



AUDIT

OF

UNDP AFGHANISTAN PROCUREMENT MANAGEMENT UNIT

Follow-up of OAI Report No. 1124 dated 30 July 2013

Report No. 1424
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**Report on follow-up audit of UNDP Afghanistan Procurement Management Unit
(Previous OAI Report No. 1124, 30 July 2013)
Executive Summary**

From 16 to 25 November 2014, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit of the Procurement Management Unit in UNDP Afghanistan (the Office). This on-site follow-up audit was undertaken, in addition to regular desk reviews, in view of the 'unsatisfactory' audit rating assigned by OAI as a result of an audit per Report No. 1124 dated 30 July 2013. The follow-up audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit scope and approach

The follow-up audit reviewed the implementation of seven audit recommendations. Specifically, the follow-up audit determined if the recommended corrective actions were properly taken to address the issues noted in the previous audit. The follow-up audit reviewed the latest updates provided by the Office in the Comprehensive Audit and Recommendation Database System (CARDS) and other documents supporting the reported actions. OAI conducted appropriate tests of transactions and activities by the Office from 1 January 2013 to 30 September 2014 and interviewed management and staff concerned to determine whether the reported corrective actions were indeed implemented, as reported by the Office in the CARDS.

Audit results

Of the 7 audit recommendations, the Office had fully implemented 5, initiated action on 1 (in progress), and OAI withdrew 1 recommendation, resulting in an implementation rate of 83 percent¹ on 7 January 2015.

Implementation status	Number of recommendations	Recommendation Nos.
Implemented	5	1, 2, 4, 6, 7
In progress	1	5
Not implemented	0	-
Withdrawn	1	3
Total	7	7

The detailed implementation status of the seven recommendations has been updated by OAI in CARDS.

Section I summarizes the recommendation that has yet to be fully implemented (in progress). OAI encourages the Office to continue to take appropriate actions to address the remaining recommendation. OAI will continue to monitor the progress of the implementation of this recommendation as and when updates are provided by the Office in CARDS.

Section II summarizes the recommendation that has been withdrawn by OAI, as implementation is no longer feasible or warranted.

¹ Per CARDS, the implementation rate is 100 percent. This is due to the fact that an office can achieve an implementation rate of 100 percent with some recommendations still in progress. This is because the implementation rate is weighted and takes into account how fast recommendations are implemented.

Section III presents additional audit issues. While reviewing the implementation status of previous audit recommendations, OAI took note of two additional audit issues pertaining to “e-tendering” and fuel management. The one recommendation aims to ensure the compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1).

Management comments and action plan

The Resident Representative provided the revised implementation dates for the outstanding recommendation. The Resident Representative also accepted the one new recommendation and is in the process of implementing it.



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I. Details of recommendations not yet implemented

Recommendation No.	Recommendation	Implementation status reported by the Office	OAI assessment recommended action
5	<p>The Office should adhere to the <i>Programme and Operations Policies and Procedures</i> and ensure effective controls over the procurement and the management of fuel by:</p> <ul style="list-style-type: none"> (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. 	<p>Adequate and open competition has been in place since February 2012.</p> <p>The Office concluded the sourcing of a vehicle tracking system that will also monitor and provide reports of odometer readings of fuel usage, as well as track vehicle locations at any given point in time.</p> <p>The contract management team produces monthly reports on fuel vouchers not signed by authorized personnel. Invoices with no valid voucher signatories are rejected for payments until corrected.</p>	<p>In progress</p> <ul style="list-style-type: none"> (a) Long-term agreements were awarded to three fuel suppliers in January 2012. At the start of each year, one supplier is selected to provide fuel to the Office for 12 months. Each supplier is requested to provide a fixed overhead cost for the year based on the estimated fuel requirements; the supplier providing the lowest overhead cost is awarded the contract for the year. (b) With the existing fuel agreements in place, UNDP is no longer required to store fuel, as the pumps are managed by the supplier. OAI reviewed supplier invoices and fuel order slips to confirm that both the quantity supplied and pricing information was correct, and that the fuel order slips were appropriately authorized. The following exceptions were identified in the process of fuel ordering (the sample covered three months of fuel supply and three of the eight regions). <ul style="list-style-type: none"> ▪ Fuel order slips were not signed by the authorized signatory (8 cases out of 237 sampled in the Office). ▪ All fuel order slips were reviewed for the months of April, July and August 2013, for the Office and two Regional Offices. Fuel order slips did not include the quantity of fuel received by the driver (Office - 4 cases, Bamyán - 10 cases). ▪ The monthly price of fuel is established by taking the average fuel price from three previously agreed upon pumping stations on the first working day of the

			<p>month. OAI noted that the market price of fuel from the previously agreed upon pumping stations for the month of April 2014 did not include the name and signature of the UNDP staff member who conducted the survey (1 case).</p> <ul style="list-style-type: none"> ▪ As per the <i>Guideline for Management of Fuel/LTA</i> dated 1 April 2013, the Administration Support Unit of the Office should certify the invoice from the vendor. The Administration Support Unit had not certified the supplier invoices for two months. <p>Additionally, the audit of UNDP Afghanistan’s Support Services to Law and Order Trust Fund for Afghanistan Project² had identified similar weaknesses on the use of fuel slips, such as missing supplier’s stamps as evidence of a valid purchase of fuel, and missing documentation on the quantity of fuel received.</p> <p>(c) The Office maintains a master list of personnel authorized to issue fuel coupons, which had also been shared with the fuel supplier. The Office is also expected to maintain lists of vehicles authorized to be refueled. However, during OAI’s visit to the fuel pumping station that supplied the Office, the attendant did not have a list of authorized UNDP vehicles. The Office indicated that the information had been provided to the fuel vendor, but the information had not been passed on to the pumping station attendants.</p> <p><u>Agreed revised implementation date:</u> June 2015.</p>
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² OAI completed the audit fieldwork on 3 December 2014 and was in the process of drafting the report.

II. Details of recommendation withdrawn

Recommendation No.	Recommendation	Implementation status reported by UNDP Afghanistan	Justification for withdrawing the recommendation
3	<p>The Office should enhance controls over the receipt of offers submitted electronically by:</p> <p>(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</p> <p>(b) establishing procedures to properly identify and retrieve email offers.</p>	<p>The Office initiated and implemented e-tendering, which is a secure corporate tool that ensures that bids are automatically received and closed based on an electronic clock. Compared to receipt and opening of bids through email, this method is far more secure and guarantees full compliance with corporate policies and guidelines.</p>	<p>Since February 2014, the Office had been using the Atlas based e-tendering system. All bids are now uploaded directly on the e-tendering system and email bids are no longer received. As a result, the corresponding recommendations raised in Report No. 1124 are no longer applicable.</p>

III. Other audit issues

While reviewing the implementation status of the previous audit recommendations, OAI took note of additional audit issues, in the areas of e-tendering and fuel management, as described below:

Issue 1 Corporate Issue: Risks in using the e-tendering system

Since February 2014, the Office had been using the Atlas e-tendering system to receive bids for procurement. The Supply Chain Management Office informed OAI that as of November 2014, the Office and projects were using the e-tendering system for all advertised procurements.

OAI reviewed the e-tendering system and in discussion with the Supply Chain Management Office, identified the following risks:

(a) The use of the buyer profile

In order to create or approve “events” within e-tendering, the user requires an Atlas buyer profile; the Office had 24 staff members with this buyer profile.

In addition, there might be risks in the buyer profile in Atlas as follows:

- Any staff member with the buyer profile within the business unit could cancel any procurement event which was in progress.
- Once a bid deadline had passed, the bid information (both technical and financial) could be accessed by any staff member within the business unit with the Atlas buyer profile.
- E-tendering did not include a tracking log to record which buyer within the business unit had been reviewing or accessing procurement event information.
- The system was unable to track which buyers had accessed and reviewed information on completed bids.

Given the limitations mentioned above, there is a risk that a buyer may inadvertently cancel a bid, or that confidential information (technical and pricing) may be circulated outside of the Office for personal gain.

(b) Loss of bid information

- The e-tendering system disqualified certain bids (although the specific reason could not be identified), and as a result, the suppliers were not listed during the bid opening (cases 168, 184 and 188). However, the Office now ensures all bids, including those which the system disqualifies, are downloaded and reviewed during the bid opening.
- The e-tendering system allowed for the submission of bids without mandatory documents, such as the technical bid and financial information bid. Bidders, in their responses, indicated that they had submitted these documents, but that the system did not indicate that the documents were not submitted.

The Office demonstrated that the majority of the issues identified had been shared with the Procurement Support Office; however, they had yet to be resolved. As the Office had already taken up these corporate level issues with the Procurement Support Office, OAI is not making a recommendation.

Issue 2 Weaknesses with fuel management

The *Programme and Operations Policies and Procedures* do not allow UNDP to procure goods and services from vendors that have been placed on the Ineligibility List hosted by the UN Global Marketplace.

(a) Suspension of fuel supplier

In February and July 2014, two vendors were included on the UN Global Marketplace Ineligibility List. This included the existing vendor who was contracted to supply fuel to the Office from February 2013 to January 2015. The Office sought the advice of the Chairperson of the Regional Contracts, Assets and Procurement Committee, who recommended to continue with the existing vendor until the one year contract term expired on 31 January 2015.

Continuing a contractual relationship with vendors that have been suspended may expose UNDP to financial losses. The Office informed OAI that the existing long-term agreement for fuel was due to expire in January 2015 and that they were in the process of initiating a new procurement process. As such, OAI is not making a recommendation in this regard.

(b) Inadequate segregation of duties in determining fuel price

The *UNDP Internal Control Framework* requires that there be an adequate segregation of roles and duties.

The price of fuel is determined on a monthly basis in the Office and each of the Regional Offices by a staff member who visits three pre-determined fuel providers on the first working day of each month (the methodology is outlined in the *Guideline for the management of fuel LTA*). For two of the regions sampled, the person who completed the fuel survey also prepared fuel order slips and the fuel report. In another region, the fuel survey was being conducted by the same staff member for the last few months.

The inadequate segregation of duties increases the risk of possible collusion with the supplier, and makes it difficult to detect irregularities.

Priority	Medium (Important)
Recommendation 1:	
Adequately segregate duties relating to the management of fuel by having a team of two staff members independently conduct each fuel survey and rotating these team members on a regular basis.	
Management action plan:	
The Office will update the <i>Guideline for the management of fuel LTA</i> to stipulate that: (a) a team of two staff members will independently conduct the fuel survey and they will be rotated on a regular basis; and (b) the staff conducting the fuel survey not be involved in other aspects of fuel management. Any exceptions or permissible deviations will also be stipulated in the <i>Guideline</i> .	
Estimated completion date: March 2015	

ANNEX Definitions of audit terms – implementation status, ratings and priorities

A. IMPLEMENTATION STATUS

- **Implemented** The audited office has either implemented the action as recommended in the audit report or has taken an alternative solution that has met the original objective of the audit recommendation.
- **In progress** The audited office initiated some action to implement the recommendation or has implemented some parts of the recommendation.
- **Not implemented** The audited office has not taken any action to implement the recommendation.
- **Withdrawn** Because of changing conditions, OAI considers that the implementation of the recommendation is no longer feasible or warranted or that further monitoring efforts would outweigh the benefits of full implementation. A recommendation may also be withdrawn when senior management has accepted the residual risk of partial or non-implementation of recommendation.

B. 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.

C. 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.