



AUD II /00943/05

29 December 2005

TO: Mr. Antonio Maria Costa, Executive Director
United Nations Office on Drugs and Crime

FROM: Egbert C. Kaltenbach, Director
Internal Audit Division II
Office of Internal Oversight Services

SUBJECT: **Audit of UNODC Regional Centre for East Asia and the Pacific
(AE2005/366/02)**

1. I am pleased to submit the final Audit Report on the audit of the United Nations Office on Drugs and Crime Regional Centre for East Asia and the Pacific (RCEAP), which was conducted between April and May 2005 in Bangkok and Phnom Penh by Mr. Berner Matthee and Mr. Diomedes Tinana.
2. A draft of the report was shared with the Director, Division for Operations, UNODC on 18 August 2005, whose comments, which we received on 26 September 2005, are reflected in this final report.
3. I am pleased to note that all of the audit recommendations contained in the final Audit Report have been accepted and that UNODC RCEAP, Bangkok has initiated their implementation. The table in paragraph 65 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 01, 03, 04 and 06, which OIOS considers to be of critical importance.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 31 May 2006. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly Resolution 48/218B.
5. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey and return it to me.
6. Thank you for your cooperation.

Attachment: Client Satisfaction Survey

cc: Ms. S. Noyan, Director, Division for Operations, UNODC (by e-mail)
Mr. K. Eriksson, Audit Focal Point, UNODC (by e-mail)
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors
Ms. A. Couzian, Deputy Director of External Audit (by e-mail)
Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)

Ms. C. Chávez, Chief, Geneva Audit Section (by e-mail)
Mr. B. Mathee, Auditor-in-Charge (by e-mail)
Mr. D. Tiñana, Auditing Assistant (by e-mail)



United Nations
Office of Internal Oversight Services
Internal Audit Division II

Audit Report

Audit of UNODC Regional Centre for East Asia and the Pacific
(AE2005/366/02)
Audit Report No. E05/R16

- **Report date: 29 December 2005**
- **Auditors: Berner Matthee**
Diomedes Tinana



Office of Internal Oversight Services
Internal Audit Division II

Audit of UNODC Regional Centre for East Asia and the Pacific (RCEAP)
(AE2005/366/02)

EXECUTIVE SUMMARY

In April and May 2005, OIOS conducted an audit of the United Nations Office on Drugs and Crime, Regional Centre for East Asia and the Pacific (RCEAP) in Bangkok, Thailand and its Field Office in Phnom Penh, Cambodia. The audit covered activities with a total expenditure of \$5.1 million in 2003 and 2004. *UNODC has accepted the recommendations made and is in the process of implementing them.*

Role and responsibilities

- RCEAP developed evolutionarily. Its regional role and responsibilities have not been formalized and in practice, RCEAP had no “overall responsibility for the activities of UNODC offices in the region” as stipulated in the working arrangement with UNDP. Country Offices in the region, did not report to RCEAP and although there was, according to RCEAP, good dialogue and communication among these offices, the managerial, functional and reporting responsibilities needed to be clarified and formalized. UNODC has clarified in *the working arrangement with UNDP that, “the Regional Centre provides substantive guidance to country offices in the region in respect of programme and project matters and acts as a centre of expertise”*.

Project formulation

- The project portfolio had a number of smaller projects which when compared to bigger but fewer projects, could obtain donors’ funding more easily. Nonetheless, smaller projects have inherent risks of “overlaps,” “scattered” portfolio, not being cost-effective, non-sustainability and termination of projects before an impact is made. *RCEAP agreed and informed that fewer but larger projects will be considered as appropriate, in the preparation of the RSPF and the formulation of new project proposals.*
- Core activities, such as advocacy and advisory roles were funded under projects, making the sustainability of the activities rather questionable. These activities were not limited to a time frame and therefore did not meet the criteria to be formulated under a project. *Given the demonstrated reluctance of donors to fund advocacy and advisory roles as core activities, RCEAP has to prepare for a fall-back position. If there is a lack of donor interest and response for non-project funded activities, they have to revert to project-related time bound advocacy and advisory activities, to be bolstered by related policies/strategies.* OIOS accepted the explanation and as suggested, RCEAP undertook to ensure that policies and strategies would be put in place to ensure continuity of core activities.

Project management

- *As suggested by OIOS, RCEAP agreed to establish a project management committee to review project implementation.*
- Two major donors engaged RCEAP in an anti-money laundering project (Project RAS/G44) through competitive bidding. While RCEAP considered the overall project implementation as cost-effective, there were divergent views as to the appropriateness of RCEAP implementing the project, excessive involvement by donors and non-compliance to their reporting requirements. *An evaluation mission was fielded in early August 2005. The Division for Operations will review the evaluation report and consider the development of a policy and guidelines for field offices that engage in projects through competitive bidding.*
- In Project RAS/G69, there was a disconnect between the purpose, duration and funding of this project and the actual activities that it funds. The project objective was also much broader than the activities that were carried out. As of May 2005, only 15 per cent of the \$780,000 project budget had been spent and the project terminates in 2006. Project RAS/G07, that aims at preventing ATS abuse among youth, lacked an implementing methodology, resulting in such a slow implementation that the 2004 allocation of \$144,000 was not requested from the donor (WHO). *Discussions with WHO had been initiated. A meeting was arranged for the respective Representatives to hold preliminary discussions during the second week of September 2005 and working arrangements were to be finalized during the Project Advisory Committee meeting in November 2005. WHO and national counterparts will participate.*
- There was a need for clearer strategies and strengthened staffing in Demand Reduction and Alternative Development. *As suggested, RCEAP drafted a demand reduction strategy that is currently under review. The existing staffing structure has also been modified identifying alternative development as a separate and cross - cutting programme.*

Staffing and consultancies

- Core staff positions are funded under projects. In the case of RCEAP, project staff positions are also not “project bound.” As projects have limited durations, the situation has affected staff morale, continuity and personnel practices.
- RCEAP did not comply with UN and/or UNDP rules regarding SSAs when engaging consultants. Important procedural requirements were not complied with and overall, there was no assurance that the selection process was proper and the number of consultants engaged was warranted. *RCEAP developed an internal guideline for the recruitment of consultants*

Administration and finance

- The general administration and financial management was found to be of a high standard and an adequate system was in place for the reimbursement of costs for services locally provided by the UNDP country office.

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I. INTRODUCTION

1. From 25 April to 20 May 2005, OIOS conducted an audit of the United Nations Office on Drugs and Crime Regional Centre for East Asia and the Pacific (RCEAP) in Bangkok, Thailand and its Field Office in Phnom Penh, Cambodia. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. South East Asia is the second largest source of opium and heroin production after Afghanistan and has emerged as a major source of synthetic drugs, such as amphetamine type stimulants. The “Golden Triangle” areas in Southeast Asia have been known for years as a main source of illicit drug production. Human trafficking is a significant problem throughout East Asia with money laundering becoming a growing issue, due to the drug trade and other criminal activities.
3. RCEAP aims at enhancing joint efforts among countries of the region in drug control and crime prevention. Its programme is based on the strategic goals set under the Sub-regional Action Plan on Drug Control under the 1993 Memorandum of Understanding (MOU) for the Greater Mekong Sub-region countries and the ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD) plan of action adopted in 2000 to enhance regional collaborative efforts. The programme includes “Law Enforcement”, “Demand Reduction” and “Alternative Development” projects.
4. The Project Office in Phnom Penh, Cambodia implements a project that aims to strengthen the Secretariat of the National Authority for Combating Drugs (NACD).
5. RCEAP was last audited in 2002 when the ‘Profi’ system was not fully operational and expenditures were not tracked in projects. There was a need for better inventory records and procurement responsibilities were not centralized. The procedures followed during the recruitment of consultants also needed to improve. Improvements were effected in the afore-mentioned areas, except that the procurement responsibilities were not centralized and the weaknesses in the recruitment process of consultants remained.
6. The findings and recommendations contained in this report have been discussed during the Exit Conference held on 20 May 2005 with the Representative. A draft of this audit report was shared with the Director, Division for Operations, UNODC on 18 August 2005, whose comments have been reflected in the report in italics. *UNODC has accepted the recommendations made in the draft report and progressed well to implement them.*

II. AUDIT OBJECTIVES

7. The main objectives of the audit were to:
 - Determine whether projects were properly formulated, planned, implemented and evaluated and whether project resources were used effectively and economically.
 - Determine the effectiveness of projects’ internal controls to ensure reliable recording and reporting of transactions.

- To ensure compliance with directives, rules and procedures and to assess the adequacy of the system for reimbursement of costs for services locally provided by the UNDP country office to, RCEAP.

III. AUDIT SCOPE AND METHODOLOGY

8. Ongoing project budgets total \$21 million of which \$7.7 million was expended prior to 2003, \$2.4 million in 2003 and \$3.1 million in 2004.
9. The audit covered 2003 and 2004 expenditures totaling \$5.5 million incurred in the following projects:

Drug law enforcement projects

- RAS/D82: Support to drug law enforcement with expenditures totaling \$172,000 prior to 2003, \$43,000 in 2003 and \$55,000 in 2004 (total approved budget of \$280,000).
- RAS/G53: The expansion of computer based drug law enforcement training in East Asia with no expenditures recorded prior to 2003, \$51,000 in 2003 and \$278,000 in 2004 (total approved budget of \$669,000).
- GLO/H17: UNODC global e-learning for drug control & crime prevention with no expenditures recorded prior to and in 2003, \$20,000 in 2004 (total approved budget of \$104,000).
- RAS/D91: Development of cross-border law enforcement cooperation in East Asia with expenditures totaling \$971,000 prior to 2003, \$420,000 in 2003, \$416,000 in 2004 (total approved budget of \$2.3 million).
- RAS/G44: UNODC participation in the ASEM anti-money laundering project with expenditures totaling \$73,000 prior to 2003, \$236,000 in 2003 and \$351,000 in 2004 (total approved budget of \$1.267 million).
- RAS/F34: precursor control in East Asia with expenditures totaling \$261,000 prior to 2003, \$323,000 in 2003 and \$206,000 in 2004 (total approved budget of \$1.2 million).

ACCORD, ATS and Public awareness projects

- RAS/F73: Regional co-operative mechanism to monitor and execute the ACCORD plan of action with expenditures totaling \$75,000 prior to 2003, \$201,000 in 2003 and \$314,000 in 2004 (total approved budget of \$978,000).
- RAS/F97: Improving ATS data and information systems with expenditures totaling \$48,000 prior to 2003, \$180,000 in 2003 and \$179,000 in 2004 (total approved budget of \$1 million).
- RAS/H15: Support for MOU partnership in East Asia with no expenditures recorded prior to and in 2003, and \$28,000 in 2004 (total approved budget of \$216,000).
- RAS/G69: Promotion of public awareness on the dangers of drugs in East Asia with no expenditures recorded prior to 2003, \$45,000 in 2003 and \$64,000 in 2004 (total approved budget of \$476,000).

Demand reduction projects

- RAS/G22: Reducing HIV vulnerability from drug abuse with expenditures totaling \$1,500 prior to 2003, \$252,000 in 2003 and \$438,000 in 2004 (total approved budget of \$1 million).
- CPR/H20: Destigmatization of injecting drug users with no expenditures prior to and in 2003, expenditures of \$38,000 in 2004 (total approved budget of \$85,000).
- RAS/F89: Tackling injecting drug use trends in East Asia with expenditures totaling \$35,000 prior to 2003, \$26,000 in 2003 and \$85,000 in 2004 (total approved budget of \$200,000).
- RAS/G07: Primary prevention of ATS abuse among youth in Thailand and the Philippines with expenditures totaling \$19,000 prior to 2003, \$34,000 in 2003 and \$138,000 in 2004 (total approved budget of \$ 453,000).

Alternative development projects

- RAS/C96: Alternative development in cooperation in East Asia with expenditures totaling \$212,000 prior to 2003, \$91,000 in 2003 and \$6,900 in 2004 (total approved budget of \$316,000).

Cambodia project office

- CMB/F14: Strengthening the Secretariat of the National Authority for Combating Drugs (NACD) and the National Drug Control Programme of Cambodia with expenditures totaling \$714,000 prior to 2003, \$284,000 in 2003 and \$357,000 in 2004 (total approved budget of \$2.7 million).

10. Furthermore, administrative expenditures incurred in 2003 and 2004 totaling \$800,000 and the general administration at RCEAP was also audited.

11. OIOS reviewed project documents and other records related to operational and financial management in order to assess the adequacy of project management and internal control systems in place to ensure that transactions are accurately recorded and that the financial status of projects are properly tracked. The audit team also visited the Project Office in Phnom-Penh, Cambodia and audited Project CMB/F14.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. RCEAP's role and responsibilities

12. RCEAP, the only Regional Centre of UNODC, developed evolutionarily. Established in 1972 as the Office of the UN Programme for Drug Abuse in Thailand, then transformed into a UNFDAC Field Office, it was designated as the UNDCP Regional Centre for South East Asia in 1992. In 1997, it became the UNODC Regional Centre for South East Asia, and in 1998 its coverage expanded to include the Pacific. Its involvement from a Drug Abuse Programme in Thailand to a Drug and Crime Office for the region meant a large increase in operational responsibilities.

13. The duties and responsibilities of the Representative of the Regional Centre were spelled out in the Working Arrangement with UNDP, but it differed from the practice. RCEAP did not have the "overall responsibility for the activities of UNODC offices in the

region” as stipulated in the Working Arrangement. The Country Offices in Myanmar, Laos and Vietnam did not report to RCEAP, but directly to Headquarters. Therefore, OIOS recommended that the Office of the Executive Director, UNODC, clarify the role and responsibilities of RCEAP. *Subsequently and in September 2005, UNODC requested UNDP to append a corrigendum to the Working Arrangement that states; “the Regional Centre provides substantive guidance to country offices in the region in respect of programme and project matters and acts as a Centre of expertise for UNODC in the region through the out-posting of experts from Headquarters”.* OIOS appreciates the clarification that RCEAP does not have the overall responsibility for the activities of UNODC offices in the region.

B. Programme framework

14. The MOU for the Greater Mekong Sub-region countries and the ACCORD Plan of Action guided RCEAP’s work. The last Regional Profile (profile) for South East Asia and Regional Strategic Programme Framework (RSPF) were prepared in 2002 and 2003 respectively. The project portfolio supported the activities as per the RSPF that covered the period 2004-2005. RCEAP stated that a RSPF, covering the period 2005-2007, would be prepared by September 2005 based on updated regional profiles. RCEAP added that there would be important issues outside the scope of the MOU and ACCORD, geographically (countries not included) and areas of work, such as crime and terrorism. RCEAP viewed this as part of the evolutionary nature of the work.

15. OIOS was of the opinion that the framework was not only a matter of documentation and formalization and therefore, viewed the processes involved in preparing the profile and RSPF and the subsequent updating thereof important.

Recommendation:

- The UNODC Regional Centre for East Asia and the Pacific should update the Regional Profile and Strategic Programme Framework (Rec. 01).

16. *RCEAP accepted the recommendation and concurred that a Regional Profile and RSPF were under preparation, together with the ACCORD Plan of Action that has a strong bearing on the RSPF. The target date for completion was set for the 4th quarter of 2005.* OIOS will close the recommendation upon confirmation that the regional Profile and Strategic Programme Framework have been completed.

C. Project formulation

17. There were projects with “cross cutting” activities, such as Computer-Based Training (CBT) and data collection projects, in respect of which, OIOS raised the question as to whether less but larger projects were possible. RCEAP answered that it was easier to obtain funding for a number of smaller projects than for bigger, but fewer projects. OIOS notes this last point, but managing projects that “overlap” in efforts or a “scattered” portfolio could be difficult. Managing a number of smaller projects might not be cost-effective because more projects would normally require more administration and coordination efforts than fewer, but larger projects.

18. Therefore, OIOS recommended the concept of fewer but larger projects especially the “cross cutting” activities, such as CBT, be considered in the SPF preparation. *RCEAP accepted the recommendation and stated that fewer but larger projects will be considered*

as appropriate, in the preparation of the RSPF and the formulation of new project proposals. Also, that CBT is now largely implemented as a global project and the development thereof, done in close cooperation with and guidance from Headquarters.

19. RCEAP sustained core activities, such as advisory roles and advocacy that are normally institutionalized (funded under “core funds”), under projects. These activities did not meet the criteria for a project because it was not “undertaken within an established time frame and budget.” Funding these activities under projects with limited time frames and budgets also presented a risk that core activities, especially in the case of advisory roles and advocacy activities, could discontinue. These activities should preferably have been carried out under “core funds”, but if it was not possible, a strategy should have been developed to provide for follow-up projects to ensure continuity.

20. OIOS also suggested that core activities, such as advocacy and advisory roles, should not be limited to time-bound projects. If for funding reasons, the activities have to be continued under projects, then RCEAP should develop a strategy to ensure follow-up projects. *RCEAP agreed. The need for core funding will be reflected in the RSPF and related planning and fund-raising documents. Given the demonstrated reluctance of donors to fund advocacy and advisory roles as core activities, RCEAP will also prepare for a fallback position. Should there be a lack of donor interest in or response to non-project funded activities, they will revert to project-related time bound advocacy and advisory activities, to be bolstered by related policies/strategies.*

21. There was also an inherent risk that projects, in general, could terminate before the desired impact had been made without other means to continue the work, either through follow-up projects or through the involvement of other parties or counter parts. This was especially true in the case of sensitive issues in the thematic area of Demand Reduction, such as HIV. If such projects were discontinued before a desired impact had been made, it could send the wrong signal, not only to donors, but also to the general public.

22. Naturally, the funding and duration of a project are the key factors to determine a project’s objectives and the extent of activities that can be carried out, but the expected impact of the planned activities should also be determined at the formulation stage and assessed in the interim, in particular, during the interim evaluation. If it is not certain that a reasonable impact will be made because of lack of funding or if the duration is too short, it could be better to reconsider the project, rather than to continue it within the given constraints. *RCEAP agreed with OIOS’ view that the eventual impact of a project, in a thematic area, should be considered during the formulation stage to determine as to whether expectations could be met. The strategies and implementation methodologies to achieve the desired impact will be included in the project documents. Also, that concurrence of project documents with the afore-mentioned requirements will be followed-up by the OIOS proposed project management committee.*

D. Project management

23. Financial administration was a strength in RCEAP’s project management. Project budgets and workplans were in most cases properly prepared, project records were in good order and financial statuses of projects were properly tracked. We were particularly impressed by the manner in which budgetary control was performed through the keeping of pencil ledgers and the accuracy thereof.

24. RCEAP's performance in implementing the current project portfolio had not been evaluated and some individual projects were also not evaluated, either in the interim or at the end. The financial implementation rate achieved in a project was not a good indicator of what had been achieved in a project, during implementation or at the end. An evaluation plan was needed.

Recommendation:

- The UNODC Regional Centre for East Asia and the Pacific should develop an evaluation plan to ensure that projects are evaluated in the interim and at termination (Rec. 02).

25. *RCEAP accepted the recommendation and stated that, in addition to the annual evaluation plan that is monitored by the Independent Evaluation Unit at Headquarters, RCEAP would prepare a separate evaluation plan for all its ongoing projects. For all new projects, the inclusion of an evaluation component is obligatory.*

26. OIOS views this as a positive step, because the evaluation plan of the Independent Evaluation Unit at Headquarters provide coverage over a period of time and does not include all projects. RCEAP's approach will ensure that individual projects are systematically evaluated. OIOS will close the recommendation, upon receipt of the evaluation plan.

27. As far as documentation is concerned, we found that project documents, workplans and budgets had been properly prepared. Semi-annual and annual reports were prepared, but some of those reviewed, were not detailed enough in the description of achievements and problems encountered.

28. Considering the number of self-implemented projects, OIOS was of the opinion that RCEAP could benefit from periodic self-assessments of progress made during implementation. A project management committee consisting of Programme Managers and Project Coordinators could carry out the assessments, thereby allowing projects to benefit from the views and expertise of staff in other projects and overall, strengthen programme management. It would also assist in avoiding duplication of efforts and in providing Project Coordinators with insight in other projects.

Recommendation:

- The UNODC Regional Centre for East Asia and the Pacific should consider establishing a project management committee to assess the progress made in projects during implementation. The number of self-implemented projects, their centralized location and number of Project Coordinators provide the opportunity to benefit from such an arrangement (Rec. 03).

29. *RCEAP accepted the recommendation and undertook to establish a project management committee. Also, a monitoring plan will be prepared for all projects and the project management committee will review the implementation.* OIOS will close the recommendation upon receipt the Terms of Reference and composition of the project management committee.

30. From the review of project documents and discussions with staff, our assessment was that the majority of projects in Law Enforcement made good progress in achieving objectives. Anti-money laundering was included in the portfolio of Law Enforcement and experienced difficulties during implementation. In Demand Reduction, Project RAS/G22 was the main project of which the implementation was stalled due to a lack of funding. Project activities restarted in mid 2005 when funds became available. There was limited activity in Alternative Development.

Drug law enforcement

31. The main projects focused on support to drug law enforcement, CBT, cross-border law enforcement, precursor control and a project in the field of anti-money laundering. The support project provided for the engagement of an Advisor at the L-5 level, previously a function performed by a regular staff at the P-5 level. CBT evolved in a strong “cross-cutting” activity that expanded regionally and globally. Twenty-four Border Liaison Offices were established under the cross-border project and precursor control had good results.

RAS/G44 – Anti-money laundering project

32. The project was formulated in response to a competitive bidding process undertaken by the Department for International Development (DFID) of the Government of the United Kingdom. It was the first anti-money laundering project at RCEAP. Until the end of 2003, the project completed six needs assessments at a cost of approximately \$300,000. In 2004, four financial investigation trainings were held in the region, one prosecutor training in Thailand and the CBT programme was translated into five languages.

33. Project staff mentioned a number of issues that they experienced during implementation that included: *divergent views as to the process by which funding was obtained; excessive involvement by donors; RCEAP did not know that the European Commission provided 50 per cent of the funds and was in fact a third party to the project, resulting in RCEAP not complying with the required reporting requirements; uncertainty as to whether it is a UNODC or European Commission project; and no exit strategy. An External Advisor was provided for and therefore, RCEAP was not required to have an expert in the field of anti-money laundering during the bidding process or at a later stage. RCEAP had no clarity as to the role and responsibilities of the External Advisor and no influence on his work to ensure timely delivery.* The consultants that conducted the needs assessments were engaged upon the advice of the External Advisor.

34. Though the project management complied with UNODC’s reporting requirements to demonstrate accountability, the financial reporting arrangements under the Memorandum of Understanding between DFID and the European Commission were originally not complied with, resulting in discontent. Although RCEAP was not aware of the additional reporting requirements as per the Memorandum of Understanding and therefore not responsible, the discontent required RCEAP’s project management to take corrective actions to ensure that the reporting requirements were met.

35. The difficulties that the project staff experienced during implementation could be attributed to the implementing methodology used. The implementing methodology was different from that normally followed by UNODC. RCEAP was engaged following a bidding process and was the implementer of the project on behalf of donors that had a direct involvement in the project. RCEAP had no expertise in anti-money laundering and was mainly guided by an External Advisor, the Memorandum of Understanding and

decisions of the Steering Committee that comprised of the donors. It could therefore be said that the donors and the External Advisor were the main decision makers in the project, with RCEAP having the coordination, administrative and reporting responsibilities. *According to RCEAP, the overall project implementation was cost-effective and the desired impact will be made.* This could, however, only be substantiated by a comprehensive external evaluation. Also, lessons had to be learned from the experiences of RCEAP, especially regarding implementing methodologies, when engaging in projects through competitive bidding.

Recommendation:

- The UNODC Regional Centre for East Asia and the Pacific should arrange an external evaluation of project RAS/G44 and subsequently request the Division for Operations to develop a policy on the implementing methodology that should be followed by Field Offices when engaging in projects through competitive bidding exercises, taking into consideration the outcome of the evaluation (Rec. 04).

36. *An evaluation mission was fielded in early August 2005 and RCEAP is waiting for the report. The Division for Operations will review the evaluation report and consider the development of a policy and guidelines for field offices that engage in projects through competitive bidding. OIOS retains the recommendation until the external evaluation report is issued and the Division for Operations has decided on a policy, if any.*

RAS/G69 – Advocacy project

37. Project RAS/G69 started in 2003 with an implementing period of three years, therefore until 2006. The associated agency was WHO that signed the project document in September 2003 with a budget of \$780,000. A Project Coordinator was not appointed until December 2004. *RCEAP indicated that since then, project activities have stepped up considerably since December 2004.*

38. There was a disconnect between the purpose, duration and funding of this project and the actual activities funded. The project funded public information that was normally a core function and not limited in duration although the project was. The project document aimed to “produce and distribute awareness building materials suitable for a number of different media, develop model campaigns, support innovative community-based special events and review and adjust public advocacy initiatives as necessary”. This is much broader than the publication of a newsletter and the development of a website. At the date of the audit, only \$120,000 of the \$780,000 had been spent, mainly on the publication of the newsletter Eastern Horizons and the development of the RCEAP’s web site.

39. Innovative community special events and the development of campaign strategies in support of the ACCORD Taskforce One, outputs one and four, had still to be undertaken. Nevertheless, the budget and available funding appeared to be significantly higher than what was needed to achieve the planned outputs during the implementation period.

40. The implementing arrangements as per the project document required the involvement of WHO and non-governmental and community based agencies and the establishment of a Project Advisory Committee that would guide the implementation. OIOS could not find evidence that WHO was adequately involved in the project and that the outputs were in line with what were agreed upon. There was a need to communicate with WHO as regards the duration of the project, the funding and what was to be achieved and then to revise the project document, work plans and budget accordingly.

Recommendation:

- The UNODC Regional Centre for East Asia and the Pacific should discuss the duration, funding, arrangements and objectives of Project RAS/G69 with the World Health Organization, in an effort to secure the funding and to ensure that there is a common understanding on what is to be achieved in the project (Rec. 05).

41. *RCEAP accepted the recommendation and stated that discussions with WHO had been initiated. A meeting was arranged for the respective Representatives to hold preliminary discussions during the second week of September 2005. Detailed working arrangements will be finalized during the Project Advisory Committee meeting to be held in November 2005. WHO and national counterparts will participate. OIOS will close the recommendation once working arrangement with WHO have been finalized.*

Demand reduction

42. OIOS viewed project RAS/G22 (Reduce HIV vulnerability from drug abuse) to be well administered. Apart from the afore-mentioned project, there was limited ongoing work.

43. Project RAS/F89 started in 2001 and intended to develop national competence of drug control agencies and promote regional partnerships for the prevention of drug abuse related HIV infection among selected countries experiencing an increasing trend in abuse of injected drugs. Originally with a one-year implementation period, the project was still ongoing with limited ongoing technical work. Project CPR/H20 with a budget of \$90,000 is a pilot project in China with limited expenditures of \$38,000 incurred in 2004 in trainings and documentation in the area of drug abuse treatments.

44. The only substantive project at the date of the audit was RAS/I09.

RAS/G07 – Preventing ATS abuse among youth project

45. Project RAS/G07 that aimed at preventing ATS abuse among youth lacked an implementing methodology, which resulted in such a slow implementation that the 2004 allocation of \$144,000 was not requested from the donor. According to RCEAP, the then donor would likely have only provided \$60,000 per year for the remainder of the two years, 2005 and 2006. The project was the only assistance project in the area of ATS prevention that would most probably not be able to obtain half of the original budget of \$450,000 from the donor.

46. This project demonstrated the difficulty in managing multiple projects without a clear strategy and/or clearly defined roles and responsibilities of staff managing the projects.

47. *RCEAP stated that, in May 2005, an in-house task force team was appointed to manage the project. Since then the project met expectations, objectives are likely to be achieved within the project timeframe. In July 2005, the donor undertook to provide full funding for the remainder of the budget.*

Alternative development

48. Project RAS/C96's focused on reducing drug crop cultivation through improving the effectiveness of alternative development projects by increasing knowledge, skills and capabilities of policy makers and practitioners in national agencies. At the completion of the afore-mentioned project, project H84: Regional Collaboration on Community based Alternative Development to Eliminate Opium Production in Southeast Asia commenced in April 2005. Apart from these projects, there were no other ongoing projects in this thematic area. *There were, however, non-project networking activities carried out by the Representative.*

49. OIOS suggested that RCEAP develop clear strategies for the thematic areas of Demand Reduction and Alternative Development that takes into consideration facts (data), impacts (countries and harm to focus on) and funding sources (donors). *Subsequently, RCEAP drafted a Demand Reduction Strategy that is currently under review. They are also in the process of raising the alternative development portfolio by formulating new projects to increase activities as well as human and financial resources. The existing staffing structure has also been modified identifying alternative development as a separate and cross-cutting programme.*

Cambodia project office

50. Project CMB/F14 aimed at strengthening the Secretariat of the National Authority for Combating Drugs and the National Drug Control Programme of Cambodia was well established and administratively and financially well managed. There were also good financial internal controls in place.

E. Staffing resources

51. With the exception of the three Professional posts, i.e. the Representative and two Programme Managers, all other positions are funded from projects. As long as the projects continue, there is no concern, but projects have limited durations that could become problematic because the project staff's functions are more closely related to the core work of RCEAP compared to other UNODC field offices, especially in the case of Project Assistants.

52. We observed that their positions were not "project bound" (meaning that although they are funded by a project, their work is not limited to that of the project). This was applicable, even for staff members that are "core" staff. They were funded from the projects and although their work involved projects, it was not possible to introduce any charge-out policy that would adequately distribute the costs between the projects so that the work done relates to the staff costs incurred. Therefore, the staff costs incurred in a particular month was charged to an individual project.

53. There were risks attached because a number of projects were reaching their termination dates. Firstly, it could result in projects to be created and funded to sustain the current staff compliment and not because the activity is in line with established strategies. *The management of RCEAP disagreed with this and stressed that projects would not be developed to maintain a staff component.*

54. Secondly, the situation could affect staff morale, continuity and personnel practices. This was particularly relevant in the case of Project Assistants because they were engaged to perform administrative and financial functions and not technical work. Therefore, it is difficult to determine “who is to be funded from which project” and when projects terminate, “whose contracts will be ended”.

55. Although we recognized that projects had to fund the positions in the absence of core funding, the situation had negative effects. *RCEAP is considering a “pool” of Project Assistants to work on projects and the costs would be charged to the projects.* Given the circumstances, it seemed to be the correct action in respect of Project Assistants, but would not solve the problem of funding. It would still be funded from projects with limited durations and a charge-out policy would still to be determined. Therefore, OIOS was of the opinion that a better solution should be found, but UNODC, in general, is increasingly funding posts from projects, and is moving away from funding posts from core funds. This is understood, but OIOS felt that it is important to report on the implications of funding “core” staff from project funds.

F. Consultancies

56. RCEAP did not comply with the UN and/or UNDP rules i.e. UNDP/ADM/95/63/ADD.1; “Guidelines for use of Special Service Agreements” and UN ST/AI/1999/7; “Consultants and Individual Contractors” when engaging consultants or individual contractors. The non-compliance included not utilizing the official roster (database) to select candidates and/or to establish an official roster. It was also not evident that RCEAP properly verified academic and professional credentials and observed gender and/or geographic balances. Furthermore, Terms of Reference (TOR) that include tangible and measurable outputs and corresponding performance indicators for evaluations were not always developed. *RCEAP made a consolidated list of potential candidates merely from the applicants received, which is used in the selection of candidates.*

57. Overall, we could not assure ourselves that the selection process ensured that the consultants met the required academic and professional credentials. New graduates were being recruited as consultants and in one case an intern was engaged as a consultant right after her internship with another International Organization. Also and based on available documents reviewed, three of the five ALD staff were former interns and consultants.

58. RCEAP engaged many consultants and given the inherent risks attached to non-compliance, greater transparency was needed and controls had to be put in place to ensure that rules are complied with. Given the importance of the matter and to ensure transparency, OIOS suggested that Field Offices should involve the Division for Operations in the engagement of consultants. *While the Division for Operations agreed with the thrust of the recommendation, they did not consider it feasible to review the engagement of consultants at the field offices, other than on a sample basis.*

59. *Following the audit, RCEAP developed an internal guideline for the recruitment of consultants under a Special Service Agreement. The guideline covers the general principles, step - by - step recruitment preparation and procedures as well as a flow chart of processes and responsible agencies and units.*

60. OIOS welcomes the action taken by RCEAP, but suggests developing a UNODC wide guideline, which could be used by all field offices. Therefore, OIOS recommends that HRMS develop such a guideline after reviewing that of RCEAP.

Recommendation:

- The UNODC Human Resources Management Service should consider developing a guideline to strengthen controls over the engagement of consultants by Field Offices to provide greater transparency and compliance with relevant rules (Rec. 06).

G. Procurement

61. Procurement for RCEAP is handled by UNDP. In most cases, however, RCEAP performed a substantial part of the work that included bidding and, in general, the selection of the supplier. The procurement process was adequate, but there were control weaknesses on the part of RCEAP, mainly because RCEAP did not have a focal point or liaison officer to coordinate procurements and communicate with UNDP. Project Coordinators solicited the bids and communicated directly with UNDP. They also approved the purchase orders on behalf of RCEAP, which did not comply with the internal control requirement of segregating the functions of requisitioning and purchasing. Moreover, procurement registers were not kept and the standard UN agreement (Standard Purchase Contract nor its General Contracting Conditions) was not used.

62. RCEAP engaged CET Digital Productions in a series of contracts to develop “Computer Based Training Modules” for different projects. The contracts totaled close to \$900,000 over a five-year period of which contracts amounting to some \$650,000 was entered into after obtaining waivers from UNDP’s Advisory Committee on Procurement even when actual competitive bidding was carried out and CET was the lowest bidder, except for one case where CET was the highest bidder. *RCEAP explained that the supplier was selected because of competence and reputation.* Nonetheless, we could not find adequate evidence, such as a proper technical evaluation report to demonstrate that CET’s bid offered the best value for money. For the rest of the cases, there was no adequate explanation as to why a waiver was necessary even when CET’s bid was the lowest. RCEAP needed to ensure that the selection process awards the contract not through a waiver, but based on a proper evaluation of bids received.

63. Therefore, OIOS recommended that RCEAP should establish a focal point for procurement and introduce proper procurement procedures and records, that should ensure approval of purchase requests by Programme Managers, use of a procurement register and proper segregation of procurement functions. *RCEAP assigned a focal point for procurement. Guidelines for procurement procedures and records had been prepared and shared with all staff. OIOS received a copy of the Guidelines.*

H. Administration and finance

64. We found the general administration and financial management at RCEAP to be of a high standard. Records were properly maintained, internal controls were in place and effective and the accounts were well managed. Also, an adequate system was in place for the reimbursement of cost for services locally provided by the UNDP country office.

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

65. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Rec. no.	Action/document required to close the recommendation
1*	Confirmation that the Regional Profile and Strategic Programme Framework had been updated.
2	Copy of the evaluation plan.
3*	Terms of Reference of the project management committee.
4*	Issuance of the evaluation report and policy of DO.
5	Confirmation that a working arrangement had been reached with WHO.
6*	HRMS' decision on the development of a guideline for engagement of consultants in the field.

* Critical recommendations

VI. ACKNOWLEDGEMENT

66. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of RCEAP.

Egbert C. Kaltenbach, Director
Internal Audit Division II
Office of Internal Oversight Services