



AUDIT

OF

UNDP VENDOR MANAGEMENT

Follow-up of OAI Report No. 1602 Issued on 24 June 2016

Report No. 1905

Issue Date: 13 December 2017



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**Report on Follow-up Audit of UNDP Vendor Management
(Previous OAI Report No. 1602, 24 June 2016)
Executive Summary**

From 13 to 17 November 2017, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) conducted an on-site follow-up audit of UNDP vendor management under the purview of the Bureau for Management Services. This on-site follow-up audit was undertaken, in addition to regular desk reviews, in view of the 'unsatisfactory' audit rating assigned by OAI in Report No. 1602 dated 24 June 2016. 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 six audit recommendations. OAI conducted appropriate tests of transactions and activities by the Bureau for Management Services (BMS) from 24 June 2016 to 17 November 2017 and interviewed management and staff of BMS, including staff from the Office of Sourcing and Operations (OSO), the Office of Financial Resources Management (OFRM) and the Office of Information Management and Technology Services (OIMT). The OAI determined the progress, as reported by the office in the Comprehensive Audit and Recommendation Database System (CARDS).

Audit results

Of the six audit recommendations, BMS had fully implemented three recommendations and initiated actions on three recommendations, resulting in an implementation rate of 75 percent, as per CARDS as at 13 December 2017. Significant progress had been made in addressing the outstanding recommendations, particularly those which required modifications to the Atlas enterprise resource planning system, and the development of IT tools and dashboards. The developed Vendor Management Workbench and Supplier of Interest Dashboard will facilitate the identification and resolution of issues in the vendor management process.

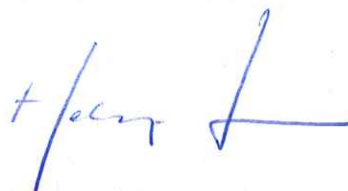
Implementation status	Number of recommendations	Recommendation Nos.
Implemented	3	1, 3, 4
In progress	3	2, 5, 6
Not implemented	-	-
Withdrawn	-	-
Total	6	

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

Section I summarizes the six recommendations that are implemented or are in progress. OAI encourages the office to continue to take appropriate actions to address the remaining recommendations. OAI will continue to monitor the progress of the implementation of the recommendations as and when updates are provided by the office in CARDS.

Management comments and action plan

The Director of the Bureau for Management Services provided the revised implementation dates for the outstanding recommendations.

A handwritten signature in blue ink, appearing to read 'H. Osttveiten', is enclosed in a black rectangular box.

Helge Osttveiten
Director
Office of Audit and Investigations

I. Details of recommendations in progress and implemented

Rec No.	Issue title	Recommendation	Implementation status reported by BMS	OAI assessment
1	Weaknesses in vendor sanction process	<p>High (Critical)</p> <p>The Bureau for Management Services should improve the vendor sanction process by:</p> <p>(a) clearing the backlog of vendor cases and updating the vendor ineligibility list; and</p>	Implemented	<p>Implemented</p> <p>The audit noted that the Bureau for Management Services has taken steps to address the recommendation. Whilst implementation is in progress, the following was noted:</p> <p>(a) As of November 2017, of the 61 cases submitted to the Vendor Review Committee (VRC) since 2014, 32 had been closed with the remaining 29 cases at various stages of review. Of the 29 open cases, 21 cases (72 percent of the open cases) had been open for more than 12 months. This indicated that there was still a backlog of cases. These delays were due to various reasons such as length and depth of the review process, difficulty in contacting respondents, respondents requesting extensions, cases subject to pending litigation, cases awaiting completion of project activities and the under-resourced VRC Secretariat. OAI observed that most of these delays were not within the purview of the VRC.</p> <p>The Bureau for Management Services informed the audit team that VRC cases were immediately opened and actioned, the extra time a case was open did not increase the risk for UNDP, as, where necessary, vendors could be placed under interim suspension. The Bureau further stated that the process was a business-oriented rehabilitative process as opposed to a judicial one.</p> <p>A Direct Review Process, which allows the Chairperson of the VRC to consider cases without convening a meeting of the VRC, was piloted from 31 May 2016 to 28 February 2017, in which nine cases were</p>

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		(b) ensuring that the VRC meets regularly to discuss any pending cases.		<p>closed. A second pilot phase, which runs from 22 June to 28 December 2017, has been launched after which consideration will be given to mainstreaming the Direct Review Process. The Bureau for Management Services will be submitting an additional six cases for direct review by 31 December 2017.</p> <p>The audit assessed part (a) of the recommendation is implemented.</p> <p>(b) The VRC met more regularly, resulting in seven meetings during 2017. As part of the follow-up audit, five meeting minutes were reviewed.</p> <p>The audit noted the challenge associated with convening VRC meetings with a quorum of five members. The Bureau for Management Services issued two calls for nominations of members to the VRC and the use of alternate members in addition to the incumbents. Membership was extended to General Service level staff members, at the request of Regional and Central Bureaux, as alternates to members. Membership was originally restricted to staff members at grade P4 and above.</p> <p>The audit determined that part (b) of the recommendation is implemented.</p>
2	Decentralized vendor management system	<p>High (Critical)</p> <p>The Bureau for Management Services should centralize vendor management processes to enable sharing of information among business units and central analysis of data.</p>	Implemented	<p>In Progress</p> <p>BMS has indicated that the Bureau for Management Services does not have sufficient resources to amend the Atlas system in order to facilitate a centralized vendor management system. BMS further indicated that centralizing vendor management would require changes to Atlas, which would be a lengthy process and may require significant financial investment,</p>

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				<p>though no estimate was shared with the audit team.</p> <p>The Bureau for Management Services launched three dashboards, highlighted in 4 (d) below, which mitigated the risks associated with duplicate vendor records and scheduled to roll out a Vendor Management Workbench that would facilitate the identification and resolution of errors in vendor records.</p> <p>The Bureau for Management Services piloted the centralization of vendor creation, as part of the clustering initiative in the Regional Bureau for Asia and the Pacific through the Global Shared Services Unit (GSSU) and their assessment was that the pilot was successful.</p> <p>The audit assessed the recommendation as in progress.</p> <p><u>Agreed revised implementation date:</u></p> <p>Ongoing.</p>
3	Inadequate guidance for post-qualification process	<p>High (Critical)</p> <p>The Bureau for Management Services should update the 'UNDP Programme and Operations Policies and Procedures' to clarify how and when post-qualification procedures should be performed, taking into consideration vendors with higher risks.</p>	Implemented	<p>Implemented</p> <p>The audit noted that the Bureau for Management Services updated the 'UNDP Programme and Operations Policies and Procedures' section on Evaluation of Offers with complete guidance on due diligence performed prior to the finalization of high value procurements.</p> <p>Additionally, BMS provided training to various Country Offices, including Ecuador, Togo and Ukraine, on new requirements, and has provided updates to users via Yammer, and provides support to Country Offices upon request.</p> <p>The audit assessed the recommendation as implemented.</p>

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4	Weaknesses in vendor oversight and monitoring	<p>Medium (Important)</p> <p>The Bureau for Management Services should improve monitoring and oversight by:</p> <p>(a) conducting spot checks on vendors;</p> <p>(b) developing the vendor monitoring and oversight mechanisms;</p>	Implemented	<p>Implemented</p> <p>The audit noted that the following steps were taken by the Bureau for Management Services to implement the recommendation:</p> <p>(a) The Bureau for Management Services assisted Country Offices with spot checks on vendors upon request. For key UNDP vendors, such as suppliers of motor vehicles, Bureau for Management Services conducted site visits in order to assess supplier operations and capacity.</p> <p>The audit assessment is that part (a) of the recommendation is implemented.</p> <p>(b) OIMT has improved the Atlas Vendor Management Module, requiring buyers to record the person who verified the vendor details in the Atlas vendor record. Whenever a record is amended, there will be a mandatory verification prior to approval of the vendor. This functionality will be rolled-out in December 2017.</p> <p>The Bureau for Management Services had issued letters of appointment for Procurement Specialists that would be deployed to all the Regional Hubs by January 2018. These specialists would: (i) contribute to regional knowledge creation and sharing; (ii) improve procurement capacity and efficiency of Country Offices; (iii) develop an internal procurement framework to guide Country Offices through the procurement process consistent with the UNDP procurement strategy and rules; and (iv) ensure transparency, accountability and efficiency in all procurement processes through an effective control system.</p>

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		<p>(c) ensuring that the payments on hold are processed and cleared timely;</p> <p>(d) updating the procurement dashboard to include a performance indicator relating to the number of days between receipt of invoices and date of payment; and</p>		<p>The audit assessment is that part (b) of the recommendation is implemented.</p> <p>(c) The audit noted that the Office of Financial Resources Management had supported Country Offices in monitoring outstanding payments and follow up with Country Offices that have long outstanding payments on hold. OAI noted that as of 15 November 2017 there were payments on hold in Atlas for more than three months with a total value of approximately \$1.2 million. Some of the payments on hold dated back to 2004. This was a significant improvement from the prior audit where payments on hold amounted to \$10 million.</p> <p>The audit assessment is that part (c) of the recommendation is implemented.</p> <p>(d) The Bureau for Management Services has developed three dashboards: the Supplier of Interest, the Financial Performance, and the Procurement dashboards. The Supplier of Interest dashboard has procurement related reports which provide information such as the average number of days to receive goods/services and the average number of days to pay for goods/services after they have been received as well as information on duplicate vendors and vendors with duplicate bank accounts. The Financial Performance dashboard has performance indicators for Country Offices including contributions not received, past due pre-payment receipts and purchase orders without Atlas receipts. The Procurement dashboard has statistical information such as the number of procurement cases approved by procurement oversight bodies, the</p>

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		<p>(e) ensuring that the vendor database is cleaned up to remove duplicate vendors.</p>		<p>number of vendors with high value purchase orders above \$150 000 amongst others. However, the multiplicity of dashboards is of concern as users need to consult more than one dashboard to obtain the complete information required to resolve issues that have been highlighted.</p> <p>The audit assessment is that part (d) of the recommendation is implemented.</p> <p>(e) OIMT developed a Vendor Management Workbench in Atlas, which will make it easier for Country Offices to identify and resolve exceptions in vendor data including duplicate vendors, vendors sharing one bank account and vendors missing contact email or address. This tool will be rolled out in early 2018.</p> <p>The Bureau for Management Services was in the process of identifying which fields in vendor records, for example physical address or email address, should be made mandatory before a vendor can be approved, once agreed this will be implemented in the Atlas Vendor Management Module. As part of the ongoing Supplier of Interest Project, the Bureau for Management Services had performed a cleanup of the UNDP vendor database, resulting in less approved payees. At the time of the Audit 262,097 instead of the 480,000 payees noted in February 2016.</p> <p>OAI performed tests on duplicate vendors and shared vendor bank accounts for a sample of five countries. The results were compared to the 2016 audit, and indicated significant improvements.</p> <p>The audit assessment is that part (e) of this recommendation is implemented.</p>

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5	Lack of central repository for vendor performance evaluations	<p>Medium (Important)</p> <p>The Bureau for Management Services should establish a central repository of vendor (including individual contractors) performance evaluations and make them available to all business units. The central repository should include individual contractors' pertinent information, such as daily rates, language skills, and areas of expertise.</p>	Implemented	<p>In Progress</p> <p>The audit noted that the Bureau for Management Services was in the process of implementing the Contract Management Module in Atlas. With this module, contracts will be generated and amended in Atlas, and alerts on expiration dates and milestones will be available. The contracts will be issued for the entire bid amount and will encumber the resources, in order to avoid cases where Country Offices enter into commitments for goods and services without sufficient cash on hand, or issue manual purchase orders.</p> <p>In addition, the Contract Management Module will allow for vendor performance evaluations to be captured in two ways, firstly by providing for evaluations that are completed outside Atlas to be uploaded and attached to each contract, and secondly by allowing vendor performance evaluations to be conducted in Atlas. Buyers will be able to rate the vendor and document the rationale for the rating. The module will also allow for a consolidated rating per vendor.</p> <p>The Contract Management Module is expected to be rolled out in January 2018, and will be accessible by all business units.</p> <p>The audit assessment is that this recommendation is in progress and should be considered for implementation after the Contract Management Module is rolled out in January 2018.</p> <p><u>Agreed revised implementation date:</u></p> <p>31 January 2018</p>
6	Weaknesses in Atlas Vendor Management Module	<p>High (Critical)</p> <p>The Office of Operations, Legal and Technology Services should improve Atlas</p>	Implemented	<p>In Progress (b), (d) Implemented (a), (c)</p> <p>The audit noted that the Bureau for Management Services has made some</p>

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		<p>vendor management controls by incorporating additional functionalities to address the application control weaknesses. Specifically, Atlas should:</p> <p>(a) generate an alert to users if an existing vendor bank account number is being used for a different vendor, or when creating a vendor with the same name as a vendor that appears on the UNDP ineligibility list or the United Nations sanctions list;</p>		<p>progress in addressing the IT related controls highlighted in the prior audit as below:</p> <p>(a) The alert on data entry had not been implemented, but the Atlas Vendor Management Module will be customized so that when creating a new vendor, buyers will have to certify that they have checked the vendor name against the United Nations Global Marketplace (UNGM) eligibility list. (Refer to issue 1). A link will be provided from the vendor record to the UNGM ineligibility list. The UNGM ineligibility list includes companies and individuals on the United Nations Security Council Sanctions List, the World Bank's Listing of Ineligible Firms & Individuals, and lists of sanctioned/suspended vendors maintained by UN organizations including UNDP. The Bureau for Management Services was considering screening the UNDP vendor database against the UNGM ineligibility list on a quarterly basis, in order to identify instances where buyers may have either not performed this check or performed it incorrectly. The custom tab of the vendor record will have a new field where the buyer will indicate which staff member has verified the vendor details. Duplicate vendor accounts will continue to be detected after vendor records have been created through the Supplier of Interest dashboard and in the future, through the Vendor Management Workbench, which will alert Country Offices regarding duplicate vendors/bank accounts.</p>

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		<p>(b) automatically schedule vendors to be archived after three years of inactivity;</p> <p>(c) develop additional oversight reports to identify duplicate vendors using other criteria, such as the address of the vendor; and</p> <p>(d) enforce mandatory fields on vendor creation.</p>		<p>The audit assessment is that part (a) of this recommendation is implemented.</p> <p>(b) Archiving of inactive vendors has been addressed through a batch process which is run on a quarterly basis and which will archive vendors that have been inactive for two years.</p> <p>The audit assessment is that part (b) of the recommendation is implemented.</p> <p>(c) The Bureau for Management Services has identified additional oversight reports to identify duplicate vendors on additional criteria using email address and vendor name. These have been added to the exception reports on the Vendor Management Workbench which was undergoing testing. In the interim the Supplier of Interest dashboard can be used to identify duplicate vendor names.</p> <p>The audit assessment is that part (c) of this recommendation is implemented.</p> <p>(d) The Bureau for Management Services identified which vendor record fields would be made mandatory before a vendor record can be saved in Atlas. These included the country, address1, city, email, phone and confirm eligibility check done fields and would be included in the Atlas update which was scheduled to be rolled out in December 2017.</p> <p>The audit assessment is that part (d) of the recommendation is in progress and should be considered for implementation after the Atlas update is rolled out in December 2017.</p> <p><u>Agreed revised implementation date:</u> 31 December 2017</p>

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** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. 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.