



United Nations Population Fund

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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT OF GOVERNANCE ARRANGEMENTS
AND THE DESIGN OF INTERNAL CONTROLS
OVER THE PROCUREMENT PROCESS**

FINAL REPORT
N° PSB-101

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services performed an audit of the procurement function governance arrangements and the design of the internal controls in place over the processes followed to solicit, award and manage procurement contracts.

Background

2. The volume and value of procurement activities undertaken by field offices and by the Procurement Services Branch increased significantly between 2011 and 2014 to reach over USD 350.0 million in 2014, primarily due to the larger volume of sexual and reproductive health commodities and products supplied to programme countries – the value of which doubled between 2011 and 2014 – in support of the UNFPA strategic goal of achieving universal access to sexual and reproductive health, realizing reproductive rights and reducing maternal mortality. The increase was largely driven by key initiatives such as the UNFPA’s Family Planning Strategy and the Global Programme to Enhance Reproductive Health Commodity Security.

3. The Procurement Services Branch, based in Copenhagen, Denmark, is responsible for the procurement of most sexual and reproductive health commodities and products, such as contraceptives pharmaceutical products, medical devices and supplies, and reproductive kits, as well as a variety of other programme good and services, such as information technology and communication equipment and vehicles. The Procurement Services Branch is also responsible for UNFPA headquarters and third-party procurement activities.

4. UNFPA field offices procure primarily professional and other services, which account for a large proportion of total field office procurement, as well as a variety of goods other than contraceptives – which can only be procured by the Procurement Services Branch – such as transportation equipment, information technology equipment and supplies, medical equipment, and dignity and other kits for humanitarian response activities.

Methodology and scope

5. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to obtain reasonable assurance on the adequacy and effectiveness of the design of the governance, risk management and internal controls in place over the processes within the scope of the audit. A risk-based methodology, including a detailed risk analysis, was used in planning the engagement.

6. The audit did not include any detailed testing of the operating effectiveness of the controls assessed, except as regards the procurement function governance arrangements and the controls in place over the procurement planning, vendor performance evaluation and contract review processes.

Audit rating

7. The audit indicates that the procurement function governance arrangements and the design of the internal controls over the processes followed to solicit, award and manage procurement contracts were ‘**Satisfactory**’, which means that the related governance, risk management and internal control processes were adequately designed to provide reasonable assurance as to whether procurement activities are undertaken in the best interest of UNFPA, provide best value for money, are conducted with fairness, integrity and transparency and open international competition.

8. Ratings by key audit area are summarized in the following table.

Audit ratings by key audit area		
Procurement process governance		Satisfactory
<i>Procurement strategy</i>		<i>Satisfactory</i>
<i>Management of procurement operations</i>		<i>Partially satisfactory</i>
<i>Organizational structure and staffing</i>		<i>Satisfactory</i>
<i>Risk management</i>		<i>Not rated</i>
Procurement process control design		Satisfactory
<i>Procurement planning</i>		<i>Partially satisfactory</i>
<i>Requisitioning</i>		<i>Satisfactory</i>
<i>Vendor sourcing</i>		<i>Satisfactory</i>
<i>Offer solicitation</i>		<i>Satisfactory</i>
<i>Offer submission management</i>		<i>Satisfactory</i>
<i>Offer evaluation</i>		<i>Satisfactory</i>
<i>Contract award</i>		<i>Partially satisfactory</i>
<i>Contract management</i>		<i>Satisfactory</i>
<i>Vendor performance evaluation</i>		<i>Partially satisfactory</i>

Key findings and recommendations

9. The audit identified a number of good practices in the processes assessed as well as areas that require Management attention, some of a strategic nature, others related to operational matters. Overall, the audit report includes 21 high priority and 5 medium priority recommendations. These recommendations build upon the existing framework and processes which proved solid in most areas, and aim primarily at opportunities to improve and strengthen them further, particularly the procurement governance mechanisms and the design of certain controls over the processes followed for soliciting, awarding and managing procurement contracts. Of the 26 recommendations, 4 are of strategic nature and the remaining 22 refer to operational matters.

Good practices

10. The audit identified several good practices implemented as regards the governance of the procurement function and the design of internal controls over the processes assessed, which are discussed throughout the report. Key highlights are summarized below.

11. UNFPA has a solid regulatory framework for its procurement process activities and has taken proactive steps to regularly update and enhance it. A Procurement Strategy was developed to guide the transformation of the procurement function from process-oriented activities towards supply-chain management, supplemented by a detailed procurement information systems strategy.

12. The Procurement Services Branch's annual management plans over the period covered by the audit were detailed, clearly outlining the focus of procurement operations and procurement transformation initiatives, and in general relevant to the achievement of the Procurement Strategy goals.

13. The organizational structure in place at the Procurement Services Branch supports a proper segregation of duties across the procurement processes managed by the Branch. The organization of operational procurement activities in regional teams has allowed an in-depth understanding of the procurement needs of the offices supported, facilitated communication with them and enabled more effective capacity development efforts. The audit noted that the team is dedicated to achieving results and tackling the challenges at hand. The design of controls over the procurement process is, in general,

effective. Steps are underway to further enhance the process through automation of tendering, offer submission and contract management activities. The processes followed for the procurement of sexual and reproductive health commodities have been certified under the ISO Standard 9001 since 2007.

14. At the same time, the audit revealed high priority issues aimed at further improving governance arrangements and controls, which are summarized below.

Strategic level

15. The main areas for improvement noted relate to the need to (i) update the Procurement Strategy; (ii) revise the related governance and reporting arrangements; (iii) promptly finalize and submit for approval the plans for implementation of the remaining components of the procurement information technology strategy; and (iv) make a prompt decision as regards the new proposed funding model designed to ensure an adequate and sustainable funding of procurement operations and enable progress towards a more effective supply-chain management, the key goal of the Procurement Strategy.

Operational level

16. The audit noted the need to more clearly demonstrate the alignment of the Procurement Services Branch annual management plans to the Procurement Strategy and to enhance the portfolio of indicators used to measure the performance of the Branch. There is also a need to improve workload measurement and management, and to expand the scope and frequency of reporting on procurement operations, standardize the process and tools used to measure and report on field office procurement capacity, and enhance field office procurement monitoring. In addition, outputs and indicators related to the performance of local procurement operations should be improved, particularly for those field offices that account for a large percentage of the total local procurement value.

17. The audit also noted the need to enhance the procurement planning and vendor performance assessment processes, and to strengthen procurement review and award procedures as regards field office procurements undertaken jointly with other United Nations organizations or leveraging on long-term agreements. In addition, there are opportunities to further strengthen the functioning of contract review committees.

Management response

18. The report identifies a number of good practices as well as areas of attention for management. Management agrees with most recommendations and has provided a response to the individual recommendations, as well as specific comments to the content of the report, directly in the body of the report.

19. The OAI team would like to thank the Management and staff of the Procurement Services Branch and the different Headquarters Units and field offices involved in procurement process activities for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

20. The audit covered the procurement function governance arrangements and the design of the internal controls in place over the processes followed to solicit, award and manage procurement contracts in the period from 1 January 2012 to 30 June 2015.

21. The objective of the audit, conducted in accordance with the *International Standard for the Professional Practice of Internal Auditing*, was to obtain reasonable assurance on the adequacy and effectiveness of the design of the governance, risk management and internal controls in place over the processes within the scope of the audit. A risk-based methodology, including a detailed risk analysis, was used in planning the engagement.

22. The audit included a detailed review of the UNFPA procurement regulatory framework, as well as of documents related to (i) the procurement function's strategic direction; (ii) annual procurement operational plans and results; (iii) organizational structure and staffing arrangements; (iv) funding arrangements; and (v) independent reviews, assessments and certifications of the procurement function activities. The audit also included (i) analytical review procedures based on available procurement financial and operational information; (ii) inquiries of Management and personnel involved in procurement activities; (iii) walk-throughs of the processes and controls assessed; (iv) re-performance, on a selective basis, of controls, with the purpose of informing the assessment of their design; and (v) other procedures as considered necessary under the circumstances.

23. The assessment of the design of controls in the procurement processes within the scope of the audit was informed by the results of testing of procurement internal control operating effectiveness performed as part of internal audits of field offices and the Procurement Services Branch in the period 2011-2014. Hence, no additional detailed testing was performed, except as regards the procurement process governance arrangements, the controls in place over procurement planning and vendor performance process activities and the HQ Contract Review Committee process.

24. The audit was conducted in three different phases by a team of OAIS audit specialists, assisted by personnel from a consulting firm with expertise in the areas of procurement, logistics and supply-chain management. The first phase, which took place from 1 July to 14 October 2013, encompassed a detailed review of the design of the procurement regulatory framework and the assessment and testing of procurement function governance arrangements in place at that time, including a field mission to the Procurement Services Branch, from 5 August to 5 September 2013. Findings resulting from this first phase were discussed with Management over two meetings held on 4 September 2013 with the Procurement Services Branch and on 14 October 2013 with the Headquarters Contracts Review Committee Secretariat.

25. The second audit phase included an extensive review (in advisory capacity) of Revision No. 4 to the UNFPA Procurement Procedures which was informed by findings from the first audit phase. The second phase ended with providing Management with recommendations to further enhance the above-mentioned Procurement Procedures Revision, which became effective on 1 April 2015.

26. The third audit phase took place in August and September 2015, and included enquiries and other procedures to identify control design issues not yet addressed in Revision No. 4 to the Procurement Procedures, as well additional tests of governance arrangements in view of changes thereto, as well as to corporate governance processes and systems.

27. Comments and clarifications provided to the audit team were reflected in a draft report submitted to Management on 1 October 2015, and a final Management response received on 31 December 2015.

II. BACKGROUND

28. The volume and value of procurement activities undertaken by the Procurement Services Branch (PSB), based in Copenhagen, Denmark, and by field offices increased significantly between 2011 and 2014 to reach over USD 350.0 million in 2014. This is primarily due to the larger volume of contraceptives and other sexual and reproductive health commodities and products supplied to programme countries – the value of which doubled between 2011 and 2014¹ – in support of the UNFPA strategic goal of achieving universal access to sexual and reproductive health, realizing reproductive rights and reducing maternal mortality. The increase was largely driven by key UNFPA initiatives such as the Family Planning Strategy² and the Global Programme to Enhance Reproductive Health Commodity Security (GPRHCS).³

29. PSB is responsible for the procurement of contraceptives and other sexual and reproductive health (SRH) commodities and products (such as pharmaceutical products, medical devices and supplies and reproductive kits), as well as a variety of other programme good and services, such as information technology and communication equipment and vehicles. PSB is also responsible for the procurement of goods and services requested by business units located within UNFPA's headquarters (HQ) and for third-party procurement activities conducted on behalf of national Governments, non-governmental organizations and development partners wishing to benefit from UNFPA's expertise and leadership in the procurement of SRH commodities and products.

30. The UNFPA field offices undertake procurement activities without limitation of value, provided that such activities do not relate to the procurement of contraceptives and that the required approvals, reviews and clearances have been obtained. Consultancies, professional services, and a variety of other services, as well as certain goods such as transportation equipment, information technology equipment and supplies, medical equipment and dignity and other kits for humanitarian response activities, account for a large proportion of field office procurement.

31. Table 1 below presents an overview of the goods and services procured between 2011 and 2014.

Table 1 – Analysis of goods and services procured
Millions of United States Dollars (USD)

Procurement type and categories	2011		2012		2013		2014		2011-2014 Increase (Decrease) ⁴
	USD	%	USD	%	USD	%	USD	%	
Total procured by PSB	144.6	54 %	182.7	54 %	230.6	63 %	217.9	61 %	51 %
Programme & HQ procurement -	106.9	40 %	165.2	49 %	197.7	54 %	191.4	54 %	79 %
Contraceptives	52.6	20 %	106.5	31 %	123.2	34 %	109.5	31 %	108 %
Other SRH commodities & products	17.9	7 %	20.3	6 %	27.2	7 %	36.5	10 %	104 %
Freight costs	6.5	2 %	9.0	3 %	12.7	3 %	13.8	4 %	73 %
Transportation equipment	1.5	1 %	5.9	2 %	5.8	2 %	7.8	4 %	420 %
Information technology ⁵	7.4	2 %	4.1	1 %	7.2	2 %	5.6	2 %	(26 %)
Other ⁶	21.0	8 %	19.4	6 %	21.6	6 %	18.2	5 %	(6 %)
Third-party procurement	37.7	14 %	17.6	5 %	32.9	9 %	26.5	7 %	(30 %)

¹ Excluding third-party procurement activities

² Choices not chance: UNFPA Family Planning Strategy 2012-2020

³ Now referred to as 'UNFPA Supplies'

⁴ Cumulative change over the four-year period

⁵ Primarily equipment for use by field offices and implementing partners

⁶ Includes premises costs, a number of services, and other assets and supplies, each component being of small value.

Procurement type and categories	2011		2012		2013		2014		2011-2014 Increase (Decrease) ⁴
	USD	%	USD	%	USD	%	USD	%	
Total procured by Field Offices	122.9	46 %	149.6	46 %	133.3	37 %	139.2	39 %	13 %
Professional and other services	68.4	26 %	99.7	30 %	86.1	24 %	87.6	25 %	28 %
Premises costs ⁷	11.5	4 %	14.6	4 %	12.8	4 %	16.4	5 %	43 %
SRH commodities & products ⁸	9.2	4 %	8.9	3 %	8.9	2 %	8.2	2 %	(11 %)
Freight costs	3.1	1 %	2.0	1 %	4.5	1 %	5.9	2 %	90 %
Transportation equipment	11.2	4 %	7.9	2 %	4.4	1 %	4.4	1 %	(61 %)
Information technology ⁹	11.6	4 %	8.9	3 %	7.4	2 %	7.6	2 %	(34 %)
Other assets and supplies	7.9	3 %	7.6	2 %	9.2	3 %	9.1	3 %	15 %
Grand Total	267.5	100%	341.3	100%	363.9	100%	357.1	100%	33 %

Source: UNFPA procurement statistics

32. Procurement activities are regulated primarily by UNFPA Financial Regulations and Rules, which were last approved by the Executive Board in July 2014, and by the Procurement Procedures, which were last updated in April 2015.

33. The Financial Regulations and Rules outline the four key principles that guide procurement activities at UNFPA:

- a) Best value for money;
- b) Fairness, integrity and transparency;
- c) Open and effective international competition; and
- d) The interest of UNFPA.

34. The Deputy Executive Director – Management serves as the UNFPA Chief Procurement Official (CPO), and is accountable to the Executive Director for the procurement function at all locations where performed. Procurement authority has been delegated to the Chief of PSB, heads of field offices, and other staff at HQ and field offices, as may be appropriate in fulfilling the purpose of the Financial Regulations and Rules.

35. PSB is the “owner” of the procurement process. As such, and in addition to its operational procurement activities discussed above, PSB has primary responsibility for setting strategic direction in the areas of procurement and supply-chain management; maintaining procurement procedures and other components of the procurement regulatory framework; enhancing procurement capabilities across the Organization; and maintaining adequate oversight over field office procurement activities.

36. PSB is headed by a Chief who reports to the CPO. At the time of preparation of the audit report, PSB had 72 staff members and contract personnel.

⁷ Includes premises rental costs

⁸ Other than contraceptives, which are procured solely by PSB

⁹ Equipment and operational costs (services and supplies)

III. DETAILED FINDINGS

A. PROCUREMENT PROCESS GOVERNANCE

SATISFACTORY

37. UNFPA's total procurement value increased by 33 per cent in the period 2011-2014. Procurement by field offices grew more moderately, by over 13 per cent in this period, with PSB-managed procurement increasing by almost 80 per cent¹⁰ due to the larger volume of contraceptives and other SRH commodities and products required to achieve UNFPA's goal of achieving universal access to SRH, realizing reproductive rights and reducing maternal mortality.

38. The large increase in procurement to address SRH commodities and products requirements, in turn, created the need for setting a revised strategic direction for the procurement function. This led to the development of a '*UNFPA Procurement and Supply Chain Strategy*' (Procurement Strategy) in September 2011, which outlined the initiatives required to improve procurement operations and allow for effective supply-chain management.

39. The Procurement Strategy implementation was still work-in-progress at the time of preparation of the audit report. Significant efforts and resources, as well as continued management attention, will be required in future years to enable a successful implementation of the strategy and the achievement of its outcomes.

Work Performed

40. Work performed in this area focused on assessing procurement function processes and controls related to four components of the 2013 COSO Internal Control Integrated Framework, i.e., control environment, risk assessment, information and communication, and monitoring activities.

41. Audit procedures applied included the review of (i) the Procurement Strategy document; (ii) the Procurement Strategy implementation plan 2012-2015; (iii) the PSB annual management plans for the period 2012-2015; (iv) detailed annual plans of different PSB teams; (v) minutes of PSB management and team meetings; (vi) the PSB organizational structure and related job descriptions; (vii) performance plans and performance assessments of PSB management and personnel; (viii) available Atlas¹¹ financial and operational information related to procurement activities; (ix) ISO Standard 9001¹² certification reports and supporting documentation provided by PSB; (x) the 2012 and 2014 Global Staff Survey results for PSB; (xi) outputs related to procurement activities included in field offices' 2015 annual management plans; (xii) reports on reviews of the procurement function activities undertaken by donors and external consultants; (xiii) reports on the results of customer satisfaction surveys undertaken in the period under review; (xiv) current and proposed PSB funding arrangements; and (xv) the 2015 PSB operational and fraud risk assessment.

42. Audit procedures also included interviews with PSB Management and staff members, as well as interviews with the senior manager designated as Chief Procurement Official over most of the period under review.

Summary of good practices identified

43. UNFPA developed a solid regulatory framework for its procurement process activities and took proactive steps during the period under review to regularly update and enhance it. Significant efforts were devoted to developing and sharing supplementary guidelines as well as templates and other tools

¹⁰ Excluding third-party procurement activities

¹¹ UNFPA's PeopleSoft based Enterprise Resource Planning system

¹² ISO (International Standards Organization) Standard 9001-2008 – Quality Management Systems

to support the activities of field office procurement practitioners, and to regularly communicate relevant information on procurement-related activities, leveraging on the PSB intranet portal.

44. Delegation of procurement authority, and the related Atlas approval rights, were clearly defined in the UNFPA Internal Control Framework and enforced through the user provisioning process and Atlas access and authorization controls in place¹³.

45. A Procurement Strategy was developed to guide the transformation of the procurement function from process-oriented activities towards supply-chain management. Donor reviews completed in the period under review have favorably assessed the revised strategic direction. The Procurement Strategy has been complemented by a detailed procurement information technology strategy that outlines the technology solutions required to address challenges to a successful implementation of the supply-chain management transformation.

46. Specific good practices identified are elaborated in more depth throughout this report.

Summary of improvement areas identified

47. From a strategic perspective, the main areas for improvement relate to the need to (i) update the Procurement Strategy, maintaining its overall strategic direction and structure, to better demonstrate its alignment to key corporate initiatives and to incorporate changes that have taken place since its initial development, as well as to facilitate measurement of implementation progress and results; (ii) revise the related governance and reporting arrangements; (iii) promptly finalize and submit for approval plans for implementing the remaining components of the procurement information technology strategy; and (iv) promptly implement the proposed model designed to ensure an adequate and sustainable funding of procurement operations and enable the transformational initiatives included in the Procurement Strategy.

48. From an operational perspective, the audit noted the need to more clearly demonstrate the alignment of PSB annual management plans to the Procurement Strategy, to enhance the portfolio of indicators used to measure PSB performance, and to expand the scope and frequency of reporting on procurement operations. Further, outputs and indicators related to performance of local procurement operations should be improved, particularly for those country offices that account for a large percentage of total local procurement value. Finally, there is an opportunity to improve workload measurement and management at PSB.

49. Improvement opportunities identified are elaborated in more depth throughout this report.

A.1 - PROCUREMENT STRATEGY

SATISFACTORY

50. Procurement function activities during the period under review were guided by the Procurement Strategy which was developed under the initiative and leadership of PSB in September 2011 and was formally approved by the Executive Committee in March 2013.

51. The Procurement Strategy development constituted a key milestone in transforming procurement into a strategically focused function supporting UNFPA's key priorities, particularly those related to the supply of and access to quality SRH and family planning commodities, a core component of UNFPA's Family Planning Strategy. Overall, the Procurement Strategy, which includes a combination of ongoing business improvements and transformational initiatives, aims at re-positioning the procurement function from a 'transactional procurement' into a 'supply-chain management' organization, working

¹³ Tested as part of the review, as an advisory service, of the update to the Internal Control Update released in 2015 and the audit of the User Provisioning process undertaken in 2014.

across the end-to-end supply chain to effectively reduce lead times, prices and stock-outs, and to secure market capacity on the products in demand – whilst building the capacity of UNFPA field offices and governments.

Good practices identified

52. The Procurement Strategy was developed following a collaborative process, based on a comprehensive SWOT¹⁴ analysis, and presents, at high level, the direction for PSB activities around three pillars:

- Pillar 1: Implement an empowered and dynamic procurement and supply-chain practice;
- Pillar 2: Shift the procurement function from process-oriented activities towards supply-chain management; and
- Pillar 3: Develop offerings to third-party clients for SRH commodities procurement and related services

53. The Procurement Strategy document was complemented by a high level implementation plan, covering the period 2012-2015. The implementation plan outlines a more detailed set of outputs for each pillar, and the proposed indicators to be used to measure their achievement, as well as a detailed list of activities to be executed. A high level implementation timeline is provided through the end of 2015.

54. A detailed procurement information technology strategy ('IT systems connectivity Bluebook – supply chain excellence) was developed, with the support of a consulting firm, to outline the technology solutions required to address challenges identified to a successful implementation of the supply-chain management transformation.

Improvement areas identified

55. The audit noted three high priority matters that require Management's attention.

Update the Procurement Strategy to incorporate lessons learned from implementation to-date and the latest UNFPA strategic developments and external changes

56. Overall, activities undertaken in the period January 2012 to June 2015 are consistent with the strategic direction outlined in the Procurement Strategy. Yet, the Strategy can be enhanced.

Strategy and implementation plan update

57. The Procurement Strategy document and the implementation plan have yet to be updated to reflect significant developments and changes that have taken place since their development, including the new UNFPA Strategic Plan 2014-2017 and the expansion of the scope of the Global Programme to enhance Reproductive Health Commodity Security, to name a few.

58. Further, results and lessons learned from implementation efforts to-date should also be incorporated in a revised strategy and implementation plan; for example, those initiatives that were not implemented within the initially estimated timeline or were dropped, for example, the decentralization of procurement activities managed by PSB to selected country offices, which was abandoned as the expected results were not achieved.

Strategy outcomes

59. A revised Procurement Strategy could also more clearly relate to the Family Planning Strategy, which includes an output related to improving the UNFPA procurement process (*Output 3, improved*

¹⁴ Strengths, Weaknesses, Opportunities and Threats

availability and reliable supply of quality contraceptives), and its implementation plan which contains five procurement-related commitments and goals. The latter are not clearly referred to in the Procurement Strategy, nor is there a documented mapping of how the Procurement Strategy components and activities contribute to achieving the Family Planning Strategy goals.

60. In addition, at present, the Strategy shows procurement and supply-chain management strategic directions in a manner dissimilar by pillar, without a structured picture of what must be achieved, by when and how:

- For pillar 1, “a number of changes” to the areas “structural”, “tools”, “people” and “process and procedures” are discussed;
- For pillar 2, a number of “typical supply chain activities” are discussed; and
- For pillar 3, a number of actions are discussed, i.e. “in order to achieve this [pillar 3] UNFPA will (...)”

61. PSB management indicated that a major goal of the Procurement Strategy document was “educational”, i.e., to increase the awareness of senior management and key internal stakeholders on the extent and nature of the effort required to achieve the desired procurement process transformation and, further, that the implementation plan provides the required details on what, when and how.

62. The audit acknowledges Management’s comments and notes that activities reflected in the implementation plan are relevant to achieving the overall direction outlined in the Procurement Strategy. However, it is of the view that the linkage from Procurement Strategy to implementation plan could be more clearly documented, primarily by organizing both documents around the same set of outcomes and outputs, i.e., those reflected in the implementation plan.

Implementation plan indicators and targets

63. Further, as the implementation plan covers an extended period (2012-2015), clarity on results to be achieved could be enhanced by defining clear targets for all outcome and output indicators reflected therein.

Milestones, detailed implementation plans and cost estimates

64. The clarity of the implementation plan and the ability to track progress could be enhanced by defining key milestones, developing more detailed sub-implementation plans for the most complex initiatives, and incorporating high level estimates of the incremental costs required to complete implementation, as well as explanations on how these are expected to be funded.

IMPACT	<i>The relevance of the Procurement Strategy as a key tool to guide the transformation of the procurement organization and the ability to measure progress towards its implementation may be diminished.</i>
ROOT CAUSE	<i>Guidelines - Inadequate corporate policies or procedures</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 1 **PRIORITY: HIGH**

Update the Procurement Strategy and its implementation plan to (i) reflect internal and external changes since its inception as well as lessons learned from implementation to-date, and (ii) formulate, in a more consistent way, and better align Strategy’s outcomes and outputs, related indicators and targets, implementation milestones and high level cost estimates.

RESPONSIBLE MANAGER: *Chief, PSB* STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

The Procurement Strategy will be updated per the audit recommendation once the mid-term review of the Strategic Plan 2014-2017 has been completed, as this will affect the content of the implementation plan

Revise governance and reporting arrangements over the Procurement Strategy implementation

65. The strategic goal of transforming the procurement function represents a significant challenge for UNFPA and, in particular, for PSB. Such transformation would normally require significant changes and new capability development over a sustained period of time, executed through a programme, typically broken down in a number of projects and with a strong change management component. Successfully executing such programme would normally require a dedicated team, e.g. with a steering committee and a programme office, which would be constantly leading and following up on the transformation, keeping up the momentum and progress, ensuring that resources are allocated and internal as well as external stakeholders are appropriately involved throughout the programme cycle, and making sure that the programme and underlying projects deliver the desired outcomes and benefits.

66. In contrast, the Procurement Strategy implementation is characterized by the following:

- a) There is no programme office nor a visible steering committee to drive implementation. The Chief of PSB is clearly seen as overall responsible; however, execution responsibility seems to be widely spread down and across the whole PSB organization, with a significant involvement demanded from the *Operational Procurement Cluster* leader (refer to section A.3 of the report);
- b) A dedicated project manager and supporting structure has only been established to support the implementation of the new Atlas modules on contract management, tendering and other additional procurement support;
- c) Formal follow-up on implementation is not systematic. This is mainly discussed in PSB's management team meetings or retreats, or around annual management plan review deadlines; and
- d) It is unclear to which extent other key stakeholders are aware of and/ or involved in the Procurement Strategy implementation and the degree to which results achieved are measured and reported to senior management, particularly since the Deputy Executive Director – Management position became vacant in the third quarter of 2015.

IMPACT *The lack of a robust governance and reporting process may lead to less than successful implementation of the Procurement Strategy.*

ROOT CAUSE *Guidelines - Inadequate management structure*

CATEGORY *Strategic*

RECOMMENDATION 2

PRIORITY: HIGH

Implement stronger governance and reporting arrangements over the Procurement Strategy implementation, including a Steering Committee with adequate stakeholder representation and regular follow-up and reporting to senior management on the status of implementation of the strategy. In addition, assess whether the programme and project management roles in place are adequate to ensure a successful implementation of the Strategy, particularly the supply-chain management transformation.

RESPONSIBLE MANAGER: *Chief Procurement Official, with input from the Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:DUE DATE: October 2016

The Procurement Strategy will be updated in line with the mid-term review of the Strategic Plan 2014-2017 and the new funding environment brought forward with the 2030 Agenda for the Sustainable Development. In order to strengthen the governance of the updated strategy implementation, a Steering Committee will be formed with the participation of internal stakeholders, including the Commodity Security Branch / Technical Division. The Steering Committee will have a review of the management roles in place made, to ensure efficient implementation of the strategy.

Formalize and submit for approval the proposals for implementing the remaining components of the procurement IT strategy

67. A comprehensive procurement information technology systems strategy (called 'IT Systems Connectivity Bluebook – Supply Chain Excellence', referred to as the "procurement IT strategy" hereafter) was developed in 2014, with the involvement of a consultancy firm and financial support provided by a donor.

68. The procurement IT strategy identifies the key information technology requirements for a successful implementation of the supply-chain management transformation. The proposed redesign of the procurement IT landscape aims at consolidating and simplifying existing systems and incorporates new capabilities to allow (i) joint demand planning and procurement reporting with USAID¹⁵; (ii) integration of procurement function activities in Atlas; (iii) enhanced commodity tracking capabilities; and (iv) country inventory level visibility.

69. Implementation of the procurement IT strategy started in 2015 with a project endorsed by the UNFPA ICT Board¹⁶, focused on the integration of procurement functionality into Atlas. This project, funded by a donor, includes the implementation of six new Atlas modules including contract management, e-tendering and supplier contracts, which will allow a more effective and efficient management of bid requests, submission and evaluation thereof, as well as preparation and management of procurement contracts. The project is overseen by a project board made-up of PSB and Management Information Services (MIS) Branch personnel.

70. The scope of this project, which is expected to be finalized by the end of 2015, is however limited to PSB-managed procurement activities. No formal proposal (including a proposed timeline, cost estimate and funding approach) for extending the project to a second phase to support field office procurement has been submitted to the ICT Board yet, although there is a need to increase the effectiveness and efficiency of local procurement activities and provide enhanced capabilities to enforce compliance with the Procurement Procedures to address recurrent issues revealed by field office audits. It is however, noted that, should there be a second phase, it would most likely take place after the Atlas upgrade planned for 2016.

71. In addition, no preliminary proposal (including timeline, cost estimate and proposed funding approach) have been submitted for HQ management consideration as regards the implementation of the remaining IT strategy components (i.e., those related to demand planning, enhance tracking capabilities and inventory visibility).

¹⁵ United States Agency for International Development

¹⁶ The ICT (Information and Communications Technology) Board is the body responsible for the business governance of ICT projects at UNFPA

IMPACT	<i>The lack of clear proposals and implementation plans for the procurement IT strategy as a whole may delay its implementation and diminish the related benefits realization.</i>
ROOT CAUSE	<i>Guidelines - Inadequate planning</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 3**PRIORITY: HIGH**

Promptly finalize and submit for management approval (i) a comprehensive proposal (including estimated timeline, cost estimate and funding approach) for the global release of the new Atlas procurement modules, prioritizing those countries which account for the larger proportion of local procurement, and (ii) a preliminary proposal for the implementation of the remaining IT strategy components.

RESPONSIBLE MANAGER: *Chief Procurement Official, with input from the Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2016*

The Procurement Services and Management Information Services branches will work together to prepare and submit a costed comprehensive proposal to the ICT Board for the global release of the new Atlas procurement modules in a gradual approach. The proposal will include the remaining components of the IT strategy.

Promptly implement a sustainable PSB funding model

72. During the period under review, funding for PSB operations was provided from a variety of sources, including the institutional budget, the GPRHCS and fees charged on third-party procurement services and on SRH commodities supplied from PSB-managed inventory.

73. In addition, non-core funding was mobilized to cover the cost of transformational activities, such as the launch of *AccessRH*, the UNFPA third-party procurement service, and the implementation of activities encompassed within the Procurement Strategy (for example, the implementation of new Atlas modules).

74. Sustainability of funding has been a source of continuous concern, given the risk of mismatch between the relatively fixed nature of the PSB cost structure, predominantly driven by staff costs and therefore difficult to adjust in response to changes in volume (due to the need to preserve the capabilities developed, which are essential to maintain an effective procurement function), and a funding structure highly dependent of third-party procurement fees, which are exposed to significant variability year-on-year, and on GPRHCS resources, which may not be sustainable in light of changing programme priorities and resource constraints.

75. A revised funding model was developed in late 2014 through a collaborative effort between PSB and the Division for Management Services, based on the new Cost Recovery policy issued in February 2014. Based on the proposed model, management and administration costs (such as PSB management, finance and IT costs) will continue to be funded from the Institutional Budget¹⁷, while direct costs related to contracting and buying activities (which involve a large proportion of PSB staff costs) will be funded through a cost-recovery charge on procurement transactions processed (irrespective of the procurement funding source – i.e., regular resources, co-financing or GPRHCS), to be calculated based on the number of lines of each purchase order issued, the latter being the metric considered to better reflect the level of

¹⁷ Allocation of core resources to cover core management costs

effort required. *AccessRH* costs will continue to be funded through existing procurement fees, and transformational and capacity development activities will continued to be funded by the GPRHCS and non-core resources mobilized by PSB. Transitional funding arrangements may be required until the new funding model can be fully in place.

76. Management represented that the matter has been discussed and there is general consensus among senior management for this new procurement function funding policy; however, the revised funding model had not been approved at the time of preparation of the audit report. Its adoption would reduce the level of cross-subsidization of procurement costs that currently favours procurement financed from regular resources and co-financing agreements, therefore potentially allowing a reduction in the fees charged for third-party procurement services. In addition, measurement and analysis of variances between cost-recovery amounts and actual costs would provide a valuable management tool to determine whether PSB staffing levels remained aligned to procurement needs, contracting and buying activities conducted efficiently and/or whether the cost-recovery charges have been set at a reasonable level.

IMPACT	<i>Delays in the implementation of the revised funding model may diminish PSB's ability to deliver quality procurement services and result in on-going procurement cost subsidization.</i>
ROOT CAUSE	<i>Guidelines - Inadequate corporate policies or procedures</i>
CATEGORY	<i>Strategic</i>

RECOMMENDATION 4

PRIORITY: HIGH

Make a prompt decision regarding the proposed PSB funding model, as appropriate, and implement it as from 1 January 2016.

RESPONSIBLE MANAGER: *Chief Procurement Official and Director, Division for Management Services, with input from the Chief, PSB* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *January 2016*

The PSB funding model developed jointly with the Division for Management Services was approved by the Executive Committee and launched on 17 December 2015, to be effective as of 1 January 2016.

A.2 - MANAGEMENT OF PROCUREMENT OPERATIONS

PARTIALLY SATISFACTORY

77. As mentioned in Table 1, procurement operations managed by PSB accounted for almost 60 per cent of total UNFPA procurement in the period under review¹⁸. These operations were managed systematically through (i) detailed annual management plans submitted through the Office Management Plan application, through 2014, and, as from 2015, the Strategic Information System (SIS) 'My Results' planning module; (ii) supplementary detailed action plans developed by different teams within PSB to help them better manage and oversee the implementation of the actions they were responsible for; (iii) regular meetings of the different PSB teams; (iv) quarterly PSB management meetings; and (v) on-going supervision of activities by the Chief of PSB and the leaders of the different PSB teams.

78. Information on the status of procurement transactions and all relevant supporting documentation is available in Atlas, a customer relationship management system (a project is created for

¹⁸ Computed based on average total and PSB procurement amounts in the period 2012-2014, including third-party procurement

each purchase order) and in the order tracking system (albeit subject to the limitations created by data quality issues affecting this application – refer to paragraph 205 of the report).

79. Performance reports are produced annually for all key long-term agreement (LTA) suppliers, based on information obtained from the vendor performance assessment application and from the order tracking system, quantifying the level of compliance with key LTA indicators, such as lead-times, quality levels and timeliness in documentation submission.

80. Local procurement accounted for the remaining 40 per cent of total procurement¹⁹, with 30 field offices representing approximately 50 per cent of the total¹⁹. Based on the evidence gathered during internal audits of field offices during the period under review, local procurement operations were managed based on a variety of planning, coordination and oversight mechanisms developed and implemented by each office, with varying levels of formalization and effectiveness.

Good practices identified

81. The PSB annual management plans reviewed for the period covered by the audit were detailed, clearly outlining the focus of procurement operations and the procurement transformation initiatives, and evidencing a solid planning process. As from 2015, the status of implementation of the annual management plan has been monitored using the functionality provided by the SIS.

82. There were frequent management meetings to discuss progress in management plan implementation and the overall status of procurement operations and issues. The matters discussed and outcomes of these meetings were clearly documented and acted upon.

83. The leaders of the different PSB teams and key PSB personnel interviewed in the course of the audit evidenced a clear understanding of the status of transactions and day-to-day activities under their responsibility.

84. As from 2014, the PSB Finance Manager independently produces a management exception report providing information on indicators such as (i) the level of unsourced requisitions; (ii) purchase orders not delivered one month after their due date; and (iii) open purchase orders (i.e., goods and services not yet delivered) for co-financing agreements expiring within the year, which are used by the geographical team leaders to monitor their respective team performance.

85. PSB has been certified under the ISO Standard 9001 since 2007. The scope of the certification covers the procurement of SRH commodities. The certification was renewed in 2015 without any non-conformities identified.

Improvement areas identified

86. The audit noted five high and one medium priority matters that require Management's attention.

Improve the alignment of annual management plans to the Procurement Strategy implementation plan

87. While activities undertaken by PSB during the period under review were, overall, relevant to the achievement of the Procurement Strategy goals, the audit noted the need for a more clearly documented linkage of the PSB annual management plans to the Procurement Strategy implementation plan.

88. In general, for the period under review, PSB annual management plans included relevant outputs, and planned activities were aligned to the defined outputs. However, linkage to and alignment with the Procurement Strategy implementation plan was more difficult to establish, as the implementation plan

¹⁹ Computed based on average local procurement amounts in the period 2012-2014

and the annual management plans were organized around different outputs and used different metrics to measure the achievement of results, making it difficult to establish linkage in certain areas, and use the annual management plan actual results information to determine progress in the Procurement Strategy implementation.

89. Challenges related to alignment and linkage were more noticeable in 2015. As an example, the audit noted that the 2015 plan reflects no IT related outputs other than the implementation of the new Atlas modules, although other significant initiatives, such as the release of the *AccessRH* new Order Management System, were planned for the year. It was noted, however, that IT related outputs were clearly documented in the performance plan of the PSB IT manager.

90. PSB Management indicated that several outputs previously reflected in annual management plans were excluded from the 2015 plan in SIS in response to guidance provided by HQ to maintain a simple plan structure and reduce the number of outputs included therein. While there might be a valid rationale behind this guidance, it nevertheless creates a challenge as regards how to plan for and monitor the status of all activities required to progress in the implementation of the Procurement Strategy and to deliver procurement operations in an effective manner.

IMPACT	<i>The effectiveness of the implementation of the Procurement Strategy may be diminished due to the lack of alignment between its implementation plan and the annual management plans.</i>
ROOT CAUSE	<i>Guidance - Lack of or inadequate guidance or supervision</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 5

PRIORITY: HIGH

Better align PSB annual management plans to the Procurement Strategy implementation plan and ensure that management plans reflect all outputs relevant for a successful delivery of procurement operations and transformational initiatives under way.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2016*

PSB will develop indicators to be included in the Strategic Information System for monitoring of the delivery of procurement operations.

Expand the portfolio of indicators used to measure PSB performance

91. Overall, PSB could utilize a more comprehensive portfolio of indicators to manage and oversee procurement operations' performance and progress towards achieving the Procurement Strategy goals.

92. The annual management plans includes several SMART²⁰ core performance indicators, with clear baselines and targets, such as (i) the number of pre-qualified condoms manufacturers; (ii) the number of countries using *AccessRH* for procurement of SRH commodities; (iii) the number of LTAs for hormonal contraceptives in operation during the year; and (iv) the percentage of UNFPA contraceptive prices that compare favourably with those of other larger procurers (a separate report is produced on this indicator and published in the UNFPA website Procurement and Supply-chain page), to provide a few examples. Other core indicators, such as those related to vendor operational performance, are regularly measured but not reflected in the annual management plans.

²⁰ Specific, measurable, attributable, realistic and time-bound

93. However, there is a limited number of indicators designed to measure PSB’s operational performance and the status and results of key transformational activities undertaken.

94. An annual key performance indicator reporting package was last produced in 2011, measuring indicators related to internal performance (i.e., the time required to source requisitions to purchase orders, approval and submittal thereof), vendor performance (i.e., the time span to deliver goods to UNFPA for shipment to field offices) and freight performance (i.e., the time span to transport goods to their port of destination).

95. The key performance indicator reporting package was discontinued due to the effort required to produce it, particularly to cleanse the order tracking system data required to calculate the indicators. A Cognos²¹ report designed by the MIS Branch to automate KPI calculation proved not to be effective and was archived due to lack of use. The only operational performance indicator consistently measured and reported since 2011 is that related to the performance of core SRH commodities vendors, which continues to demand a significant effort to generate.

96. The examples described below may help to further illustrate the indicator portfolio gaps that should be addressed by Management.

- a) There are no indicators related to customer satisfaction. The 2012 PSB office management plan included an indicator related the results of a PSB customer satisfaction survey. However, the use of this survey was discontinued in 2011 upon Headquarters’ request, to be replaced with a global customer satisfaction survey managed by the Division for Management Services, in order to reduce the number of surveys issued to field offices. No customer satisfaction survey indicators, and related targets, were reflected in subsequent office management plans, even though the new format survey was conducted in 2013 and 2015 (PSB received relatively high satisfaction ratings in both surveys).
- b) No indicators – except in 2012 – have been defined as regards field office procurement capabilities, such as the number of field offices having the required procurement and supply-chain management capabilities or the number of field office procurement focal points that received the Chartered Institute of Purchase and Supply (CIPS) certification training (a key and successful initiative undertaken by PSB to enhance field office capabilities).
- c) The 2015 management plan indicators related to *AccessRH* are limited to the number of countries and clients using the portal for the procurement of SRH commodities, omitting other potentially more relevant indicators such as the number and value of third-party procurement orders (an indicator included in the 2014 plan), customer retention level and overall customer satisfaction level – which is nevertheless measured through customer satisfaction surveys, the results of which were overall positive in 2014, with some concerns raised by customers related primarily to availability of order status information and timeliness of delivery.

IMPACT *The ability to measure the effectiveness and efficiency of PSB performance and progress in the implementation of the Procurement Strategy may be diminished.*

ROOT CAUSE *Guidance - Inadequate guidance or supervision*

CATEGORY *Operational*

²¹ UNFPA’s corporate reporting system

RECOMMENDATION 6**PRIORITY: HIGH**

Expand the portfolio of indicators used to measure PSB performance and progress towards implementation of the Procurement Strategy.

RESPONSIBLE MANAGER: Chief, PSB

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: July 2016

New indicators will be developed by the PSB, in consultation with all PSB managers.

Define clearer outputs and indicators to measure local procurement performance

97. The review, using an automated data analysis application, of 2015 field office management plans revealed that most of these do not reflect outputs and indicators to appropriately measure the effectiveness and efficiency of their respective procurement activities.

98. The audit noted that several management plans included outputs related to completion and implementation of procurement plans – albeit not clearly defining what constitutes implementation, i.e., award of a procurement contract or receipt of goods or services. A large majority of the plans reviewed did not reflect any outputs and indicators related to matters such as timeliness of requisitioning, reduction in procurement lead-times, award of long-term agreements in order to reduce the complexity and costs related to procuring low value and/or high volume items, maintenance of an adequate number of CIPS-certified personnel, and timely and cost-efficient clearance of inventory items, although country office audits and management reviews continue to identify recurring deficiencies in these areas.

IMPACT	<i>The ability to measure the performance of local procurement operations and their alignment to the UNFPA Procurement Strategy may be diminished.</i>
ROOT CAUSE	<i>Guidelines - Lack of or inadequate corporate policies or procedures</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 7**PRIORITY: HIGH**

Revise the structure of the Strategic Information System annual management plans to incorporate, for field offices with procurement values in excess of a reasonable threshold, outputs and indicators to appropriately measure the effectiveness and efficiency of their procurement activities.

RESPONSIBLE MANAGER: Chief, PSB

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: July 2016

PSB will work with the SIS team to develop the indicators to monitor procurement activities. However due to the current funding constraints, the integration of these into the SIS will be depend on identifying funding for the work. Meanwhile, PSB will use the same indicators to conduct manual periodical review of the procurement by the field offices, until the full integration to SIS is completed.

Expand the scope and frequency of reporting on procurement operations

99. There is limited reporting on procurement activities, at global and field office level. PSB and field office management at all levels, as well as senior management, would benefit by having access, through a procurement function-specific SIS dashboard, to real-time information on procurement operations and indicators, e.g., volume and value of purchase orders sourced; volume, value and aging of pending requisitions; volume, value and aging of third-party procurement orders; lead times by product, vendor

and business unit (in the case of PSB, by geographical team); PSB managed inventory volumes, values and turnover; etc.

100. PSB Management indicated that a Junior Professional Officer has been incorporated in 2015 to focus on the development of such a dashboard, as well as to develop the field office procurement monitoring process (see paragraph 102 of the report).

IMPACT	<i>The ability to oversee the performance of PSB may be diminished due to limitations in the nature and frequency of the information available to management.</i>
ROOT CAUSE	<i>Guidelines - Lack of or inadequate corporate policies or procedures</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 8 **PRIORITY: HIGH**

Promptly develop a Strategic Information System dashboard to oversee the effectiveness and efficiency of procurement activities. Until this can be implemented, generate and review a procurement reporting package on a regular basis.

RESPONSIBLE MANAGER: Chief Procurement Official

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: October 2016

PSB will work with the SIS team to develop the indicators to monitor procurement activities. However due to the current funding gap in UNFPA regular resources, the integration of these into the SIS will be pending on identifying funding source for the work. Meanwhile, PSB will use the same indicators to conduct manual periodical review of the procurement by the field offices, until the full integration to SIS is completed.

Enhance oversight of local procurement capacity and operations

101. During the period under review, PSB undertook significant efforts to enhance field office procurement capabilities, including an ambitious CIPS certification training programme, secondments of field office personnel to work in PSB at Copenhagen, field office missions to provide advice and deliver training to local staff, and on-going support by the regional teams within the *Operational Procurement Cluster* (refer to section A.3 of the report for additional information on the PSB organizational structure).

102. In addition, the regional teams utilized interviews, questionnaires, scorecards and other tools to assess the procurement capacity of the field offices they support and identify further opportunities for improvement. In addition, one of the teams developed standard terms of reference for local procurement focal points, clearly outlining the tasks they are accountable for, to be reflected in their annual performance plans. Each regional team has, however, reached varying degrees of completion as regards these initiatives.

103. The audit noted an opportunity to further improve efforts in this area by standardizing the processes and tools used to assess and document field office procurement capacity, leveraging on the best practices developed by each team, and summarizing the results in a consolidated field office procurement capacity matrix which would provide PSB, as well as HQ and Regional Office management, with a clear overview thereof and help prioritize decisions as regards further capacity building investments.

104. In addition, as from 2015, efforts have been undertaken to monitor compliance with Procurement Procedures requirements. Three procurement-related indicators have been selected for inclusion in the SIS field-office performance dashboard: (i) number of post facto submissions to the HQ Contract Review

Committee (CRC); (ii) level of completion of vendor performance assessments; and (iii) submission of annual procurement plans. A Junior Professional Officer was assigned to develop a portfolio of additional monitoring reports including, among others, (i) individual purchase orders larger than USD 100,000 – to address the risk of procurement transactions not being submitted for review to the HQ CRC; (ii) aggregated purchase orders by vendor in excess of USD 100,000 – to address the risks of purchase order splitting to bypass requisition and/or purchase order approval requirements or CRC submission requirements; (iii) local procurement of contraceptives (for which country offices are not authorized); and (iv) completion of mandatory procurement training requirements by procurement focal points. Other tests, such as the identification of procurement transactions not executed through purchase orders in excess of a USD 5,000 threshold, to determine whether appropriate solicitation methods were followed, were under development at the time of preparation of this report.

105. Potential exceptions identified through the oversight process were referred for follow-up to the *Operational Procurement Cluster* regional teams, leveraging their understanding of the concerned offices' procurement functions and their working relationship with the corresponding procurement focal points.

106. The audit noted the need to further improve and consolidate the procurement monitoring process. Monitoring reports, which were focused so far on procurement transactions executed in 2014, should be generated and followed up on a more regular basis (e.g., quarterly). All planned monitoring reports should be completed and additional reports developed to address other operational and compliance risks, for example, the lack of local CRC submission of transactions in the USD 50,000 - 99,999 range. In addition, a log or other mechanism should be implemented to track potential exceptions identified, through their resolution, and an escalation procedure designed for situations where country offices do not respond to regional team queries or significant operational or compliance issues are identified.

IMPACT *The ability to identify and address field office procurement capacity gaps and operational and compliance issues may be diminished.*

ROOT CAUSE *Guidance - Inadequate oversight by Headquarters*

CATEGORY *Operational*

RECOMMENDATION 9 **PRIORITY: MEDIUM**

Standardize the processes and tools used to assess and report field office procurement capacity, leveraging on the best practices developed by each Operational Procurement Cluster team, and summarize the results in a consolidated field office procurement capacity matrix or other appropriate report.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

The revision of the tools, processes and the reporting will be conducted by the PSB, under the supervision of the Head of the Operational Procurement unit.

RECOMMENDATION 10 **PRIORITY: HIGH**

Enhance the field office procurement monitoring process by expanding the portfolio of monitoring reports, using them and following up on potential exceptions on a more regular basis; and establishing a process and tools to track exceptions, escalate issues and respond to significant operational or compliance issues identified.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

The revision of the tools, processes and the reporting will be conducted by the PSB, under the supervision of the Head of the Operational Procurement unit.

A.3 - ORGANIZATIONAL STRUCTURE AND STAFFING

SATISFACTORY

107. PSB began to implement its latest organizational structure in May 2013. The increase in procurement volume and value, the release of *AccessRH*, and the launch of the Procurement Strategy have been the main drivers for changing the organizational structure and increasing the staffing from approximately 30 people in 2009 to over 70 people in June 2015.

108. PSB benefits from its location in Copenhagen, Denmark to attract qualified personnel. Staff generally appear to be highly qualified and motivated. Out of PSB's total staff, 18 are CIPS levels 2 or 3 certified, 15 are CIPS level 4-certified, and four members of the PSB management team have obtained the mastery level certification. Another 19 staff members have already taken the CIPS training but not yet finalized the certification process.

109. The structure in place covers the main disciplines of a large procurement organization, i.e. strategic procurement (contracting), operational procurement (buying), and other relevant functions (in PSB's case, procurement capacity building, communications, quality assurance, finance, information and communication technology), and, to some degree, supply chain management as the new emerging area driven by the implementation of the Procurement Strategy.

110. Strategic procurement is managed by the *Procurement and Contracting Services Cluster*, which is also responsible for the *AccessRH* development and outreach (*Communication Unit*), as well as HQ procurement (transactional buying).

111. Operational procurement is undertaken by the *Operational Procurement Cluster*. Three regional teams (Africa; Latin America; and Asia Pacific, Arab States and Eastern Europe) were established when implementing the new structure. The Africa regional team was subsequently split in two, i.e., Francophone and Anglophone Africa, to allow PSB to more effectively respond to the needs of Western African country offices in terms of capabilities, language, and also in view of the larger volume of reproductive health commodities procured given the widened scope of the GPRHC. A separate team within the cluster is responsible for emergency procurement activities.

112. The *Transverse Procurement Matter Cluster* contain all of PSB support functions, i.e. Quality Assurance -a critical role, as it entails vendor pre-qualification and pre-shipment testing activities, ensuring the provision of quality products-; Finance; and Information and Communication Technology, as well as the Procurement Capacity Building team. The head of this cluster is also the PSB Deputy Chief.

113. During the period under review, the organizational structure has been adjusted to address emerging requirements. The geographical organization was supplemented, in 2013 and 2014, with 'item focal points' for selected products, to help manage the challenges due to significant supply restrictions. A Human Resources specialist position was created in 2014 to help PSB address human resources management concerns identified by the Global Staff Surveys. A lawyer from the Legal Unit will relocate to Copenhagen towards the end of 2015 to focus on procurement matters, such as the review of vendor-proposed changes to general terms and conditions or standard contract clauses.

Good practices identified

114. The organization of operational procurement in regional teams (i) allows PSB to develop an in-depth understanding of the procurement needs of the field offices supported by each team; (ii) facilitates on-going communication with the field offices management and staff; (iii) enables more effective field office capacity assessment, development efforts and oversight of field office procurement by PSB; and (iv) accommodates specific language needs. From the point-of-view of the offices supported, the structure represents the key advantage of having a one-point-of-contact for each office.

115. The organizational structure in place also provides a proper segregation of duties in terms of having operational procurement separated from vendor pre-qualification responsibilities (ensuring the vendors can provide quality products); contracting (competitive selection of new vendors and award of LTAs); management of PSB-controlled stocks (used to source orders); quality assurance activities (pre-shipment testing of products) and accounts payable and payment processing.

116. The audit observed a team that is very dedicated to achieving results and tackling the challenges at hand. Most people are putting in extra effort (and extra hours), doing their utmost to deliver the best possible service to clients (field offices and governments), who have, overall, provided positive feedback through the different customer satisfaction surveys undertaken during the period under review. Job responsibilities, competency requirements and reporting lines appear in general to be well defined and understood by PSB personnel.

117. The level of compliance with performance assessment and development process activities has been high, although there may be further room for improvement as regards the timeliness of the mid-year progress reviews. Performance plans of key PSB staff members are clear and detailed, and overall well aligned to management plans and priorities. Efforts have been undertaken to improve the process, for example, by enhancing and standardizing metrics used to measure buyer performance.

Improvement areas identified

118. The audit noted that the leader of the *Operational Procurement Cluster* is also the PSB Supply-Chain Coordinator, facing – with a small team – the significant challenge of developing the new supply chain capabilities within PSB. Working with operational procurement is already a very demanding part of PSB operations which requires direct oversight and quick decision-making from its leadership. This dual responsibility may create a risk of bottlenecks and/or gaps in the day-to-day management and oversight of ongoing buying operations, exacerbated by the information system limitations, and/or delays in implementing the transformations required for an effective supply-chain management. No recommendation is provided as regards this matter, which requires careful consideration to determine whether the two responsibilities should be separated or additional resources allocated to ensure that the risk is properly mitigated, as it is already covered by Recommendation 1 on the Procurement Strategy.

119. In addition, the audit noted the following two matters that require Management attention

Measure, assess and balance, if required, workload managed by the different PSB clusters and teams

120. Several PSB staff members interviewed in the course of the audit expressed concern that workload managed by most units and teams are high, increasing risk in terms of the ability to achieve required performance and quality levels while managing transformational initiatives.

121. Compared to 2012, the 2014 Global Staff survey reflects an improvement in this area. PSB personnel assessing ‘workload managed’ as reasonable increased to 58 per cent, from 30 per cent in 2012; 71 per cent of personnel indicated a fair distribution of work within teams, compared to 64 per cent in 2012; and 63 per cent indicated that their work allowed them to balance personal and work life, compared

to 27 per cent in 2012. However, according to the 2014 survey, approximately 18 per cent of personnel continued to perceive workload issues, and an additional 10 per cent felt that workload was not fairly distributed, pointing to the need to re-assess and manage workload.

122. It was not possible for the audit team to objectively assess workload levels versus existing resources, as operational metrics, such as number of purchase orders and purchase order lines managed by buyer, are not regularly produced and reviewed, and no estimates were available of the overall effort required to implement the new Procurement Strategy transformations. An analysis developed by the PSB Finance Unit at the request of the audit team, summarized in Table 2 below, revealed, however, some potential imbalances in the workload managed by the different teams within the *Operational Procurement Cluster* and the HQ procurement unit in the *Strategic Procurement and Services Cluster*.

Table 2 – Analysis of buyer workloads

Team	Percentage of transaction lines ²² managed by the team		Percentage of buyer resources allocated to the team - August 2015
	January 2013 – August 2015	January - August 2015	
Team 1	12 %	15 %	13 %
Team 2	16 %	13 %	13 %
Team 3	23 %	27 %	21 %
Team 4	20 %	22 %	17 %
Team 5	20 %	16 %	21 %
Team 6	7 %	7 %	17 %
Not attributed	2 %	-	-

Source: PSB Finance Unit – Analysis of Atlas purchase order information

Note: May not add-up to 100 per cent due to rounding

123. The potential imbalances reflected in the above table, which appear to affect primarily three of the teams, require further management analysis as multiple factors may be at play, such as abnormal fluctuations in transactional volumes or different capability level by field offices supported. PSB managers and staff interviewed estimated that 60 to 70 per cent of team work time is spent on transactional work (i.e. processing requisitions and purchase orders), so transactional workload imbalances could result in service delivery issues or prevent teams from providing effective support to and oversight over the country offices in their regions, as well as limit their ability to get involved in PSB-internal activities and projects. The audit team noted that each team tries to internally balance individual workload through team members helping one another. However, there is no formalized and consistent approach on the matter.

124. An additional staffing and workload concern refers to the Quality Assurance team. The audit team noted that UNFPA currently spends less than the recommended 2.5 per cent of its total procurement value on quality assurance²³. This may present an increased risk of not being able to sufficiently expand the vendor and product base and/or not properly assuring the quality of products supplied; hence, the matter requires Management attention.

²² Purchase and third-party procurement orders and inventory shipments

²³ World Health Organization recommendation – letter dated 10 May 2010 addressed to UNFPA

125. Similarly, consideration should be given by Management on how to maintain sufficient resources devoted to procurement capacity building activities in light of an expected reduction in resources from the GPRHCS.

IMPACT *Excessive workloads may diminish the ability to provide good quality service to clients.*

ROOT CAUSE *Guidelines - Inadequate management structure*

CATEGORY *Operational*

RECOMMENDATION 11

PRIORITY: HIGH

Implement a process to regularly measure, report on and balance the different PSB units and teams' workload.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

PSB will develop the process for the strategic procurement team, the four operational regional teams, the emergency procurement team, and the finance team.

Continue efforts to address concerns raised in the 2014 Global Staff Survey

126. The results of the 2014 Global Staff survey evidence a positive trend as regards PSB work environment. The survey revealed that 81 per cent of PSB personnel would recommend UNFPA as a good place to work, compared to 64 per cent in 2012, with 100 per cent of personnel indicating that it feels motivated to make UNFPA successful, and 98 per cent indicating that they are willing to put extra effort to help UNFPA.

127. The survey, however, continued to reflect concerns on career development opportunities and the performance assessment process, as summarized in Table 3 below, which are also consistent with the outcome of audit team interviews with PSB personnel.

Table 3– Global Staff Survey areas that require management attention

Attribute	2014 Global Staff Survey		2012 Global Staff Survey	
	Positive	Negative	Positive	Negative
I am satisfied with the opportunities for career development at UNFPA	43 %	29 %	24 %	55 %
I am confident about my future at UNFPA	48 %	21 %	39 %	12 %
UNFPA recognizes staff members who exhibit outstanding performance	31 %	27 %	12 %	42 %
UNFPA takes appropriate action when staff members do not meet performance standards	25 %	33 %	15 %	45 %
In UNFPA, career progression is linked to individual performance	38 %	37 %		
Staffing decisions (e.g., appointments, reassignments) are made in a fair and transparent basis	40 %	33 %	33 %	30 %

Source: Global Staff Survey results reports

128. PSB Management is clearly aware of the above concerns. Management believes that concerns related to career future and development opportunities will be alleviated once the new funding model is

implemented. In addition, actions had already been taken or were under way at the time of preparation of the audit report to address other concerns, with the support of the Human Resources specialist. For example, training on managing performance was presented to PSB managers in June 2015. Therefore, no recommendation is included in the report as regards this matter.

A.4 – RISK MANAGEMENT

NOT RATED

129. UNFPA is implementing a new Enterprise Risk Management (ERM) process as from 2015, which encompasses the assessment of 12 key risk areas, including fraud risk. The ERM process risk framework, which has not yet been assessed by OAIS, was developed based on a risk identification exercise facilitated by an external consultant, aimed at identifying high impact risk areas.

130. Risks are assessed utilizing the *myRisks* risk assessment functionality included in the SIS. The process was still in the early stages of implementation at the time of preparation of the audit report, with business units having been required to complete their initial risk assessments, for further validation, analysis and risk-response, when appropriate, later in 2015.

131. PSB timely completed the risk assessment activities by the established deadlines. Risks within the ERM framework were adequately covered by the assessment completed by PSB Management, including the corresponding inherent risk, control effectiveness and residual risk ratings.

132. In the case of the fraud risk assessment, which includes a specific category related to trade practices and procurement, PSB identified and documented specific risk mitigation measures in place in support of the control effectiveness levels assessed.

133. As the process was still in an earlier implementation phase, the audit was not able to assess and rate its effectiveness.

B. PROCUREMENT PROCESS CONTROL DESIGN

SATISFACTORY

134. UNFPA procurement activities are governed primarily by the UNFPA Financial Regulations and Rules (Regulations 15.1 to 15.6 and Rules 115.1 to 115.8), the Procurement Procedures, the Internal Control Framework, as well as by supplementary guidelines contained in guidelines documents and in procurement tools and templates.

135. Since 2014, UNFPA has undertaken an extensive revision of its procurement regulatory framework:

- The *Financial Regulations and Rules* were last updated effective 1 July 2014, to more clearly reflect key governing principles, including those related to third-party procurement services;
- An in-depth review (Revision 4) of the *Procurement Procedures* was completed in April 2015, to align them with the revised Financial Regulations and Rules in force since 1 July 2014, as well as to further align with the procurement procedures of other United Nations organizations, in line with the United Nations procurement reform and the work conducted by the High-Level Committee on Management - Procurement Network on harmonization of procurement procedures. The Revisions are also intended to make the Procurement Procedures fully self-contained (i.e. contain all the required instructions, tools, templates, guidelines, etc.);

- The *Emergency Procurement Procedures*, included in the UNFPA Fast Track Procedures²⁴, were last updated in August 2015;
- The *Internal Control Framework* document was updated in April 2015, as an initial step to better align it to the 2013 COSO²⁵ Framework and to provide a clearer description of the core components of the UNFPA internal control process;
- The *Policy for Atlas User Profiles* was also updated in April 2015, to clarify the guidelines as regards segregation of duties requirements, as well as to clarify management authority delegation and approval levels, and how to assign them;
- A *Policy for Vendor Review and Sanctions* was issued in July 2015; and
- In addition, there has been an on-going effort by PSB to update and enhance different supplementary guideline documents and templates which are available to all procurement practitioners through the PSB intranet page.

136. UNFPA procurement policies and procedures are communicated to Management, staff members and contract personnel through different channels including the UNFPA website, the PSB Intranet page, procurement trainings and webinars conducted at global, regional and local level, the procurement and supply chain community of practice, to name a few. Furthermore, UNFPA made the 'Internal Control Framework Certification' part of its mandatory curriculum for all staff and 'UNFPA Training in Procurement - Level One' for those who hold buyer rights in Atlas. Other trainings and certification programmes are also available to those working in the area of procurement, such as 'UNFPA Training in Procurement - Level Two' and CIPS 'Procurement Training & Certification Programme'.

Work Performed

137. The audit assessed the design of the internal controls in place over the following components of UNFPA's procurement process related to the solicitation, award and management of procurement contracts:

- Procurement planning;
- Requisitioning;
- Vendor sourcing;
- Offer solicitation;
- Offer submission management;
- Offer evaluation;
- Contract award;
- Contract management; and
- Vendor performance evaluation.

138. Controls in the above areas were assessed to determine whether they provide reasonable assurance regarding the achievement of the core principles guiding procurement principles, i.e. (i) best value for money; (ii) fairness, integrity and transparency; (iii) open and effective international competition; and (iv) the interest of UNFPA.

139. The operating effectiveness of key controls in the above areas was not tested per se as part of this audit except as regards the procurement planning and vendor performance assessment process activities and the operation of the HQ CRC, which is a key control within the contract award process. The

²⁴ Fast Track Procedures are a set of procedures that provide UNFPA country offices greater delegation of authority and flexibility to allow a more effective response to humanitarian crises and better programme delivery in fragile contexts.

²⁵ Committee of Sponsoring Organization of the Treadway Commission

assessment of controls was, however, informed by the results of testing of the operating effectiveness of procurement internal controls performed in the 16 country offices audited in the period 2011-2014 as well as audits of PSB managed procurement activities undertaken in the same period. Testing of operating effectiveness of procurement controls will continue to be undertaken as part of the scope of future field office and PSB procurement audits. In view of the recent changes to the Emergency Procurement Procedures, these were excluded from this audit, and will also be covered by future audit work.

140. Audit procedures applied included (i) examination of procurement regulations, rules, procedures, and other available procurement guidance documents and templates; (ii) interviews and inquiries of Management and personnel involved in procurement activities; (iii) walk-throughs of the activities undertaken in the areas assessed; (iv) observation of activities undertaken by Management and personnel involved in procurement activities; (v) analytical review of procurement data; (vi) re-performance of selected procurement transactions and controls; and (vii) such other procedures considered necessary in the circumstances, to assess the design of procedures and controls in the areas under review.

Summary of good practices identified

141. UNFPA developed a solid procurement process regulatory framework supporting its procurement process activities, and has taken proactive steps during the period under review to regularly update and enhance it. Significant efforts have been devoted to developing and sharing supplementary guidelines as well as templates and other tools to support the activities of field office procurement practitioners.

142. Details on specific good practices identified for the different processes assessed are provided later in this section of the report.

Summary of improvement areas identified

143. The main improvement opportunities identified relate to the procurement planning and vendor performance evaluation processes, which can be enhanced to further the achievement of the UNFPA procurement principles' goals. Improvement opportunities were also identified in relation to Contract Review Committee activities.

B.1 – PROCUREMENT PLANNING

PARTIALLY SATISFACTORY

144. The Procurement Procedures require all field offices to submit annual procurement plans to PSB, detailing planned purchases of contraceptives and other SRH commodities and products exceeding USD 50,000 in the year, whether funded from core-resources or co-financing agreements. A dedicated procurement plan application was developed for this purpose. The procurement plans indicate product details, requested quantities and units of measure, unit prices, expected location of arrival (i.e., where a field office is located) and the probability that the procurement will be undertaken.

145. As from 2015, the procurement plan application is also used for purchases of contraceptives and other SRH commodities and products funded by the GPRHCS, replacing the spreadsheet-based process previously in use.

146. Procurement plans are consolidated into one 'master' procurement plan that is communicated to main suppliers to allow them to better plan their production.

Good practices identified

147. The audit identified the following good practices in the area of procurement planning:

- a) Incorporation of demand uncertainty into procurement planning; and
- b) Communication of procurement plans to suppliers.

Improvement areas identified

148. Based on the work performed in this area, two matters, one of them assessed as a high priority, require Management attention.

Improve the use of the procurement plan as a managerial tool

149. The audit revealed a need to improve the effectiveness of the procurement planning process.

150. The 2012 Procurement Procedures made annual procurement planning by field offices mandatory, however, only for planned purchases of SRH commodities and products exceeding USD 50,000 (as previously noted, a separate process was followed for planning purchases of SRH commodities funded by the GPRHCS). The goal was to allow PSB to develop SRH commodities procurement estimates and communicate them to suppliers with the goal of facilitating production planning and supply coordination.

151. Up to 2013, field office procurement plans were required to be submitted by 31 March of each year. The set deadline implied that only procurement planned for the last three quarters of each calendar year could be timely considered (although it should be noted that procurement activities are largely concentrated in that period). Despite PSB best efforts, the process effectiveness was further impacted by delays in the submission of procurement plans. For example, by 21 March 2013, only 40 out of 131 country offices (31 per cent) had submitted their procurement plans. Further instances of delays in or lack of submission were noted for 2014 and 2015.

152. In addition, there was no mandatory requirement for field offices to develop local procurement plans - i.e., for goods and services to be procured directly by them – or, for headquarters units - i.e., for goods and services to be procured by PSB at their request. Only 9 out of 41 HQ units submitted procurement plans in 2013. Further instances of lack of submission were noted for 2014 and 2015.

153. Several improvements to the procurement planning process have been introduced as from 2014. To address the problems created by the timing of submission of field office procurement plans, the deadline was brought forward to the end of the third quarter of the previous year. The 2015 Procurement Procedures removed the USD 50,000 threshold for submission of SRH commodities procurement needs, and require that local annual procurement plans be completed by field offices no later than 31 March of each year, the rationale being that procurement needs can only be confirmed upon completion of workplans, which typically takes place in the first quarter of each year. Similarly, HQ units are now required to submit procurement plans no later than 31 December of the previous year, to allow PSB to plan the related solicitation and contract award activities.

154. The audit is of the view that, notwithstanding the abovementioned improvements, the effectiveness of procurement plans as a managerial tool to manage and monitor procurement activities, both at PSB level and country office level, can be further improved.

155. Estimates provided by country offices are not always, accurate, complete or regularly updated. Although weak procurement planning at field office level is a recurring issue raised in country office audits and was often found to be the cause for less than successful implementation of programme activities, the 2015 Procurement Procedures do not specify any PSB (or, alternatively, regional office) role as regards the quality and completeness of local procurement plans.

156. Further, procurement plan implementation is not regularly monitored and reported upon. The procurement planning application has a functionality that allows plan-to-actual comparisons, but it has not been used due to concerns regarding the accuracy of the reports it generates.

IMPACT *The effectiveness and efficiency of procurement activities may be reduced, leading to less than successful implementation of programme activities.*

ROOT CAUSE *Guidelines - Lack of or inadequate corporate policies or procedures*

CATEGORY *Operational*

RECOMMENDATION 12

PRIORITY: HIGH

Amend the Procurement Procedures to incorporate the requirement to periodically update and report on the implementation of procurement plans and to centrally monitor their quality and completeness.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2016*

The next revision of the procurement procedures will be issued by the end of 2016, with the recommended amendments.

Update the procurement planning tool resources in the three languages available

157. PSB developed a demonstration and a user guide (in three languages: English, French and Spanish) to facilitate the use of the procurement planning application. However, the audit noted that the French and Spanish versions of the demonstration and the user guide did not reflect the latest update, i.e. the inclusion of new procurement types (i.e. 'Procurement funded by the Commodity Security Branch extra budgetary support' and 'HQ Undertaken by or for HQ').

IMPACT *The effectiveness and efficiency of procurement activities may be reduced.*

ROOT CAUSE *Guidelines – Lack of corporate policies or procedures*

CATEGORY *Operational*

RECOMMENDATION 13

PRIORITY: MEDIUM

Promptly update the procurement planning tool user guide and demonstration in the three languages available.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2016*

Considering that the priority of this recommendation is medium, and the funding gap in the available resources, this recommendation will be implemented towards the end of the year, giving higher priority to the more critical recommendations during the first half of 2016.

B.2 - REQUISITIONING

SATISFACTORY

158. Generally, the procurement process begins following approval of a budget-checked and complete requisition in Atlas, including appropriate product specifications and quality requirements. Requisitioners (i.e., managers and personnel with delegated authority to approve requisitions) are responsible for allowing enough time to complete the required procurement steps based on lead times.

159. To help requisitioners estimate lead times for commonly requested items purchased by PSB and plan their procurement activities, PSB has developed and maintains a Lead Time Calculator tool (now

accessible through the *AccessRH* application) and a ‘Lead Time’ Information page. Additionally, PSB has developed and disseminated guidelines to help users write specifications and terms of reference.

Good practices identified

160. The audit identified the uidelines have been developed and made available to users to help create product specifications and terms of reference.

Improvement areas identified

161. No high priority matters were identified based on the work performed in this area. The following medium priority issue requires attention by Management to further improve the process.

Update the lead-time information used by the lead time calculator tool on a regular basis

162. The audit could not determine whether a process is in place for the periodic review and update of Lead Time Calculator information, to reflect changes in lead times due to manufacturing constraints or any other conditions that could impact the time span required to manufacture and/or deliver products.

163. In addition, the audit noted that a legacy spreadsheet-based Lead Calculator Tool was still accessible under the “Resources” tab of the Procurement Planning Tool, although there is a newer version available as from July 2013 that can be accessed through the *AccessRH* application. Further, the audit identified some concerns as regards the accuracy of the information provided by this tool. For example, minimum lead time exceeded the maximum lead time for a few items and lead times were not provided for a few other (although they are now provided by the *AccessRH* application).

IMPACT	<i>Procurement decisions may be made based on inaccurate or outdated lead time information.</i>
ROOT CAUSE	<i>Guidelines - Inadequate policies or procedures (in this case, change management controls)</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 14

PRIORITY: MEDIUM

Establish a process for the regular review and update, whenever relevant, of lead time data utilized by the AccessRH Lead Time Calculator tool, and remove all links providing access to the legacy spreadsheet-based Lead Time Calculator tool.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

The task will be undertaken under the supervision of the Head of the PSB Strategic Procurement unit.

B.3 – VENDOR SOURCING

SATISFACTORY

164. The vendor sourcing process enables the identification of suitable suppliers, and can also provide valuable information about products and specifications, as well as contribute to determining the best solicitation method and type of competition required.

165. According to the Procurement Procedures, the sourcing process may include one or more of the following activities: (i) market research using internal and external sources; (ii) advertisement of business opportunity; (iii) expression of Interest; (iv) request for information; and (v) pre-qualification of vendors.

Good practices identified

166. The audit noted that a standard template for expression of interest requests was developed in three different languages and made available to users through the PSB Intranet page.

Improvement areas identified

167. No high or medium priority matters were identified based on the work performed in this area.

B.4 – OFFER SOLICITATION

SATISFACTORY

168. Solicitation is the step in the procurement process where the procurement staff invite suppliers to submit offers. The Procurement Procedures recognize four different ways of soliciting offers: (i) shopping; (ii) requests for quotation; (iii) invitations to bid; and (iv) requests for proposal. These methods of solicitation shall be used in connection with the monetary values and the ability to specify the requirements quantitatively and qualitatively. Offer solicitation activities executed during the period under review were predominantly manual.

Good practices identified

169. The audit noted that standard solicitation document templates have been developed in three different languages and made available to users through the PSB intranet portal.

Improvement areas identified

170. No high priority matters were identified by the audit based on the work performed in this area.

171. The audit noted gaps, initially assessed as a high priority, in the guidelines for authorizing and monitoring field offices' use of LTAs established by PSB for the procurement of SRH commodities, which had been set up in the context of a procurement decentralization initiative initiated in 2012. Under this initiative, a small number of UNFPA country offices, assessed as having the appropriate procurement capacity, were authorized and trained by PSB to procure certain SRH commodities using PSB's LTAs. The decentralization initiative was subsequently assessed by PSB Management as not providing the intended benefits and only a small number of offices continued to conduct procurement using the corporate LTAs, for small amounts, thus eliminating the potential practical impact of the gaps identified. This should nevertheless be considered by Management in the eventuality that procurement decentralization is again considered in the future.

172. A medium priority matter is discussed below.

Regularly update the Emergency Reproductive Health Kits form

173. The audit noted, in the course of its walk-through of procurement process activities, that forms used to order Emergency Reproductive Health kits from PSB managed stock reflected prices that were over three months out-of-date. From discussion with the procurement officer in charge of maintaining the form, it was understood that prices reflected in the form are meant to be indicative. However, this could lead to misunderstanding and budgeting errors at the time the kits are ordered.

IMPACT	<i>Outdated price information may lead to erroneous decisions or controversies with the offices ordering the kits.</i>
ROOT CAUSE	<i>Guidance - Inadequate oversight by Headquarter</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 15

PRIORITY: MEDIUM

Regularly update the Emergency Reproductive Health kit order form for price changes.

RESPONSIBLE MANAGER: Chief, PSB

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: July 2016

Regular updates will be made by the PSB staff in charge of emergency procurement.

B.5 – OFFER SUBMISSION MANAGEMENT

SATISFACTORY

174. Offers submitted are dealt with in accordance with the provisions of the Procurement Procedures related to (i) receipt and safeguarding of submissions; (ii) modification and withdrawal of submissions; (iii) late and unsolicited submissions; (iv) opening and recording of submissions; (v) rejection of submissions; and (vi) post-opening of submissions. Offer submission management activities executed during the period under review were predominantly manual.

Good practices identified

175. The audit identified the following good practice in the area of offer submission management:

- a) A dedicated secure e-mail address is set-up to receive offers submitted by email;
- b) Access to bids, submitted either by email or by hand, is restricted to personnel not involved in the procurement process; and
- c) Standard bid receipt report templates have been developed in three different languages and made available to users through the PSB intranet portal.

Improvement areas identified

176. No high priority matters were identified based on the work performed in this area. Two medium priority matters noted are discussed below.

Acknowledge receipt of hard copy bid submissions

177. The audit noted that the Procurement Procedures do not require the acknowledgment of receipt of hard-copy bid submissions, when allowed by the solicitation documents, which is issued only upon bidders' request.

IMPACT *Perceptions on the transparency of the process may be diminished.*

ROOT CAUSE *Guidelines – Inadequate policies or procedures*

CATEGORY *Operational*

RECOMMENDATION 16

PRIORITY: MEDIUM

Update the Procurement Procedures to include the requirement to acknowledge receipt of hard-copy offers submitted by bidders.

RESPONSIBLE MANAGER: Chief, PSB

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2016

The next revision of the procurement procedures will be issued by the end of 2016, with the recommended amendments.

B.6 – OFFER EVALUATION**SATISFACTORY**

178. Evaluation is the process of assessing and comparing offers in accordance with the evaluation methodology stated in the solicitation documents. It is aimed at determining which offer best complies with the defined criteria and thus represents the best value for UNFPA. During the evaluation, the offers are reviewed, compared and ranked. The evaluation process culminates in a recommendation and request for awarding a contract. Offer evaluation process activities in place during the period under review were predominantly manual.

179. In order to conduct a fair and unbiased evaluation of offers, it must be undertaken by a panel consisting of at least three individuals (a chairperson and two members). For local procurement, one member of the panel should be from another United Nations organization (if at all possible). For HQ procurement, the committee should not be composed of members of the same unit and the chairperson must not be the unit's head. Representatives from the funding source, the client organization, or national counterparts may be appointed as members of the evaluation panel or act as observers.

Good practices identified

180. The audit noted that standard bid evaluation report templates have been developed in three different languages and made available to users through the PSB intranet portal.

Improvement areas identified

181. The audit noted a high priority issue that require attention by Management.

Develop a log to record procurement complaints

182. UNFPA does not maintain a centralized log to record complaints received from bidders and to track and document actions taken to resolve them.

IMPACT	<i>Vendor complaints may not be dealt with by authorized person in timely and appropriate manner.</i>
ROOT CAUSE	<i>Guidelines - Inadequate corporate policies or procedures</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 17**PRIORITY: HIGH**

Develop a centralize log to record and track received procurement complaints.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2016*

The registry and tracking of the complaints will be managed by the Head of the Strategic Procurement unit.

B.7 – CONTRACT AWARD**PARTIALLY SATISFACTORY**

183. Procurement activities are subject to review process prior to a decision authorizing the award of a contract to the selected supplier, designed to (i) establish whether (or not) appropriate procedures have been followed; (ii) provide reasonable justifications whenever procedures have not been fully adhered to, and (iii) ensure that the Procurement Authority is furnished with all material information required in order to award a contract.

184. Under the provision of Financial Rule 115.1(b), UNFPA has established a HQ Contract Review Committee (CRC) charged with the review and approval of large value contract award proposals (i.e., those in excess of USD 100,000 for field offices and USD 200,000 for HQ units). Submission of qualifying procurement cases to the HQ CRC is made through a dedicated application, which has been recently revamped in 2015.

185. In addition, Local Contracts Review Committees (LCRCs) have been established in field offices for the approval of less significant award proposals (i.e., between USD 50,000 and 99,999). When referral to a LCRC is not possible, procurement award proposals are referred for review and approval to a local UNDP contract review committee. The composition and terms of reference of the CRC and LCRCs as well as the types and monetary values of procurement actions subject to their review are clearly described in the Procurement Procedures.

Good practices identified

186. The audit identified the following good practices in the area of the HQ CRC design and functioning:

- a) The CRC is composed of an adequate mix of members representing different HQ units;
- b) Weekly CRC meetings have taken place since July 2013. This has resulted in a lower average number of submissions by meeting and in a decreased number of meetings by circulation;
- c) The personal and professional commitment of CRC members has translated into an increased average number of members attending CRC meetings; and
- d) Starting in 2015, in addition to existing statistical reports (i.e. number and value of submissions; number and value of post-facto submissions and number and value of submissions on the basis of exception to formal solicitation), PSB has developed a summary of lessons learned from CRC reviews and disseminated it to improve the quality of procurement activities, increase the level of compliance with key requirements of the Procurement Procedures, enhance the quality of future CRC and LCRC submissions, and increase the efficiency of the review process.

Improvement areas identified

187. The audit noted four high priority issues that require Management attention.

Improve the procurement review and award procedures

188. In keeping with the principle of procurement efficiency, proposed contract awards as a result of procurement actions undertaken jointly with other United Nations organizations for which UNFPA is not the lead agency are not subject to review by the HQ CRC, a LCRC or PSB, regardless of the value of the contract. The Procurement Procedures do not require any review to be exercised as regards these awards, including filing and retention of procurement documentation. Field office audits performed by OAS in the last three years have identified at least one situation where a joint procurement process revealed serious process flows leading to significant contract award and delivery issues impacting the performance of a key programme.

189. Similarly, procurements against long-term agreements (LTAs), either awarded by UNFPA or jointly with or by other United Nations organizations, are also excluded from review by the HQ CRC, a LCRC or PSB (except for HQ units procurements), regardless of the value of the procurement. Field office audits performed by OAS in the last three years have identified situations where procurements against LTAs were, for example, undertaken (i) by leveraging one of multiple LTAs available for the selected goods and services to be procured without undertaking secondary bidding; (ii) for goods and services outside the

scope of the LTA; or (iii) without ensuring that price discounts per the applicable LTA had been actually provided by the supplier.

190. Where neither a UNFPA nor another United Nations organization review committee can consider a request for award, the Procurement Procedures require submissions to be routed to the Chief, PSB for review, increasing the workload of this role. A better arrangement that could be considered would be to have the submission reviewed by another field office (e.g., a Regional Office) or another UN organization LCRC.

191. When informal methods of solicitation are used (i.e., 'shopping' and requests for quotation), the Procurement Procedures provide the possibility to select, exceptionally, a higher priced offer if the difference in price is less than 10 per cent while the technical quality of the selected offer by far exceeds that of the lowest priced offer. If not clearly indicated in the solicitation documents, this may be perceived by bidders not awarded the contract as contradicting section 8.1 of the Procurement Procedures according to which evaluation criteria can under no circumstances be altered during the evaluation process.

IMPACT *Contract awards may not reflect the best terms and conditions for UNFPA.*

ROOT CAUSE *Guidelines - Lack of corporate policies or procedures*

CATEGORY *Operational*

RECOMMENDATION 18

PRIORITY: HIGH

Revise and clarify, as appropriate, the provisions of the Procurement Procedures related to award of contracts following joint procurement processes and long-term agreements; requests for award that cannot be considered by local review committees; treatment of offers that significantly exceed the quality of the lowest priced offer; and award of contracts for offers separated in multiple biddable lots

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2016*

The next revision of the procurement procedures will be issued by the end of 2016, with the recommended amendments.

Monitor CRC and LCRC activities and performance

192. The audit noted that UNFPA has not developed and monitored performance indicators for CRC activities, such as the number of submissions reviewed, the average lead-time to process a submission, the acceptance/rejection rate, members' attendance levels, etc., depriving the Organization from valuable insight to inform decisions such as resources allocation.

193. Further, there is no indication of any monitoring of LCRCs work and performance. Indeed, neither the CRC Secretariat nor PSB centrally keep records of existing LCRCs or of their activities. PSB Management has indicated that it is currently assessing the option of extending the use of the UNDP local contract review process and system to UNFPA field offices, but that it has not been possible to move forward with this initiative pending a senior management decision on how to fund its estimated cost. Implementation of the UNDP system, or an UNFPA alternative, would greatly improve visibility on significant local procurement activities and would facilitate monitoring of compliance with the requirement to submit qualifying procurement cases for LCRC review.

IMPACT *Limited ability to monitor compliance as regards submission of qualifying procurement cases for review, assess contract review committee performance and inform decisions as regards resources.*

ROOT CAUSE *Guidelines - Lack of corporate policies or procedures*

CATEGORY *Operational*

RECOMMENDATION 19

PRIORITY: HIGH

Develop key performance indicators for the activities of CRC and LCRCs, centrally monitor their performance, and capture, consolidate and widely disseminate lessons learned.

RESPONSIBLE MANAGER: *Chief Procurement Official, with input from the Chief, PSB* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *July 2016*

CRC Secretariat will work with the Chief Procurement Officer to develop key performance indicators for monitoring CRC and LCRC activities, related to UNFPA procurement. Monitoring will be done by the CRC Secretariat and the findings will be reported to the Executive Committee quarterly.

RECOMMENDATION 20

PRIORITY: HIGH

Promptly implement a suitable system to enable a more effective management and monitoring of the submission of qualifying procurement cases to Local Contract Review Committees.

RESPONSIBLE MANAGER: *Chief Procurement Official, with input from the Chief, PSB* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *October 2016*

The use of UNDP local contract review system by UNFPA field offices has been considered by the PSB and negotiations have been conducted with the UNDP on this. Considering the funding constraints, further negotiations will be conducted depending on identification of funding to cover for the annual costs of the system, aiming to start using it by the third quarter of 2016.

Strengthen the HQ CRC composition and members' competencies

194. The CRC Secretariat role was performed, on a part-time basis, by a staff member of the Legal unit, through April 2015. As from 1 May 2015, the role is performed by a PSB staff member, also on part-time basis. The CRC Chairperson position is entrusted to a Divisional Director. This structure has been in place since the establishment of the CRC and has not been revisited to align to changes in CRC workload.

195. Both the CRC secretariat and chairperson roles entail a significant time investment. The audit noted that the divisional Director acting as CRC Chairperson in part of the period under review did not attend several CRC meetings held since his appointment. The concerned staff member explained that the workload associated with his position did not allow the substantive time required to serve as CRC chairperson. As a benchmark, some United Nations organizations have a dedicated CRC Chairperson and Secretary, in recognition of the importance of the CRC and the workload involved. The audit team acknowledges that it may not be feasible for UNFPA to implement such an arrangement in light of available resources; however, alternatives should be considered to ensure sufficient time can be allocated to these critical roles.

196. Further, there is a need to clearly define the minimum procurement competence and training requirements to serve as a CRC member, and enforce compliance therewith. The audit noted that 9 out

of 15 CRC members in place in 2013 had not completed the 'UNFPA Training in Procurement - Level One' at that time; four members had not completed the 'Ethics, Integrity and Anti-Fraud' training; and two had not completed the 'Internal Control Framework Certification' programme.

IMPACT *Insufficient resources (time and skills) may diminish the effectiveness of the CRC.*

ROOT CAUSE *Guidance - Inadequate oversight by Headquarters*

CATEGORY *Operational*

RECOMMENDATION 21

PRIORITY: HIGH

Review the staffing level of the CRC with the aim at aligning allocated resources to expected workload, and define and enforce minimum training requirements for CRC members' appointment.

RESPONSIBLE MANAGER: *Chief Procurement Official*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *April 2016*

The composition and the required skill set of the CRC members will be reviewed and the minimum training requirements, as well as the measures to balance the workload will be put in place by the CPO.

Establish procedures to enforce the submission of qualifying procurement cases to the CRC / LCRC and to enforce contract award conditions

197. The audit noted that there is no process in place to enforce submissions of qualifying procurement cases for CRC/LCRC review. Similarly, there is no system in place to follow up on the implementation of CRC recommendations, including conditional approvals and monetary thresholds.

198. Field office audits performed in the period 2011-2014 revealed several instances of lack of submission of qualifying procurement cases for review, as well as instances where contract award and execution amounts and conditions differed from those approved by the HQ CRC.

199. The ability to enforce CRC/LCRC recommendations will be greatly enhanced once the global release of the new Atlas procurement modules is finalized. In the meantime, PSB Management has indicated that the risks associated with the gaps will be addressed based on the field office procurement monitoring process under implementation (see paragraph 104 in section A.2 of the report).

IMPACT *Limited ability to monitor and enforce compliance with the requirement to submit qualifying procurement cases for CRC or LCRC review and to enforce contract award recommendations and conditions.*

ROOT CAUSE *Guidelines - Lack of or inadequate corporate policies or procedures*
Guidance - Inadequate oversight by Headquarters

CATEGORY *Operational*

RECOMMENDATION 22

PRIORITY: HIGH

Establish an effective process to monitor compliance with the requirement to submit qualifying procurement cases for CRC/LCRC review and to follow up on CRC/LCRC approval conditions and recommendations.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:DUE DATE: July 2018

An effective process can truly be in place once the Atlas procurement modules are rolled out to country offices. Assuming this is done by end of 2017 / early 2018, it will be possible to complete this recommendation by mid-2018. In the meantime PSB will continue to identify qualifying cases not submitted to CRC/L-CRC by the use of procurement spot checks (started in 2015).

B.8 – CONTRACT MANAGEMENT**SATISFACTORY**

200. A procurement contract is a legally binding document between UNFPA and the supplier, and defines, at a minimum, the nature of the product being procured, the quantity being procured, the overall contract and/or unit price, the period covered, conditions to be fulfilled, including the UNFPA General Terms and Conditions, terms of delivery and payment, and those details required to identify the supplier (i.e. name and address). Thus, the contract must reflect the offer made by the supplier in response to UNFPA's requirement, acts as a proof of the obligations made by both parties and protects the interests of UNFPA.

201. Contracts can be materialized in the form of purchase orders, contracts for professional services, etc., provided that all of the minimum elements required for contract formation are present. Contractual standard elements include the specific contract clauses and UNFPA General Terms and Conditions.

202. During the period under review, the creation, approval, issuance and tracking of purchase orders was managed utilizing Atlas functionality, supplemented with the use of the customer relationship management system, used to organize documentation and communications related to each purchase orders process, and the order tracking system, used to document and track key information related to the delivery, shipment and arrival of goods procured. Long-term agreements and other contracts issued by PSB were managed with the support of a third-party application (to be replaced as from 2016 with a new Atlas based solution – refer to section A.1 of the report), while contract management activities for LTAs and other contracts entered into by field offices were predominantly manual.

Good practices identified

203. The audit identified the following good practice in the area of solicitation:

- a) Standard contract templates have been developed in three different languages and made available to users through the PSB intranet portal; and
- b) General Conditions of Contract were harmonized with those adopted by the United Nations Procurement Division.

Improvement areas identified

204. The audit noted one medium priority issue that requires attention by Management.

Address order tracking system data quality issues

205. The Order Tracking System was affected by data quality issues during a large part of the period under review. In spite of a new version release in 2015, the audit continued to note data accuracy and completeness issues that render order tracking difficult, and the measurement of order lead-times and the completion of vendor performance assessments complex. Some of the current gaps, such as field offices' inconsistent key-in of actual order arrival dates, will be partially mitigated once the new Atlas Shipment Tracker is implemented in October 2015²⁶.

²⁶ Most current estimate provided by Management at the time the report was written

IMPACT	<i>The order tracking process and the vendor performance evaluation process may be affected by order tracking data quality issues.</i>
ROOT CAUSE	<i>Resources - Inadequate corporate policies or procedures</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 23

PRIORITY: HIGH

Implement procedures to address the remaining Order Tracking System quality issues.

RESPONSIBLE MANAGER: *Chief, PSB and Chief, MIS*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2017*

Management would like to point out that not all purchase orders (POs) need to be entered in the Order Tracking System (OTS_. Therefore the fact that information is missing for some POs does not automatically mean that there is an issue with the quality of data. However the management will take the following steps to improve the situation:

a) Short term action: PSB IT unit will identify a mechanism to filter POs that should not be in the OTS tool (e.g., for inspection and third party procurement) in order to produce meaningful reports. Due date: End of the second quarter of 2016. Note that the Shipment Tracker in its current form does not capture non-item IDs such as goods procured through UNICEF or UNOPS. As long as shipment tracker is not upgraded non-item IDs will not be shown in OTS.

b) Longer term action: Pending on funding secured for the continuation of the End to End Visibility project (and the plan of concept is positive, shipment data available in supplier IT systems will be made available in a central platform. Due date: end of 2017 (depending on funding availability)

B.9 – VENDOR PERFORMANCE EVALUATION

PARTIALLY SATISFACTORY

206. Vendor performance evaluation is a contract monitoring process that includes observing the vendor’s performance to ensure that quality products and services, in the right quantities, are delivered on time and within budget.

207. Vendor performance evaluation is mandatory for all contracts issued to LTA suppliers for core SRH commodities, regardless of value, as well as for contracts that equal or exceed, as from April 2015, USD 5,000 and USD 10,000, for field offices and HQ units, respectively (an original USD 50,000 threshold established in the 2012 Procurement Procedures was subsequently decreased in response to an external audit recommendation).

208. An application has been developed to record vendor performance evaluation information at individual purchase order level, considering a number of criteria, including (i) quantity and quality of goods or services supplied; (ii) timing of delivery; (iii) accuracy of documentation; and (iv) speed of response/communication (including proactive communication and disclosure of relevant information).

Good practice identified

209. The audit noted that supplier performance evaluations are conducted periodically for core PSB suppliers (primarily for SRH commodities). Performance gaps are identified and communicated to respective suppliers, and development programmes are agreed with suppliers to address performance issues.

Improvement areas identified

210. The audit noted three high priority issues that require attention by Management.

Enhance the design of the vendor performance process

211. With the exception of core SRH commodities suppliers, vendor performance is assessed solely at individual purchase order level. While this is an important first step towards a more effective vendor management process, there is no consolidated view of overall vendor performance in a period of time (e.g., on an annual basis).

212. Results of individual purchase order performance assessments are aggregated into a consolidated annual assessment communicated to the concerned vendors only for core SRH commodities. However, SRH commodities vendor performance, as a whole and for each one of the criterion assessed, is not rated using an appropriate scale (e.g. satisfactory, partially satisfactory, and unsatisfactory) to facilitate reporting and benchmarking against peers, best practice and over a multi-year timeframe.

213. Further, no consolidation and rating processes are in place as regards the performance of field office vendors with supply goods and services procured through multiple purchase orders.

IMPACT	<i>The effectiveness and value of the performance assessment process may be diminished due to the lack of a consolidated view of supplier performance.</i>
ROOT CAUSE	<i>Guidelines - Inadequate corporate policies or procedures</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 24

PRIORITY: HIGH

Leveraging the assessment of individual purchase orders, enhance the vendor performance assessment process to measure, report and benchmark the overall performance of vendors with aggregated procurement values in excess of a predetermined threshold on an annual and multi-year basis, using an appropriate rating scale, and communicate the assessment results to the concerned suppliers.

RESPONSIBLE MANAGER: *Chief, PSB*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2016*

The Heads of the Strategic Procurement Unit and Operational Procurement Unit of PSB will jointly manage this process.

Improve the vendor performance evaluation application

214. The review of the vendor performance evaluation application revealed a number of issues that need Management attention for their potential impact on the effectiveness and efficiency of this process.

215. The application was designed to assess each purchase order separately. It is not possible to extract the performance profile of any vendor directly from the system. For suppliers of core SRH commodities, a manual process, using spreadsheets, is conducted semi-annually to aggregate the assessments of all purchase orders and incorporate the results of the assessment of delivery timeliness using data from the order tracking system. The process followed renders the evaluation process quite time consuming (efficiency) and may be a source of errors and mistakes in data manipulation (accuracy), particularly due to order tracking data quality and completeness issues; this does not allow for continuous monitoring of vendors' performance and timely corrective action to be taken (effectiveness).

216. The audit noted that access to complete and submit assessments is not yet restricted to authorized managers or personnel from the field office or headquarter unit managing the vendor relationship (anyone with access rights to the portal can use the application and assess any purchase order therein). In addition, the system does not indicate the name of the user that completed an assessment nor the completion date, and there is no workflow established for the review and approval of assessments by the appropriate managers (for example, for purchase orders with amounts in excess of established thresholds).

217. Other functionality gaps identified include the ability to prepare and submit assessments of purchase orders with status other than completed (i.e., related to goods and services potentially not received). In addition, the application does not allow to filter purchase orders based on (i) requisitioners name, making it more difficult to identify purchase orders requiring an assessment at any point time (particularly for HQ users which must browse through multiple screens to identify their purchase orders, as these are not listed by HQ unit), or (ii) assessment status, e.g., by filtering purchase orders already assessed. The application reporting capabilities are also limited. Available reports are restricted to a dashboard with the status of assessment completion by office, from which it is possible to drill-down to the list of orders and their performance assessment status. The system does not allow consultation on the performance assessment made for a specific purchase order or vendor, or the generation of reports based on purchase order status (e.g., dispatched, pending, etc.), purchase order assessment (e.g., partially complete, incomplete, etc.), or assessment outcome (e.g., very poor, poor, etc.).

218. Furthermore, the application has not operated in a stable manner since its initial release into production back in 2012. From the audit team’s experience in trying to access it in the course of the audit, it has not been uncommon for the system not to be available, to ‘crash’, or to experience long delays in returning reports or queries. The audit could not determine the root cause of this problem which warrants Management attention.

IMPACT *The efficiency and effectiveness of the performance evaluation process and the reliability and usefulness of information generated by it could be impaired.*

ROOT CAUSE *Resources - Lack of or insufficient technical resources*

CATEGORY *Operational*

RECOMMENDATION 25 **PRIORITY: HIGH**

In collaboration with the Management Information Services Branch, (i) review the design of the vendor assessment application, with the involvement of field office and HQ units Management and staff, to enhance the application’s functionality; (ii) restrict access to performance assessment functions only to authorized Management and staff of the units responsible for the procurement interventions to be assessed; and (iii) assess and resolve the issues that impact the operating performance of the application.

RESPONSIBLE MANAGER: *Chief, PSB and Chief, MIS* STATUS: *Partially agree*

MANAGEMENT ACTION PLAN: DUE DATE: *July 2016*

Several of the reported issues have already been addressed by the Management Information Services Branch since field audit work was completed: 1) A new status called Deferred has been created, Requisitioner name has been developed and is in production, 2) Requisitioner names have been enabled as filter, 3) Filter by Status can be addressed if approved by business.

The restriction suggested in ii) above is not recommended as the system should have some flexibility to allow buyers to evaluate different orders. For example when PSB buyers support different regional teams they can issue a PO for one region and thereafter the PO will be monitored by another buyer. This type

of situation happens frequently, to address workload issues or when a buyer is on leave, etc. Staff rotation is high, so if the system is inflexible, it is likely that many POs will not be evaluated. Instead the management would like to suggest creation of a "track history" facility in the system to be able to check who evaluated the vendors.

In reference to iii) PSB believes that the application is now working normally due to recent changes made by MIS.

Monitor and enforce completion of vendor performance evaluations by field offices

219. Vendor performance evaluations by field offices are not regularly monitored to ensure compliance with vendor performance evaluation requirements and to make use of the results of the evaluations. In spite of PSB's best efforts, many field offices and HQ units continue not to complete the purchase orders assessments or do not complete the assessments in a timely manner or use them for sourcing decisions, diminishing the value provided by the process and/or limiting it to a compliance exercise.

IMPACT	Limited effectiveness of the evaluation process to promote the economy and efficiency of field office procurement.
ROOT CAUSE	Guidance - Inadequate oversight by Headquarters
CATEGORY	Operational

RECOMMENDATION 26

PRIORITY: HIGH

Periodically (annually or semi-annually) monitor compliance with vendor performance assessment requirements by field offices and HQ units and establish a process to enforce the completion of the assessments.

RESPONSIBLE MANAGER: Chief Procurement Official and Chief, PSB STATUS: Agree

MANAGEMENT ACTION PLAN: DUE DATE: July 2016

PSB will produce vendor assessment reports from the system on a quarterly basis and share the outcome with Regional Directors for them to follow up with their country representatives, coach non-complying country offices for improved compliance, etc. PSB will report annually to the Executive Committee on global and regional vendor performance assessment compliance.

ANNEX 1**Definition of Audit Terms****A. AUDIT RATINGS**

Effective 1 January 2010, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP use revised harmonized audit rating definitions, as described below:

- **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 adequately established and functioning well. 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 functioning well. The issues were such that the achievement of the objectives of the audited entity could be seriously compromised.

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines:** absence of written procedures to guide staff in performing their functions:
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate Regional and/or Country Office policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - Lack of or insufficient resources: financial, human, or technical resources
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional:** intentional overriding of internal controls.
- **Other:** Factors beyond the control of UNFPA.

C. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities are used:

- **High:** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization);
- **Medium:** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences);
- **Low:** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are discussed by the audit team directly with the management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic:** High level goals, aligned with and supporting the entity's mission.
- **Operational:** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage.
- **Reporting:** Reliability of reporting, including fulfilling accountability obligations.
- **Compliance:** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions.

GLOSSARY

Atlas	UNFPA's ERP (Enterprise Resource Planning) system
CIPS	Chartered Institute of Procurement and Supply
CPO	Chief Procurement Official
CRC	Contracts Review Committee
GPRHCS	Global Programme for Reproductive Health Commodity Security
HQ	Headquarters
LCRC	Local Contracts Review Committee
LTA	Long Term Agreement
OAIS	Office of Audit and Investigation Services
PSB	Procurement Services Branch
SIS	Strategic Information System
SRH	Sexual and Reproductive Health
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars