



**AUDIT**

**OF**

**UNDP**

**VENDOR MANAGEMENT**

**Report No. 1602**  
**Issue Date: 24 June 2016**

## Report on the Audit of UNDP Vendor Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP vendor management from 15 February to 1 April 2016. The audit aimed to assess the adequacy and effectiveness of the governance, risk management, and control processes relating to the following areas and sub-areas:

- (a) governance, including roles and responsibilities, policies and procedures, and staff capacity;
- (b) relationship management; and
- (c) information technology tools and controls.

The audit covered UNDP's vendor management processes from 1 January 2014 to 31 December 2015. This was the first audit of vendor management at the corporate level.

The audit was in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed UNDP vendor management as **unsatisfactory**, which means, "Internal controls, and 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 UNDP Vendor Management could be seriously compromised. This rating was mainly due to: (a) weaknesses in the vendor sanctions process, which further exposed UNDP to financial and fraud risks; (b) the decentralized vendor management system, which resulted in poor tracking and monitoring of the procurement and payment activities; (c) inadequate guidance for post-qualification processes that could result in UNDP contracting with undesirable firms; and (d) weaknesses in the Atlas Vendor Management Module that led to pervasive data quality problems.

**Key recommendations:** Total = 6, high priority = 4

Objectives	Recommendation No.	Priority Rating
Reliability and integrity of financial and operational information	2, 3, 6	High
Effectiveness and efficiency of operations	4, 5	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	1	High

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. All high (critical) priority recommendations are presented below:

Weaknesses in vendor sanction process  
(Issue 1)

The audit noted that during the period 2014-2015, the Vendor Review Committee did not meet regularly and there was a period of nine months when the Committee did not have a Chairperson. There were no additions to the UNDP vendor ineligibility list since June 2013, although cases had been referred to the Committee. As of May 2016, there was a backlog of 35 cases, which had been referred to the Committee. Seven of these cases were from 2013 and the vendors had been placed under interim suspension. From the list on the backlog, nine vendors were active in Atlas, which meant that payments could be processed.

**Recommendation 1:** The Bureau for Management Services should improve the vendor sanction process by: (a) clearing the backlog of vendor cases and updating the vendor ineligibility list; and (b) ensuring that the Vendor Review Committee meets regularly to discuss any pending cases.

Decentralized vendor management system (Issue 2)

At the time of audit, vendor management was decentralized and business units were responsible for all the processes relating to vendor management. The audit noted challenges with the decentralized vendor management system in UNDP, which included: creation of the same vendor in multiple locations, leading to inefficiencies and time wasted in creating and approving vendors already used in other business units; the inability to consolidate and share vendor information in a timely manner; lack of central control over vendor management, making oversight and monitoring difficult; and the inability to track ceiling amounts per vendor since the same vendors may have been entered in Atlas in different business units. For example, the audit sample of 13 countries noted that in one Country Office, a vendor was entered into the Atlas system seven times. That same vendor also appeared in Atlas in five different Country Offices of our sample.

**Recommendation 2:** The Bureau for Management Services should centralize vendor management processes to enable sharing of information among business units and central analysis of data.

Inadequate guidance for post-qualification process (Issue 3)

There were inconsistencies in how post-qualification processes for vendors were performed by Country Offices on procurement cases. For some Country Offices, post-qualification procedures were mainly to validate the banking information provided by the vendors. There were 7 out of 13 Country Offices interviewed that mentioned that the 'UNDP Programme and Operations Policies and Procedures' did not offer sufficient guidance on how to conduct post-qualification procedures.

Further, emphasis in the 'UNDP Programme and Operations Policies and Procedures' for post-qualification was on high-value procurement processes (i.e., over \$100,000). There was no guidance to Country Offices for vendors that may carry a higher risk for other reasons, such as, for example, local vendors having a physical address in one country and having a bank account in another country with a risk that some of these companies may be shell companies. From the audit sample of 13 Country Offices, 4,287 suppliers (out of 179,018 suppliers) had a bank account in a different country from the supplier address.

**Recommendation 3:** 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.

Weaknesses in Atlas Vendor Management Module (Issue 7)

OAI audits have highlighted some vendor data quality issues, which included, different vendors with the same bank accounts, and missing key vendor record fields, such as contact person and address or bank account. These data quality issues arose partly due to the lack of robust data input controls in the Atlas Vendor Management Module. Further, due to the system design, limited

reporting was available.

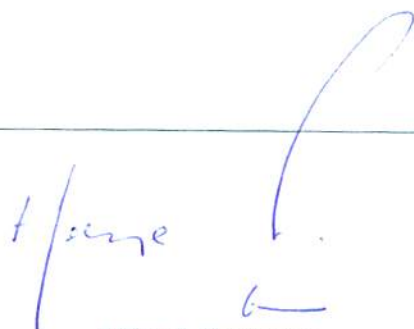
Recommendation 6: The Office of Operations, Legal and Technology Services should improve Atlas vendor management controls by incorporating additional functionalities to address the application control weaknesses.

### Management comments and action plan

The Director of the Bureau for Management Services accepted all six recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate. Management has committed to enhance vendor management in UNDP by taking the following actions:

- Regular Vendor Review Committee meetings and introduction of a direct vendor review process;
- Regular exception reporting to monitor duplicate vendors and vendor management queries on a quarterly basis;
- Review of the vendor management system with the vision of a two-tiered approach;
- Simplified bidding documents with further clarity on post qualification;
- Monitor payments and follow-up on exceptions;
- Issue a Standard Operating Procedure on proper vendor creation in Atlas;
- Automated contract management in Atlas which enables business units to generate performance evaluations; and
- Review of additional vendor management system controls and commitment to enhance current vendor reporting.

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



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