UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP AFGHANISTAN

PROCUREMENT MANAGEMENT

Report No. 1124
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Report on the audit of UNDP Afghanistan - Procurement Management
Executive Summary

From 4 to 22 November 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an audit of procurement management in the UNDP Country Office in Afghanistan (the Office). The audit covered the activities of the Office during the period from 1 January 2011 to 31 July 2012. During the period reviewed, the Office procured goods and services totalling $75 million. The last procurement audit of the Office was conducted by OAI in June 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office procurement management as **unsatisfactory**, which means "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." This rating was due to weaknesses in management of the procurement functions, solicitation and evaluation of offers, and in contract management. Ratings per sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Procurement management		████		
1.1 Management of procurement function	Partially Satisfactory			
1.2 Procurement planning and requisition	Satisfactory			
1.3 Sourcing and solicitation	Unsatisfactory			
1.4 Evaluation, procurement review, and contract award	Unsatisfactory			
1.5 Contract management	Unsatisfactory			

Key issues and recommendations

The audit raised six issues and resulted in seven recommendations, of which five (71 percent) were ranked high (critical) priority, meaning "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 and may affect the organization at the global level."

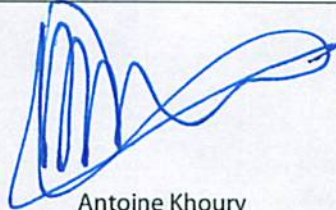The high priority recommendations are as follows:

Sourcing and solicitation (Issue 2)	<u>Inadequate controls over the receipt of offers</u>. Controls over bids received manually were inadequate. Procurement staff members were given inappropriate responsibility for and access to the procurement offers submitted manually. OAI recommends that the Office enhance controls over the receipt of bids submitted manually by: (a) maintaining a register of bids received; and (b) ensuring procurement personnel are not directly involved in receiving bid documents.

<u>Controls over bids received electronically were also inadequate</u>. The Information and Communications Technology staff had inappropriate responsibility for the passwords used to secure the email accounts created to receive procurement offers submitted electronically. OAI recommends that the Office enhance controls over the receipt of bids submitted electronically by: (a) coordinating with the Office of Information Systems and Technology on ways to prevent inappropriate access to procurement email addresses used for receiving offers; and (b) establishing procedures to properly identify and retrieve email offers. |
Evaluation, procurement, review, and contract award (Issue 3)	<u>Inadequate management of offers</u>. The existing processes and procedures were inadequate in ensuring that the evaluation of offers was proper and effective. The Office should enhance controls over the opening and evaluations of offers, including: (a) ensuring full adherence to the required deadlines for receiving and opening offers; (b) ensuring that only complete offers which include all documentation requested are included in the evaluation process; (c) maintaining proper documentation and ensuring that bids are evaluated using the criteria and methodology defined in the invitation to bid; and (d) ensuring that international staff participate in the Contracts, Assets and Procurement Committee.
Contract management (Issue 4)	<u>Weak management of fuel procurement, receiving and distribution</u>. In the period from January 2010 to November 2011, the Office procured fuel for some $6.5 million. OAI noted serious shortcomings in determining fuel prices and the management of receipt, consumption, and re-ordering of fuel. Between August 2010 and January 2012, the Office did not comply with the established price criteria when computing the lowest average, which resulted in a financial loss of approximately $25,000. The Office also did not ensure adequate segregation of duties between the receipt, storage and distribution of fuel from the tank at the Office premises. Lastly, the fuel coupons were not properly safeguarded from unauthorized use. OAI recommends that the Office adhere to the Programme and Operations Policies and Procedures and ensure effective controls over the procurement and the management of fuel by: (a) ensuring that the procurement process allows for adequate and open competition; (b) ensuring that there is effective oversight over the receipt, storage, and distribution of fuel; and (c) maintaining master lists of personnel authorized to issue fuel coupons as well as one that details the vehicles authorized to be refuelled from the supplier pumping stations, and providing a copy of each to the supplier on a regular basis.
(Issue 6)	<u>Inadequate controls to prevent duplicate vendor records</u>. In its previous audit (Audit Report No. 745) OAI had recommended that the Office enhance vendor management controls by deactivating all duplicate vendor profiles in Atlas. However, management

had not taken appropriate action, and the Office still had 86 active duplicate vendor names and 172 vendors with duplicate bank account details in Atlas. OAI recommends that the Office follow the requirements of the Programme and Operations Policies and Procedures in vendor management by: (a) establishing vendor verification procedures prior to approving new vendor profiles in Atlas; (b) conducting regular reviews of existing vendors and deactivating all vendors with duplicate profiles and/or bank account details; and (c) assigning clear and distinct responsibilities for vendor creation, approval and maintenance, as well as limiting the number of staff with this authority.

The implementation status of previous OAI audit recommendations (Report No. 745, March 2011) was also validated. The current audit noted that two previous recommendations were actually not implemented as the weaknesses continued to exist (Issues 1 and 2 of this report).

Management comments and action plan

The Country Director accepted all seven recommendations and is in the process of implementing them.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations

I.   Introduction

From 4 to 22 November 2012, OAI conducted an audit of procurement management in the UNDP Country Office in Afghanistan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management, and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for our conclusions.

Audit scope and objectives

OAI audits assess the adequacy and effectiveness of the governance, risk management, and control processes in order to provide reasonable assurance to the Administrator regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with legislative mandates, regulations and rules, policies and procedures. They also aim to assist the management of the Office and other relevant business units in continuously improving governance, risk management, and control processes.

Specifically, this audit reviewed the Office's procurement management, but did not assess procurement performed through Letters of Agreement signed between the Office and government institutions or those undertaken by directly implemented projects. The audit covered relevant activities during the period from 1 January 2011 to 31 July 2012. During the period reviewed, the Office procured goods and services totalling $75 million. The last procurement audit of the Office was conducted by OAI in June 2010.

The implementation status of previous OAI audit recommendations (Report No. 745, March 2011) was also validated. Based on previous desk reviews of supporting documents submitted to OAI, all 10 recommendations had been assessed as implemented. However, the current OAI audit noted that recommendation numbers 1 and 5 contained in the previous audit report were actually not implemented as the weaknesses continued to exist. Please refer to Issues 1 and 2 of this report.

II.   About the Office

The Office, located in Kabul, Afghanistan (the Country), is operating under its 2010-2013 Country Programme Document. Its programme focuses on four themes: stabilization and peace building; democratic governance; livelihoods, natural resource management and disaster risk reduction and; national development policies for economic growth and poverty reduction. The Office's delivery totalled $744 million during 2011 and $542 million from January to November 2012.

The programme portfolio consisted of 18 key projects, down from 35 as a result of a 2012 exercise under which the Office consolidated and clustered its portfolio by closing, merging, and streamlining several projects.

The Office is operating in a precarious security situation and in a period of complex transition, as the International Security Assistance Forces are widely expected to depart or to drastically reduce their presence by 2014. Along with the military transition, it is also expected that there will eventually be a significant reduction in Official Development Assistance and budget subsidies provided by international donors (despite a temporary short-term increase), resulting in a difficult economic transition.

III.   Detailed assessment

1. Procurement management	**Unsatisfactory**

The Office, which manages one of the largest procurement activities in UNDP, has a delegation of procurement authority of up to $300,000 under the Fast Track Procedures valid up to February 2013. The Office issued 3,540 purchase orders totalling $75 million during the audit period. OAI reviewed 300 of these purchase orders valued at $12 million and 209 related payment vouchers totalling $8 million.

In early 2012, the Office reengineered its Procurement Unit into a Supply Chain Management Office (SCMO). The Office explained that the SCMO approach involved managing interrelated business processes in the entire procurement chain from procurement planning up to the delivery of goods or services to requestors. The SCMO consisted of four sub-units corresponding to the procurement business processes, namely business intelligence, the strategic sourcing centre, logistics and distribution, and contract management. The SCMO was headed by an international staff member at the P4-level, supported by two other international staff members at the P3 and P2 levels, as well as three national officers and seven service contract holders.

In June 2012, the UNDP Procurement Support Office conducted an assessment of the Office's procurement function to identify opportunities for capacity enhancement and to propose procurement risk management measures. It identified some good practices, including implementing the SCMO approach, linking the development of the annual procurement plan with the approval process of annual work plans, and pre-positioning high turn-over items. It also identified some areas for improvement, such as the enhancement of risk management systems and risk logs.

The Head of the SCMO Logistics and Distribution Unit, responsible for managing the shipment, distribution, and warehousing of the Office's assets was a service contract holder. As these activities constituted core functions, OAI suggested that they be assigned to a staff member. The Office took immediate action by reclassifying the position as a fixed-term appointment and advertising the post. Therefore, OAI did not raise an issue regarding this matter.

Considering the high priority issues described below, the overall procurement management was assessed as "unsatisfactory."

1.1 Management of procurement function	**Partially Satisfactory**

Issue 1   Inadequate controls over delegations of authority

The Operational Guide of the Internal Control Framework for UNDP states "the Delegation of Authority to UNDP staff is granted on an individual basis and requires such authorized personnel to adhere to these Guidelines." It also requires the Office to conduct regular reviews of its delegation of authority to determine whether the authority granted remains valid and necessary.

OAI noted that the issues described below were also raised in the prior procurement audit (Audit Report No. 745 dated March 2011).

(a)   Delegation of authority not up-to-date

The Office did not consistently review and maintain an updated Delegation of Authority. For example, two new Deputy Country Directors for Operations joined the Office in October 2012 and both were granted senior manager roles in Atlas. However, this process had not been formalized and accepted in writing by the staff members involved. The Office provided the written Delegation of Authority dated October 2012 when it submitted the management comments to OAI in May 2013.

OAI noted certain deficiencies in the delegation, as explained below:

- Two national staff members were delegated the roles of approving manager and disbursing officer, which was not in compliance with the Internal Control Framework's requirement for segregation of duties.
- Prior to the arrival of the Country Director in April 2012, only finance staff had been delegated authority to approve purchase orders pertaining to development projects, even though they lacked full knowledge of project activities. With the arrival of the Country Director, delegation of authority had been granted to programme staff members.
- Four national staff members were delegated either the approving manager or buyer role in 2011, but they had not performed these roles during the audit fieldwork.
- Five staff members were granted authority in the Atlas system and raised purchase orders, even though they were not formally delegated this authority.

The Office explained that although the review of the delegation of authority should have been performed quarterly, this requirement was not met due to other competing tasks.

(b)   Improper designation of the "buyer" role

The Internal Control Framework requires that the staff assigned a buyer role must have strong knowledge of UNDP procurement policies and must have successfully completed the UNDP procurement certifications. The Office was unable to provide evidence that 2 of 31 staff with buyer roles, who had raised a total of 131 purchase orders during the audit period, had completed the required procurement certifications. The Office could not clearly identify who was responsible for ensuring that only procurement certified staff members were assigned the role of buyer. During the audit fieldwork, the Office removed the buyer role function from those staff members who had not completed the UNDP procurement certifications. The Office also informed OAI that the focal point of the Atlas Role Generation & User Provisioning System would ensure the successful completion of procurement certifications prior to granting the buyer role. As of June 2013, except for the newly recruited staff members, all staff members with the buyer role function had procurement certifications.

OAI also noted that having 31 buyers was excessive and difficult to manage. The Office reduced the number to 19 buyers during the audit fieldwork but the justification provided to OAI could not be substantiated. Specifically, the Head of the SCMO explained that the determination on the number of buyers was based on the exigencies of service delivery. OAI did not find adequate support for the assertion that the two staff members who had raised a total of 131 purchase orders during 2012 was due to exigency. The Office should undertake a needs assessment to determine the optimum number of staff members requiring the buyer role.

Keeping the delegation of authority updated and designating an appropriate number of staff members with the buyer role would help ensure accountability.

Priority	Medium (Important)

Recommendation 1:
The Office should comply with the UNDP Internal Control Framework by: (a) regularly reviewing and updating its delegations of authority; and (b) conducting a needs assessment to be used in identifying an appropriate number of certified procurement staff members to be assigned the buyer role.

Management comments and action plan: __√__ Agreed   ____ Disagreed
Management indicated that it would maintain an updated delegation of authority. Further, the Office's Internal Control Framework is being thoroughly revised. Management also indicated that the Office is also reviewing the roles, responsibilities and the division of labor between the project, programme and operations units.

1.2 Procurement planning and requisition	**Satisfactory**

The Office prepared a consolidated procurement plan for 2012. In accordance with the approved procurement plan, the Office undertook bulk procurement of IT equipment and established a procurement shop to manage the distribution of the equipment and inventory. In December 2012, the Head of the SCMO reported successful delivery of almost all planned procurement for the year.

The Office had processed 394 purchase orders that were not in compliance with the Programme and Operations Policies and Procedures given that e-requisitions had not been raised in Atlas. The Office indicated this was an oversight and agreed to ensure strict compliance in the future. As this exception constituted 11 percent of all purchase orders processed during the year and because the Office has agreed to take corrective actions, OAI has not raised an issue.

No other reportable issues were identified.

1.3 Sourcing and solicitation	**Unsatisfactory**

Since March 2012, the Business Intelligence Unit, headed by an international staff member, was responsible for identifying, appraising, and managing the Office's vendors. As of November 2012, the Office had 102 pre-qualified vendors. The Procurement Unit, headed by a national officer, was responsible for conducting the actual procurement process - transactional stage. Both units had specific roles and responsibilities in the competitive bidding process, advertising the procurement requirements, and selecting the evaluation panel. OAI identified a number of material control weaknesses, which are described below.

Considering the high priority issues noted, OAI assessed this area as "unsatisfactory."

Issue 2   <u>Inadequate controls over the receipt of offers</u>

The Programme and Operations Policies and Procedures require the Office to manage procurement in a fair and transparent manner, which includes upholding the integrity of the solicitation process. In order to ensure that the procurement process is fair and competitive, it is imperative that the technical and financial offers submitted

by each offeror are kept secure and confidential until all offers are simultaneously opened at a designated time and place, and if applicable, in the presence of the offerors. This is to ensure that there can be no communication of any offerors' bid details or prices submitted to any competing offeror, thus providing that offeror an unfair advantage. However, OAI noted that controls over the receipt of offers were inadequate for both manual and electronic submissions.

(a) Manual submissions

The Office had placed a locked bid box at the main entrance to the building. Two procurement staff had keys to the box. However, this responsibility should have been delegated to someone independent of the procurement process to avoid the risk of a conflict of interest.

OAI had previously pointed out the Office's inadequate controls over the receipt of manual bids in its prior audit (OAI Report No. 745 - Issue 5). However, these weaknesses had not been corrected although management had assured OAI that adequate control had been established by ensuring that procurement personnel were no longer directly involved in the receipt and opening of bid documents. SCMO explained that this was due to staff turnover and changes in management within the unit.

OAI also noted that there was no log to document the date and time when the bids were submitted. Instead, the offerors were asked to record the date and time on the envelope containing the bid without staff from the Office confirming the accuracy of the information provided.

The Office stated that the bid receipt function was managed by the Business Intelligence Unit of the SCMO, which is not directly involved in the procurement of goods and services. The Office added that the Head of the Business Intelligence Unit, who is independent of the procurement process in the Office, kept physical custody of the bid box key. OAI discussed the risk related to one individual having custody of the key that provides full access to the bid box. The Office agreed and enhanced controls by including another lock and giving physical custody of the keys to a separate unit.

In the absence of proper controls, there is a risk of opening and considering the bids submitted beyond the set deadline rather than rejecting them as required due to the late submission.

(b) Electronic submissions

The Office's ICT unit had established four generic procurement email addresses to receive offers (i.e. proposals, quotations, and bids) and queries from vendors electronically. The SCMO staff had access to one email address receiving vendor queries so that they could respond accordingly. Four ICT staff, however, had continuous access to all four email addresses in order to carry out their ICT functions and they were assigned to keep the email passwords and change them when required. The password for a specific email address receiving the offers was disclosed to the Bid Opening Committee by the ICT unit only at the time of bid opening. However, OAI raised a concern about the risk of inappropriate access by the ICT staff to these emails (e.g. checking the bid prices of offerors and disclosing them to a favored offeror). When OAI informed the SCMO during the audit fieldwork, SCMO indicated that it recognized the risk of the current practice and stated that it would explore other means of receiving offers electronically. Subsequent to the audit fieldwork, the OAI Investigations Section also indicated that a former Office ICT staff member had alleged that ICT staff had improperly accessed electronic bids.

The Office stated that they had discussed this matter with colleagues from other offices who indicated that different Offices had various practices and that the corporate policy and guidance to address this risk (i.e. inappropriate access) had yet to be rolled out. Additionally, the Office informed OAI of its planned actions to

enhance controls, such as sending an automated email acknowledgement to the bidders, requesting the Office of Information Systems and Technology for the access log reports of the procurement emails, and setting up a dedicated computer and an automated procedure within the email system to automatically download the bids to a specific sub-folder on the computer.

Furthermore, the SCMO had not established procedures for easily matching offers to a specific procurement. Each of the two email addresses used for receiving electronic bids at any point in time included submissions for multiple procurement announcements, but often with missing reference numbers for easy identification. For example, during the bid opening for the supply of ICT equipment, which OAI observed, the Bid Opening Committee had difficulty identifying the specific quotations from more than 100 electronic submissions due to the lack of inclusion of the appropriate procurement reference number in the subject line of the email. As a result, there was a risk of opening unrelated quotations or not retrieving all of the relevant quotations.

Subsequent to the audit fieldwork, OAI reviewed eight announcements for high-value procurements (Invitation to Bid) of $100,000 or more and noted that in four cases the Office had not required the offerors to submit password-protected offers to mitigate the risk of unauthorized disclosure. OAI suggests that while identifying a more secure way of receiving bids electronically, the Office should also apply this control for all high-risk procurements such as fuel, air travel and high monetary value procurements, as a stopgap measure.

Priority	High (Critical)
Recommendation 2: The Office should enhance controls over the receipt of bids submitted manually by: (a) maintaining a register of bids received; and (b) ensuring procurement personnel are not directly involved in receiving bid documents.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office indicated that it has implemented the following corrective measures: (a) placing an additional lock on the bid box and keeping the keys in the Finance Unit, a unit independent of the Supply Chain Management Office, as well as keeping another set of keys in the safe of the Senior Country Director (Operations); (b) issuing bid acknowledgement receipts to vendors on submission of bids; (c) setting a timeframe for formal process closure; and (d) maintaining a spreadsheet of all bids received.	

Priority	High (Critical)
Recommendation 3: The Office should enhance controls over the receipt of offers submitted electronically by: (a) coordinating with the Office of Information Systems and Technology on ways to prevent inappropriate access to procurement email addresses used for receiving offers; and (b) establishing procedures to properly identify and retrieve email offers.	

Management comments and action plan: __√__ Agreed ____ Disagreed
The Office indicated that it would take the following actions:
(a) ask the Office of Information Systems and Technology in New York for the access log reports to the email bid boxes to ascertain whether unauthorized access had occurred, and request assistance regarding establishing a system in managing the passwords of the email bid boxes;
(b) open all the bids on a specific day of the week; and
(c) improve the matching of offers to a specific procurement by setting email rules using the reference number as a criteria to automatically transfer bids to the designated subdirectory.
The Office also indicated that it already implemented the policy of requiring the bidders to password protect the financial bids.

1.4 Evaluation, procurement, review, and contract award	**Unsatisfactory**

The Programme and Operations Policies and Procedures require the Office to establish controls for evaluating bids to ensure that the accepted offer provides the best value for money.

Issue 3   Inadequate management of offers

The OAI review of the procurement records including 300 purchase orders, contracts and long-term agreements, which revealed that the Office had not performed adequate due diligence to ensure effective evaluation of bids.

(a)   Limited controls over opening of offers

According to the Programme and Operations Policies and Procedures, the Office should establish a deadline for submission of offers, and those offers received after the deadline should be rejected and returned unopened to the offerors. The Office did not consistently follow this requirement. The SCMO had not informed the members of the panels opening the offers of the deadline set for the submission of offers in response to RFQ UNDPAFG/2012/2013. Further, review of the evaluation reports attached to three purchase orders (13748, 14480, and 13127) with a total value of $42,000 showed that some electronically submitted offers had been received after the deadline, while the offers submitted manually did not include any details indicating when the bids were received. The Office explained that these were only Requests for Quotation and the solicitation was considered an informal procurement process. However, this contradicts the Office's announcements related to these procurements which stated that late submissions of quotations would not be evaluated. OAI further reviewed seven Requests for Quotations advertised in the second quarter of 2013 and noted that the Office had continued to include the statement that late submissions of quotations would not be considered.

(b)   Poor evaluation of bids

The Invitation to Bid for the provision of Mobile Telecommunication Services ITB/AFG/02/2009, issued in April 2010, provided that no change in price or substance of the bid shall be sought, offered, or permitted, and that bidders must offer complete bids and must accept the correction of errors. However, OAI noted a number of weaknesses in the evaluation of the four bids received as discussed below:

(i)   The four vendors did not submit complete bids. However, the Office did not reject the incomplete bids. Instead, the Office procurement staff completed the missing information in the bids with the highest

rate, offered by other vendors, for price comparison purposes.

(ii) The report on the evaluation of bids included mathematical corrections, but the supporting documents for the corrections were not attached. Subsequent to the audit fieldwork, the SCMO provided an Excel spreadsheet and indicated that while the sheet still contained errors, the errors had no effect on the final selection of the vendor. There was no evidence that the bidders had accepted the corrections made by the Office. For instance in the case of one vendor who submitted an incomplete bid of AFN 12.7 million ($254,000) – the mathematical corrections made were AFN 7.4 million ($148,000) and the total bid amount was AFN 20.2 million ($404,000). Though the corrections made increased the bid by 37 percent, the Office did not reject the bid.

(iii) The two winning bidders had not submitted audited financial statements for the last three years and/or valid trade licenses as required.

OAI noted that the Contracts, Assets, and Procurement Committee minutes were brief and did not provide sufficient details on the review including a discussion of and justification for accepting the evaluation report despite the deficiencies and non-compliance with the Invitation to Bid. The prior OAI audit also raised an audit observation regarding the Contracts, Assets, and Procurement Committee (Report No. 745, March 2011, Issue 6).

The Office clarified that it issued an internal policy requiring that an international staff member be included as a member of the Contracts, Assets, and Procurement Committee. However, the Contracts, Assets, and Procurement Committee members for this solicitation process were all national staff, even though the solicitation process took place subsequent to issuance of the policy. The priority related to addressing this issue is elevated by the value of the subject procurements.

While the Office indicated that the process took place in 2010, which was outside the scope of this audit, and therefore no longer relevant to the audit, OAI disagreed, indicating that the long-term agreements issued to these vendors were still valid during the audit period. Specifically, the aggregate ceiling amounts were $1.7 million (vendor ID 3915) and $0.9 million (vendor ID 0578) as of November 2012 and OAI considered these amounts as material. Furthermore, similar weaknesses were also noted in determining the fuel prices (refer to Issue 4 below). Failure to adhere to the Invitation to Bid and not enhancing controls over the Contracts, Assets, and Procurement Committee composition might lead to future liabilities and financial losses for UNDP.

Priority	High (Critical)
Recommendation 4: The Office should enhance controls over the opening and evaluations of offers. This should include: (a) ensuring full adherence to the required deadlines for receiving and opening offers; (b) ensuring that only complete offers which include all documentation requested are included in the evaluation process; (c) maintaining proper documentation and ensuring that bids are evaluated using the criteria and methodology defined in the invitation to bid; and (d) ensuring that international staff participate in the Contracts, Assets and Procurement Committee.	

Management comments and action plan: __√__ Agreed   ____ Disagreed

The Office indicated that it would establish standard operating procedures for the receipt, opening, and evaluation of offers and conduct training for the staff. The Office also indicated that international staff members are already performing the roles of chairperson, alternate chairperson, and secretary in the Contracts, Assets and Procurement Committee. Additionally, it will ensure to the extent possible that international staff members participate in meetings of the review committee.

1.5 Contract management   Unsatisfactory

During the audit period, the Office issued more than 30 local long-term agreements for the supply of goods and services, including fuel, airline tickets, telecommunications, and office supplies and materials. The Office also used the corporate long-term agreements for the purchase of IT equipment.

According to the Programme and Operations Policies and Procedures, the Office is responsible for protecting the integrity of the procurement process. However, the controls established by the Office to manage its procurements were not effective in protecting the integrity of the procurement process and obtaining the best value for money.

Due to the high-risk related to the issues described below, OAI assessed this area as "unsatisfactory."

Issue 4   Weak management of fuel procurement, receiving and distribution

In January 2010, the Office issued long-term agreements to five suppliers for the supply of fuel (petrol and diesel) initially for one year. The long-term agreements were later extended for two more years. The Advisory Committee on Procurement, while reviewing the proposed procurement, recommended that the Office: (a) sign non-binding agreements to ensure the supply of fuel while obtaining competitive fuel prices; (b) issue fixed amount vouchers (coupons) jointly signed by the Project Manager and the Office; and (c) establish price criteria by obtaining quotations from each supplier for each fuel type for all five regions, computing the total, and dividing it by the number of regions. The total procurement of fuel during the period January 2010 to November 2012 was approximately $6.5 million. OAI noted serious flaws in the system with regard to determining fuel prices and managing the receipt, consumption, and re-ordering of fuel.

Inadequate controls over determining fuel prices - Starting in February 2010, the Office obtained quotations from five fuel suppliers every month and awarded the contract to the supplier with the lowest average fuel price for the calendar month. However, starting in August 2010, three of the five suppliers stopped submitting quotations, and between March and December 2011, the Office received quotations from only one supplier. As a result, during this period the Office procured approximately $1.9 million of fuel that was not based on competitive quotes.

Additionally, the Office did not apply an appropriate methodology to determine the lowest fuel cost. The Office obtained monthly quotations from vendors for diesel and petrol. To determine the lowest price and award the contract, the Office relied on an average of the diesel and petrol prices rather than using a weighted average to also take into consideration the quantity of diesel and petrol required. As diesel was more than 90 percent of fuel consumption, the Office's approach did not necessarily lead to identifying the lowest overall cost. As a result, it is estimated that the Office incurred a financial loss of approximately $25,000 for the months during

which it obtained quotations from more than one supplier. OAI was unable to compute the potential financial loss during the months in which the Office received a quotation from only one supplier.

In late 2011, the Office conducted a new solicitation process using a new methodology in determining the fuel prices, and issued three new long-term agreements. The new methodology required obtaining competitive prices from three pre-agreed fuel stations that the Office selected and then determining the average price.

Inadequate segregation of duties in the receipt, storage and distribution of fuel - Segregation of duty would require that persons receiving fuel should be independent of those in charge of its storage and distribution to end users. However, the fuel delivery records for refuelling the tank at the Office premises (e.g. fuel order slip nos. UNDP/2012/016, 002 and 004) contained the signature of a service contract holder who was responsible for releasing and recording fuel consumption, and subsequently preparing stock level reports that served as the basis for re-ordering fuel from the suppliers. Furthermore, the delivery records in other field locations showed that security guards who were not UNDP staff and who did not have the authority to receive fuel had signed the delivery coupons. The Office's Administrative Unit Head explained that the delivery of fuel was normally done at night when no other staff members were available. As of October 2012, the total fuel consumed at the Office complex alone was approximately $177,000 and therefore presented a significant risk of financial losses.

Inadequate control of fuel coupons, fuel issuance and consumption and the payments for fuel - The coupons used to authorize and track fuel usage were not properly safeguarded from unauthorized use. The Office also had not established adequate controls to ensure that fuel was used for official purposes. Review of documentation showed that several personnel without formal authorization were issuing the coupons. The Office informed OAI that it had been made aware that coupons had been misused in one of its projects in January 2011, but the responsible party was no longer with the project. OAI also identified payments totalling $48,000 made to the fuel suppliers even though the required valid fuel coupons (showing the vehicle license number and signature of the purchaser) were not included as support documentation (PV nos. 111893, 111487, and 112457). OAI identified the same internal control weaknesses relating to the procurement of fuel for projects in field locations. For example, the review of the coupons for Project ID 58922 showed that several staff members were issuing the coupons. Although the Office issued standard operating procedures in January 2012, they did not include the list of personnel authorized to approve coupons for refuelling or the list of official vehicles that were to be refuelled. Further, there was no evidence that the lists had been provided to the fuel supplier. Subsequent to the audit fieldwork, the Office provided (May 2013) a list of personnel authorized to approve coupons for refuelling.

While the Office stated that during the audit period a fuel management process with controls and segregation of duties had been put in place, as discussed above, the segregation of duties was not adequate for refuelling of the tank at the Office premises.

The large expenditures on fuel combined with the ease with which fuel could be sold for cash represent a significant risk to the Office.

Priority	High (Critical)
Recommendation 5: The Office should adhere to the Programme and Operations Policies and Procedures and ensure effective controls over the procurement and the management of fuel by: (a) ensuring that the procurement process allows for adequate and open competition; (b) ensuring that there is effective oversight over the receipt, storage, and distribution of fuel; and (c) maintaining master lists of personnel authorized to issue the fuel coupons as well as one that details the	

> vehicles authorized to be refuelled from the supplier pumping stations, and providing a copy of each to the supplier on a regular basis.

Management comments and action plan: __√__ Agreed ____ Disagreed
The Office indicated that: (a) It had established a competitive procurement process that has been reviewed and approved at both the regional and headquarters levels.   (b) The oversight over the receipt, storage and distribution of fuel has been strengthened. With the relocation of the Country Office in April 2013, the vendor now manages the fuel storage system. The Office verifies the supplier's fuel pump calibration. Further, to ensure the fuel is used only for official purposes, consumption checks, vehicle and generator norms and the log books are used.   (c) It initiated a process to introduce a vehicle tracking system, which will permit usage reports to be generated for each vehicle.   (d) The master list of authorized personnel was updated and shared with the suppliers in June 2013 and regular reviews of the master list are planned on a quarterly basis.

Issue 5   Weak management over the procurement of air tickets

The Office had issued a long-term agreement to a single travel agency (vendor ID 2863) in September 2008 to provide travel services for the Office and other United Nations agencies in Afghanistan. The agreement was valid for three years and was amended in October 2011 for another four months. The total value of purchase orders issued to this vendor was $1.08 million during 2011. Beginning in 2012, the Office conducted a new solicitation process jointly with three other UN agencies in Afghanistan, and entered into long-term agreements with three travel agencies (vendor IDs 2863, 6080 and 11354).

The Travel Assistant, a General Service staff member, was responsible for purchasing tickets and also for determining the types of tickets to purchase. When the Office had the long-term agreement with only one travel agency, the Travel Assistant had relied solely on the quotations provided without verifying the competitiveness of the fares by obtaining competitive quotes from other sources. There was no evidence of supervisory oversight by the Senior Deputy Country Director (Operations) to whom the Travel Assistant reported. This was critical because the costs of airline tickets for the same journey on the same flight were volatile and not fixed in the contract. The Office explained that the decision to purchase the ticket was made by the approving manager (i.e. staff delegated to approve purchase orders) and that the Travel Assistant was supervised by the Protocol Associate and not the Senior Deputy Country Director (Operations). However, OAI noted that the job description of the Travel Associate provided that the post was supervised by the Head of Protocol Unit and not a Protocol Associate. OAI also requested a copy of the Travel Assistant's performance assessment conducted by the supervisor for 2011 and 2012 but the Office indicated that it had not been done. As a result, OAI was unable to determine if the Travel Assistant was supervised or determine the effectiveness of his performance.

As the travel quotations have different travel restrictions which may not be comparable, it is important that there is adequate oversight over the procurement of air travel tickets.

Priority	Medium (important)
Recommendation 6:	
The Office should enhance oversight over the individual responsible for procurement of travel tickets in accordance with the job description and performance assessments should be conducted on a regular basis.	

| **Management comments and action plan:** | __√__ Agreed | ____ Disagreed |

The Office stated it is going to undertake an organization wide review of business processes. In the meantime, the unit is under the direct supervision of Senior Deputy Country Director (Operations).

Issue 6   Inadequate controls to prevent duplicate vendor records

The Programme and Operations Policies and Procedures require effective and efficient vendor management to avoid duplicate or ineligible payments. The vendor records in Atlas should be reviewed prior to creating a new vendor profile to ensure that no duplicate records exist. All staff designated with buyer roles are authorized to create vendors in Atlas, which then require approval by a staff member with vendor approver rights before the vendor profile becomes active.

(a)   Inadequate vendor verification

The SCMO indicated that while conducting a site inspection to verify the information provided about a supplier (vendor ID 10456) selected to supply metal filing cabinets in October 2012, it found that the contact information provided in the bid documents (contact person, telephone numbers and address) was false, which led to cancelation of the procurement. Upon review, OAI noted that the Office had issued several purchase orders totalling $0.3 million and processed payment vouchers totalling $0.1 million to the same vendor name in 2010-2011. However, the contact person, telephone numbers and address of the vendor in Atlas relating to the 2010-2011 activity were different from those provided in relation to the cancelled procurement discussed above. The SCMO could not explain how this had occurred and the staff involved had already left the Office. The SCMO staff explained that vendor verification was not properly conducted prior to 2012 due to staff shortages.

The Office provided no documentation showing how vendors were informed that they had been awarded a contract. To address this control weakness, the Head of the SCMO issued a procedure for informing the successful vendors and requiring the staff to keep copies of the notification on file.

Since the SCMO has begun conducting proper vendor verification and documenting vendor notification, OAI has not made a recommendation.

(b)   Duplicate vendor records

In its previous audit (Audit Report No. 745), OAI had recommended that the Office enhance vendor management controls by deactivating all duplicate vendor profiles in Atlas. However, OAI noted that management had not taken appropriate action, and there continued to be no process for regular review of vendor records. As a result, the Office still had 86 active duplicate vendor names and 172 vendors with duplicate bank account details in Atlas. After OAI informed the Office, it deactivated 35 duplicate names and indicated that the remaining 51 records were being reviewed. However, the Office had yet to take action on the vendors with duplicate bank account details.

The existence of duplicate records was due to the lack of internal procedures for vendor creation, approval, and maintenance. Furthermore, as noted in Issue 2, the Office had assigned several staff members the buyer role in Atlas, giving them the authority to create new vendors in the system. The vendor approver did not undertake adequate reviews resulting in duplicate profiles. According to the SCMO staff, the high number of staff with buyer roles combined with the lack of timely communication among the buyers regarding the creation of new

vendors contributed to the number of duplicate records. Duplicate vendor records could lead to improper payments and financial losses for UNDP.

Additionally, the Office informed OAI on 9 June 2013 that an international consultant had been hired to clean up the duplicate records and that the clean-up had already been completed. In order to validate that the duplicate records had been removed, OAI re-tested the Atlas system, and found that the Office still had over 200 duplicate vendor records. The Head of the SCMO stated that some records were not duplicates, but further investigation was necessary.

Priority	High (Critical)
Recommendation 7: The Office should follow the requirements of the Programme and Operations Policies and Procedures in vendor management by: (a) establishing vendor verification procedures prior to approving new vendor profiles in Atlas; (b) conducting regular reviews of existing vendors and deactivating all vendors with duplicate profiles and/or bank account details; and (c) assigning clear and distinct responsibilities for vendor creation, approval and maintenance, as well as limiting the number of staff with this authority.	
Management comments and action plan: __√__ Agreed ____ Disagreed The Office indicated that it is working on improving its vendor management by developing a standard operating procedure on vendor administration, which is currently being reviewed. It aims to provide a clear workflow and division of roles and responsibilities for vendor management, limiting the number of staff with respective Atlas profiles, ensuring complete vendor verification prior to Atlas entries, and ensuring monthly reviews of the vendor records.	

ANNEX.   Definitions of audit terms - Ratings and Priorities

A.   AUDIT RATINGS

In providing the auditors' assessment, the Internal Audit Services of UNDP, UNFPA, UNICEF, and WFP use the following harmonized audit rating definitions. UNDP/OAI assesses the Country Office or audited HQ unit as a whole as well as the specific audit areas within the Country Office/HQ unit.

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. *(While all UNDP offices strive at continuously enhancing their controls, governance and risk management, it is expected that this top rating will only be achieved by a limited number of business units.)*
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. *(A partially satisfactory rating describes an overall acceptable situation with a need for improvement in specific areas. It is expected that the majority of business units will fall into this rating category.)*
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. *(Given the environment UNDP operates in, it is unavoidable that a small number of business units with serious challenges will fall into this category.)*

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

The audit recommendations are categorized according to priority, as a further guide to UNDP management in addressing the issues. The following categories are used:

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 and may affect the organization at the global level.
Medium (Important)	Action is required to ensure that UNDP is not exposed to significant 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.