



PERFORMANCE AUDIT

OF

PROCUREMENT MANAGEMENT

IN

UNDP

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Report on the Performance Audit of UNDP Procurement Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP procurement management from 10 June to 6 July 2015. Performance auditing is an independent examination of a programme, function, operation, project, or the management systems and procedures of an entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

The objective of this audit was to assess whether the current policies, procedures, and tools in place were conducive to the efficient management of procurement. In order to assess the audit objective, the audit focused on two main audit questions:

- (a) How does the procurement governance contribute to an efficient procurement function in UNDP?
- (b) How can procurement be executed more efficiently in UNDP?

The audit covered the period from 1 January 2014 to 31 March 2015.

Overall audit rating

OAI assessed UNDP procurement management as **partially satisfactory**, which means, “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.” This rating was mainly due to the way UNDP identifies and selects suitable vendors and other suppliers (vendor sourcing practices) requiring improvement, and insufficient IT tools to support procurement processes.

Key recommendations: Total = 8, high priority = 2

The eight recommendations aim to ensure effectiveness and efficiency of operations.

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. The high (critical) priority recommendation is presented below.

With regard to the question “How can procurement be executed more efficiently in UNDP?” the following issues were noted:

The way UNDP identifies and selects suitable vendors and other suppliers required improvement in order to be more efficient.

Recommendation: The Bureau for Management Services should Improve UNDP’s vendor sourcing practices by:
(a) finalizing relevant project(s) as part of the plan to implement the UNDP Procurement Strategy 2015-2017; and
(b) amending the ‘UNDP Programme and Operations Policies and Procedures’ to provide for alternatives to purchasing such as leasing and transferring of assets to other UNDP units/offices, and amending the policies to require all UNDP offices to notify the PSO prior to any procurement activity that will result in new LTAs.

IT tools used in procurement required improvement in order to support procurement processes more efficiently.

Recommendation: The Bureau for Management Services, in consultation with the Office of Information Management and Technology where applicable, should improve IT tools used in procurement by: (a) mandating the use of the E-Tendering module for all UNDP offices; (b) developing a timeframe for further integrating relevant procurement tools with each other and with Atlas; and (c) implementing a centrally managed online vendor management system.

Good practices

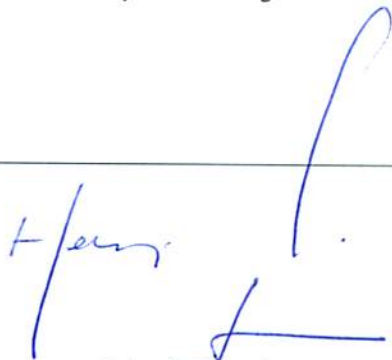
The following good practices were noted to support more efficient procurement management:

- The Procurement Support Office (PSO) of the Bureau for Management Services (formerly the Bureau of Management) developed an ambitious procurement strategy which was endorsed by the Organizational Performance Group in May 2015. The strategy signals a new approach to procurement that is expected to be innovative, fit for purpose, efficient, cost effective and promotes sustainable procurement in substance.
- The Advisory Committee on Procurement (ACP) developed a corporate tool to review online procurement actions subject to oversight by Procurement Review Committees (PRCs).

Management comments and action plan

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

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



Helge S. Osttveiten
Director
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1. Introduction

1.1 Background and context of UNDP procurement management

Procurement and effective supply chain management enable UNDP to deliver development results on the ground. Key practice areas—notably democratic governance, environment and energy, health, and crisis prevention and recovery, have substantial purchasing components.

The procurement function is decentralized to over 132 Country Offices as well as to units in headquarters, under a common policy and regulatory framework.

Procurement accounts for nearly two-thirds of all UNDP delivery. Between 2013 and 2014, total procurement remained stable at around \$1.5 billion per annum. In the prior three years, procurement volumes had grown significantly in the sectors of health, elections, sustainable energy and crisis response.

UNDP set up management arrangements for operationalizing its regulatory framework. In accordance with Financial Regulation 21.01 (b), the Administrator delegated the authority for procurement functions to the Assistant Administrator and the Director of the Bureau for Management Services as the Chief Procurement Officer of the organization. The Chief Procurement Officer further delegated procurement authority to the Deputy Assistant Administrator and Deputy Director of the Bureau for Management Services, who also serves as the Deputy Chief Procurement Officer.

In line with the UNDP Financial Regulations and Rules, the Chief Procurement Offices have set up review committees at headquarters and other locations to provide advice on procurement actions to the Chief Procurement Officer. These comprise of the Advisory Committee on Procurement (ACP) in headquarters (for contracts above \$2 million), Regional Advisory Committees on Procurement (RACP) in Regional Hubs (for contracts valued from \$150,000 up to \$2 million), as well as Contracts Assets and Procurement Committees (CAP) within business units (for contracts valued from \$50,000 to \$150,000).

Regarding delegation of authority, the Chief Procurement Officer had delegated limited authority to Resident Representatives, heads of Bureaux and heads of out-posted headquarters units for awarding contracts valued at less than \$150,000. Such contracts do not require the prior review of the ACP and the Chief Procurement Officer. Contracts valued at over \$150,000 require review by the ACP and Chief Procurement Officer. Resident Representatives, heads of Bureaux and heads of out-posted headquarters units may further delegate procurement authority to their staff.

The Procurement Support Office (PSO) is the Bureau of Management office that provides support to UNDP procurement activities and also, through its Global Procurement Unit (GPU) in Copenhagen, provides specialized procurement services in the areas of global health procurement, crisis prevention and recovery and electoral procurement. Local field support offices had also been set up in Bangkok and Addis Ababa.

In recent years, PSO undertook various initiatives within procurement in the organization. Some of these initiatives included:

- Value-for-money approach—continuous improvements to procurement policies and systems;
- Crisis prevention and recovery—procurement and delivery of goods, field support, advisory services, and system development.
- Partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria— procurement of time-sensitive, life-saving health products from all over the world.

- Electoral procurement–strategic guidance and operational support to Country Offices and electoral management bodies, contributing to legitimate democratic processes.
- Procurement integrity and transparency– vendor eligibility policy, vendor protest procedures and Vendor Review Committee.

In May 2015, PSO finalized and submitted to the Organizational Performance Group the new Procurement Strategy, which covers the period from 2015 to 2017.

Issues related to procurement have been highlighted in most of OAI’s audit reports. The table below summarizes the procurement-related audit recommendations issued by OAI from 1 January 2010 to 31 December 2014.

Table 1: Total number of procurement-related recommendations and priority ranking

Priority ranking	Number of recommendations
High	64
Medium	120
Total	184

The recommendations mentioned above mainly related to the following audit areas and key issues:

- Procurement planning: Inadequate procurement planning, no procurement plan, procurement plan not updated, procurement plan not corresponding to purchase needs.
- Individual contracts: Lack of competition in the individual contract selection process, no monitoring of cumulative value for each individual contract, no defined output for the individual contracts, individual contractors performing core functions.
- Vendor management: Inadequate vendor management, including vendor database not complete/updated, duplicate vendors, and lack of vendor verification.
- Purchase orders: Inadequate management of purchase orders in terms of timeliness of raising purchase orders, payment before approval of purchase orders.
- Contract management: Contract procedures not adhered to, risks of sub-contracting, advance payments, lack of control over bids received.
- Contracts, Assets and Procurement Committee (CAP): Procedures of CAP/other bodies not adhered to, procurement cases not sent to CAP or other relevant body according to regulations, and recommendations not adhered to.
- Long-term agreements (LTAs): Inadequate management of LTAs, including not using LTAs when there were potential benefits in doing so.

1.2 Audit objectives

The audit assessed whether the existing policies, procedures, and tools in place were conducive to the efficient management of procurement. In order to assess the audit objective, the audit focused on two main audit questions:

- (a) How does the procurement governance contribute to an efficient procurement function in UNDP?

This audit question encompassed the adequacy of the organizational structure and of a business model to successfully support the procurement process, as well as appropriate oversight tools in place and support provided by PSO to the various business units.

(b) How can procurement be executed more efficiently in UNDP?

This audit question encompassed efficiency of planning, the capacity of UNDP for proper planning and execution of procurement, effective tools in place to conduct a successful procurement process, adequate procurement review mechanisms and vendor/contract performance evaluation.

1.3 Audit scope and methodology

The audit covered the period from 1 January 2014 to 31 March 2015. The focus of the audit was on procurement management within UNDP. The audit questions were addressed by using a combination of document reviews, an online survey, process walkthroughs, audit interviews (refer to list below) and quantitative data analysis.

Discussions were held with PSO as well as the ACP and Regional Advisory Committee on Procurement (RACP) staff to gather information on relevant practices and lessons learned in the area of procurement management.

A survey was sent out to 41 Country Offices in various regions to assess issues such as the procurement capacity within Country offices, the main procurement challenges, the quality of support received from PSO, the quality of procurement-related forms and templates available to offices, and the feedback on the performance of all review committees. Feedback and responses were received from all 41 Country Offices.

List of units interviewed

- Headquarters Bureaux: Crisis Response Unit, Regional Bureau for Africa, and the Office of Financial Resources Management
- ACP and RACP
- PSO, Copenhagen
- High-Level Committee on Management

1.4 Audit criteria

The audit criteria included policies, procedures and requirements against which facts could be assessed. The audit of procurement management was based on UNDP's strategic objectives of enhancing procurement efficiency and achieving good value for money. Documents that were used to identify relevant audit criteria included:

- Quadrennial comprehensive policy review of operational activities for the development of the United Nations system (67/226).
- UNDP Strategic Plan: Transforming institutional effectiveness - Improved management of financial and human resources in pursuit of results in a way which is sustainable within projected resource flows.
- UNDP Financial Regulations and Rules Article 21: Procurement of goods and services, in particular Rules 120.01, 120.02, 120.03 governing procurement activities conducted at headquarters, Regional Hubs, and Country Offices.
- UNDP Programme and Operations Policies and Procedures contents (i) on Contracts, Assets and Procurement, (ii) Fast Track Procedures, and (iii) Project management.
- Manual on National Implementation by the Government of UNDP Projects: Applicable rules and procedures and accountabilities for the management of procurement for programme activities (Pages 97-133).
- United Nations Procurement Manual Version 7.0 - 1 July 2013.
- Operational Guide of the Internal Control Framework for UNDP (January 2012).
- The UNDP accountability system: Accountability framework and oversight policy.
- Harmonizing UN Procurement: Common UN Procurement at the Country Level (May 2013).

- Joint Inspection Unit's reports and notes.
- Organization for Economic Cooperation and Development Principles for Integrity in Public Procurement.

2. Good practices

The following good practices were noted regarding more efficient procurement management:

- The Bureau for Management Services and PSO developed an ambitious procurement strategy that was endorsed by the Organizational Performance Group in May 2015. The strategy signals a new approach to procurement that is expected to be innovative, fit for purpose, efficient, cost effective and promotes sustainable procurement. The UNDP Procurement Strategy complements UNDP's Strategic Plan (2014-2017) and contributes to achieving its objectives through commitments to: (a) greener supply chains; (b) purchasing innovation; (c) better integration with programmes; (d) stronger partnerships; (e) transparency, integrity, and accountability; (f) measuring impact; and (g) assessing and building capacity starting in 2015.
- The ACP Online application was developed in SharePoint as a corporate tool to review procurement actions subject to oversight by PRCs. The application was designed to streamline submissions to any of the three UNDP committee levels through a common portal using the same format.

3. Audit observations

OAI made two recommendations ranked high (critical) and six 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) The Bureau for Management Services should improve UNDP's vendor sourcing practices (Recommendation 4).
- (b) The Bureau for Management Services, in consultation with the Office of Information Management and Technology where applicable, should improve IT tools used in procurement (Recommendation 7).

Medium priority recommendations, arranged according to significance:

- (a) The Bureau for Management Services should improve procurement planning (Recommendation 3).
- (b) The Bureau for Management Services should strengthen quality controls and technical evaluations prior to submission to the CAP (Recommendation 6).
- (c) The Bureau for Management Services and the Regional Bureaux should improve the tracking of procurement risks across UNDP (Recommendation 2).
- (d) The Bureau for Management Services should improve procurement capacity (Recommendation 5).
- (e) The Bureau for Management Services should improve UNDP offices' understanding of the procurement support services available (Recommendation 1).

The detailed assessment is presented below, per audit question:

A. How does the procurement governance contribute to an efficient procurement function in UNDP?

To address this question, the audit aimed at responding to three sub-questions:

- Has UNDP established an adequate organizational structure/business model to successfully support the procurement process?
- Has UNDP established appropriate oversight tools to support the procurement process?
- Do business units receive appropriate support from PSO on the procurement process?

The audit noted that UNDP had established an adequate organizational structure which had the potential to support the procurement process. This included various procurement specialists posted in the Regional Hubs as well as the Global Procurement Unit, with specialties in health, elections, and crisis procurement. PSO also had pre-positioned emergency items which could be quickly deployed to disaster-affected areas.

UNDP had also established appropriate oversight tools to support the procurement process. This included the ACP Online system, the procurement dashboard, the asset dashboard, and the procurement-to-pay module in Atlas (enterprise resource planning system of UNDP).

On the third question, the audit made one observation:

Further clarity about PSO services can lead to more efficient procurement activities

Clarity over the range and type of procurement support services available to UNDP offices helps to make procurement activities at UNDP more effective and efficient by utilizing procurement specialties available across the organization. It also serves to obtain better value for money in the procurement of goods and services, in line with the principles of UNDP procurement set out in UNDP's Financial Regulations and Rules.

(a) Procurement support services

A survey of a sample of 41 Country Offices showed that 44 percent of them were not clear about the procurement support services available to them.

Although the PSO intranet site provided information about the role and services provided by the Global Procurement Unit's sub-units in Copenhagen, it did not clearly set out the entire range of procurement support and advisory services offered at UNDP.

(b) Helpline

PSO established a Procurement Helpline for strategic and technical procurement questions relating to high risk/high value Country Office procurement activities. The Helpline was designed to allow direct access to over 40 highly specialized procurement experts covering more than 30 technical categories. The procurement experts would respond to any queries within 48 hours. OAI's review showed that the Helpline was not as effective as expected. Out of 30 queries submitted by offices, only 16 (or 53 percent) were responded to and closed. A total of 14 queries had been pending since August 2014. The average response/closure time was 23 days as compared to the target of 2 days set by PSO. In addition, many of the experts referred to in the website had moved to other roles or outside of the organization.

(c) Contact information

The PSO intranet site did not clearly identify contacts for different procurement support and advice areas, other than the standard office staff listing. Feedback from a survey of a sample of Country Offices conducted during the audit as well as follow-up interviews with Country Offices showed that offices were not always clear about who to contact (in PSO or more widely across the organization) for procurement-related queries or support requests.

(d) Tracking procurement risks

PSO did not have a readily available tool in place to track procurement risks and issues in Country Offices. Unless offices are required to escalate and seek PSO's support, major procurement issues/risks may go undetected. There is an alternative way to track procurement risks and issues by regularly reviewing the project risk logs or issue logs to identify potential procurement issues or potential risks that may affect project implementation; however, information was not always up to date and relevant.

Lack of clarity in relation to the advisory and support services available to UNDP offices as well as a lack of knowledge about key procurement risks encountered by offices may result in delays or high costs in the procurement process and a failure to successfully implement UNDP programmes and projects.

Priority	Medium (Important)
Recommendation 1:	
The Bureau for Management Services should improve UNDP offices' understanding of the procurement support services available by:	
<ul style="list-style-type: none"> (a) updating the PSO intranet site, including contact information; (b) reminding Regional Bureaux of the services available and charging model; and (c) improving the response rate and speed for the procurement helpline requests. 	
Management action plan:	
The resource for communications, who has already been engaged, will be tasked with updating the PSO website, as well as the intranet, to include comprehensive contact information.	
An official communication will be sent out by the Director of the Bureau for Management Services to the Regional Bureaux providing an exhaustive list of services and charging models available.	
PSO shall task a staff member in New York to coordinate the inputs from the Regional Procurement Advisors who should take over the great majority of requests, and channel policy matters with greater speed to the adequate resources within PSO. We will review the present composition of advisors and speed up the process of filling the vacancies of the procurement advisors. In addition, we will inquire whether a specific Yammer group may be a more optimal way to address queries instead of the current SharePoint site.	
Estimated completion date: June 2016	

Priority	Medium (Important)
Recommendation 2:	
The Bureau for Management Services and the Regional Bureaux should improve the tracking of procurement risks across UNDP by:	
<ul style="list-style-type: none"> (a) requiring all offices to report high priority procurement risks to PSO; and (b) introducing a process for analyzing procurement risks and following up with relevant Regional Bureaux/Country Offices. 	

Management action plan:

The procurement planning policy, which has been approved by the Organizational Performance Group and is set to be published soon, is built on the premise that risks must be analyzed, mitigated and escalated, whenever needed. The Bureau for Management Services will engage in discussions with relevant Regional Bureaux and Country Offices to ensure its proper application. We agree with the recommendation that high procurement risks should be brought to the attention of PSO. Not the least due to the quality of UNDP audit observations, UNDP has succeeded in obtaining a top rank rating in aid transparency. The audit report's recommendation to increase contract review thresholds is taken as a sign of confidence that we manage procurement risks satisfactorily at the moment. We will of course reinforce our efforts in this direction while following the priority settings provided by the auditors and in line with resource constraints focus on some of the other audit recommendations.

Estimated completion date: March 2016

B. How can procurement be executed more efficiently in UNDP?

To address this question, the audit aimed at responding to the following sub-questions:

- How can planning contribute to more efficient procurement in UNDP?
- Does UNDP have the right capacity for the planning and execution of procurement processes?
- Does UNDP have effective tools to conduct a successful procurement process?
- Does UNDP have adequate procurement review mechanisms?
- Is vendor/contract performance sufficiently evaluated to establish whether the procurement objectives are met?

The audit raised the following observations:

Better procurement planning can generate savings and better procurement results

Good procurement planning is essential to optimizing the contribution of the procurement function towards achieving the overall goals of the organization. The ultimate goal of procurement planning is coordinated and integrated action to fulfil a need for goods, services or works in a timely manner and at a reasonable cost. Early and accurate planning is essential to avoid last-minute procurement. In addition, most potential savings in the procurement process are achieved by improvements during the planning stage.

Lack of procurement planning has been highlighted in the majority of reports issued by OAI since 2010 and accounted for 16 percent of the total recommendations issued by OAI.

According to the survey results, "last minute requests for procurement from partners" was cited as the primary reason for weaknesses in the UNDP procurement process (87 percent of respondents). Furthermore, 70 percent of respondents indicated that poor definitions of procurement needs were also causing major disruptions in procurement management.

Further audit analysis of procurement planning indicated the following:

- (a) Lack of involvement of PSO during project design and implementation

There was a lack of a policy to formalize a process of determining which projects with complex/politically sensitive procurement needs would benefit from consulting PSO in the project design/initiation phase.

(b) Incomplete submission of procurement plans

In UNDP, all business units are required to complete and upload procurement plans to the PSO intranet site on a yearly basis.

The audit indicated that many offices did not submit procurement plans (refer to Table 2). Procurement plans submitted in September 2014 were only approved in November 2014, making this exercise appear more like a compliance requirement rather than a useful planning exercise (that should have been performed at the start of 2014). The situation improved in 2015, whereby most procurement plans were submitted in the beginning of April 2015 and were approved within a week.

Table 2: Procurement plan submissions for 2014-2015

	RBA	RBAP	RBEC	RBLAC	RBAS	Total
Number of Country Offices per Bureau	54	36	24	32	18	164
Number of procurement plans submitted						
2014	18	24	19	26	15	102
2015	27	26	22	30	14	119
Country Offices that submitted procurement plans (%)						
2014	33%	67%	79%	81%	83%	62%
2015	50%	72%	92%	94%	78%	72%
Average approval time (days)						
2014	103	9	83	31	108	67
2015	2	0.2	10	6	8	5

(c) Procurement plan template not user-friendly and lack of quality checks

- The procurement plan template was not user-friendly and did not allow for consolidation or analysis. There was no defined data entry method, description or drop-down lists. All information had to be entered manually.
- There was no quality check on the information contained in the procurement plans. The review of a sample of 23 procurement plans uploaded to the PSO intranet site showed that the procurement plans varied in quality and level of details. Some offices modified the template to limit the content, thus making the consolidation not possible without extensive manual manipulation.

Priority	Medium (important)
Recommendation 3:	
The Bureau for Management Services should improve procurement planning by:	
(a) developing an organization-wide procurement planning tool which will help consolidate all procurement plans; and	
(b) continuously updating and consolidating the procurement plans in order to profile the procurement activity within UNDP.	

Management action plan:

Procurement planning should be an integral part of project management planning. PSO has developed a procurement plan tool in SharePoint and is monitoring data entry from the Country Offices. Final responsibility for procurement planning on the Country Office level remains, of course, with Country Office management. But PSO will facilitate the process by offering training opportunities. The integration of the SharePoint planning tool into the project module of Atlas would reinforce the organization-wide acceptance of the importance of procurement planning. The continuous updating of procurement plans in the project module in Atlas will be reinforced by linking it to budgetary releases. The integration of the present procurement plan tool into Atlas will be subject to funding requirements.

Estimated completion date: June 2016

Improved vendor sourcing practices can lead to achieving better value for money

Sourcing involves identifying the most suitable products or services to meet UNDP's needs, as well as the appropriate vendors and other suppliers. Effective sourcing of suppliers of goods and services helps to speed up procurement and achieve better value for money for UNDP, in line with the principles of UNDP procurement set out in the UNDP's Financial Regulations and Rules.

(a) Category management

An analysis conducted by PSO in 2013-2014 made a case for improved category management as well as opportunities for better value for money through conducting bulk procurement activities for a number of business units/offices for some categories of goods and services, as already done for elections projects (e.g. ballot boxes and polling kits), health supplies (e.g. lab equipment and test kits) and environmental procurement (e.g. solar power equipment).

PSO's list of projects for the operationalization of the 2015-2017 UNDP Procurement Strategy included projects to address this and the detailed project documents were being developed by PSO at the time of the audit.

(b) Alternatives to purchasing

In any procurement process, it is important to consider options other than buying, including:

- Reuse or make versus buy, i.e., reuse existing assets or use internal capacity at the UNDP offices or projects to source goods or services required.
- Lease versus buy, i.e., lease certain types of goods rather than purchase them.
- Incorporate in other procurement versus buy, i.e., consider indirect purchase options or use existing LTAs of UNDP or other agencies or partners.

The decision to buy, lease, reuse, make or incorporate in other procurement should be made jointly by the Procurement Officer and the requisitioner. The option to lease rather than buy can be useful in pilot projects where the initiation plan is limited to 12 months or in projects of limited duration.

At the time of the audit, there was no provision for such alternatives in the procurement policies and procedures.

(c) Use of existing LTAs

A review of the UNDP LTA database showed several instances of duplication as well as a number of expired LTAs. Of those available on the database, 42 out of 104 LTAs were past their expiration dates as at the end of June 2015. Discussions with PSO and UNDP offices showed that offices often entered into new agreements without consulting PSO or other offices to assess the use of existing UNDP LTAs.

The absence of a comprehensive strategic sourcing policy may result in the failure to realize savings from coordinated procurement activities and unnecessary duplication of efforts across the organization.

Priority	High (critical)
Recommendation 4:	
The Bureau for Management Services should improve UNDP's vendor sourcing practices by:	
<ul style="list-style-type: none"> (a) finalizing project(s) related to changes in UNDP's sourcing approach as part of the plan to implement the UNDP Procurement Strategy 2015-2017; and (b) amending the 'UNDP Programme and Operations Policies and Procedures' to provide for alternatives to purchasing such as leasing and transferring assets to other UNDP units/offices, and to require all UNDP offices to notify PSO prior to any procurement activity that will result in new LTAs. 	
Management action plan:	
A detailed list of 18 project descriptions has been presented to senior management. The finalization and implementation is subject to at least a partial approval of our funding request. Renewed efforts will be undertaken by PSO to ensure funding commitments.	
Alternative templates for leasing contracts will be included in the new 'UNDP Programme and Operations Policies and Procedures' version.	
The current version already has procedures for the review of high value LTAs. Furthermore, the threshold of the Long Term Agreements Review Committee ensures that the information is available. We suggest that in an initial phase, global and regional agreements be registered in a specific module in Atlas for which a template has already been developed by PSO. We will make sure that a reference will be included in the procedures for this registration process.	
Estimated completion date: June 2016	

Increased procurement capacity and review threshold can lead to better use of UNDP resources and better results

According to the 'UNDP Programme and Operations Policies and Procedures', the Chief Procurement Officer shall establish review committees at headquarters and other locations, to render written advice to the Chief Procurement Officer on procurement actions leading to the award or amendment of procurement contracts. The CAP is the first level of the Procurement Review Committee setup, composed of a chairperson, members, and a secretary appointed by the heads of business units. To facilitate the organization of a meeting, and minimize delays arising from the unavailability of committee members, a pool of staff qualified to be members of the CAP is appointed by the procurement authority. These staff members are expected to perform their assigned tasks as

an integral part of their regular duties. They are to be supported through appropriate tools and training and be enabled by their supervisors to fulfil this vital oversight function through the Performance Management and Development process.

OAI reviewed the policy governing the composition, submissions and thresholds of PRCs in the 'UNDP Programme and Operations Policies and Procedures' and noted the following issues:

(a) Procurement qualifications

The existing policy did not require or specify the minimum level of procurement qualifications for all PRC members. The PRC Chairperson was required by the policy to only have a good grasp of the public procurement principles, policies and procedures, while the PRC members were expected to have basic knowledge in public procurement. The PRC secretary should have relevant experience and qualification in procurement and asset management.

(b) CAP threshold:

Procurement actions with a value of \$50,000 and above should be submitted to the appropriate PRC based on the PRC's thresholds. The threshold of \$50,000 resulted in CAP spending a significant amount of time to review all qualifying cases. OAI's procurement survey showed that 61 percent of offices favored an increase in the CAP review threshold.

In 2014, CAP meetings represented 70 percent of the total PRC meetings; however, the amounts reviewed amounted to \$178 million, representing only 14 percent of the total procurement amount (refer to Table 3).

Table 3: Cases submitted to PRCs

PRC	2014			
	Cases submitted	Total value \$	Percentage of total submissions (No. of cases)	Percentage of total submissions (Value)
ACP	205	871,369	9%	68%
RACP	513	224,590	21%	18%
CAP	1,690	177,814	70%	14%
Totals	2,408	1,273,774	100%	100%

Priority	Medium (important)
Recommendation 5:	
The Bureau for Management Services should improve procurement capacity by:	
<ul style="list-style-type: none"> (a) introducing minimum qualifications for PRC members in the policy; and (b) assessing the risks associated with a possible increase in the CAP threshold and consider a possible increase as well as alternative arrangements to offset the resource limitations of Country Offices, such as consolidating CAPs across two or more offices. 	

Management action plan:

- (a) Requiring procurement qualification or certification for PRC members is considered an over stringent requirement for PRC members and may be restrictive and limiting. However, the need for a higher level of procurement knowledge is agreed. To this end, ACP is working with PSO to develop a specific CAP training module suitable for PRC members leveraging PSO training modules. OAI is welcome to review this module to comment on its adequacy. This process, when completed, will bolster the procurement knowledge for review committee members.
- (b) The CAP thresholds together with the RACP thresholds are periodically adjusted based on metrics from the ACP Online application to balance resources against risks. The ACP has already taken note of resource limitations for Country Offices and has promoted several options, such as consolidating (sharing) a common CAP across two or more offices or a Country Office using the CAP of the Regional Hub. As part of the overall Bureau for Management Services' Business Process Reengineering, PSO and ACP will further look at this to better align the review process to the risks, needs and resource limitations of the Country Offices, and to leverage the various levels of review, as well as the Regional Centres, to the benefit of the organization.

Estimated completion date: June 2016

Potential efficiency gains in strengthening the quality control and technical evaluations prior to submission to PRCs can enhance the procurement outcome

Evaluation is the process of assessing offers and submitted proposals in accordance with established evaluation methodology and criteria, with the goal of obtaining the best value for money.

The audit analysis identified the following:

- (a) Quality control before submission to PRCs

Meetings conducted at the planning phase and issues included in prior OAI audit reports highlighted the need for quality control checks of the procurement process prior to issuing tendering announcements or submission of cases to the PRCs.

The quality control was targeted at mitigating the risk of rejection of a case due to incompleteness and/or inaccuracy of information.

- (b) Ex-ante¹ review

The 'UNDP Programme and Operations Policies and Procedures' includes a high level reference to the ex-ante review's purpose and scope. Additionally, where the ACP performs both an ex-ante review and a final review, the ACP may end up reviewing its own recommendations. This may affect the perceived independence and relevance of the ACP.

- (c) Technical evaluation prior to submission to PRCs

¹ In UNDP procurement policy, ex-ante review refers to the review of the procurement strategy prior to commencement of the procurement process for complex procurement actions with high value.

All proposals are to be evaluated by an evaluation team which is composed of two to five staff members depending on the nature, complexity and value of the procurement activity, or the range of expertise needed to complete a comprehensive and thorough review of the offers.

In 2014, the number of days to complete any procurement process was 86 days, with some variances depending on the type of review committee. A detailed analysis showed that on average, the internal evaluation process represented 57 percent of the entire process, thus it became a bottleneck to an effective and fast procurement process. In addition, most of the cases rejected by the ACP/RACP highlighted issues with poor technical evaluations of offers/bids.

Table 4: PRCs – average time elapsed

	Average bidding (days)	Average internal evaluation (days)	Average committee review time (days)	Total average days
	22	49	15	86
Percentage of total average days	26%	57%	17%	100%

Though there was clear guidance in the 'UNDP Programme and Operations Policies and Procedures' on the composition of the evaluation team, there were limitations as to the availability of expertise within UNDP for complex procurement cases. In addition, the policies required a majority of staff members to be part of the evaluation team, thus offices were left with limited options on the composition of their evaluation teams.

(d) Procurement notices

OAI obtained a list of 7,452 procurement notices posted before 31 March 2015, which was the end of the audit period.

There was no quality control on the information posted to the UNDP Procurement Notice:

- There were 149 records lacking important information such as dates of announcements and deadlines, geographical locations, reference numbers and respective business units.
- There were 82 announcements where the deadlines predated the posting dates.

Priority	Medium (important)
Recommendation 6:	
The Bureau for Management Services should strengthen quality controls and technical evaluations prior to submission to the CAP by:	
<ul style="list-style-type: none"> (a) establishing policy requirements in relation to quality control prior to the issuance of solicitation documents; (b) involving PSO in ex-ante reviews, in cases where ACP is performing the final review; (c) reducing the time required to complete the technical evaluations; and (d) introducing automated system quality checks on the basic fields (such as dates, location, reference number and business unit) in UNDP procurement notices. 	

Management action plan:

- (a) The existing guidelines entrust the quality control to the heads of procurement units, Project Managers and Operations Managers.
- (b) The guidelines require submission for ex-ante review for complex and high value cases to the ACP, with the involvement of PSO. PSO and the ACP will jointly discuss how the scope of ex-ante reviews will be defined in the future. In the future, ex-ante reviews will benefit from a more direct involvement by the PSO Regional Procurement Advisors, who will take a more active role. It is expected that reinforced procurement planning and procurement advisory services would greatly reduce the need for ex-ante reviews, as would incorporating lessons learned from previous ex-ante reviews.
- (c) The ongoing simplification of cumbersome bidding documents will reduce the time requirement for technical evaluations. PSO will push for a more systematic usage of the United Nations Global Marketplace that would furthermore reduce time requirements for technical evaluations.
- (d) We will submit a request to the Office of Information Management and Technology for a system of data validation.

Estimated completion date: June 2016

Improvements of IT tools used in procurement can promote efficiency and cost savings

Up to date, effective IT tools supporting the procurement process help to cut costs and improve the speed and transparency of the procurement process. Effective IT tools also provide better quality of management information and contribute to more informed decision-making.

(a) E-Tendering rollout

E-Tendering is a module within Atlas that enables UNDP buyers to manage the tendering processes online, including communication with bidders. It brings considerable benefits to both UNDP and the vendor community, such as: (i) automating and streamlining several of the procurement processes; (ii) enabling cost savings by eliminating or automating several of the tender processes and actions; (iii) fully integrating the information in Atlas and as such providing UNDP with valuable data for strategic decision-making; (iv) serving as an online document repository that enables a more green and sustainable office; and (v) streamlining the bidding process for bidders.

Following a piloting phase, E-Tendering was made available to all UNDP offices, alongside guidance documentation issued in February 2015. At the time of the audit, the use of E-Tendering was optional as there was no requirement for all offices to make use of the system.

(b) Integration between IT tools for procurement

The procurement tools available, such as Atlas E-Tendering and ACP Online were developed in isolation and were not integrated with each other or with the Atlas Financial Module, as was the case for most non-Atlas tools. The same applied for the UNDP Procurement website, which was not linked to the ACP Online system. This resulted in inefficiencies due to duplication of data entry and the absence, for users, of the complete picture of a procurement case when only looking at one of the systems.

PSO management stated that integration of tools with Atlas had been requested; however, the Office of Information Management and Technology (formerly the Office of Information Systems and Technology) had so

far not been positive towards integration with Atlas since this would create more vulnerability for the system and more possible access points that could lead to compromises in data security.

(c) Vendor management system

There was no fit-for-purpose UNDP-wide vendor management system to enable the organization to maintain an up-to-date and complete vendor record while avoiding duplications of global vendors in individual offices' records.

PSO conducted an in-depth analysis of the existing system and proposed a number of recommendations regarding both the way vendor information should be managed across the organization as well as any adjustments to the IT tools and systems to support better vendor management. At the time of the audit, there was no clear action plan to address these recommendations. The list of projects for the operationalization of the 2015-2017 UNDP Procurement Strategy included a project on consultant rosters but no identifiable project regarding overall vendor management and related tools (although the detailed project plans were still under development so OAI did not have access to them during the audit).

PSO management stated that a request to improve the vendor management system in Atlas was made to the Office of Information Management and Technology; however, the ICT Governance Group explained that this project would not be in the pipeline for the next two years.

The absence of a set of IT tools that support and improve the procurement activities of UNDP may result in wasted time and funds as well as a failure to deliver against project objectives in a timely manner.

PSO management stated that the E-Tendering module cannot and should not be deployed to all Country Offices, as local suppliers in certain countries may be prevented from market access to UNDP contracts.

Priority	High (critical)
Recommendation 7:	
The Bureau for Management Services, in consultation with the Office of Information Management and Technology where applicable, should improve IT tools used in procurement by:	
<ul style="list-style-type: none"> (a) mandating the use of the E-Tendering module for all UNDP offices; (b) developing a timeframe for further integrating relevant procurement tools with each other and with Atlas; and (c) use the UN Global Marketplace as the centrally-managed online vendor management system. 	
Management action plan:	
<ul style="list-style-type: none"> (a) To the extent possible UNDP will promote the E-Tendering system. (b) A consultation process will be initiated with the Office of Information Management and Technology. (c) A proposal for such a system was prepared and shared with Office of Information Management and Technology in 2014. UNDP will use the United Nations Global Marketplace as the centrally managed online vendor management system. 	
Estimated completion date: June 2016	

Establishing a comprehensive contract management policy and guidance can lead to increased efficiency in procurement

Contract management, including its administration, captures the whole procurement cycle from planning to close out of a contract. The 'Advanced Public Procurement's Handbook' provides guidance on contract management practices, including service delivery, which ensures that goods and services being delivered meet the expected need identified and included in the contract. It also provides guidance to relationship management which facilitates maintaining an open and constructive dialogue between all parties. Weaknesses in contract management were one of the issues frequently raised in OAI's audit reports. In addition, the report published by the Joint Inspection Unit in 2014 (JIU/REP/2014/9) on 'Contract Management and Administration in the United Nations System' highlighted several deficiencies in the area of contract management.

OAI reviewed the contract management section of the 'UNDP Programme and Operations Policies and Procedures', and noted the following:

- The section on contract management of the 'UNDP Programme and Operations Policies and Procedures' was not sufficiently detailed and conducive to carrying out effective management of contracts. In particular, it did not address elements of monitoring performance, payments, when amendments are required, and resolution of disputes. Further, it did not address elements of residual obligations, such as warranties, guarantees, and after sales services and support (terms of responsibility, liability, procedures and timeframes.) It is critical to have robust guidance considering the decentralized structure that UNDP operates in.
- There was an absence of clearly defined roles and responsibilities for contract management. Roles and responsibilities between Project Managers, Procurement Officers, and Finance Officers in managing contracts were not stated in the contract and procurement policy section of the 'UNDP Programme and Operations Policies and Procedures'.

Absence of contract management policies and guidance increase the risk of not achieving the contract terms and may impact project delivery.

Priority	Medium (important)
Recommendation 8:	
The Bureau for Management Services should include in the new policy on contract management robust guidance on effective contract management, as well as a clear definition of the roles and responsibilities in contract management, including a mechanism to monitor performance, payments, and termination of contracts.	
Management action plan:	
Best practices of other UN organizations will be reviewed with regard to contract management and a new policy will be presented to the Organizational Performance Group. A contract management policy draft document has been prepared and is awaiting final clearance from senior management. Such a contract management tool requires, however, integration into Atlas.	
Estimated completion date: June 2016	

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.