UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP GLOBAL PROCUREMENT

Report No. 2021

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Report on the Audit of UNDP Global Procurement
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP global procurement from 1 October to 9 November 2018. 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 organizational structure, roles and responsibilities, procurement policies and procedures.

(b) Global procurement processing, including procurement tools and Long Term Agreements (LTAs).

The audit covered the period from 1 January 2017 to 30 September 2018. The total value of global procurement carried out during the audit period was $346 million.

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

Overall audit rating

OAI assessed the UNDP global procurement as **satisfactory,** which means "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area."

Key recommendations: Total = **2**, high priority = **0**

The two recommendations aim to ensure the achievement of the organization's strategic objectives.

Management comments and action plan

The Bureau for Management Services accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

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I. About UNDP Global Procurement

UNDP manages one of the largest procurement operations in the UN system, procuring approximately $2.1 billion worth of goods and services per year to support countries in accessing professional services, medical supplies, building maintenance and construction materials, and others. In 2017, the procurement of goods accounted for 34 percent of all UNDP procurements.

Global procurement, as per the scope of this audit, includes specialized procurement conducted on behalf of UNDP business units worldwide as well as procurements at Headquarters. The audit excluded the procurement conducted in Country Offices which is usually covered during the Country Office audits. Specifically, the global procurement services offered are related to:

1. Specialized procurement: Procurement of complex goods and services which are vital to UNDP's implementation of global health projects (in partnership with the Global Fund to fight AIDS, Tuberculosis and Malaria) as well as elections, crisis prevention and recovery, energy and environment, and sustainability efforts. The goal is to reduce purchase costs by consolidating global procurement and standardizing categories through centrally-managed LTAs and corporate partnerships.

2. Procurement services to Headquarters business units. The Central Procurement Unit provides procurement support services and advisory to following Central Bureaus: Bureau for Management Services, Bureau for Policy and Programme Support, Bureau for External Relations and Advocacy, and Crisis Bureau.

3. Capacity-building and procurement certification: Offering specialized procurement training and certification to staff from the UN system, NGOs, international development financing institutions and their borrowers, and governments.

4. Organizational and programme support: Providing customized procurement assistance enhances business units' procurement performance. Assistance is focused on: (1) strengthening procurement functions, including support in formulating optimal procurement strategies and plans; and (2) supporting project design, planning and implementation of procurement and supply-chain management in electoral, Global Fund to Fight AIDS, Tuberculosis and Malaria, crisis prevention and recovery, and sustainability projects.

The Procurement Services Unit (PSU) of the Bureau for Management Services provides the above-mentioned global procurement support to UNDP business units to help ensure efficient purchasing processes that deliver best value for money. PSU teams are located in Copenhagen, New York, and Kuala Lumpur.

A. Audit Objectives

The audit assessed the structure and governance of global procurement as well as the compliance, including value for money, of global procurement from different PSU teams. Specifically, the audit addressed the following questions:

Question 1: Are roles and responsibilities, organizational structure, and tools established to provide effective global procurement services to UNDP?

    1.1 Are roles and responsibilities for global procurement clearly defined?

1.2 Is there an effective organizational structure for providing global procurement services?
1.3 Are global procurement tools used fit for purpose?

Question 2: Is global procurement, including the development and management of LTAs, conducted in compliance with UNDP policies and procedures?

2.1 Is global procurement undertaken in compliance with UNDP policies and procedures?
2.2 Are LTAs developed and managed in compliance with UNDP policies and procedures?

B. Audit Methodology

The audit mainly built on documentation reviews, interviews, and written inquiries.

Question 1 was addressed through interviews with PSU management and staff, as well as reviews of documentation regarding the structure of the unit and the roles and responsibilities of staff. A walkthrough of key ICT systems and tools was conducted and information related to financial planning and cost recovery was also reviewed.

Question 2 was addressed through testing a sample of procurement activities across PSU teams as well as a detailed review of LTAs.

II. Audit results

Satisfactory performance was noted in the following area:

(a) <u>Global procurement processing.</u> The review of 60 sampled procurement cases with a total value of $61 million (or 18 percent of the total value over the audit period) disclosed that they were generally in compliance with UNDP policies and procedures. Furthermore, OAI reviewed in detail 11 procurement cases that resulted in the establishment of LTAs. The audit team noted that these LTAs had been negotiated by the PSU teams in compliance with UNDP policies and procedures and with the aim of achieving value for money for UNDP.

OAI made two recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Bureau for Management Services and are not included in this report.

Medium priority recommendations:
(a) Address the weaknesses in the organizational structure and scope of work of PSU teams (Recommendation 1).
(b) Establish an integrated case management system to be used by all PSU teams (Recommendation 2).

The detailed assessment is presented below, per audit area:

A. Governance and organizational structure

The audit team noted opportunities for improvement in the organizational structure and tools used in the provision of global procurement services. Further clarity in the scope and roles of the different teams would help

improve the service delivery and would make the best use of synergies. Information and communication technology tools used by teams to receive and manage procurement requests were varied. A move to an integrated case management system would help to ensure a consistent approach across all teams and would be a source of valuable management information.

| Issue 1 | Weaknesses in organizational structure and scope of work of PSU teams |

The 'UNDP Programme and Operations Policies and Procedures' define the control environment as one of the components of the internal control system that sets the tone of the organization and provides the foundation for an effective control system. Organizational effectiveness relies on the office's adequate organizational structure, which allows for clear roles and responsibilities.

The Global procurement services were provided through the following PSU teams: (1) Global Fund Health Implementation Support Team/Procurement and Supply Management (GFHIST/PSM), Elections Team, Health Team, and CREE Team, which were based in Copenhagen; (2) the Specialized Procurement Team, which was based in Kuala Lumpur; and (3) the Central Procurement Unit, which was based in New York.

The role and scope of the different teams had developed organically through various iterations of team structures over the past years, without a client-need-driven, comprehensive structure for the PSU. There were also no terms of reference developed for each team. As a result, duplications of work performed by teams, such as those between the Health Team and the GFHIST/PSM had been acknowledged by management. A functional review of health procurement was underway at the time of the audit, following support from the Organizational Performance Group meeting in November 2017, for greater harmonization of health procurement within PSU.

Another issue noted was the high use of consultants. Out of the 50 personnel in the PSU units, 18 were consultants (or 36 percent). The high reliance on consultants, who were often on six-month contracts, impacted the continuity and institutional knowledge retention in the different teams. Further, some of the control weaknesses noted in the sample testing for the audit (e.g., the lack of supporting documentation) were for transactions performed by consultants.

Additionally, there were five vacancies and four frozen positions representing 28 percent of staff positions at the time of the audit. The Bureau for Management Services explained that the frozen positions and the reliance on consultants were due to insufficient funds. The Bureau had submitted a proposal to the Administrator in May 2018 with some options for building up the capacity of the Central Procurement Unit. This included the upgrading of some posts and a cost-neutral relocation of some posts from New York to Kuala Lumpur.

Without a clearly defined structure and scope for PSU teams that best address client needs and without clear roles and responsibilities for the different teams, there is a risk that the procurement requirements of business units will not be effectively and efficiently met and that potential synergies will not be fully utilized.

Priority	Medium (Important)
Recommendation 1:	
The Bureau for Management Services should address the weaknesses in the organizational structure and scope of work of PSU teams by:	
(a) reviewing the structure of PSU teams and clearly defining the role and scope of each team, taking into consideration the results of the functional review of health procurement services;	

(b) establishing terms of reference for each PSU team and sharing them with all UNDP business units; and
(c) filling vacant positions and reducing reliance on consultants, where possible.

Management action plan:

(a) The Bureau will review the structure of PSU teams in view of the wider UNDP Management Review process and clearly define the role and scope of each team. The Bureau will further complete the functional review of UNDP health procurement services and propose a consolidated structure for consideration.
(b) The Bureau will submit the optimal team structures in accordance with the terms of reference for each PSU team for management; however, the implementation of the recommendation will be subject to the availability of funds in 2020, since the 2019 budget has already been approved and there is no room for increasing the budget.

Estimated completion date: (a) September 2019, (b) December 2020

Issue 2   Ineffective use of information and communication technology systems and tools

According to the 'UNDP Programme and Operations Policies and Procedures', a comprehensive set of corporate tools and systems used in UNDP's procurement processes help ensure consistency, effectiveness and efficiency of such processes and will help the organization optimize its procurement strategy and processes.

A number of separate UNDP platforms tools were being used for global procurement processes. This included the UNDP global procurement planning platform (PROMPT), Procurement Tracker, case management systems, ACP Online and the Atlas system (enterprise resource planning system of UNDP). The PSU teams used four different case management systems, including SmartSheets (used by the Health Team and GSHIST/PSM) as well as internally-developed SharePoint-based case management systems.

However, there was no integrated case management system that would allow for consistent recording of receipt of procurement requests from business units and would provide management information on types and volume of procurement as well as spending against global LTA approved limits. This type of management information was gathered through a manual and time-consuming process carried out by staff and consultants in PSU.

A proposal by the Bureau for Management Services for the integration of E-Tendering and the ACP Online system (dated 5 November 2018) had been submitted to UNDP senior management. Furthermore, there was a proposal to integrate PROMPT and ACP Online, which was being finalized at the time of the audit.

Despite these proposals, the above systems were separate with no or limited interface. This resulted in multiple requirements for data entry/re-entry as well as increased risk of errors in information related to procurement activities. Additionally, requests to PSU by business units were often made via email, whereas using an integrated system could have provided for a more efficient and streamlined process. In particular, requests would be made through a common route or directly into one system by the requesting units, which would facilitate monitoring the progress of the procurement activities. Also, procurement information that could be used to negotiate better LTAs with suppliers would be readily available through the integration of corporate tools.

OAI had made similar recommendations on the integration of finance and procurement tools as part of the Government Cost Sharing Management audit (Report No. 1895, issued 19 January 2018).

In the absence of an integrated case management system for gathering procurement-related data, UNDP may not be able to manage any emerging risks in a timely manner. Additionally, the use of multiple separate systems results in duplication of data entry and increases the risk of data entry errors.

Priority	Medium (Important)
Recommendation 2: The Bureau for Management Services should establish an integrated case management system to be used by all PSU teams, with functionality covering the entire procurement process, and compatible with other existing information communication technology systems and tools.	
Management action plan: A project proposal for the enhancement of the case management system utilized by the Central Procurement Unit has been submitted to the ICT Governance Board for consideration in the 2019 ICT Roadmap. Once the project is approved and the system is enhanced, PSU will verify the suitability of the system, and roll it out across all global procurement under PSU. The system is SharePoint-based and not integrated with the PROMPT, E-Tendering, ACP Online and the Atlas Contract Module. Alternatively, PSU will explore, together with the Office of Information Management and Technology, possible case management functionalities under Atlas 9.2 that could be activated. **Estimated completion date:** June 2020	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

▪   **Satisfactory**

The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

▪   **Partially Satisfactory / Some Improvement Needed**

The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

▪   **Partially Satisfactory / Major Improvement Needed**

The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

▪   **Unsatisfactory**

The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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.