UNODC Division for Management should, in consultation with programme managers, develop additional guidelines and a training programme to improve the understanding and application of FEEP.**

*UNOV/UNODC accepted recommendation 2 and stated that the Division of Management will work closely with the Strategic Planning and Interagency Affairs Unit to integrate FEEP into the programme management training. In addition, it will provide semi-annual briefing sessions for programme managers to clarify the understanding of FEEP. Recommendation 2 remains open pending receipt of evidence that UNOV/UNODC has consulted with programme managers and developed additional guidance and a training programme to improve the understanding and application of FEEP.*

Need to align the types of implementing partners in FEEP with OPPBA's preliminary guidance

16. The February 2016 OPPBA preliminary guidance on implementing partners addressed several aspects relating to the selection of grantees and implementing partners including general terms and conditions, personnel issues, reporting, budget and payments, insurance and other provisions that should be included in grant agreements and agreements with implementing partners. FEEP was broadly in compliance with the guidance except with regard to the insurance clauses which are currently not included in FEEP. The OPPBA guidance prescribed the minimum selection criteria but did not define implementing partners and did not include governments as a type of implementing partner. As stated earlier, the issue of the definition of implementing partners was being addressed by a High-Level Committee on Management working group. With regard to governments, although UNODC/UNOV had not engaged any government as an implementing partner since the implementation of FEEP, governments were identified in FEEP as one of the three types of implementing partners. The other two types were: (i) United Nations system organizations and international organizations; and (ii) NGOs and civil society organizations. Since the OPPBA guidance does not explicitly indicate governments as a potential category of implementing partners, it is necessary for UNOV/UNODC to clarify this issue with OPPBA and reflect it appropriately in FEEP.

**(3) The UNOV/UNODC Division for Management should clarify with OPPBA whether governments can be engaged as implementing partners and revise FEEP accordingly.**

*UNOV/UNODC accepted recommendation 3 and stated that the Division for Management consulted with OPPBA which advised that UNODC can engage with governmental organizations, since this will likely be one of the entities which will be defined as an implementing partner in the United Nations system. FEEP already includes Government as implementing partners and will therefore not require revision. Based on the action taken by UNOV/UNODC, recommendation 3 has been closed.*

Need to document the arrangements for engaging in partnerships with rural associations in Colombia

17. UNODC had signed Memorandum Agreements with rural associations that were established to implement the alternative development strategy and illicit crop substitution programme in Colombia. In 2015 and 2016, the UNODC Country Office in Colombia (COCOL) signed 115 such agreements for a total of \$26 million. In selecting the rural associations, COCOL adopted an internal mechanism that responded to the specific operational needs and requirements while ensuring due diligence. COCOL had developed a set of policies for the selection of rural associations which included a protocol for project evaluation and a procurement manual to guide the rural associations in conducting procurement. COCOL had also established its own local committee for reviewing proposals to engage rural associations; these proposals were not submitted to COGEE for review. The final approval for selection of rural associations was accorded by the Division for Management at UNODC headquarters. In 2015, EPEU visited the office in Colombia, reviewed the selection and monitoring mechanisms in place, and approved the arrangements for selection of partners used by COCOL. While the arrangements had been approved by the Director, Division for Management, there was no formal document outlining the responsibilities of COCOL, including expected due diligence, accountability and reporting mechanisms. OIOS is of the view that a documented process is required to ensure a common understanding of the delegated responsibilities and continuity in case of staff turnover.

**(4) The UNOV/UNODC Division for Management should document the end-to-end process for the engagement of its Country Office in Colombia with rural associations in the implementation of its alternative livelihoods programme. The documented process should include oversight responsibilities, expected due diligence, accountability and reporting mechanisms.**

*UNOV/UNODC accepted recommendation 4 and stated that the Division for Management will document the end-to-end process of engaging rural associations in the implementation of the alternative livelihoods programme in Colombia. Recommendation 4 remains open pending receipt of the document outlining the end-to-end process for engaging in partnerships with rural associations in Colombia.*

Terms of reference and oversight responsibilities of EPEU need to be established

18. EPEU was established in 2013 as a dedicated unit to manage external party non-procurement engagements under programmes administered by UNOV/UNODC. EPEU was responsible for implementing FEEP and ensuring compliance with established procedures as well as ensuring quality standards before submission of proposals for partnership to COGEE. EPEU also played a key function of liaising with programme officers and Procurement Unit to guide and explain FEEP requirements. Interviews with programme managers and the survey results showed that programme officers and managers were satisfied with the support they received from EPEU and often considered it instrumental for the success of the engagement. However, the terms of reference (TOR) of EPEU had not been finalized and its oversight responsibilities were not clearly defined. The following gaps were noted in this regard:

- FEEP required EPEU to conduct regular partnership surveys. EPEU had no formal plan for undertaking the surveys and explained that the surveys would be conducted at a later stage as no implementing partner agreements had been closed since the implementation of FEEP. OIOS is of the view that the surveys could be carried out even when the agreements are still in force, particularly in cases where the agreements are of longer duration.
- FEEP required project lead officers to report issues about implementing partners' financial statements to EPEU. EPEU explained that the onus of reporting was on the project manager but neither FEEP nor the draft TOR addressed EPEU's oversight responsibilities in this area, including what it is expected to do with the reports submitted by the project manager.
- EPEU maintained a tracker database with key information on implementing partners and grants awarded. EPEU's role in tracking the milestones and monitoring performance had not been documented in FEEP or its draft TOR. EPEU explained that the tracker in its current form was not designed as a tool to report and monitor performance.

19. After almost three years since the use of FEEP, it is an opportune time for EPEU to conduct a review of its responsibilities to determine the areas it should prioritize based on experience before finalizing the TOR.

**(5) The UNOV/UNODC Division for Management should finalize the terms of reference of the External Party Engagement Unit including its oversight functions.**

*UNOV/UNODC accepted recommendation 5 and stated that the Division for Management will finalize and approve the terms of reference of EPEU. Recommendation 5 remains open pending receipt of the approved terms of reference for EPEU.*

## **B. Selection process**

### FEEP adequately addressed the selection of implementing partners and grantees

20. FEEP includes two manuals for implementing partners and grants respectively with annexes, TOR and templates for the implementation of the policy requirements. The framework promoted selection of implementing partners and grantees based on capacity risk assessment and required compliance with the use of formal legal engagements, monitoring and reporting. This was in line with best practices adopted by other United Nations organizations. OIOS reviewed the selection process for a sample of grants and implementing partners and found that the due diligence, review and approval requirements included in the framework were complied with.

### Need to strengthen the procurement process for engagement of non-commercial vendors

21. Under FEEP, when the nature of service being sought from an external party was a service, the procurement process should be used irrespective of the type of organization. According to the Procurement Unit, this significantly increased the volume of non-commercial vendors (governments and NGOs) that were engaged through the procurement process following the implementation of FEEP. OIOS reviewed 14 cases and noted that the use of procurement for the selection of pre-identified non-commercial vendors based on programmatic and legal justifications resulted in inefficiencies and weaker internal controls. The following gaps/deficiencies were observed:

- (a) The normal practice for the selection of vendors within the procurement framework is that organizations who have participated in the development of specifications should be disqualified and selection should be based on best value for money merits. However, the review of the sample of 14 cases showed that non-commercial vendors sometimes participated in the development of the scope of work. The selection decisions were also sometimes based on programmatic considerations (such as the need to work with a government or to strengthen the government's capacity) or legal obligations rather than competitive/commercial merits. The Procurement Unit had not been provided with adequate guidance to comply with procurement policies with regard to the selection of governmental entities that were pre-identified or that participated in developing the specifications of the services. This led to frustrations, extended back and forth for clarifications and a long decision making process. OIOS discussed this issue with OCSS who indicated that they would follow up the issue with UNOV Procurement Unit to determine what additional guidance would be necessary.
- (b) Non-commercial vendors were not registered in the United Nations Global Marketplace as vendors or as implementing partners and grantees and therefore no due diligence was applied to their selection, leaving unattended a significant area of risk that the FEPP aimed at addressing. Discussions with OCSS showed that the issue of how such vendors should be registered had not been addressed at the Secretariat level.
- (c) The Procurement Unit used a template Memorandum of Understanding (MOU) cleared by OLA to engage with governmental institutions. There was no formal policy or guidelines explaining when the MOU could be used (for instance with other non-commercial vendors such as NGOs, Civil Societies or academic institutions). The delegated authority to the Procurement Unit to enter into negotiation with a governmental entity when the object of the negotiation went beyond the purely commercial aspects also needed to be clarified.
- (d) The Umoja workflow was not designed for dealing with non-commercial and government vendors and it did not allow for bids to be entered on behalf of non-commercial or government vendors. In the case of purchase orders with commercial vendors the system allowed the review of the whole process (the shopping cart, the Request for Proposal, the award and purchase order) and linked these three processes which enhanced the completeness of the internal control and visibility of the process. For non-commercial vendors, the three processes were not linked.

**(6) The UNOV/UNODC Division for Management should liaise with the Office of Central Support Services at Headquarters for formal guidance on dealing with non-commercial vendors including government institutions to assure efficiency and due diligence in the procurement process.**

*UNOV/UNODC accepted recommendation 6 and stated that the Division for Management will liaise with OCSS for formal guidance on dealing with non-commercial vendors and will then take appropriate action. Recommendation 6 remains open pending receipt of evidence that UNOV/UNODC has obtained formal guidance from OCSS on dealing with non-commercial vendors.*

#### Need to define and track timelines for the engagement of external parties

22. According to General Assembly resolution 64/259, accountability includes achieving objectives and high-quality results in a timely and cost-effective manner, in compliance with all resolutions, regulations, rules and ethical standards. Interviews with programme officers showed that timeliness was one of their main concerns in the engagement of external parties. Around 50 per cent of the respondents to

the OIOS survey commented that there was a need to expedite the selection process. UNOV had not established expected timeframes for the selection process and there was no follow-up and reporting mechanism when significant delays occurred.

23. OIOS tracked the key milestones for the selection of 8 implementing partners, 11 grants and 14 cases of procurement of non-commercial vendors and found that the selection process lasted up to 102, 282 and 546 calendar days for each engagement modality respectively as shown in more detail in Table 2. The process was quicker when it was a renewal of a procurement contract or pre-cleared partners. OIOS analyzed the delays and noted that they were due to a variety of reasons and could not identify a single root cause. Reasons identified included: initial implementation of the selection process when the full staff at EPEU was not on-board; extended legal negotiation with the counterparts after the selection process; back and forth between EPEU and programme managers to ensure quality submission; delays to submit follow-up request for clarification and of the COGEE meeting; and time required to understand the nature of the case and the engagement requirements.

**Table 2: Timelines for selection of external parties**

Type of engagement	Number of cases reviewed	Calendar days from submission of technical assessment to date of approval	Average/Median calendar days from submission of technical assessment to date of approval
Implementing Partners	8	Between 28 and 102	65/70
Grants	11	Between 108 and 282	184/203
Procurement	14	Between 37 and 546*	234/202*

\*Note: For procurement, the calendar days are from creation of shopping cart to date of contract.

24. Milestones need to be continuously monitored to assess the timeliness and efficiency of the selection process and to identify areas where there are major bottlenecks. OIOS is of the opinion that monitoring the efficiency of the process is a responsibility that should start as soon as possible to enhance accountability. As a good practice, UNOV could consider the Partnership Manual of the United Nations High Commissioner for Refugees which includes expected timeframe for the selection of the partners from the issuance of the call for proposal to the communication of the final decision.

**(7) The UNOV/UNODC Division for Management should establish expected timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants and develop a monitoring tool to track the timelines and report delays.**

*UNOV/UNODC accepted recommendation 7 and stated that the Division for Management will seek guidance from OCSS before finalizing the timelines for the selection of non-commercial vendors. UNOV/UNODC will develop a tool to track timelines, however it is also anticipating that the Umoja grants module will allow for the tracking of timelines within the solution. Recommendation 7 remains open pending receipt of evidence that timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants have been established and a tool has been developed to track the timelines and report delays.*

### **C. Contractual documents**

Need to update the legal instruments of contracts with implementing partners and grantees

25. With the introduction of FEPP, UNODC developed standard legal agreements to engage with implementing partners and grantees. The legal agreements templates were cleared with the relevant legal

office and represented a good practice. OIOS review of a sample of grants and agreements showed that the standard legal instruments were used to prepare agreements with implementing partners and grantees.

26. However, the standard legal instruments (and the related agreements) did not include certain essential clauses such as: (a) UNODC rights to investigate third parties and sub-contractors; and (b) anti-terrorism and anti-corruption clauses. In addition, the templates for the engagement with implementing partners did not include references to the following clauses recommended under the Anti-Fraud and Anti-Corruption framework: (a) requirements to disclose interests of United Nations staff in their business; and (b) notification of any fraud investigation related to the project. Also, the OPPBA preliminary guidance on implementing partners prescribed, among others, procedures to obtain proof of insurance and fraud detecting measures which were not included in the templates. OIOS is of the opinion that the standard legal instruments need to be updated to include these essential clauses.

**(8) The UNOV/UNODC Division for Management should update the templates of legal instruments used to engage implementing partners and grantees to address: (i) best practices; (ii) the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework; and (iii) the guidance issued by OPPBA on implementing partners.**

*UNOV/UNODC accepted recommendation 8 and stated that the Division for Management will work closely with OLA to update the legal instruments to include the clauses referred to. Recommendation 8 remains open pending receipt of the updated templates of legal instruments used to engage implementing partners and grantees and confirmation that they address: (i) best practices; (ii) the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework; and (iii) the guidance issued by OPPBA on implementing partners.*

## D. Monitoring

### Clauses on reporting and monitoring were included in the standard templates

27. Effective financial and substantive monitoring are essential to ensure that grantees and implementing partners use funds as intended. The pre-cleared implementing partners' agreement template included the standard clauses on substantive and financial reporting and audit clauses and guidance on monitoring requirements that should be included in the agreements. OIOS review of a sample of eight implementing partners showed that the agreements included results frameworks with objectives, outputs, indicators and targets and the standard clauses on reporting and evaluations. There were a few deviations from the standard template but reasons for the deviations were explained.

### Need to clarify and strengthen the audit clause

28. FEPP recognizes the need to oversee the use of funds assigned to implementing partners and grantees and requires the submission of audit reports. OIOS is of the view that this is a good practice to ensure accountability for the use of funds. However, there were inconsistencies in the audit clause included in agreements with implementing partners. In four cases reviewed, the audit clause required the provision of consolidated financial statements while in two cases the requirement was for consolidated audited statements "with UNODC funding specified". It was not clear what criteria was used to determine when to request for audited financial statements with "UNODC funding specified". Further, as a good practice there was a need to establish a requirement for implementing partners to submit audit reports for the projects (rather than consolidated audited reports). This is particularly necessary for large projects above a defined threshold or where the financial assessments may have revealed high risks. In addition, there was no clause on the "right for UNODC to audit" in any of the agreements reviewed.

29. With regard to grants, the manual required audit reports for all grants no later than three months following the completion/expiration/termination of the grant project. UNODC indicated that in practice only grants with a budget of \$20,000 and above were required to comply with the audit clause. However, this requirement was not reflected in any formal policy and OIOS noted that some grants below this amount included audit clauses. EPEU explained that audit clauses were included in grants below \$20,000 when they assessed the risks to be high. The use of risk assessments to determine when to request a grantee or implementing partners for an audit report is a good practice that could be formalized.

**(9) The UNOV/UNODC Division for Management should clarify and strengthen the audit clause in agreements with implementing partners and grantees to enhance oversight.**

*UNOV/UNODC accepted recommendation 9 and stated that the Division for Management will work closely with OLA to update the legal instruments to include the clauses referred to. Recommendation 9 remains open pending receipt of evidence that the audit clause in agreements with implementing partners and grantees have been clarified and strengthened.*

Need to strengthen budgeting and monitoring

30. OIOS reviewed a sample of eight implementing partners' agreements to assess the adequacy of existing guidelines on budgeting, substantive and financial monitoring, quality of reports submitted and compliance with the monitoring requirements included in the agreements and in the Implementing Partners Manual. The following were noted:

(i) Budgeting

31. The guidance from OPPBA stated that a project budget must be reviewed carefully by programme and budget officers in the substantive offices and departments to ensure that all the items are related directly to the objectives and expected outputs and to ensure the reasonableness and fairness of the costs.

32. No details or explanations of budgets were provided in the signed agreement in six of the eight cases reviewed. In two cases, the programme managers had kept records of how the budgets were derived but this was not provided to OIOS in the other cases. In one case with a project budget of \$4 million, the project manager was new and indicated that there were no details or explanations of the budgets on file. Details and explanations of the budget allocations should be documented to justify the allocations and to provide the basis for reviewing the financial reports. While the Implementing Partners Manual included guidelines on which expenses were admissible, it did not address project managers' responsibilities or guidelines for reviewing the budgets and the supporting information that should be included in implementing partners' agreements and maintained in the project files.

33. The following good practices were noted which could be adopted as standard practice: (a) one case where the budget in the agreement included brief information to support the budget figures; and (b) one case where the type of costs under each set of activities in the implementation plan was explained which helped to broadly link the activities and outputs to the budgeted amounts.

(ii) Substantive reporting and monitoring

34. The Programme Lead Office is responsible for monitoring the performance of the implementing partner. FEPP requires the programme officers to monitor substantive performance of the implementing partner in achieving outcomes, outputs and activities agreed in the project document. Good practices noted included evidence of project managers having planning and monitoring meetings with the implementing partners and the establishment of steering committees that included representatives from the implementing

partner organization and UNODC. Substantive and training reports that were due had also been submitted. However, in two of the cases reviewed the substantive reports were narratives with no link to planned activities and outputs which was necessary for effective monitoring. In addition, in the survey responses, there were concerns raised by some project managers that visits could not be conducted due to lack of funding. There was a need for programme managers to ensure that appropriate funding is set aside to enable the projects to be monitored as stipulated in the project documents and agreements with implementing partners. Further, there were no guidelines on how to implement remote monitoring. Cases where remote monitoring is necessary could also be considered as risk factors that should be taken into account in determining whether to include audit requirements in the agreements.

(iii) Financial reporting

35. Financial reports were regularly submitted but the implementing partners did not consistently submit the quarterly financial reports as required by the agreements. Implementing partners submitted semi-annual or annual financial reports instead. Programme managers needed to follow up and ensure that reports were submitted as required and that the implementing partners were notified in cases of repeated non-compliance. The expenditures in the financial reports submitted were compared with budgets, as expected. The survey results showed that financial reporting was an area that could benefit from additional guidance and training as some project managers expressed the need for such training.

36. The gaps noted above show that there is a need to strengthen the guidelines on budgeting and monitoring and provide necessary training to programme managers. This is covered by recommendation 2 above that requires UNODC to develop additional guidelines and a training programme to improve the understanding and application of FEEP. OIOS is therefore not raising a separate recommendation on the issue. The gaps also show the need for Division Directors to establish mechanisms to ensure that budgets are adequately supported and financial and substantive reports are submitted and reviewed by project managers.

**(10) UNOV/UNODC should advise Division Directors to ensure that: (a) budgets are reviewed and adequately supported with appropriate documentation; and (b) all financial and substantive reports are submitted and reasons for non-compliance are explained.**

*UNOV/UNODC accepted recommendation 10 and stated that the Division for Management will advise all Division Directors to ensure compliance with guidelines on budgeting and reporting of projects. Recommendation 10 remains open pending receipt of evidence that Division Directors have been advised to establish mechanisms to ensure that: (a) budgets are reviewed and adequately supported; and (b) all financial and substantive reports from implementing partners are submitted and reasons for non-compliance documented.*

## V. ACKNOWLEDGEMENT

37. OIOS wishes to express its appreciation to the management and staff of UNOV/UNODC for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

### Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The UNOV/UNODC Division for Management should review and update the FEEP Manuals taking into account the survey results and decisions and guidance issued by OPPBA.	Important	O	Receipt of evidence that the FEEP manuals have been reviewed and updated taking into account the survey results, decisions and guidance issued by OPPBA, and feedback received from programme managers.	30 June 2018
2	The UNOV/UNODC Division for Management should, in consultation with programme managers, develop additional guidelines and a training programme to improve the understanding and application of FEEP.	Important	O	Receipt of evidence that UNOV/UNODC has consulted with programme managers and developed additional guidance and a training programme to improve the understanding and application of FEEP.	31 August 2018
3	The UNOV/UNODC Division for Management should clarify with OPPBA whether governments can be engaged as implementing partners and revise FEEP accordingly.	Important	C	Action completed.	Implemented
4	The UNOV/UNODC Division for Management should document the end-to-end process for the engagement of its Country Office in Colombia with rural associations in the implementation of its alternative livelihoods programme. The documented process should include oversight responsibilities, expected due diligence, accountability and reporting mechanisms.	Important	O	Receipt of the document outlining the end-to-end process for engaging in partnerships with rural associations in Colombia.	31 March 2018
5	The UNOV/UNODC Division for Management should finalize the terms of reference of the External Party Engagement Unit including its oversight functions.	Important	O	Receipt of the approved terms of reference for EPEU.	31 December 2017

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNOV/UNODC in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of the United Nations Office on Drugs and Crime  
Framework for Engagement of External Parties**

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
6	The UNOV/UNODC Division for Management should liaise with the Office of Central Support Services at Headquarters for formal guidance on dealing with non-commercial vendors including government institutions to assure efficiency and due diligence in the procurement process.	Important	O	Receipt of evidence that UNOV/UNODC has obtained formal guidance from OCSS on dealing with non-commercial vendors.	30 June 2018
7	The UNOV/UNODC Division for Management should establish expected timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants and develop a monitoring tool to track the timelines and report delays.	Important	O	Receipt of evidence that timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants have been established and a tool has been developed to track the timelines and report delays.	30 June 2018
8	The UNOV/UNODC Division for Management should update the templates of legal instruments used to engage implementing partners and grantees to address: (i) best practices; (ii) the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework; and (iii) the guidance issued by OPPBA on implementing partners.	Important	O	Receipt of the updated templates of legal instruments used to engage implementing partners and grantees and confirmation that they address: (i) best practices; (ii) the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework; and (iii) the guidance issued by OPPBA on implementing partners.	31 December 2017
9	The UNOV/UNODC Division for Management should clarify and strengthen the audit clause in agreements with implementing partners and grantees to enhance oversight.	Important	O	Receipt of evidence that the audit clause in agreements with implementing partners and grantees have been clarified and strengthened.	31 December 2017
10	UNOV/UNODC should advise Division Directors to ensure that: (a) budgets are reviewed and adequately supported with appropriate documentation; and (b) all financial and substantive reports are submitted and reasons for non-compliance are explained.	Important	O	Receipt of evidence that Division Directors have been advised to establish mechanisms to ensure that: (a) budgets are reviewed and adequately supported; and (b) all financial and substantive reports from implementing partners are submitted and reasons for non-compliance documented.	30 June 2018

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNOV/UNODC Division for Management should review and update the FEEP Manuals taking into account the survey results and decisions and guidance issued by OPPBA.	Important	Yes	Chief, External Party Engagement Unit (EPEU)	June 2018	The UNOV/UNODC Division for Management (DM) will review and update the FEEP manuals taking into account the survey and when decisions and further UN Secretariat guidance are promulgated by OPPBA.  Non policy related changes may be considered in the interim to clarify language and enhance readability of the manuals.
2	The UNOV/UNODC Division for Management should, in consultation with programme managers, develop additional guidelines and a training programme to improve the understanding and application of FEEP.	Important	Yes	Chief, EPEU	August 2018	The Division for Management will work closely with the Strategic Planning and Interagency Affairs Unit (SPIA) to integrate the FEEP into the program management training. In addition, DM will provide semi-annual briefing sessions for programme managers to clarify the understanding of the FEEP.
3	The UNOV/UNODC Division for Management should clarify with OPPBA whether governments can be engaged as implementing partners and revise FEEP accordingly.	Important	Yes	Chief, EPEU	Implemented as of June 2017	The recommendation has been implemented and UNOV/UNODC requests OIOS to close it.  The Division for Management consulted with OPPBA which advised that:

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies 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.

## Management Response

## Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>1) as soon as the definition of IPs is agreed, the Controller's Office will revise the preliminary guidance issued on February 2016; and</p> <p>2) UNODC can engage with governmental organizations, since this will likely be one of the entities which will be defined as an IP in the UN system.</p> <p>The UNOV/UNODC FEEP already includes Government as IPs and will therefore not require revision.</p>
4	The UNOV/UNODC Division for Management should document the end-to-end process for the engagement of its Country Office in Colombia with rural associations in the implementation of its alternative livelihoods programme. The documented process should include oversight responsibilities, expected due diligence, accountability and reporting mechanisms.	Important	Yes	Chief, EPEU	March 2018	The Division for Management will document the end to end process of engaging rural associations in the implementation of the alternative livelihoods programme in Colombia.
5	The UNOV/UNODC Division for Management should finalize the terms of reference of the External Party Engagement Unit including its oversight functions.	Important	Yes	Director, Division for Management	December 2017	The Division for Management will finalise and approve the terms of reference of the External Party Engagement Unit (EPEU).
6	The UNOV/UNODC Division for	Important	Yes	Chief,	June 2018	The Division for Management will

## Management Response

## Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	Management should liaise with the Office of Central Support Services at Headquarters for formal guidance on dealing with non-commercial vendors including government institutions to assure efficiency and due diligence in the procurement process.			Procurement Unit		liaise with OCSS for the formal guidance on dealing with non-commercial vendors and will then take appropriate action.
7	The UNOV/UNODC Division for Management should establish expected timelines for key segments of the process for selection of non-commercial vendors, implementing partners and grants and develop a monitoring tool to track the timelines and report delays.	Important	Yes	Chief Procurement Unit in coordination with the Chief, EPEU	June 2018	The Division for Management will seek guidance from OCSS before finalising the timelines for the selection of non-commercial vendors. DM will develop a tool to track timelines, however DM is also anticipating that the expected functionality on the Umoja extension project on grants to IPs will allow for the tracking of timelines within the solution.
8	The UNOV/UNODC Division of Management should update the template of legal instruments used to engage implementing partners and grantees to address: (i) best practices; (ii) the requirements of the Secretariat's Anti-Fraud and Anti-Corruption Framework; and (iii) the guidance issued by OPPBA on implementing partners.	Important	Yes	Chief, EPEU in coordination with the Office of Legal Affairs (OLA), UNHQs	December 2017	The Division for Management will work closely with OLA / ODG to update the legal instruments to include the clauses referred to in the DAR.
9	The UNOV/UNODC Division for Management should clarify and strengthen the audit clause in agreements with implementing partners and grantees to enhance oversight.	Important	Yes	Chief, EPEU in coordination with the Office of Legal Affairs	December 2017	The Division for Management will work closely with OLA / ODG to update the legal instruments to include the clauses referred to in the DAR.

## Management Response

## Audit of the United Nations Office on Drugs and Crime Framework for Engagement of External Parties

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
				(OLA), UNHQs		
10	UNOV/UNODC should advise Division Directors to ensure that: (a) budgets are reviewed and adequately supported with appropriate documentation; and (b) all financial and substantive reports are submitted and reasons for non-compliance are explained.	Important	Yes	Chief, EPEU	June 2018	The Division for Management will advise all Division Directors to ensure compliance with guidelines on budgeting and reporting of projects. This will be included in the updates to the FEEP manuals (please refer to the comments on recommendation no. 1).