



**PERFORMANCE AUDIT**

**OF**

**UNDP VENDOR MANAGEMENT**

**Report No. 2335**  
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## Report on the Performance Audit of UNDP Vendor Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of UNDP vendor management from 11 to 22 October 2021. Performance auditing is an independent examination of an entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Due to the COVID-19 pandemic, the audit was conducted remotely.

The audit aimed to assess the effectiveness of vendor management governance arrangements, managing risks relating to vendors and ICT tools and controls used in vendor management. The audit focused on corporate governance, risk management and ICT tools and did not perform a detailed review of vendor management at the Country Office level, as this is covered within the Country Office audits performed by OAI.

The audit addressed the following performance audit questions:

1. **Has UNDP established an effective governance framework (including roles and responsibilities, policies and procedures and staff capacity) to manage its vendors?**
2. **Are risks related to vendors effectively managed by UNDP?**
3. **Are ICT tools and controls sufficiently developed to manage vendors effectively?**

### Overall audit rating

OAI assessed vendor management within UNDP as **satisfactory/some improvement needed**, which means, “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.” This rating was mainly due to weaknesses in the monitoring of vendor performance and sanctioned vendors.

### Key recommendations: Total = 4, high priority = 1

The four recommendations aim to ensure the following: (a) achievement of the organization’s strategic objectives (Recommendation 4); and (b) the effectiveness and efficiency of operations (Recommendations 1, 2, and 3).

For the high (critical) priority recommendation, 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) recommendation is presented below:

Weaknesses in the monitoring of vendor performance and sanctioned vendors (Issue 3)

While a functionality to record feedback on vendor performance was available for buyers in the Atlas Contract Module, such information was not available for project managers and approving managers. There were also no automated controls to identify and prevent a vendor on the vendor sanctions list from being contracted and paid.

**Recommendation 3:** The Bureau for Management Services should strengthen the monitoring of vendor performance and sanctioned vendors by: (a) ensuring that vendor performance evaluations are accessible to



project managers and approving managers (in addition to buyers) across business units; and (b) introducing appropriate automations and system controls in UNDP's ERP system to address risks relating to use of sanctioned vendors and/or poorly performing vendors.

### **Management comments and action plan**

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

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

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Director  
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## I. About UNDP vendor management

In UNDP, vendor management involves creating, updating, managing and removing vendors from Atlas (enterprise resource planning system, or ERP system, of UNDP). These processes and procedures are linked with the “procure to pay” process. At the time of the audit, UNDP had 261,000 active vendors.

The new ERP system “Quantum” is expected to replace the existing vendor management functionality of Atlas in 2022. In the new system, vendors will be re-entered (there will be no migration of existing vendors from Atlas) through a self-registration process, whereby existing and new UNDP vendors will be invited to register themselves in Quantum. Policies and procedures will need to be updated to be aligned with the new ERP system as well as the role of Global Shared Services Centre (GSSC).

The last audit of UNDP’s vendor management was conducted by OAI in 2016, with a follow-up audit performed in 2017. An advisory note on Vendor Due Diligence was issued in October 2020 and, in 2021, OAI conducted an audit of UNDP Global Procurement (September 2021), which included an issue related to vendor management.

## II. Audit methodology

The audit was conducted through reviewing documentation, conducting interviews, and analyzing written inquiries/surveys.

In particular, the audit team used the following sources and conducted various tests:

### A. Governance, including roles and responsibilities, policies and procedures and staff capacity:

- Interviews were held with personnel in the Bureau of Management Services (Office of Financial Management, Office of Procurement, as well as the GSSC) to assess the governance arrangements, policies and procedures and staff capacity. This included a review of the applicable terms of references, standard operating procedures and job descriptions.
- The terms of reference and meeting minutes of the Vendor Review Committee were examined to assess its effectiveness.

### B. Vendor risk management:

- Interviews with personnel, and reviews of risk registers and other relevant documents were undertaken to assess the effectiveness of vendor risk identification and management.
- The audit team reviewed data from Atlas as well as relevant dashboards to identify risks relating to vendor management.
- The audit team reviewed minutes of the Vendor Review Committee meetings to assess its effectiveness in following up on allegations made against UNDP vendors, and imposing sanctions.
- The team also reviewed steps taken to ensure that UNDP is not engaging with sanctioned vendors.

### C. ICT tools and controls used to manage vendors:

- The audit team interviewed staff, including staff in the Information & Technology Management office to understand the different tools and controls used in vendor management.

- The audit team reviewed of the planned Quantum functionality regarding vendor management as well as guidance or training for users.

### III. Audit results

Conclusions on the performance audit areas are as follows:

#### **Question 1: Has UNDP established an effective governance framework (including roles and responsibilities, policies and procedures and staff capacity) to manage its vendors?**

The vendor management process in UNDP has undergone significant changes over the years. As of the audit period, the vendor management process, previously under the responsibility of individual Country Offices, was being centralized as part of the clustering process. Standard operating procedures for vendor management, including the roles of GSSC, will require further amendments once the clustering exercise is complete and will have to be updated again with the rollout of the organization's new ERP system, Quantum.

According to GSSC, the staff capacity required for the vendor management process varies throughout the year, with higher demand at year end. As such, additional staff and consultants are recruited during peak times. GSSC indicated capacity gaps remain, particularly regarding staff training. GSSC highlighted challenges in managing vendor information, due to differing banking systems across countries and languages. These issues are expected to be addressed when the vendor management functionality in Quantum is rolled out in July 2022.

GSSC was in the process of streamlining existing process, including vendor creation and management. Delays in vendor creation and duplication of efforts between the Country Offices and GSSC were identified through feedback from Regional Bureaux and in the non-achievement of delivery targets.

During the review, the audit team assessed the functioning of the Vendor Review Committee and confirmed it was operating effectively.

#### **Question 2: Are risks related to vendors effectively managed by UNDP?**

Issues relating to risks within vendor management have been raised in multiple OAI audits since 2016. The pervasive issues raised pertained to incidences of duplicate bank accounts and duplicate vendors in Atlas. The Bureau for Management Services has conducted various clean-up exercises to reduce the number of duplicate payees as well as to avoid the entry of duplicate bank accounts into the system. There has been progress in this regard. Since the last review of vendor management (September 2020) the number of duplicate bank accounts were reduced from 19,354 to 1,876 by November 2021. The number of duplicate vendors decreased slightly from 1,614 to 1,506 over the same period. Duplicate vendors and/or duplicate bank accounts may result in duplicate payments on a contract, and financial losses for the organization.

Additionally, the review identified control weaknesses in the recording of vendor performance and making this information available to other business units.

#### **Question 3: Are ICT tools and controls sufficiently developed to manage vendors effectively?**

Atlas did not provide an effective control environment to create and manage vendors. The system lacked controls to identify and/or prevent entering duplicate vendors or duplicate bank accounts. However, the dashboards developed by the Bureau for Management Services facilitated the identification of such exceptions on a post-facto basis and taking appropriate corrective actions.

Based on discussions with management it is expected that the new ERP, Quantum, will include controls to prevent duplicate entries. The system will contain a master vendor database (instead of multiple databases in

Atlas) to facilitate the identification of duplicate information. However, at the time of the audit, the vendor database, within Quantum, including supporting controls had not been implemented. The audit team was only provided with a demo of a development environment for 'prospective' vendors (i.e., vendors that wish to sign up to bid in competitive procurement processes) and there was no specification on the functionality of the 'spend authorized' vendor portal.

### Audit criteria

The audit team used the following audit criteria to assess the adequacy and effectiveness of the governance, risk management, and control processes within UNDP global procurement practices

- UNDP Financial Regulations and Rules
  - Article 21: Procurement of goods and services
  - Article 22: Verification for payments
- Procurement section of the 'UNDP Programme and Operations Policies and Procedures', specifically the sections on 'Sourcing and Market Research'; 'Vendor Sanctions' policies in the 'Sourcing of Suppliers' section, 'Procurement Review Committees' and 'Award and Management of Contract'.
- Standard operating procedures for vendor creation and approval
- Standard operating procedures -- vendor management: non-clustered business units
- UNDP Internal Control Framework: section on vendor creators and approvers.
- UNDP Delegation of Authority
- Bureau for Management Services terms of reference
- UNDP's Enterprise Risk Management policy
- UNDP's new ERP draft terms of reference or other specification documentation

### High priority recommendation:

- (a) Strengthen the monitoring of vendor performance and sanctioned vendors (Recommendation 3).

### Medium priority recommendations, arranged according to significance:

- (a) Complete the process optimization exercise and amend Service Level Agreement targets where necessary (Recommendation 1).
- (b) Continue with the clean-up of the duplicate vendors and bank accounts in Atlas and continue to monitor this as Quantum is rolled out (Recommendation 2).
- (c) Define the role of staff in vendor management and define a migration strategy from Atlas to Quantum. (Recommendation 4).

The detailed assessment is presented below:

## 1. Has UNDP established an effective governance framework (including roles and responsibilities, policies and procedures and staff capacity) to manage its vendors?

The vendor management process in UNDP has undergone significant changes over the years. As of the audit period, the vendor management process, previously under the responsibility of individual Country Offices, was being progressively centralized as part of the clustering process. Standard operating procedures for vendor management, including the roles of GSSC, will require further amendments when the clustering exercise is complete and will have to reflect changes following the rollout of the organization's new ERP system, Quantum.

## Issue 1      Need for further optimization of vendor creation process

Up-to-date standard operating procedures for clustered Country Offices were available at the time of the audit. These outlined the procedures for creating new vendors, including the roles of the Country Office and of GSSC. Each Regional Bureau had signed Service Level Agreements (SLAs) with GSSC setting out SLA targets for each type of service provided by GSSC to Country Offices.

Feedback from three Regional Bureaux highlighted delays in vendor creation and, in some cases, duplication of effort between the Country Offices and GSSC. Two Regional Bureaux did not provide feedback to the audit team.

A review of the GSSC dashboards for each region (for August 2021) showed that agreed upon vendor management targets were not achieved. For example, within RBEC the figure was 39 percent (against a target of 95 percent).

GSSC management confirmed that the initial SLA targets were ambitious. Following the clustering exercise, work was ongoing to further improve and optimize the vendor management process. It was expected that in early 2022 the targets would be reviewed again to ensure they were reasonable.

At the time of the audit, new SLAs had been signed with four Regional Bureaux. The SLAs for the other Regional Bureaux were being updated, and expected to be finalized shortly.

Delays in the processing or duplication of efforts in the creation of vendors may result in inefficient use of UNDP resources and may impact the business relationships with UNDP's vendors.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Bureau for Management Services should complete the process optimization exercise and amend Service Level Agreement targets where necessary.	
<b>Management action plan:</b>	
The Bureau for Management Services accepts this recommendation and will complete the process for an optimization exercise and amend the Service Level Agreement targets where necessary.	
<b>Estimated completion date:</b> December 2022	

## 2. Are risks related to vendors effectively managed by UNDP?

Issues relating to risks in vendor management have been raised in multiple OAI audits since 2016. The pervasive issues raised were regarding the incidences of duplicate bank accounts and duplicate vendors in Atlas. Duplicate vendors and/or duplicate bank accounts may result in duplicate payments on a contract, and financial losses for the organization.

Additionally, control weaknesses were observed in the recording of vendor performance and making this information available to other business units.



## Issue 2 Duplicate vendors and bank accounts

Robust vendor management includes ensuring that vendor records are accurate and complete. This will enable the organization to manage and reduce potential vendor related risks and safeguard against financial loss and reputational damaged, while ensuring successful delivery on goods and/or services. Vendor management in UNDP has been the subject of numerous OAI audits and reviews from 2016 (refer to section I), and while there have been improvements, various issues remain.

The Bureau for Management Services has conducted various clean-up exercises to reduce the number of duplicate payees as well as to avoid the entry of duplicate bank accounts into the system. There has been progress in this regard. Since the last review of vendor management (September 2020) the number of duplicate bank accounts were reduced from 19,354 to 1,876 by November 2021. The number of duplicate vendors decreased slightly from 1,614 to 1,506 over the same period. The majority of duplicate bank accounts were in RBLAC (38 percent) followed by RBEC (30 percent). GSSC provided an alternate set of figures in November 2021, which were 807 for duplicate bank accounts and 155 for duplicate vendors. The audit team was unable to confirm the reasons for this discrepancy although GSSC indicated this may be due to using a different set of parameters.

The Bureau for Management Services indicated that the duplicate bank accounts were not all genuine duplicates. For instance, false positives can occur when payments are made by cheque and the vendor does not possess a bank account. In such instances, the unit may enter '0000CHK' under the vendor bank account details. In these cases, using a generic bank account reference for multiple vendors will create false positives.

Duplicate vendor bank accounts and duplicate vendors increase the risk of incorrect or duplicate payments being made to vendors.

According to the Bureau for Management Services, the incidences of duplicate vendors and duplicate bank accounts should be resolved with the introduction of the Quantum ERP system, as the system will be able to identify and prevent the entry of duplicate information.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>	
The Bureau for Management Services should continue with the clean-up of the duplicate vendors and bank accounts in Atlas and continue to monitor these as Quantum is rolled out.	
<b>Management action plan:</b>	
The Bureau agrees to continue the clean-up of the duplicate vendors and bank accounts in Atlas until Quantum is rolled out.	
<b>Estimated completion date:</b> December 2022	

## Issue 3 Weaknesses in the monitoring of vendor performance and sanctioned vendors

Performance evaluation and vendor performance tracking are an important part of vendor management, as they allow the organization to identify whether the vendor has delivered according to the terms of reference, as well as whether they would want to engage that vendor in the future. A robust tracking system allows visibility and transparency of performance across bureaux and Country Offices.

Performance evaluation is required according to the Contract Management Policy, which states “Performance evaluation documents shall be duly filed and preserved and shall be consulted when considering any subsequent engagement of the same supplier in UNDP.” Performance evaluation is one criterion used during the bid evaluation. While poor performance in one Country Office does not automatically disqualify a vendor from being engaged in another Country Office, but the reasons for the assessment are taken into consideration.

Additionally, the Vendor Sanctions Policy states that “Where there is conclusive evidence of proscribed practices (for example fraud, collusion) by a vendor, sanctions can be imposed by the Chief Procurement Officer, resulting in them being added to the UNDP sanctions list. These sanctions can result in a vendor being placed on the Ineligibility List. A sanctioned vendors list is compiled by the UN Secretariat and shared with UNDP on a quarterly basis.

The audit team noted that while a functionality to record feedback on vendor performance was available in the Atlas Contract Module, this was primarily used for individual contracts and Long-Term Agreements. Furthermore, although buyers could access the Contract Module to check the performance of a particular vendor, this information was not available for project managers and approving managers.

Further, the audit team noted that the performance evaluation forms that were submitted by various business units along with their procurement committee submissions/files were not uploaded to the Contract Module.

Additionally, the fact that there were multiple vendor databases (one for each office) in Atlas created challenges. This allows for vendors with unsatisfactory performance in one office to be contracted in a different business unit, without considering their performance across other parts of the organization. The new ERP, Quantum, will introduce a centralized vendor database replacing the multiple databases in Atlas. OAI is therefore not making a recommendation in respect of the issue of multiple vendor databases.

There were also no automated controls to identify and prevent a vendor on the vendor sanctions list from being used or paid. Country Offices and/or the GSSC are required to perform such checks manually, by comparing the vendors to a UNDP distributed sanctioned vendors list. The Bureau for Management Services provided a report on 14 December 2021 stating that 99 percent of the vendors created in Atlas in 2021 had a system checkbox ticked whereby the creator of the vendor record confirmed that they checked the vendor against the list of sanctioned vendors.

Without a process for linking feedback received on vendor performance back to the vendor database(s) and having system which consolidates vendor performance across the business units, UNDP may continue to contract vendors that do not meet the quality standards of the organization. Further, while vendors may be periodically checked against the sanctions list, the process is manual, which may be subject to human error.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
The Bureau for Management Services should strengthen the monitoring of vendor performance and sanctioned vendors by:	
<ul style="list-style-type: none"> <li>(a) ensuring that vendor performance evaluations are accessible to project managers and approving managers (in addition to buyers) across business units; and</li> <li>(b) introducing appropriate automations and system controls in UNDP’s new ERP system to address risks relating to use of sanctioned vendors and/or poorly performing vendors.</li> </ul>	

**Management action plan:**

The Bureau agrees to automate/enhance the management and use of vendor performance evaluation and the verification of the vendor eligibility list as part of the rollout of Quantum.

**Estimated completion date:** December 2022

**3. Are ICT tools and controls sufficiently developed to manage vendors effectively?**

Atlas did not provide an effective control environment to create and manage vendors. The system lacked controls to identify and/or prevent entering duplicate vendors or duplicate bank accounts. However, the dashboards developed by the Bureau for Management Services facilitated the identification of such exceptions on a post-facto basis and taking appropriate corrective actions.

**Issue 4**      Roles and responsibilities for vendor migration not adequately defined

The rollout of the new Quantum ERP system is expected to address several of the control weaknesses of Atlas concerning vendor creation and vendor management. The new ERP will introduce a centralized vendor database (instead of multiple databases in Atlas) with a vendor self-services functionality to address the issues of incomplete vendor data and duplicate vendors.

However, at the time of the audit, the vendor database including supporting controls had not been implemented. This functionality is expected to be rolled out in July 2022. There will be two types of workflows for vendors, one referred to as 'prospective' vendors (for vendors to register in order to be able to submit procurement bids) and 'spend authorized' vendors (for vendors to register in order to be able to receive payment). According to the Bureau for Management Services, only certain categories of existing vendors (for example, staff) may be migrated from Atlas to Quantum, but all others will be required to reregister in the new system.

The audit team received information from the Office of Procurement and the Information & Technology Management office on vendor management in Quantum, including a demonstration of the development environment for 'prospective' vendors. However, details on the functionality of the system were not available at the time of the audit. Proposed controls, such as checks on the bank account number entered by a vendor, had yet to be confirmed.

The staff user roles in relation to vendor management (creating, approving, amending, removing vendors) at the Country Office and GSSC levels had yet to be defined in Quantum.

Without clearly defined staff roles in Quantum (including for GSSC and Country Offices), the corresponding standard operating procedures and staff training cannot be completed. This may create further delays in the rollout of vendor management in the new ERP system.

Additionally, without an effective strategy for inviting vendors to register in Quantum as well as migrating certain categories of vendors (such as existing vendors that need to be paid following the rollout of Quantum). There is a risk of payment delays if the vendor master data is not up to date.

<b>Priority</b>	Medium (Important)
<b>Recommendation 4:</b>  The Bureau for Management Services should support the rollout of vendor management within Quantum by: <ul style="list-style-type: none"> <li>(a) defining roles and responsibilities for staff in vendor management at the Country Office, regional and GSSC levels; and</li> <li>(b) developing an Atlas-to-Quantum migration strategy with specific milestones and timelines for applicable existing Atlas vendors.</li> </ul>	
<b>Management action plan:</b>  The Bureau agrees with the recommendation. <ul style="list-style-type: none"> <li>(a) New roles and responsibilities in vendor management will be implemented as part of the rollout of Quantum.</li> <li>(b) The Atlas-to-Quantum migration strategy will be implemented as part of the rollout of Quantum.</li> </ul> <b>Estimated completion date:</b> December 2022	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

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

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.