OFFICE OF THE INSPECTOR GENERAL

Audit of recurring and systemic issues in Country Office operations (AUD1021)

EXECUTIVE SUMMARY

The Office of the Inspector General (OIG) conducted an audit of recurring and systemic issues in Country Office operations from January to July 2021. The audit covered the period from 1 January to 31 December 2020. This report also reflects subsequent developments as of September 2021.

Main findings and conclusions

Overall, OIG assessed that the implementation of the system of internal controls governing operations at Country Offices (COs) needed major improvement (see Annex for the definition of audit ratings). OIG defines "operations" as entailing the following five focus areas: human resource management, procurement, financial management, inventory and asset management, and security management. The key audit observations and results are outlined below.

Human resource management:

- Many COs either did not conduct any workforce planning or had an ineffective workforce plan that did not take into account current and future project requirements. This had increased administrative workload linked to the high number of contracts issued, resulting in gaps in the recruitment processes and poor record keeping. There was no explicit requirement in the human resource (HR) rules for conducting workforce planning. FAO also lacked guidance and tools in this regard.

- In the 2014 FAO Council document CL149/INF/6, the former Director-General of FAO agreed that Non-Staff Human Resources (NSHR) should not be used for core activities of a continuous nature. However, over 2 000 NSHR have served in FAO for more than three consecutive years. In some cases, NSHR performed key functions because they were considered a cost-effective and flexible solution to meet operational requirements.

- HR rules on competitive recruitment were less stringent for local NSHR than for staff members. Vetting processes of project personnel selected to meet operational demands were inadequate as the positions were deemed to be of short-term nature. However, project personnel contracts were often repeatedly renewed.

- On average, the duration for the recruitment and onboarding process of international Chief Technical Advisers in COs with staff and consultancy contracts was 342 and 318 days, respectively, which had delayed project implementation. This was mainly due to a cumbersome hiring process that included up to 12 reviews by seven different parties at COs, Regional Offices, the Shared Service Centre (CSLC), and Human Resource Division at headquarters.

- CO audits showed that local NSHR contracts were often renewed without performance appraisals. When completed, these were difficult to identify, because performance appraisals for local NSHR were completed outside the corporate system (unlike those for international NSHR).

- The HR guidelines provided some criteria to be considered in determining local NSHR pay rates, including their alignment with the local United Nations salary scale. However, in the absence of monitoring mechanisms, pay rates for local NSHR were not duly
justified in 13 out of 18 country offices audited in 2019-2020. In some of these cases, the NSHR were granted multiple salary increases within one year.

- Unlike procurement and finance rules, the existing HR rules did not specify the need for segregation of duties. This meant that hiring managers alone could identify, select and decide on local NSHR pay rates.

- There were no HR rules governing the use of Government Provided Staff (GPS). As of December 2020, 316 GPS were employed at COs, some of whom performed key functions. While there was an Administrative Circular on GPS, it only specified the maximum monthly remuneration. Although the NSHR Services at CSLC provided OIG with a document on recruitment procedures, this document had not been officially published and was not part of the FAO Administrative Manual.

**Procurement:**

- Procurement plans were not used for effective procurement planning in COs. Developing a procurement plan was perceived as an administrative task and while a corporate template was available, COs usually found it too complex. Also, neither the Procurement Service nor the regional offices had reviewed the effectiveness of COs' procurement planning.

- To obtain the best value for money, procurement activities should be conducted in a competitive manner. In 2020, 31 percent (USD 101 million) of all purchase orders (USD 327 million) in COs were awarded through direct selection. (The actual number could be higher, as OIG noted some instances where the award basis was inaccurately recorded.) The direct selection was also not always well justified.

- Personnel lacked familiarity with established rules on the application of liquidated damages. COs did not systematically record actual receipt dates in the system due to system limitations. This made it difficult to track cases where suppliers failed to deliver on time and liquidated damages should have been applied. Also, due to concerns about deteriorating relationships with suppliers, COs sometimes chose to accept late deliveries.

- FAO Administrative Manual Section (MS) 502 outlined the importance of segregation of duties in the procure-to-pay cycle and the Procurement Service had also developed a segregation of duties matrix to highlight conflicting procurement responsibilities within COs. However, in the absence of effective monitoring, as well as tools and reports to highlight individuals with conflicting responsibilities in the procure-to-pay cycle, the lack of segregation of duties was not adequately addressed in many COs.

- There were systemic control weaknesses in the maintenance of vendor master files. In 98 percent of cases, vendor records were incomplete. For some vendors duplicate records existed. There was also an excessive number of “active” vendors compared to those with transactions in recent years. This occurred because there was no monitoring of the number of individuals who could create individual vendors in the Global Resource Management System (GRMS); COs did not know how to deactivate vendors; and, due to incorrect practices, records of international personnel were systematically replicated as vendors in 120 COs.

- Unlike MS 502, the procurement of services under MS 507 on Letters of Agreement allowed the responsible officer to solely perform the sourcing, contracting and managing functions of LoAs, without the involvement of the procurement team. These provisions were not compatible with the principles of segregation of duties.
Financial management:

- Monitoring controls were inadequate to ensure COs made payments based on complete and accurate banking records in GRMS, and that they had used an appropriate payment modality. Neither CSLC nor the Finance Division monitored payroll payments made by cheque and in cash to ensure they were justified.

- Monitoring at country, regional and corporate levels was inadequate to address recurring control weaknesses relating to advances. This was mainly due to the lack of tools and reports to facilitate monitoring, granting of advances to NSHR, and the absence of detailed review on a sample basis to detect potential instances of misuse or incorrect recording of advances.

Inventory and asset management:

- The Organization lacked a corporate policy and system to adequately manage inventory from receipt to distribution to final beneficiaries. A Global Inventory Management Solution is intended to address these weaknesses and is expected to be rolled out in 2022. Until its effective implementation, inventory management was left at the discretion of COs, which exposed the Organization to a high risk of losses and fraud. OIG has raised concerns about this issue in its Annual Reports to the Finance Committee since 2017.

- The lack of asset disposals and criteria for delisting items for tracking purposes had led to an increasing number of assets subject to annual physical verification. Due to limited staff resources, COs had not properly conducted physical verification exercises to detect loss, theft and misuse of assets.

Security management:

- Weaknesses at COs were mainly related to non-compliance with the security requirements established by the United Nations Department of Safety and Security; the unclear role of the security focal point; and the fact that the security emergency notification system was not being used. These issues are being addressed separately in the ongoing OIG audits on field security.

Agreed actions

This report contains 16 actions that the Organization has agreed to undertake. The relevant divisions and offices have committed to fully implement all actions by December 2022.

Mika Tapio
Inspector General
12 November 2021
## ANNEX : DEFINITION OF AUDIT TERMS

### A. AUDIT RATINGS

<table>
<thead>
<tr>
<th>Rating System</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Some Improvement Needed</td>
<td>A few specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; generally however, they are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Major Improvement Needed</td>
<td>Numerous specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; they are unlikely to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are not adequate or effective to provide reasonable assurance that objectives are met.</td>
</tr>
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1 FAO’s accountability policy, in an extension of the COSO internal control objectives, establishes five critical areas of performance relevant for assessing the adequacy of controls – effectiveness, economy and efficiency, compliance, reporting and protection.