

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
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**AUDIT**

**OF**

**UNDP**

**VENDOR MANAGEMENT**

**Report No. 1602**  
**Issue Date: 24 June 2016**

## **Table of Contents**

<b>Executive Summary</b>	<b>i</b>
<b>I. Vendor management in UNDP</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Governance</b>	<b>2</b>
<b>B. Relationship management</b>	<b>9</b>
<b>C. IT tools and controls</b>	<b>9</b>
<b>Definitions of audit terms - ratings and priorities</b>	<b>12</b>

## Report on the Audit of UNDP Vendor Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP vendor management from 15 February to 1 April 2016. The audit aimed to assess the adequacy and effectiveness of the governance, risk management, and control processes relating to the following areas and sub-areas:

- (a) governance, including roles and responsibilities, policies and procedures, and staff capacity;
- (b) relationship management; and
- (c) information technology tools and controls.

The audit covered UNDP's vendor management processes from 1 January 2014 to 31 December 2015. This was the first audit of vendor management at the corporate level.

The audit was in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed UNDP vendor management as **unsatisfactory**, which means, "Internal controls, and governance and risk management processes were either not established or not functioning well." The issues were such that the achievement of the overall objectives of UNDP Vendor Management could be seriously compromised. This rating was mainly due to: (a) weaknesses in the vendor sanctions process, which further exposed UNDP to financial and fraud risks; (b) the decentralized vendor management system, which resulted in poor tracking and monitoring of the procurement and payment activities; (c) inadequate guidance for post-qualification processes that could result in UNDP contracting with undesirable firms; and (d) weaknesses in the Atlas Vendor Management Module that led to pervasive data quality problems.

**Key recommendations:** Total = 6, high priority = 4

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	2, 3, 6	High
Effectiveness and efficiency of operations	4, 5	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	High

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Weaknesses in vendor sanction process (Issue 1)	The audit noted that during the period 2014-2015, the Vendor Review Committee did not meet regularly and there was a period of nine months when the Committee did not have a Chairperson. There were no additions to the UNDP vendor ineligibility list since June 2013, although cases had been referred to the Committee. As of May 2016, there was a backlog of 35 cases, which had been referred to the Committee. Seven of these cases were from 2013 and the vendors had been placed under interim suspension. From the list on the backlog, nine vendors were active in Atlas, which meant that payments could be processed.
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**Recommendation 1:** The Bureau for Management Services should improve the vendor sanction process by: (a) clearing the backlog of vendor cases and updating the vendor ineligibility list; and (b) ensuring that the Vendor Review Committee meets regularly to discuss any pending cases.

Decentralized vendor management system (Issue 2)

At the time of audit, vendor management was decentralized and business units were responsible for all the processes relating to vendor management. The audit noted challenges with the decentralized vendor management system in UNDP, which included: creation of the same vendor in multiple locations, leading to inefficiencies and time wasted in creating and approving vendors already used in other business units; the inability to consolidate and share vendor information in a timely manner; lack of central control over vendor management, making oversight and monitoring difficult; and the inability to track ceiling amounts per vendor since the same vendors may have been entered in Atlas in different business units. For example, the audit sample of 13 countries noted that in one Country Office, a vendor was entered into the Atlas system seven times. That same vendor also appeared in Atlas in five different Country Offices of our sample.

**Recommendation 2:** The Bureau for Management Services should centralize vendor management processes to enable sharing of information among business units and central analysis of data.

Inadequate guidance for post-qualification process (Issue 3)

There were inconsistencies in how post-qualification processes for vendors were performed by Country Offices on procurement cases. For some Country Offices, post-qualification procedures were mainly to validate the banking information provided by the vendors. There were 7 out of 13 Country Offices interviewed that mentioned that the 'UNDP Programme and Operations Policies and Procedures' did not offer sufficient guidance on how to conduct post-qualification procedures.

Further, emphasis in the 'UNDP Programme and Operations Policies and Procedures' for post-qualification was on high-value procurement processes (i.e., over \$100,000). There was no guidance to Country Offices for vendors that may carry a higher risk for other reasons, such as, for example, local vendors having a physical address in one country and having a bank account in another country with a risk that some of these companies may be shell companies. From the audit sample of 13 Country Offices, 4,287 suppliers (out of 179,018 suppliers) had a bank account in a different country from the supplier address.

**Recommendation 3:** The Bureau for Management Services should update the 'UNDP Programme and Operations Policies and Procedures' to clarify how and when post-qualification procedures should be performed, taking into consideration vendors with higher risks.

Weaknesses in Atlas Vendor Management Module (Issue 7)

OAI audits have highlighted some vendor data quality issues, which included, different vendors with the same bank accounts, and missing key vendor record fields, such as contact person and address or bank account. These data quality issues arose partly due to the lack of robust data input controls in the Atlas Vendor Management Module. Further, due to the system design, limited

reporting was available.

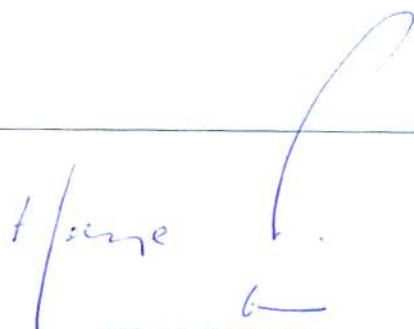
Recommendation 6: The Office of Operations, Legal and Technology Services should improve Atlas vendor management controls by incorporating additional functionalities to address the application control weaknesses.

### Management comments and action plan

The Director of the Bureau for Management Services accepted all six recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate. Management has committed to enhance vendor management in UNDP by taking the following actions:

- Regular Vendor Review Committee meetings and introduction of a direct vendor review process;
- Regular exception reporting to monitor duplicate vendors and vendor management queries on a quarterly basis;
- Review of the vendor management system with the vision of a two-tiered approach;
- Simplified bidding documents with further clarity on post qualification;
- Monitor payments and follow-up on exceptions;
- Issue a Standard Operating Procedure on proper vendor creation in Atlas;
- Automated contract management in Atlas which enables business units to generate performance evaluations; and
- Review of additional vendor management system controls and commitment to enhance current vendor reporting.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



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Director  
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## I. Vendor management in UNDP

UNDP had 480,000 active vendors as of February 2016. In UNDP, all payees are referred to as vendors. This includes external suppliers, international or national staff members, individual consultants and contractors, as well as personnel on Reimbursable Loan Agreements. In its Procurement Strategy, UNDP recognizes the importance of maintaining business relationships with vendors who share its values, including sustainability, the social costs of carbon emissions, women's empowerment, and South-South Cooperation. A robust vendor sanctions framework and due diligence procedures in sourcing are noted as preventive measures against fraud and corruption.

Vendor management in UNDP is decentralized. It is delegated to business units (including Country Offices and Headquarters units) responsible for conducting vendor creation, approval, due diligence, and monitoring. Responsibilities are outlined below:

- The Office of Sourcing and Operations is responsible for setting the policies for vendor management. It also provides direct support, including providing advice on complex procurements to Country Offices and other business units.
- The Vendor Review Committee was set up at UNDP Headquarters in 2011 to review vendor cases submitted by business units or OAI and to make recommendations to the Chief Procurement Officer on decisions regarding vendor sanctions.
- The Office of Financial Resources Management is responsible for ensuring the integrity of financial data in Atlas (enterprise resource planning system of UNDP), which includes all data related to the payment of vendors.
- The Regional Bureaux have an oversight function over Country Offices, including providing support relating to vendor management.

## II. Audit results

OAI made four recommendations ranked high (critical) and two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

### **High priority recommendations**, arranged according to significance:

- (a) Improve the vendor sanction process (Recommendation 1).
- (b) Centralize vendor management processes to enable sharing of information among business units and central analysis of data (Recommendation 2).
- (c) Improve Atlas vendor management controls (Recommendation 6).
- (d) Update the 'UNDP Programme and Operations Policies and Procedures' by clarifying how and when post-qualification procedures should be performed (Recommendation 3).

### **Medium priority recommendations**, arranged according to significance:

- (a) Establish a central repository of vendor (including individual contractors) performance evaluations and make them available to all business units (Recommendation 5).
- (b) Improve vendor monitoring and oversight (Recommendation 4).

The detailed assessment is presented below, per audit area:

## A. Governance

### Issue 1 Weaknesses in vendor sanction process

According to the UNDP Procurement Strategy, fraud and corruption perpetrated against UNDP shall be confronted firmly and fairly, through a robust vendor sanctions framework, and prevented through due diligence procedures in sourcing. Vendor sanctions are approved by the Chief Procurement Officer based on the recommendations of the Vendor Review Committee. As per the 'UNDP Programme and Operations Policies and Procedures', the Vendor Review Committee shall consist of six members and is tasked with making recommendations to the Chief Procurement Officer based on analysis of pertinent internal and external information regarding actions by vendors that may have engaged in proscribed practices. OAI is responsible for the investigation of allegations of vendor involvement in proscribed practices and shares its reports and accompanying exhibits with the Chairperson of the Vendor Review Committee for decisions. The Vendor Review Committee uses the OAI reports to make its determination on whether the vendors are subject to sanctions or not.

The Vendor Review Committee met only once in 2015. There were no additions to the UNDP vendor ineligibility list since June 2013, although cases had been referred to the Committee. There were additions to the interim suspension list in 2013 (32 additions), 2014 (8 additions), and in June 2016 (3 additions) (i.e. vendors had been suspended from participating in any UNDP procurement actions pending the outcome of the sanction proceedings). There were no additions to the interim suspension list in 2015 although 12 cases were referred to the committee during the year. As of May 2016, there was a backlog of 35 cases, which had been referred to the Committee. From the backlog of 35 cases, 9 vendors were still active in Atlas, which meant that payments could still be processed to the vendors.

According to the Procurement Services Unit, the lack of meetings was due to the restructuring exercise as the previous Chairperson and various members were relocated from Headquarters, had left UNDP, or their roles in UNDP had changed. In April 2015, 11 new members/alternate members were appointed to the Vendor Review Committee, but from March to November 2015, there was no Chairperson for the Committee as the incumbent had been relocated. A new Chairperson was appointed in December 2015 and due to changes in roles and responsibilities, another Chairperson was appointed in March 2016. The audit noted that since March 2016 the Committee had made recommendations to the Chief Procurement Officer in three separate memos covering six vendors.

The backlog in vendor cases to be reviewed could increase the risk of fraud or financial loss for UNDP, as vendors who should be on the ineligibility list may continue doing business with UNDP.

<b>Priority</b>	High (Critical)
<b>Recommendation 1:</b>	
The Bureau for Management Services should improve the vendor sanction process by:	
<ul style="list-style-type: none"> <li>(a) clearing the backlog of vendor cases and updating the vendor ineligibility list; and</li> <li>(b) ensuring that the Vendor Review Committee meets regularly to discuss any pending cases.</li> </ul>	

**Management action plan:**

The Bureau for Management Services agreed that the Vendor Review Committee did not meet regularly during the period due to the structural change. However, the vendor sanctions process continued and the risks were mitigated through the interim suspension procedure.

The Bureau for Management Services has also recently introduced a Direct Review Process to address the backlog. Weekly meetings with the Chairperson have been scheduled. The Vendor Review Committee has now fully constituted and is fully operational.

**Estimated completion date:** December 2016

**Issue 2**      Decentralized vendor management system

According to the UNDP Procurement Strategy 2015-2017, centralized Atlas vendor management is one of the strategies that will lead to further efficiency gains and reinforce UNDP's enabling role. As per best practices, centralized vendor management has three major benefits:

- (a) It increases the efficiency and simplifies the process of managing multiple relationships, and reduces wasted time and cuts costs associated with vendor management. Performance data, reports, and information can be readily available and can be used in order to make informed decisions about vendors. Additionally, it will allow the organization to reduce the time devoted to the vendor management process, which will generate additional cost savings.
- (b) A centralized database will help identify and manage vendor risk. It will be easier for the organization to perform due diligence on vendors. Furthermore, when performance is tracked and measured, the organization will learn about issues immediately and will be able to take corrective action.
- (c) Finally, the centralization facilitates the analysis of vendor performance against agreed metrics. Without proper management, it can be difficult for the organization to determine whether a supplier is meeting its quality standards.

In UNDP, each office is responsible for creating, approving, and managing vendors under its business unit. There is no centralized management for vendor records. In 2014, the Office of Sourcing and Operations hired a consultant to review the vendor management system. The review<sup>1</sup> concluded that there was a compelling case for centralizing vendor records; however, the Office of Sourcing and Operations had not made a decision on the consultant's recommendations.

During this audit, the audit team interviewed 13 Country Offices and obtained their views on the centralization of vendor management processes. Of the 13, 8 Country Offices were not in favor. The remaining 5 were in favor of the change, but only as it related to the Country Offices retaining control of the vendor creation and approval process. The consultant's review showed that it took an average of 1 hour to create a vendor profile in Atlas and 5 hours to get a vendor approved. The eight Country Offices feared that centralized vendor management processes would make the process longer than this, leading to delays in procurement processes. One United Nations agency with an outsourced centralized vendor management system informed OAI that the target for vendor registration was 24 hours, provided that all documentation was available.

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<sup>1</sup> Review of UNDP's Vendor Management System, Fitch Consulting April 2014.

At the time of the audit, for some business units (e.g., United Nations Volunteers, and three Country Offices in the Asia and the Pacific region), vendor management was to be transferred to the Global Shared Services Centre. The Regional Hub for Latin America and the Caribbean was providing vendor creation and approval services to three Country Offices in the region.

The audit noted some challenges with decentralized vendor management in UNDP:

- With the decentralized system, a vendor could be created in multiple business units, leading to duplications. This could lead to inefficiencies in creating and approving vendors already being used by UNDP elsewhere. For example, from the sample of 13 Country Offices, 1 Country Office entered a vendor profile in Atlas seven times. That same vendor also appeared in Atlas in five different Country Offices. Another vendor was entered in Atlas five times in one Country Office, and also appeared in four different Country Offices. A third vendor appeared in Atlas in eight different Country Offices. There were approximately 45,000 staff approved as vendors in Atlas instead of the approximately 7,000 actual staff employed by UNDP as of March 2016. The decentralized system therefore increased the risk of compromising data integrity.
- There was an inability to consolidate and share vendor information in a timely manner. UNDP was preparing a spend analysis annually to show procurement trends including the top suppliers across UNDP. At the time of the audit, the spend analysis for 2015 was not yet available. The Office stated that this would be available in July 2016, as significant clean-up of data had to be done. However, the delay in the analysis might affect the decision-making process, for example, for the negotiation of Long-Term Agreements or negotiating price discounts at a corporate level.
- The lack of central control over vendor management made oversight and monitoring difficult. With the current system, reports had to be run at a business unit level (e.g., reports used to identify duplicate vendors that must be removed from the database). This also made it difficult to compare practices among business units and to come up with improvements to the system.
- There were difficulties in tracking procurement ceiling amounts per vendor since the same vendor might have been entered in Atlas by different business units. This was important when dealing with vendors with which UNDP had local or global Long-Term Agreements.

With a decentralized vendor management system, UNDP may miss the efficiency and control gains of a centralized system which include simplified relationship management; and streamlined due-diligence, identification and management of vendor risks.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
The Bureau for Management Services should centralize vendor management processes to enable sharing of information among business units and central analysis of data.	
<b>Management action plan:</b>	
A staged action plan is being proposed distinguishing short-term and more long-term actions:	

Short-term:

Noting that the medium/long-term action may require significant system related changes, in the short-term, as a risk-mitigation measure, exception reports will be used to monitor duplicate vendors. These reports will be disseminated, for monitoring purposes on a regular basis with the Country Offices through the Regional Bureaus.

Medium/long-term:

Procurement Services Unit agrees to develop and implement a 2-tiered approach with the objective of improving the current vendor management set set-up.

Tier 1: International vendors (i.e. those vendors that are successful in tenders that are undertaken internationally), particularly, those covered by Long Term Agreements, would be centrally created and monitored.

Tier 2: For local vendors, these would be locally created and monitored, particularly, as local knowledge of vendors would be integral to ensuring efficiency and effectiveness in this regard.

The management review will provide costing and timelines for the implementation of the recommendations.

In addition to the above-tiered approach, UNDP will assess the applicability of the UN Procurement Division policy, with a view to its adoption (see section 7.6 of the UNDP's manual).

**Estimated completion date:** December 2016

**Issue 3**      Inadequate guidance for post-qualification process

According to the 'UNDP Programme and Operations Policies and Procedures', post-qualification processes for vendors who go through procurement processes should be performed for winning bidders (unless the bid/proposal solicitation has been preceded by a prequalification process). The post-qualification includes: (i) verification and validation of accuracy, correctness and authenticity of legal, technical and financial documents submitted; (ii) inquiry and reference checking with government entities with jurisdiction over the offeror, or any other entity that may have done business with the offeror; (iii) physical inspection of the offeror's plant, factory, branches or other places where business transpires, with or without notice to the offeror; (iv) testing and sampling of completed goods similar to the requirements of UNDP, where available (if Invitation to Bid); and (v) other means that UNDP may deem appropriate, at any stage within the selection process, prior to awarding the contract. For contracts in excess of \$100,000, at least three references for past contracts must be obtained and checked.

The post-qualification processes were not performed consistently by 13 Country Offices reviewed. The post-qualification performed was limited to validating the banking information or verifying the financial information provided by the vendors during the evaluation of technical bids, or collecting any other information required to complete the vendor forms and submissions. There were 7 out of 13 Country Offices interviewed that indicated that the 'UNDP Programme and Operations Policies and Procedures' did not provide sufficient guidance on post-qualification processes. For example, business units did not have any guidance on how to analyse the vendors' financial statements, or how to use the financial ratios to analyse financial strengths and weaknesses of vendors.

Further, emphasis in the 'UNDP Programme and Operations Policies and Procedures' for post-qualification was on high-value procurement processes (i.e., over \$100,000) only. There was no guidance for post-qualification on vendors that may carry a higher risk, such as, for example, local vendors having a physical address in one country and a bank account in another country with a risk that some of these companies may be shell companies. From the audit sample of 13 Country Offices, 4,287 suppliers (out of 179,018 suppliers) had a bank account in a different country from the supplier address. Vendor classes may also carry different risks. For example, NGOs may carry higher risks.

The Procurement Services Unit indicated that they were in the process of updating the 'UNDP Programme and Operations Policies and Procedures' to improve guidance on post-qualification.

Inadequate guidance on post-qualification processes may lead to inconsistent practices and may increase the risk of selecting unqualified vendors.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
The Bureau for Management Services should update the 'UNDP Programme and Operations Policies and Procedures' to clarify how and when post-qualification procedures should be performed, taking into consideration vendors with higher risks.	
<b>Management action plan:</b>	
The Bureau for Management Services agrees and will provide further clarity in the 'UNDP Programme and Operations Policies and Procedures' on post-qualification procedures and where needed provide further training and support to Country Offices.	
The upcoming new simplified bidding documents and policy will provide further clarity on post qualification.	
<b>Estimated completion date:</b> December 2016	

#### **Issue 4**      Weaknesses in vendor oversight and monitoring

According to the Procurement Strategy, UNDP will develop monitoring mechanisms, including assessments and spot checks, to promote vendor compliance. According to the 'UNDP Programme and Operations Policies and Procedures', staff with buyer profiles are responsible for regularly monitoring and performing maintenance of the vendor lists, checking for duplicate vendors, and ensuring that the vendor information in Atlas is correct and up to date and that restricted or banned vendors are not used in the system.

At the time of audit, the Procurement Services Unit had not developed monitoring mechanisms, including assessments and spot checks, to promote vendor compliance.

From discussions with 13 Country Offices, the Regional Hubs, and the Procurement Services Unit, and from the review of documentation, there was no evidence of vendor oversight and monitoring from Headquarters units. Instead, monitoring was conducted at the Country Office level. From the Country Offices interviewed, it was indicated that most of the dialogue with Headquarters or the Regional Hubs was initiated by the Country Offices when they faced challenges or had complex cases. The lack of oversight and monitoring could be due to the following reasons:

- Regional Hubs were supposed to have a Procurement Advisor to provide support to Country Offices; however, only the Regional Bureau for Asia and the Pacific had an encumbered post. According to the Office of Sourcing and Operations, it was expected that the monitoring function would be done at the Global Shared Service Centre in the future.
- In general, vendor management responsibilities are entrusted to both procurement and finance units. From the review, it was not clear how the responsibility for monitoring had been split. Even at the Country Office level, there was no consistency on the oversight roles. For example, in some Country Offices it was the responsibility of the procurement units and in others the finance units to run queries and follow up on any anomalies in the vendor database (e.g., duplicate vendors).
- The decentralized vendor management system made it difficult to run reports at a global or regional level for monitoring (refer to Issue 2).

Although Country Offices indicated that they reviewed their vendor records for duplicate vendors on a regular basis, the audit noted that duplicate vendors still existed and previous Country Office audits had noted the same issue. In addition, Country Office audits have noted control lapses on vendor creation. There were 15 issues noted in the past three years in Country Office audit reports where business units created vendors without sufficient supporting documentation. The missing information included telephone numbers, addresses, and bank details. In some cases, the vendor forms were neither adequately completed nor signed. This may be a consequence of lack of monitoring and oversight by the Procurement Services Unit. Creating vendors without adequate supporting documents may lead to fraud.

An additional consequence of lack of monitoring was payments on hold. The audit noted that UNDP had payments on hold amounting to \$10 million as of March 2016. Some of the payments on hold dated back to 2004. Some of the reasons provided for holding payments were the lack of adequate vendor information or the non-submission of all supporting documents for payments to the finance units in Country Offices. Although some payment delays were caused by vendors, there was no evidence of oversight and monitoring on payments on hold to vendors from Headquarters units or Country Offices. Furthermore, the procurement dashboard did not include a performance indicator relating to the time it took to make payments to vendors after receipt of invoice to facilitate oversight and monitoring of the timeliness of payments.

Without monitoring and oversight, errors or non-compliance with policies and procedures by staff members may not be detected in a timely manner and opportunities for improvements to vendor management processes may be missed. Further, holding payments may lead to delays or non-payments to vendors, which may have a negative impact on relationships with vendors.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>	
The Bureau for Management Services should improve monitoring and oversight by:	
<ul style="list-style-type: none"> <li>(a) conducting spot checks on vendors;</li> <li>(b) developing the vendor monitoring and oversight mechanisms;</li> <li>(c) ensuring that the payments on hold are processed and cleared timely;</li> <li>(d) updating the procurement dashboard to include a performance indicator relating to the number of days between receipt of invoices and date of payment; and</li> <li>(e) ensuring that the vendor database is cleaned up to remove duplicate vendors.</li> </ul>	

**Management action plan:**

The Bureau for Management Services will run vendor management queries on a quarterly basis to monitor and highlight exceptions in vendor data in Atlas and follow up with the Country Offices through the Regional Bureaux for corrective actions where anomalies are identified.

The Bureau for Management Services will regularly monitor payments on hold and follow up on exceptions with Country Offices through Regional Bureaux.

The Bureau for Management Services will review the available options with the Office of Information and Management Technology on how to capture this data on the Procurement Dashboard and implement within available resources.

The Bureau for Management Services will issue a Standard Operating Procedure on proper vendor creation in Atlas.

**Estimated completion date:** March 2017

**Issue 5**      UNDP definition of vendors needs revision

According to the 'United Nations Procurement Manual', a vendor is defined as a potential or actual supplier or provider of goods, services and/or works to the United Nations. A vendor may take various forms, including an individual person, a company (whether privately or publicly held), a partnership, a government agency or an NGO.

In UNDP, all payees are referred to as vendors, including external suppliers, international or national staff members, individual consultants and contractors, and personnel on Reimbursable Loan Agreements. Some of these were payees only and not vendors based on the definition in the 'United Nations Procurement Manual'. For example, staff members and meeting participants, who should be considered payees, were created as vendors mainly for processing non-payroll payments (e.g., daily subsistence allowance).

In addition, 86,000 meeting participants or 18 percent of the approved vendor population and the second largest group of vendors after suppliers, were inconsistently entered in Atlas by Country Offices, in some cases as one-time vendors that were automatically deactivated after the first payment or regular vendors that were only deactivated after three years of inactivity.

The current UNDP definition of vendors resulted in a high number of vendors in the vendor management system, which made monitoring and tracking of vendors difficult.

**Comment**

OAI is not issuing a recommendation as the issue is beyond UNDP control. The configuration of the Enterprise Resource Planning (ERP) software at the database level does not distinguish between payees and vendors. Management committed to run reports for monitoring suppliers at the category level.

## B. Relationship management

### Issue 6 Lack of central repository for vendor performance evaluations

The 'UNDP Programme and Operations Policies and Procedures' require looking into vendors' qualifications, previous experience, and deliverables when evaluating them. For individual contractors, reference checks are an important part of the selection process.

Although Country Offices conducted performance evaluations for their vendors, UNDP did not have a central repository to maintain vendor performance evaluations. With the current system, it was difficult to identify how a vendor performed in prior contracts with UNDP. According to 13 Country Offices interviewed, they used their networks or other United Nations agencies in the countries to get information about the performance of vendors or obtained references from the referees provided by the vendors.

Similarly, there was no central repository for individual contractors, who comprised approximately 10 percent of the vendor database, regarding their past performance, daily rates, and areas of expertise, which would have been useful in case they needed to be contracted in the future.

The lack of a central repository for vendor performance may result in UNDP selecting non-performing vendors for contracts.

<b>Priority</b>	Medium (Important)
<b>Recommendation 5:</b>	
The Bureau for Management Services should establish a central repository of vendor (including individual contractors) performance evaluations and make them available to all business units. The central repository should include individual contractors' pertinent information, such as daily rates, language skills, and areas of expertise.	
<b>Management action plan:</b>	
The Bureau for Management Services agrees and is already working with the Office of Information Management and Technology to establish automated contract management in Atlas, which will enable all business units to generate performance evaluations in Atlas for every type of contract. This is one of the projects in the Procurement Strategy 2015-2017.	
<b>Estimated completion date:</b> December 2017	

## C. IT tools and controls

### Issue 7 Weaknesses in Atlas Vendor Management Module

The Information Security in System Acquisition, Development and Maintenance Standards section of the 'UNDP Programme and Operations Policies and Procedures' states that appropriate and adequate input validation controls shall be designed and incorporated into any operational or production application.

OAI's Country Office audits identified various issues with the quality of the data, which included the existence of duplicate vendors, different vendors with the same bank account, and missing key vendor data and records, such as contact person and address or bank account. The review of records of a sample of 13 Country Offices identified similar issues. These data quality issues arose partly due to weaknesses noted in the Atlas Vendor Management Module. The system did not:

- alert a user if they were creating a new vendor with the same bank account number as another vendor. In response to the draft report, the Office of Information Management and Technology noted that it was difficult to implement as a real-time alert. However, the Procurement Services Unit could request an Atlas report to be created that shows bank account number duplicates and vendor name duplicates;
- alert a user if they were creating a new vendor or creating a payment voucher for an existing vendor with the same name of a vendor included on the sanctions lists;
- automatically schedule vendors to be archived after three years of inactivity. In response to the draft report, the Procurement Services Unit committed to manually running the process of archiving vendors after three years of inactivity every quarter until an automated process has been established by the Office of Information Management and Technology;
- generate oversight reports to help users identify duplicate vendors by using other criteria, such as duplicate addresses; and
- have sufficient vendor master data fields as mandatory before vendors are entered in Atlas (e.g., address and contact information). The audit noted that vendors could be created with only the vendor name and a series of zeros for the bank account. In response to the draft report, the Office of Information Management and Technology indicated that although having mandatory fields was technically possible, it was a complex process. Instead, they suggested a report that shows all vendors with the mandatory fields that could be used for follow-up with business units to update the empty mandatory fields for their vendors.

Poor application controls in Atlas may result in duplicate vendors being created, which could increase the risk of fraud and ineligible payments to vendors.

<b>Priority</b>	High (Critical)
<b>Recommendation 6:</b>  The Office of Operations, Legal and Technology Services should improve Atlas vendor management controls by incorporating additional functionalities to address the application control weaknesses. Specifically, Atlas should:	
(a) generate an alert to users if an existing vendor bank account number is being used for a different vendor, or when creating a vendor with the same name as a vendor that appears on the UNDP ineligibility list or the United Nations sanctions list;	
(b) automatically schedule vendors to be archived after three years of inactivity;	
(c) develop additional oversight reports to identify duplicate vendors using other criteria, such as the address of the vendor; and	
(d) enforce mandatory fields on vendor creation.	

**Management action plan:**

The Bureau for Management Services agrees with the need to enhance vendor management controls through system controls and will:

- (a) Review the possibility of automating the current mandatory manual reviews of existing vendors with the same name or vendors appearing in the UNDP ineligibility list or UN sanctions list when creating a vendor
- (b) Automate the archiving of vendors in line with business requirements
- (c) Develop additional reports or enhance existing reports to incorporate additional criteria for vendor due diligence reviews
- (d) Review system functionalities for mandatory data entry when a vendor is created in ATLAS.

Where Atlas is unable to automate all of the above, alternative controls will be instituted to mitigate the risks identified under recommendations (a) to (d).

**Estimated completion date:** December 2017

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.