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Organización
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Audit Report 2002/08

**CONSOLIDATED REPORT
ON
2001 FIELD OFFICE AUDITS**



**RESULTS OF 11 FIELD OFFICE AUDITS
Conducted in 2001**

Internal Oversight Service

June 2002

CONSOLIDATED REPORT on 2001 FIELD OFFICE AUDITS

(2002/08)

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PART 1: EXECUTIVE SUMMARY

Purpose of the consolidated report

1. IOS was formally established in February 2001 to provide a comprehensive oversight mechanism, which covers internal audit, evaluation, investigation and other management support to strengthen the functioning of the Organization. This is the first report which consolidates the results of field office audits. IOS plan to produce a similar report twice a year. As described in its biennium strategies and work plans, IOS is committed to improving internal control within the organization and will conduct 20 field office audits annually.

2. In 2001, IOS conducted 16 audits, 11 of which were field audits. This report consolidates the observations from all 11 field audits, identifies systemic issues and presents major recommendations to all field offices (FO) and to Headquarters divisions/sections where significant improvements in procedures, policy and guidance can be made to strengthen the effectiveness of internal control in field offices (FOs) and to produce long-term improvements benefiting the entire organization. Some of the recommendations to Headquarters divisions have already been made in individual audit reports and accepted but not yet acted upon or have been acted upon but not consistently.

3. The recommendation to all FO management is to utilize this report as a self-assessment tool. For each observation specified in the report, the Head of the FO should assess the status of control within the office. If the status is unsatisfactory, the Head of the FO would need to identify a mechanism to correct the shortcoming. The Appendix section provides a table that contains a summary list of all observations which can be used by all field offices to conduct a self-assessment exercise. The ownership of the results of the self-assessment exercise is with the field office. IOS would be pleased to receive the results eventhough it is not mandatory. The exercise would help the office to prepare for any upcoming audit. IOS is available for any consultation if required.

4. The report is structured by work process/functional area (e.g. Financial Management, Contract Management, Travel Management). Risks observed in each area are described and analyzed. For this purpose, risks are defined as factors that can threaten the achievement of the office's objectives.

Audit scopes

5. The scope of the audits varied slightly depending on the time and IOS resources allocated for the audits. It also depended on the results of the initial risk assessment conducted by IOS prior to the audit. Some audits covered all functional areas and some did not. On average, each audit was completed in three staff-weeks.

Audit recommendations

6. A total of 448 audit recommendations were issued, 314 addressed to the FOs, 86 to HQ and 48 to both FO and HQ. As part of the IOS standard audit process and to encourage offices to

take prompt action to implement the audit recommendations, the audited offices are encouraged to submit action plans in response to the audit recommendations presented in the draft audit report. These can then be included in the final audit report. 6 of the 11 audited offices submitted their action plans before the final audit report was issued. Each audited office is requested to submit a status report every three months following the completion of the audit. The progress of the implementation of the audit recommendations is monitored by IOS and those recommendations that have been fully implemented are closed.

Audit observations

7. A weak control environment was found in all audited offices and an unsatisfactory level of control was observed in all areas (financial management, contracts, procurement, travel, human resource management, general administration). IOS analysis showed that the main underlying causes were: poor understanding by staff/management in field offices on the established rules, regulations and procedures; poor supervision and monitoring of internal controls by field office management; and poor support and monitoring by Headquarters. However, it should be noted that in some areas weaknesses were the result of non-compliance with UNESCO rules, policies and procedures by field offices.

Financial Management

8. All 2001 field audits assessed the functioning of financial controls and in all cases they were found to be deficient. The major observations were: inadequate segregation of duties, weak understanding of the accountability that a staff member has to accept as part of the assigned authority, shortcomings in processing and accounting for payments and receipts, and weak budgetary control. Finance staff often did not have adequate knowledge of UNESCO financial rules and regulations. Expenditures were sometimes made without budget allotments or obligations. This meant that it was impossible to record the expenditure in the accounts in headquarters and resulted in high suspense account balances.

9. Another observation was that inadequate post-facto monitoring by DCO had greatly contributed to deficiencies in financial control in the field. In response to many of IOS audit observations DCO explained that inadequate staff resources in DCO has affected its capacity to exercise proper control. IOS is of the opinion that if this is the case then it needs to be resolved urgently as adequate internal control should not be compromised by a lack of resources.

10. The weak financial controls included weak control over opening/closing bank accounts, authorization for bank signatory panels, FOs' imprest accounts and the system/data security of locally developed financial systems. In some areas, clarification on UNESCO's policy is required such as on the use of corporate credit cards, payments made by a field office on behalf of other offices/HQ and the assignment of financial authority to office personnel hired under SSA or other contractual arrangements in the field (non-staff).

11. In some cases, actions that need to be taken by DCO (e.g. management of bank signatory panels) depend on the information received from other HQ sectors/divisions. Therefore improved and timely procedures for communicating the pertinent information need to be established. For example, transfer or retirement of the head of a field office should be communicated well in

advance so that timely action can be taken by DCO. Staff recruitment should be improved to avoid having consultants performing the financial authority functions.

Contracts

12. A significant part of field expenditure was spent on contracts, either in the form of fee contracts, consultancy or activity financing. Internal control for managing and processing these contracts was found to be inadequate in all offices reviewed. The major risk involved the weak certification process for confirming receipt of the deliverables. Similarly for activity financing contracts, financial statements were often not properly supported by receipts and associated documents. In consequence, IOS was not able to give assurance as to the validity of payments made to the contractor.

13. Other observations included a non-transparent process in contractor selection, hiring of contractors without issuance of a contract, weak terms of reference, use of incorrect types of contract and non-submission of high value contracts to the HQ Contracts Committee.

Procurement

14. Weak internal control was observed as a result of procurement without competitive bidding, inadequate information in the purchase order and inadequate pre-delivery inspection procedures. In one of the audited offices, there were procurements of over US\$100,000 in value which had not been submitted for approval by the HQ Contracts Committee.

Human Resources Management

15. Internal control of human resources in FOs was also found to be unsatisfactory. Weak staff capacity, often the result of inadequate training, was apparent from a number of audits. This affected the proper management and administration of the offices audited and had resulted in many of the internal control weaknesses found in other functional areas. Shortfalls in staffing, delays in recruitment, over reliance on short-term personnel, weak selection procedures for project personnel are other audit observations in this area.

Travel Management

16. Weak processing of travel orders and travel claims observed. Failure to issue/authorize travel orders before missions, failure to obtain complete documents to support travel claims and incorrect charges of travel costs to operating cost budget were some of the observations. One major observation was the inadequate information available to assess the effectiveness of travel undertaken. This arose because the purpose of travel was not always clearly stated in the travel order or because a mission report, which should describe the achievement of the mission, was missing.

General Administration

17. This covered office vehicle, office premises, office inventory management, and personal use of office facilities and equipment. The observations which were found in almost all offices

involved the lack of monitoring mechanisms and the failure to request reimbursement from staff on the personal use of office facilities including the use of the office vehicles and telephones. While some offices had produced non-expendable inventory lists as a tool to keep track of office property, this needs to be applied more generally by all offices. There is a need to have guidelines and policy for signing of the leases for office premises.

Irregularities

18. All suspected irregularities were fully investigated to determine the validity of potential violations. There is zero tolerance towards staff who commit irregularities. Two significant cases were concluded. In one case, the head of a FO was dismissed and US\$60,000 was recovered. A key feature of the IOS approach to investigation is to assess the underlying control weaknesses that allowed an irregularity to occur or delayed its detection. This approach strengthens the contribution of IOS to improving the overall controls within UNESCO.

IOS Strategies

19. To assist the organization in addressing weak control environments in field offices, in addition to undertake the field, Institutes and HQ audits, in 2002, IOS will give strong emphasis in its work to preventive actions which include:

- Active participation in regional and global training to Directors, programme Staff and Administrative Officers to share good practices, common risks based on audit findings, and to stimulate action to strengthen controls such as proper segregation of duties.
- Issuing periodic consolidated reports like this one of common audit findings proposing solutions to cross-cutting systemic problems and regular “do’s and don’ts” reports. These will be widely distributed in headquarters and the field.
- Progressively converting the existing audit programmes used by auditors into self-assessment tools that can be used by management to self-assess and improve their own performance.

PART 2: REPORTS ON AUDITED AREAS

FINANCIAL MANAGEMENT

Weak financial control by FO and DCO

20. The main reasons for weak financial control were the lack of an accountability culture (see paragraph 26) and inadequate knowledge of FO management and staff of UNESCO's financial rules and regulations despite the fact that all heads of field offices are made aware of the important rules when they are appointed and come to HQ for briefing. The heads of field offices are also requested to sign a briefing letter to acknowledge their responsibilities for financial management and control. This also applies for the AOs. Moreover, field office management and staff have several tools to make themselves aware of financial rules and regulations such as the administrative manuals which are available in intranet or hardcopy. There was no evidence that staff adequately consult these manuals in performing their tasks. There were bank accounts opened by FOs without knowledge of the Comptroller, bank accounts which had been inactive for 8 years, which had not been closed, and cases where the Head/FO revised or added names to the bank signatory panel without approval or instruction from the Comptroller, including names of non-staff members (SSAs). According to financial rules, only the Comptroller is authorized by the Director General to open, transfer, and close bank accounts and to designate signatories on each account. There is also a need for DCO to improve its monitoring of these basic financial controls as proposed in recommendation 1.

21. Control by FO management and DCO over balances in local bank accounts needs to be improved. While DCO maintains that it authorizes replenishment based on needs and that unusually high requests are investigated and justification sought, the findings from a number of audits show that there is a need to improve the process to ensure that this is done consistently by all field offices and for each replenishment. High bank balances in a volatile economic situation and inadequate financial control within the UNESCO field office poses a risk to UNESCO.

Weak imprest accounts processing and monitoring by FO and DCO

22. IOS review of imprest account processing by FO and monitoring by DCO showed major breakdowns of control which had led to various consequences ranging from incorrect charges of expenditure, large amount in suspense accounts to financial irregularities by FOs staff. In almost all offices, the preparation of imprest accounts was observed to be of poor quality. FO did not provide clear or complete information in the Disbursement Vouchers (DVs) that were the basis for the office to release payments. They did not contain reference to contract numbers, travel order numbers or invoice numbers for which the payments were being made. The descriptions of the payments were unclear, and budget codes or obligation numbers were missing. The numbering of the vouchers was not properly done. There were duplicate numbers, the same serial numbers for US\$ and local currency vouchers were often used which made monitoring difficult, there were unsigned vouchers, and some without adequate supporting documents. The reasons for

the poor quality of imprest account processing was ignorance of rules and regulations, and in some cases, shortcomings by FO staff. Apart from limited communications on certain issues (such as suspense accounts), the concluded that generally there was no follow up from the processor of the imprest account in DCO to provide feedback to the FO to help them improve the quality of the imprest accounts.

23. In addition, there were other issues which involved processes that could have been detected by DCO through proper review of the imprest account, such as: substantial payments using cash (when could have been done through cheques or bank transfers), uncrossed cheques, cheques payable to third parties, cheques signed by single signatory (while two signatories had been designated by the Comptroller), bank reconciliation without complete details (i.e. without cheque number, DV/RV number, cheque issue date etc), delays in preparation of bank reconciliation, long outstanding items in the bank reconciliation (of up to 4 years)..

24. If DCO had been in a position to fully review the imprest accounts, potential risks could have been raised with FO management including the need to improve controls. DCO's response to IOS audit reports was that lack of resources had prevented proper scrutiny of FO imprest account submissions and that they expected the new HQ financial system to help address this issue once it is fully functional in headquarters and the field. As explained in the executive summary and as recognized by DCO, the issue of resource requirements must be as internal control should not be compromised by a lack of resources.

Inadequate segregation of duties in FO and poor understanding of accountability by FO staff and management

25. In almost all of the offices audited, most of financial tasks were performed by a single staff member (raise/certify fund obligations, certify travel orders, calculate travel claims, prepare/certify/record vouchers, co-sign cheque/bank transfer, receive cash from the bank, pay cash/cheques to payee, receive cash, prepare/certify/record receipt voucher, etc.) including performing the financial monitoring roles i.e. review of bank statement and preparation of monthly bank reconciliation which should enable the office to detect problems. While segregation of duties may be impractical in small offices with a limited number of staff, IOS found the same issue in offices with enough staff to adequately segregate the duties.

26. One of the main reasons for this risk is a lack of appreciation by FO management and staff on the need for proper segregation of duties and of the different accountability that a staff member has to accept when performing each of those tasks. While the Administrative Manual provides some explanation of the accountabilities of the certifying officer, it does not currently cover all accountabilities for each of the tasks. The Table of Delegation of Financial Authority that is currently being prepared by DCO and IOS will help FOs to address this risk.

Unclear policy or guidelines provided by HQ

27. While DCO maintains that the policy regarding the use of corporate credit card is clear, audit found that there is still confusion in the field. For example, an office had obtained a credit

card that was used to pay for travel/ticket costs. The Comptroller had confirmed that the use of the cards should be discontinued. The issue of assigning consultants to perform financial authority functions needs to be clarified. There is a need for DCO to clarify the accountabilities of an office that makes payments on behalf of another office or HQ. For example, whether they are accountable for certifying that the deliverables have been received or to certify the invoice calculation or simply to issue payment. DCO explained that the accountability of field office paying for other office/HQ is limited to issuing payments as per duly authorized instructions received and that the office requesting for the payment is responsible for the rest. As stated in the recommendations and agreed by the Comptroller, these issues need to be included in the revised administrative manual and communicated effectively to the field.

Use of accounting software by FO without proper review and approval by DCO concerning the data and system security

28. A least three large and medium size FOs were using a locally developed accounting system, which had not been verified for data or system integrity and reliability. IOS found that in at least one of them, financial data could be modified even after it is posted and that entries can be backdated. These systems had been developed by the FOs because of the need to have a system to process their reasonably high volume of financial transactions. In the absence of any standard financial system for FOs, they were *'forced'* to find their own solution. DCO said they did not have the resources to review each new financial system presented by FOs. Therefore the urgent solution is for DCO is, as they recognize, to introduce a standard field office financial and accounting system that can be applied by all FOs and integrated to the HQ system.

Weak budgetary control by FO

29 Inadequate knowledge of FO finance staff regarding UNESCO financial rules and regulations was evident from the practice of charging expenditures without budget allotments or fund obligations. In one audit an AO said that he thought that payments could be made as long as there was cash in the bank (which had been replenished by DCO despite prior months expenditures which had been recorded in suspense accounts because of the absence of allotments). In one office, US\$1.2 million of expenditure incurred had been charged to a global suspense account by DCO.

30. Budget revisions, though accepted by the donor locally, were not always submitted to Bureau of Budget in HQ for changes in the allotment. Thus expenditures could not always be recorded in the mainframe due to unavailability of funds. There were many cases where wrong budget lines were used to record expenditures, e.g. contract was recorded under budget line for equipment that resulted in inaccurate analysis of expenditures and an inaccurate donor report. Similarly, there was charging of programme activities expenditure to operating budgets and vice versa.

Receipt of donor contributions and issuance of financial report to donor by FOs

31. There were cases where donor contributions were received in the local bank accounts and financial statements to the donor were issued by the FO based on local financial records instead of by the Comptroller. These local financial records had not been reconciled with the HQ accounts. The FO's reason was mainly to expedite the whole process and to fulfil the requirements of the donor for timely response and for a report that met their needs.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct a self-assessment exercise in light of the above findings using the table in the appendix section of this report.

RECOMMENDATIONS ADDRESSED TO DCO

Recommendation 1 To review the status of all fields bank accounts, including the type of accounts, the number of accounts, currency, credibility of the banks, service offered and the need for the accounts, and take the necessary action to ensure that UNESCO's interests are protected. This has been started prior to the migration of field bank accounts into FABS and DCO agreed that this should be carried out on a regular basis.

Recommendation 2 To issue a letter to all banks used by field offices and head of offices to remind them of UNESCO rules and regulations which relate to banking arrangements. This should include: revision/addition to the bank signatory panel must only be done at the request of the Comptroller, the need for dual signatures for each payment, etc.

Recommendation 3 To ensure that all field offices consistently submit cash flow requirements as the basis for requesting replenishment. The field office bank balance should be monitored as part of the imprest account monthly review and before making the replenishment.

Recommendation 4 To improve the quality of the imprest account review, any deficiency should be communicated to the FO and improvements should be monitored. DCO should establish a complete checklist of items that need to be reviewed by the imprest account processor, which should include

- (a) Disbursement and Receipt Vouchers:
The clarity, completeness of the following: obligation number, budget code, payee (should be the same as the one appearing on the cheque/bank transfer, voucher number (should be sequential and a different sequence used for receipt vouchers), type of payment (cash, bank), cheque number, description of payment (should include reference to contract/travel order/purchase order, invoice number or any other document for which the payment is being made) and budget code.

- (b) **Bank Reconciliation**
The timeliness of preparation, and the completeness of information in the bank reconciliation. That the bank statement submitted is the original copy. Outstanding items are regularly cleared.
- (c) **Cheques**
Cash payments are kept to the absolute minimum, use of crossed cheques and no third-party cheque. Cheques are signed by two signatories, which are listed in the signatory panel.

Recommendation 5 To incorporate the following in the Administrative Manual which is due to be revised in 2002:

- (a) The use of corporate credit cards
- (b) The assignment of financial authority to non-staff
- (c) The authority and accountability of FOs, which make payments on behalf of other offices, or HQ.

Recommendation 6 To accelerate the development of a standard financial system for field offices which can be integrated effectively with Headquarters' systems.

Recommendation 7 To improve the monitoring of suspense accounts and regularly share the information with FOs to ensure timely actions are taken to clear suspense account entries. This would include the monitoring of expenditures paid without proper budget allotments.

Recommendation 8 To establish a mechanism (perhaps with ERC through project agreement documents signed with donors) to ensure that all donor contributions are received in HQ bank accounts and that the financial statements to donors are prepared and issued by the Comptroller based on HQ accounts.

Recommendation 9 To include issues presented in this consolidated report in the material for the AO and Head/FO training which are being prepared by HRM/BFC.

RECOMMENDATIONS ADDRESSED TO BFC

Recommendation 10 BFC should establish a mechanism to ensure that DCO is informed regarding movement of staff so that timely action to revise field office bank signatory panels can be taken. IOS recognize that currently BFC inform HRM and DCO of anticipated staff movements. However the procedure needs to be applied consistently and in a timely manner. Timely information from BFC and timely action taken by DCO is particularly important in this procedure

CONTRACT MANAGEMENT

Non-transparent consultant/contractor selection process by FO

32. In many cases, there was no documentation to indicate the process for identifying, assessing and selecting consultants/contractors. Similarly, there was no technical capacity assessment of those selected to undertake activity-financing contracts. This assessment is necessary to establish whether the contractor has the capacity to implement the activity to achieve the expected results and whether there is a capacity to manage UNESCO funds effectively and efficiently. Justifications for single source selection were generally not documented.

Weak certification of deliverables and review of financial statements by FO

33. One of the major risks in contracting is weak certification of the deliverables or services rendered to ensure that they have been delivered by the consultant/contractor before payment is released. The accountability of the staff member who performs the certification function includes providing assurance that the deliverables or services stated in the contractual document have been provided and received, and correspond with the quality and quantity specified in the contract. For activity-financing contracts, this involves certification of financial statements submitted by the contractor after a certain phase of activity is completed prior to releasing the funds budgeted for the next phase. The financial statement should be supported with full supporting documents, e.g. invoices, receipts, etc. In addition to this financial certification, the certification of an activity-financing contract should also include programmatic certification where the office management needs to satisfy themselves that the expected results of the activity have been achieved. Unfortunately, this was not the case found during the audits. IOS found that in some cases, final payments were made even though the terms of the contracts had not been fully met. Without adequate certification, there is no assurance of validity of payments made to the consultant/contractor.

34. As an action to address this issue and other issues related to segregation of duties and assignment of authority/accountability, DCO and IOS are in the process of developing Table of Delegation of Financial Authority for Field Offices. This Table contains list of financial authority functions and the accountability of the staff member who is designated to perform each of those functions. The Table will help all field offices to strengthen delegation of authority and accountability.

Confusion of FO in selecting the appropriate type of contract and applying the appropriate policy

35. One field office issued fee-contracts for all contracts issued irrespective of the nature of the contracts. Some should have been consultant contracts. Another office requested the contractor of a fee-contract to submit financial statements which actually were only required for

activity financing contract. There were offices that issued consultant contracts for temporary personnel who should have been contracted through Special Service Agreement (SSA) or other type of employment contracts. There were also cases where payments were made to contractors without any contract. In some cases ignorance of the contracting policies is the main reason for this confusion. However, IOS noticed that in some cases, this was a matter of inadequate attention given by FO staff to comply with the established policies and a practice of repeating what had been done for years without referring to the administrative manual or any other circulars on policy or procedures.

Weak preparation of TOR and contract by FO

36. The development of Terms of Reference for a consultancy requires a clear understanding of the work to be completed and a capacity to describe those requirements in adequate detail to provide direction to consultants. In some audits, the TORs were too general to provide adequate guidance. They were described as reading more like job descriptions of broad multi-year responsibilities rather than a clearly defined list of tasks to be completed. In some cases the TOR did not clearly describe the deliverables expected from the contracts. The reason for weak TOR was limited knowledge of the commissioning staff member and in some cases, due to the limited contracting knowledge of staff. Moreover, there is no guidance available to assist offices in preparing and completing clear TOR.

37. For activity financing contracts, proposals received from potential contractors did not set out clearly the budget breakdown of each activity and this led to the absence of such details in the contract, which means that the funds could be used for other purpose than what had been agreed upon. This made the review and certification of the financial statement submitted by the contractor difficult and the office was not in a position to request proper accountability from the contractor.

38. Other observations include: contracts that were not amended to reflect changes in the TOR such as payment schedules which needed to be revised because of new completion dates for the activities as agreed between the office and the contractor. Some activity financing contracts were issued to an individual/official instead of in the name of the institution. Even though the official represented the institution, there would be legal difficulties in enforcing the contract. And payment of contract with institution should not be made to an individual.

Weak consultant performance evaluation assessment by FO

39. One aspect of the performance evaluation of a contractor related to the timely completion of the activity performed. IOS noted that this was not available. The absence of documentation on file to indicate the reasons for delays in the execution of a contract could prevent the office for taking future corrective action particularly relating to controllable factors such as estimation of the time required to achieve the expected results, the capacity of the contractor or the capacity of UNESCO staff that supervise contract performance.

40. In some offices, the performance of the consultant/contractor was not evaluated or was done on ad-hoc basis. The absence of a performance evaluation for a consultant means that there is no assurance that payment has been made on the basis of satisfactory completion of services. Moreover, without a performance evaluation report, the office would not have a readily available reference in considering the consultant/contractor for future contracts.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct self-assessment exercise in light of the above findings using the table in the appendix section of this report.

RECOMMENDATIONS ADDRESSED TO ADG/ADM

Recommendation 11 To establish guidelines for Field Offices for development of Terms of References for Contracts. It should include a checklist of items that need to be included in the TOR.

SUPPLY PROCUREMENT

Supplier selection by FO without competitive bids

41. IOS sampling of procurements which were made without competitive bids showed that the offices had not obtained value for money and that better prices could have been obtained. This included procurement of high value items such as computers and manufacturing equipment (cost approx. US\$100,000). In one of the offices, for several years, all computer equipment in the office was supplied by one overseas supplier and there was no documentation available in the office to show that any price comparison had been done. This was clearly in breach of UNESCO rules and procedures on competitive bidding.

Weak preparation of the Purchase Orders by FO

42. Purchase orders often did not contain important information such as the delivery date or a penalty clause in the event of a delay in delivery. In the absence of the delivery date of the equipment ordered and the penalty clause, it would not be possible to enforce timely delivery.

Contracts exceeding US\$100,000 were not submitted by FO to HQ Contract Committee

43. There were a number of procurements exceeding US\$100,000, which was not submitted for approval of the HQ Contracts Committee. There were also cases where contract amounts had been broken into several contracts, each with value of less than US\$100,000 which meant that those contracts did not need to be reviewed and approved by the HQ Contract Committee.

Weak logistics and warehousing procedures by FO and the absence of guidelines produced by HQ ADM

44. The logistics and warehousing procedures were reviewed in one field office. However, IOS can see the need to include the observation in this report to allow other offices, which also have logistics and warehousing processes to self-assess themselves. The observations are: there was no procedures manual for the operation of the warehouses, the stock records and stock transaction reports were not properly prepared and maintained, and there was no scheduled physical verification of inventories in the warehouse. In addition, there was lack of segregation of duties in the warehouse operations. The receipt of goods, issue of goods, recording in the stock ledger, carrying out occasional physical verification of stock, retention and filing of documents including the waybills received from the beneficiaries indicating receipts of goods, were undertaken by the same person. Currently, there is no guideline provided by HQ ADM to FOs for logistics and warehousing procedures.

Weak or non-existent pre-delivery inspection procedures in FO

45. To obtain assurance that goods or equipment to be received by UNESCO meet the specification stated in the purchase order, it is necessary for the field offices to conduct pre-delivery inspection. This is not currently provided for in the Administrative Manual. Some of the issues related to the quality of delivered goods could have been prevented if a pre-delivery inspection had been undertaken.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct self-assessment exercise in light of the above findings using the table in the appendix section of this report.

RECOMMENDATIONS ADDRESSED TO ADG/ADM

Recommendation 12 To consider including guidance for FOs in the revised Administrative Manual on basic logistics and warehousing procedures, and on pre-delivery inspection.

Recommendation 13 To establish a monitoring mechanism to ensure compliance by Field Offices with the policies regarding submission for review and approval of contracts over US\$100,000 by the HQ Contract Committee. One option is to request field offices to periodically submit a list of all contracts issued with the contractors/consultants name, contract number, purpose of the contract, amount, funding source, etc. Since the authority to authorize all requests for contracts (even though the approval of the contract and supplier selection for large contracts lie with the HQ Contract Committee) had been delegated to Heads of Field Offices, this report could serve as an accountability mechanism.

HUMAN RESOURCES MANAGEMENT

Inadequate staffing, over reliance on consultants and confusion in FO on the type of contractual arrangement to be used

46. Because of inadequate staffing and longstanding vacant posts, many FOs rely heavily on consultants or any other short-term assistance. One of the AO posts had been vacant for over two years and in one office the Head/FO was hired under a one-year SSA. There was confusion in many offices on the form of contract that should be utilized. Some offices have developed their own letter of agreement, while most have difficulty appropriately selecting between SSA contracts, service contract, fee contract, consultant contract etc. There were cases where SSAs had been contracted for over five years (in at least one case, over ten years) under renewable short-term SSA contracts.

47. In some cases, standard contract forms were also modified to suit FO needs without consultation with HRM and LA. HRM had developed guidelines to clarify and harmonize the contracting arrangement for local staff in the field. HRM and BFC, in consultation with FOs, will conduct a complete review of field office staffing in the second half of 2002, and present recommendations to the Senior Management on the staffing requirements for each field office including the most appropriate contractual agreements required in each case.

Weak selection procedure of project personnel by FO

48. A review of over 2000 project personnel employed by the largest UNESCO field office showed that there was no established formal selection and recruitment procedure to ensure recruitment of the best-qualified candidates.

Unclear basis in FOs to determine the benefits of temporary staff contracted through SSA

49. Payments for SSA contract holders varied in the same office and there was no clear basis for determining these payments. Increases were granted without a clear basis and there was no documentation to reflect the justification for the increase. Similarly, there was no clear basis for entitlement of leave given to SSA holders. In quite a number of offices, the SSA holders were not aware that they were covered by UNESCO worldwide Llyod medical insurance coverage. Therefore, they never claimed their medical expenses. This seems to happen because of ineffective communication between HRM and the field offices.

Inadequate training for FO staff

50. As described in many parts of this report, FO management and staff did not have adequate knowledge of UNESCO rules, policies and procedures. This issue should be addressed through

provision of training to Heads of field offices and key personnel such as the Administrative Officers. HRM and BFC have already made arrangements to conduct this training that will take place from mid-2002 onwards.

51. Another underlying cause of the weaknesses in field offices' internal control is the lack of understanding of field offices management and staff on the accountability which management or staff members have to accept when performing a certain task.

52. To address this issue, a table of delegation authority to field offices had been established at the request of HQ Senior Management and will be implemented in mid-2002. The table describes the authorities that are delegated to the Head of Field Offices with their accountabilities. If the Head of the Office decides to delegate the authority further to his/her staff, then the accountability that accompany the authority should be explained clearly to the staff member. This will improve the culture of accountability in the organization and the training to be conducted by HRM and BFC should include this issue as one of the main items in the agenda. Experience in applying this table will be reviewed at the end of 2002 and adjustments made to it as appropriate.

Poor FO management

53. While it is true that in many cases, ignorance of UNESCO rules, policies and procedures was led to weak control within the office, IOS analysis also led to the conclusion that in some offices, the poor management style of the office had contributed to this weak control environment. The fact that the control environment in all audited field offices was weak cannot be separated from the fact that the Head of the field office is accountable for ensuring the correct application of organizational policies and procedures, for effective and efficient management of the office's operations and resources, and for effective functioning of internal control within the office all with a view to protecting UNESCO resources.

54. The Table of Authority to Field Offices will clearly list all authorities and accountabilities of the Head of a Field Office. The performance of the delegated authority will be an important factor of evaluating the performance of the Head of Field Office. This also confirms the need to establish proper selection criteria for heads of offices by BFC to be used by the Head/FO Selection and Evaluation Panel (chaired by DDG) in preparing recommendations to the Director-General on the appointment of Heads of Field Offices.

55. One head of office did not submit travel claims/records for 13 out of 14 missions undertaken. One head of office approved within grade increment to one of the key personnel even though at the same time, the head of office had serious reservations as to the staff member's performance. One head of office hired a number of non-essential SSAs despite the unfavourable budgetary situation in the office. Another head of office approved installation of expensive audio equipment in the office despite a serious lack of funding.

Weak handing over procedures when the Head of a Field Office changes.

56. In the case of the outgoing head of office did not provide an end-mission report, which should include outstanding issues (contracts, project, etc.) to the successor. There was also lack of coordination in HQ. DCO was not informed in timely manner by BFC departure of the Head of Office, which led to delays in seeking clarification on suspense accounts and changing the bank signatory panel. As stated in the Financial Management section of this report, in another case, the delay in revising the panel originated in DCO and information was provided by BFC.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct self-assessment exercise in light of the above findings using the table in the appendix section of this report.

RECOMMENDATIONS ADDRESSED TO BFC

Recommendation 14 To establish a hand-over procedure when a Head of Office leaves his/her duty station. This includes the process of informing the HQ divisions/sectors and regional/cluster office, if applicable, in timely manner.

TRAVEL MANAGEMENT

Incorrect charging programme related to operating costs

57. The practice of charging programme related travel activities to operating costs was found in many cases. The operating cost budget is to be used for the travel of the Head of the Office on representational missions only.

Inadequate information to access the effectiveness of travel undertaken by FO

58. Travel orders for project personnel were not always prepared by the office. In the absence of travel orders, it is not possible to evaluate the necessity of the mission as the travel purpose is not documented. In other cases, mission reports were not prepared, including those by the head of the office. This made it difficult to evaluate whether the purpose of the mission had been achieved.

Incomplete information in travel claims

59. FOs had been processing travel claims which did not meet the requirements stated in the rules and regulations. For example, ticket stubs and hotel bills were of ten missions. IOS also observed that the information in the travel claim forms had not always been fully completed. For example, the information on free board and lodging, and free transportation to and from the airport was not always provided. Consequently, the full amount of DSA and terminal expenses was paid. In one office, the travel agency was supposed to provide free transportation to passengers to and from the airport. However, IOS noted that all staff were still paid terminal expenses.

Travel agency was not selected through a competitive selection

60. In at least two large offices with high volumes of travel, the travel agency was not selected competitively. While it was not possible for the audit to review whether the offices had obtained the best prices for the tickets procured, it was suggested that the offices could get probably better terms and conditions from the travel agency or from a new one.

Travel in business class

61. This is not in compliance with UNESCO travel policies. From the samples selected in the audits IOS found that a number of heads of office and also staff members had been travelling in business class without special clearance having been obtained for health reasons.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct self-assessment exercise in light of the above findings using the table in the appendix section of this report.

GENERAL ADMINISTRATION

Use of office facilities by staff in FO for personal use

62. In almost all offices, the use of office vehicles and telephones/fax lines by staff members for their personal use was not monitored and the costs were not recovered from staff.

Absence of policies and procedures for leasing office premises

63. In one office, IOS observed that the office should have negotiated a more favourable rent and recommended that the office do so. Finally, the owner agreed to finance some remodelling expenses. In another office, it was explained to IOS that the office had taken all reasonable measures to find a solution for a shortfall in the new for office premises by contracting various organs in HQ but did not get any reply.

Inadequate computer equipment in FO

64. The adequacy of computer equipment was only reviewed in a few offices and it was found that the equipment was outdated. In the light of preparation for a new financial system for in field offices, this issue needs to be addressed.

Non-existence of monitoring system for non-expendable property in FO

65. A few of the offices had already established a list of non-expendable property owned by the office. But in many offices this had not been done. According to the Administrative manual, a physical inventory should be done at the end of the year and report on changes to the inventory during the year should be made to DCO.

Full insurance cover for vehicles over three years old

66. In many offices, full insurance coverage was obtained for all vehicles. According to policy, for those vehicles which are older than three years old, only third party liability insurance should be obtained.

RECOMMENDATIONS ADDRESSED TO FIELD OFFICES

The field offices should conduct self-assessment exercise in light of the above findings using the table in the appendix section of this report.

RECOMMENDATIONS ADDRESSED TO BFC

Recommendation 15. To establish clear policy and guidelines on:

- Use of office facilities for personal use including reimbursement to be made to the office.
- Office premises

Recommendation 16 To assess the adequacy of computer equipment to implement the standard UNESCO field office financial system and take the necessary steps to ensure that the offices are adequately equipped to implement the system

PART 3

CHECKLIST FOR SELF-ASSESSMENT – BASED ON 2001 AUDIT OBSERVATIONS

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
FINANCIAL CONTROL			
1. Basic Financial Control	a. All bank accounts were opened by the Comptroller		
	b. All inactive bank accounts were closed by the Comptroller		
	c. Bank signatory panel was submitted to the bank by the Comptroller and the office did not make any revision, deletion or addition to the panel		
	d. Bank signatory panel is always kept up to date and changes in staff are communicated to DCO in timely manner to allow for the Comptroller to take timely action in requesting the bank to update the panel.		
	e. Request for cash replenishment to DCO was made with proper justification (e.g. cash flow requirement).		
	f. Bank balances in local bank account are maintained at a reasonable level.		
2. Imprest Account Processing	a. Information in the Disbursement Receipt Vouchers are clear and complete (e.g. budget code, obligation number, payment description, reference number of the legal commitment/contract/travel order/purchase order, etc.)		
	b. Numbering of the DVs is done sequentially; any voided vouchers are kept in file and attached to the imprest statement submitted to DCO, no duplicate voucher numbers.		
	c. Numbering of the RVs is done sequentially, using different sequential number than the DVs. Any voided vouchers are filed and attached to the imprest statement submitted to DCO, and there are no duplicate voucher numbers.		
	d. Payments are made through bank transfers or crossed cheques as far as possible. Payments with cash are made to a very minimum.		
	e. Cheques or bank transfer instructions should be signed by two bank signatories (unless in exceptional cases where approval from the Comptroller for single signatory has been obtained).		
	f. Bank reconciliation is prepared in a timely manner, i.e. within 10 days of the following month.		

	g. Bank reconciliation contains complete and clear information (i.e. cheque number, DV/RV number, cheque issue date, etc.)		
	h. Outstanding items in bank reconciliation are monitored and cleared in a timely manner (as a general rule, there should not be outstanding items which are older than 6 months)		
3. Segregation of Duties and Clear Accountability	a. There is proper segregation of duties in performing financial related tasks.		
	b. Table of Delegation of Financial Authority (when this is ready and distributed to FOs) including the accountability is effectively communicated and explained by FO management to the staff.		
4. Clear policy and guidelines	a. There is no corporate credit card used by the FO.		
	b. Until a clear policy is issued by DCO, consultants are not assigned to perform financial authority functions (authorizing request for contract/supply/cash/travel, certifying deliverables, approving payments or signing cheques/bank transfers).		
5. Local Accounting Software	a. Use of local accounting software is communicated to DCO.		
	b. Proper review of security of the system and credibility of the data have been properly done and the results are communicated to DCO.		
6. Budgetary Control	a. Staff who handle financial issues are knowledgeable on UNESCO Finance rules and regulation. If not, appropriate actions have been taken by FO management to address this issue.		
	b. Amount in suspense accounts are regularly reviewed and entries cleared.		
	c. Expenditures are only made after receiving budget allotment from HQ and raising the fund obligations.		
	d. Budget revisions are always communicated to HQ Bureau of Budget and expenditures are not incurred before budget allotments are received from BB.		
	e. Expenditure related to programme activities is not charged to operating budget.		
	f. Correct budget line is used to record expenditure.		
7. Donor Contributions and Donor Reports	a. Donor contributions are received through HQ bank accounts		
	b. Donor report containing financial statement submitted to donor is issued by the Comptroller.		
	c. Reconciliation between financial statement produced by the Comptroller and the FO accounts is done.		

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
CONTRACTS			
8. Contractor/ Consultant Selection Process	a. Process of identifying, assessing and selecting contractor/consultant is fully documented.		
	b. There is a process established and utilized to assess the capacity of contractors considered or selected for activity financing contracts. This includes assessment on the capacity of the contractor to implement the activity to achieve the expected results and whether the contractor has the capacity to manage UNESCO funds.		
	c. Single source selection of contractor/consultant is fully justified in writing.		
9. Certification of deliverables or financial statements	a. There is assignment of responsibility to staff member to certify that the service rendered or the deliverables have been delivered by the contractor/consultant and that payment is only released after this certification is given.		
	b. The staff member assigned responsibility for the certification of deliverables is fully informed that he/she is accountable to ensure that the service rendered or deliverables have been provided and received, and correspond with the quality and quantity specified in the contract.		
	c. Certification of activity financing contracts includes proper certification of financial statements (completeness of supporting documents such as receipts, conformity of actual expenditure and planned budget breakdown, etc.) and programmatic certification to ensure that the activity has been implemented.		
10. Selecting Appropriate Contract	a. Correct type of contract is issued depending on the nature of the contract. Reference to the Administrative manual should be done to ensure that this is done properly.		

11. Preparation of TOR and Contract	a. Terms of Reference of contract are clear and complete.		
	b. Contract for activity financing includes clear detailed budget breakdown and this is used to certify the financial statement submitted by the contractor.		
	c. Amendment to the contract is made when there is change to the TOR (such as payment schedule or completion date of the contract) signed by both the contractor and the authorized personnel from the office (as stated in the table of authority of the office).		
	d. Activity financing contract is issued to the institution and not to an individual.		
	e. Payment of an activity-financing contract is made to the institution with whom the contract is signed and not to an individual.		
12. Consultant Performance Evaluation	a. Reasons for delays in completion of contract are documented and, when applicable, the penalty (as specified in the contract) should be applied.		
	b. Staff member who supervises the contract completes performance evaluation of consultant and this is kept in the contract file.		
	c. The Performance evaluation report of the consultant is used as a reference in considering the consultant for future contract.		

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
SUPPLY PROCUREMENT			
13. Supplier Selection Process	a. Procurement is done through competitive bidding		
14. Preparation of Purchase Order	a. Information required in UNESCO standard form of Purchase Order is clear and fully completed.		
15. Submission to HQ Contract Committee	a. All contracts exceeding US\$100,000 are submitted for approval by the HQ Contracts Committee in a timely manner.		
16. Proper logistics and warehousing Procedures	a. If the office maintains a warehouse, there is an established warehouse operating procedure which includes procedures for recording stocks, issuing stocks, physical check, stock ledger, etc.		
17. Pre-delivery Inspection Procedures	a. Supplies are inspected before delivery to ensure that goods to be delivered meet the specification stated in the purchase order.		

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
HUMAN RESOURCES MANAGEMENT			
18. Use of Proper Contractual Status	a. Contracts issued for individuals working in the office should comply with the established rules.		
19. Selection Process of HR in the fields	a. There is an established and utilized selection process for short term, temporary, fixed term personnel or any other contracting mechanisms to ensure that the office contracts the best-qualified candidate.		
20. Benefits of Temporary Staff	a. Justification and the basis for determining salary of locally contracted human resources are documented in writing including justification for salary increase.		
21. Training for management and staff	a. In delegating his/her authority to staff, the Head of office clearly and effectively communicates to the staff the delegated authority and its accountability and staff fully understand them.		
22. Field Office Management	a. Head of field office ensures: <ul style="list-style-type: none"> - Correct application of organizational policies and procedures, - Effective and efficient management of the office's operations and resources - Effective functioning of internal control within the office to protect UNESCO resources 		
23. Handing Over Procedure	a. Before finishing his/her appointment in a duty station, the Head of the office, in close cooperation with BFC, DCO and HRM performs the necessary steps required such as preparation of an end-mission report identifying outstanding issues.		

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
TRAVEL MANAGEMENT			
24. Charges of Travel Costs	a. Cost of Programme related travel activities are not charged to operating cost budget.		
25. Assessment of Effectiveness of the Mission Undertaken	a. Travel order is prepared and authorized before traveller starts a mission and the purpose of the mission is clearly stated in the travel order.		
	b. Mission report is produced after the completion of the travel and clearly describes the achievement of the mission as compared to the purpose.		
26. Completeness of Travel Claims	a. Supporting documents to the travel claim are complete and include ticket stubs, boarding passes, hotel bills, receipts/invoices for any other travel costs charged to UNESCO.		
	b. Information in the travel claim form is complete and clear, and when free board, lodging and free transportation is provided, and this is clearly specified.		
27. Travel Agency	a. The ticket cost offered by the travel agency is checked with other agencies to ensure that UNESCO obtains value for money.		
28. Travel Class	a. The class of air travel is according to the established policies as described in the Administrative Manual.		

	Self-Assessment Questions	Existence of Control in the Office (Yes/No)	Action Plans to strengthen control
GENERAL ADMINISTRATION			
29. Office Facilities	a. There is an established mechanism to monitor the use of office facilities for personal use and reimbursements are obtained from staff/consultants.		
30. Office Premises Lease	a. Efforts are taken to ensure that UNESCO gets value for money in leasing office premises.		
31. Non-expendable Property	a. There is a monitoring system for all non-expendable property, all changes to the property are recorded and the inventory list is updated. A report is submitted to DCO at the end of the year as required by policy.		
32. Vehicle Insurance Policy	a. The insurance policies for vehicles are purchased according to the established policy.		