Internal Audit of the Bolivarian Republic of Venezuela Country Office

April 2014

Office of Internal Audit
and Investigations (OIAI)
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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Bolivarian Republic of Venezuela Country Office. The audit covered governance, programme management, and operations support. The audit was performed from 3 to 17 September 2013, and covered the period from January 2012 to July 2013.

The current country programme runs from 2009 to 2014 and has two main components – *More protection, less violence* and *More inclusion, less disparity*. The total budget for the approved country programme was US$ 15.5 million, of which US$ 4.6 million was expected to be from Regular Resources (RR), while the Other Resources (OR) component was US$ 10.9 million. RR are core resources that are not earmarked for a specific purpose, and can be used by UNICEF wherever they are needed. OR are contributions that may have been made for a specific purpose such as a particular programme, strategic priority or emergency response, and may not always be used for other purposes without the donor's agreement. An office is expected to raise the bulk of the resources it needs for the country programme itself, as OR.

In November 2011, the Government of Venezuela requested an extension of the UN Development Framework (UNDAF) for one year to align the UN planning with that of the Government. It also asked for a corresponding extension of the 2009-2013 country programmes of the UN Funds and Programmes, including UNICEF. The Regional UN Development Group's Regional Team for Latin America and the Caribbean (UNDG-LAC) approved the UNDAF extension. The extension of the UNICEF CP was approved by the Executive Director. As of September 2013 the office had 19 posts, eight outsourced posts, one UN Volunteer, and two consultants. Three of the 19 posts were vacant and were proposed for abolition by the end of 2013.

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. Two will be implemented as high priority — that is, they concern issues that require immediate management attention. These two actions concerned the following:

- The Harmonized Approach to Cash Transfers (HACT) was not fully implemented. The assessment of implementing partners capacities was incomplete and documents used for the request and use of cash transfers lacked some information required under HACT. In addition, there was no assurance plan that include programmatic monitoring, spot checks and audits. The office has agreed to ensure that HACT is properly implemented and to also establish and implement an assurance plan.
- There were inadequacies in the selection and evaluation of contractors; 29 percent of contracts were hired on a single-source selection basis and 72 percent of contracts were closed without evaluation of contractors' performance. The office has agreed to address these concerns.

Conclusion

The audit concluded that overall, subject to implementation of the agreed actions described, the controls and processes over the country office were generally established and functioning during the period under audit. The measures to address the issues raised are presented with each observation in the body of this report. The Venezuela country office has prepared action plans to address these issues.

The country office, with support from the Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) April 2014

Contents

Objectives

The objective of the country office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office.

The audit observations are reported upon under three headings: governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area normally includes the following:

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the areas above were covered in this audit except for the staffing structure.

Satisfactory key controls

The audit found that controls were functioning well over the following:

Management bodies such as the country management team, the contracts review committee, property survey board, and the joint consultative committee functioned effectively.

The office had an adequate process for identification of programme and office priorities, which were included in the annual management plan.

The office had an established table of authority and it had undertaken a risk and control self-assessment.

Governance area: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the Governance area were generally established and functioning during the period under audit.

2 Programme management

In this area, the audit reviews the management of the country programmes – that is, the activities and interventions on behalf of children and women. The programmes are owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and time bound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

The audit focused on monitoring of implementation, specifically on the implementation of the harmonized approach to cash transfers (HACT).

Harmonized Approach to Cash Transfers (HACT)

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks, instead of insisting on large amounts of documentation from every partner. HACT includes risk assessments of the country's financial management system, and of the individual implementing partners (both Government entities and NGOs).

Assessment of capacities: There had not been an assessment of Venezuela's Public Financial Management systems as required in the HACT guidelines. The office informed the audit that the UN agencies had agreed that it was not possible to conduct such an assessment in the country. There were also questions about the commitment of some UN agencies to the HACT process. Furthermore the institutions that would normally carry out the assessments of the Public Financial Management systems – such as the World Bank, International Monetary Fund, or major donor-country agencies – were not present in Venezuela.

The office had designed what it called the *Plan Operativo de Actividades de Garantía 2013* as a practical tool for Programme and Finance administrators to ensure that funds transferred to implementing partners were used properly, and in agreement with the annual workplans. Additionally, this plan included assessment of partners' internal controls and the reliability of their financial records. It also included helping them to identify their weaknesses in their development capacities, and provision of recommendations to strengthen their financial structure.

The office had 15 implementing partners. Between 2012 and 2013, the office had conducted micro-assessments of four implementing partners. For the rest of 2013, the office planned to micro-assess three Government partners (a national institute, a national university and a state-level representative of the Ministry of Education). The office informed the audit that the US$ 100,000 threshold for micro-assessment was not used as a criterion for this; the micro-assessments included partners with smaller amounts of direct cash transfers (DCTs). The office's Programme team had also conducted desk reviews of 14 national partners, both Government institutions and NGOs, whose DCTs had exceeded US$ 10,000 during the last two to three years, and had identified only one as high risk; it was due to be micro-assessed and provided with training in November 2013.

Micro-assessments should, where possible, be carried out in cooperation with the other UN agencies that have also adopted HACT. Of these, two, UNDP and UNFPA,[1] also work in Venezuela, but they work only through direct implementation there, rather than making cash transfers to partners. They are therefore not much interested in joint micro-assessments or coordinating HACT processes. UNICEF was therefore effectively alone in implementing HACT in Venezuela.

The office had also prepared a manual with technical, administrative, and financial policies and procedures to regulate cooperation between partners and UNICEF Venezuela (*Manual de Normas y Procedimientos Técnicos, Administrativos y Financieros de la Cooperación entre Aliados y UNICEF-Venezuela).*

Use of the FACE form:[2] The audit reviewed a sample of 20 liquidations of cash transfers to implementing partners with a total value of US$ 761,105. It found that the office had not adopted the FACE form, which is intended to replace all other documentation used by partners for requesting funds and reporting on its use. Instead, the office used two forms for DCTs, a request for funds transfer, and a request for liquidation. Between them, these forms mostly did request similar information to the FACE form; however, they requested less information. The forms did not require the partner to certify that the detailed accounting documents for the expenditures included in the form could be made available for examination, when required, for a period of five years from the date of provision of funds. The forms also lacked a coding column that would allow the office to enter the account codes in the financial accounting system.

Assurance activities: Assurance activities are the third element of the HACT framework, promoting accountability and strengthening the financial management and internal control mechanisms of the implementing partners. The activities should include spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits. Although the *Plan Operativo Actividades de Garantia 2013* included some related activities, the office had no assurance plan as such.

Agreed action 1 (high priority): The office agrees to:

[1] UNDP = United Nations Development Programme; UNFPA = United Nations Population Fund.

[2] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

i. Ensure the harmonized approach to cash transfers (HACT) is implemented by conducting the assessments mandated under HACT guidelines and using the results of the assessments in managing cash transfers.
ii. Prepare and implement an assurance plan that includes spot checks, programme-monitoring activities and audits as included in the HACT guidelines.
iii. Use the Funding Authorization Certificate of Expenditure form as basis for requesting and accounting of cash transfers by the implementing partners.

Staff responsible for taking action: Deputy Representative, programme and operations staff
Date by which all action will be taken: 20 December 2014

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over programme management, as defined above, were generally established and functioning during the period under audit.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following*:*

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

All the areas above were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

Financial management, covering budgeting, accounting, bank reconciliations and financial reporting, was effectively and efficiently managed.

Contracts

The audit reviewed a sample of contracts for services and goods, awarded by the office during 2012-2013, for an amount totalling US$ 972,978.

The audit noted the following issues in the management of contracts:

- Fifteen out of 52 (29 percent) of the contracts reviewed were awarded on a single-source selection basis. Of these, 14 were supported with notes for the record (three of which went to the contract review committee since they exceeded the US$ 40,000 threshold); eight of these notes for the record were not signed off by the Representative or the officer-in-charge but by the staff responsible for the contracts.
- Nine out of 52 (17 percent) of the contracts were signed after the assignment had begun.
- For 26 out of 36 (72 percent) of the closed contracts, there had been no evaluation of the performance of the contractors. The office indicated that this happened partly

because VISION does not have a step that makes it mandatory to complete the evaluation before final payments are made.

- The information related to contracts was only partially updated in VISION. For example, in 42 out of 62 contracts the information related to the selection process was omitted; in 29 out of 35 consultancy contracts, the information related to the insurance arrangements was missing. The office informed audit that this happened due to insufficient training and instruction to the country office VISION users on the use of the contract module.

The office had a checklist for contract review which was signed by the Operations Assistant and the officer responsible for the supervision of the contractor. This checklist was submitted to the Deputy Representative or the Representative for their signature on the contract to ensure supporting documents were in order (including a note for the record, if needed). In May 2013, the Representative proposed a new procedure, agreed by the country management team (CMT), that all contracts would have to be approved by the Representative if they i) used single-source selection, ii) were individual contracts with honoraria exceeding the amount in the reference table approved by the CMT, or iii) included any element that might not be in line with the established policies, rules and regulations.

Agreed action 2 (high priority): The office agrees to strengthen management of contracts by:

i. Ensuring competitive selection of contractors and documented approvals by a responsible staff member of the notes for the record that justify single-source selection of contractors.
ii. Enforcing the internal procedure issued in May 2013 regarding contracts to be approved by the Representative, and ensuring that all contracts are properly approved.
iii. Preparing performance evaluations of all contractors prior to final payments.
iv. Ensuring a process to update contract information in VISION on a regular basis. The office will review existing training gaps in the use of VISION and as necessary enhance staff skills in this area.

Staff responsible for taking action: Representative, Operations Assistant and all staff responsible for contracting
Date by which all action will be taken: 30 June 2014

Value added tax

The Government of the Bolivarian Republic of Venezuela levies a value-added tax (VAT) on the acquisition of goods and services consumed within the country. However, it has granted exemption to the Venezuela country office for the purchases of goods and services acquired locally. This is in accordance with the Basic Cooperation Agreement between the Government and UNICEF, by which the government shall reimburse or return any tax paid as part of the price of the goods and services purchased by the office.

However, according to VISION, the amount of VAT receivable as of August 2013 was US$ 76,160.32. The office stated that the reimbursement claim for VAT for the years 2011 and 2012 had been presented to the relevant authorities in December 2012, but had not been reimbursed to UNICEF at the time of the audit. The audit noted that the office did not monitor the amount of VAT due and did not follow up on the reimbursement of due amounts in a timely manner.

The audit was also informed by the CO Representative that the procedure for obtaining VAT reimbursements from the government was cumbersome and very time-consuming.

Agreed action 3 (medium priority): The office agrees to strengthen monitoring of the value added tax due from the Government and to follow up the reimbursements of the due amounts in timely manner.

Staff responsible for taking action: Representative and Operations Assistant
Date by which all action will be taken: 30 June 2014

Vendor master file

The vendors' details in the master record should be complete, and only accredited vendors should be maintained in the system. Vendor master records should be created centrally by the designated staff member(s) in a country office, observing segregation of duties.

According to information retrieved from VISION in August 2013, there were 260 vendor records. The office informed the audit that there were procedures established within the office to request the creation and approval of vendor records in VISION. However, there were seven vendors with more than one account.

The responsibility for the creation of vendor records had been given to an outsourced receptionist (a former staff member). The office indicated that this happened because of insufficient number of personnel in the office to avoid violation in segregation of duties in VISION. However, the office procedure did not include verification of duplicated vendor records. VISION accounts may be provided to non-UNICEF staff members, such as consultants or people brought in on a temporary basis (for example through an agency), provided no approval rights are given and the roles provided are commensurate with the function for which they have been hired. However, master data management should be restricted to staff members who are knowledgeable about the implications of changes to elements and structures of master data. Depending on the master data element, modifications to master data can have significant effects to payments and reporting. The office has informed audit that since March 2014, the management of the vendor master has been transferred to a processing hub in Panama under the management of the Regional Office.

Agreed action 4 (medium priority): The country office, with the involvement of the hub in the Regional Office as necessary, agrees to:

i. Review the existing vendor master records in order to identify duplicated accounts and mark them for deletion in order to deactivate them in VISION.
ii. Periodically review the vendor master database in VISION to ensure completeness and accuracy of records.

Staff responsible for taking action: Representative and Operations Assistant
Date by which action will be taken: 30 April 2014

Business continuity plan and disaster recovery plan

The audit checked whether the office maintained a disaster recovery plan (DRP) for information and communications technology (ICT), and an up-to-date business continuity plan

(BCP). The audit also checked whether the office had tested these plans and trained staff on them so as to ensure that the office could continue critical operational support in the event of an emergency or disaster.

The BCP was issued in 2010. It had been reviewed twice, in 2011 and in September 2012, but had not been formally approved. The CMT had reviewed the latest version, but the Representative had not yet signed it. The latest review of the DRP had been done in 2012 but the latest version of this had also not yet been approved.

The office had conducted staff training on simulation testing of connectivity and accessibility under the BCP, but not actual testing on transaction processing or other aspects, including the DRP. The office had held an evacuation drill in June 2013, but had not continued the simulation of BCP with transaction processing.

The office has now joined the Operations Hub in Panama for payment processing; this had not been included in the BCP yet, but that was planned for the first quarter of 2014, taking into account an on-going work processes review and subsequent revision of the service level agreement with the Hub at the end of 2013.

Agreed action 5 (medium priority): The country office agrees to update the disaster-recovery plan and the business continuity plan, taking into account the implications of the work processes with the Hub in Panama, and ensure they are formally approved; and to organize simulation of full transaction processing and other work processes not previously covered.

Staff responsible for taking action: Representative, ICT Assistant and the CMT
Date by which all action will be taken: 30 November 2014

Operations support: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the control processes over the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.