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OFFICE OF AUDIT AND INVESTIGATION SERVICES

AUDIT OF THE UNFPA CONDOM PROCUREMENT PROCESS

FINAL REPORT

Nº IA/2016-06

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of UNFPA's condom procurement process. The audit covered the period from 1 January 2014 to 31 March 2015. Transactions from previous periods and for periods subsequent to 31 March 2015 were covered by the audit, as appropriate.

Background

2. During the period under review UNFPA procured male and female condoms for supply to programme countries for an amount of approximately USD 32.0 million, in support of programme interventions in the areas of sexual and reproductive health, reduction of maternal mortality, family planning and HIV prevention. Over half of the procurement was funded by the UNFPA Supplies programme. Condoms represent the second highest UNFPA contraceptive procurement spend category, after hormonal contraceptives.

3. All condom procurement activities are undertaken by the Procurement Services Branch (PSB), based in Copenhagen, Denmark, following a stringent quality assurance process and leveraging a large portfolio of long term agreements awarded for the supply of male and female condoms, as well as for condom inspection and testing services.

Methodology and scope

4. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to obtain reasonable assurance on the adequacy of design and operating effectiveness of the risk management and internal controls in place over the condom procurement process. A risk-based methodology, including a detailed risk analysis, was used in planning the engagement and selecting the in- scope areas. The audit included reviewing and analyzing, on a test basis, information that provided the basis for the audit conclusions.

5. The scope of the audit included the review of the risk management and controls in place over the following condom procurement process areas: (a) award of procurement long-term agreements; (b) management of long-term agreements; (c) quality assurance activities; and (d) strategic supply-chain management activities.

Audit rating

6. The audit indicates that, for the period under review, the risk management and control performance of the condom procurement process was '**Satisfactory'**, which means that the assessed risk management and internal control processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the process.

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

Audit ratings by key audit area		
Award of long-term agreements		Satisfactory
Management of long-term agreements		Satisfactory
Quality assurance activities		Satisfactory
Strategic supply-chain management activities		Partially satisfactory

Key findings and recommendations

8. The audit identified a number of good practices as well as areas that require Management attention, some of a strategic nature, and others related to operational and compliance matters. Overall, the audit report includes 5 high priority and 10 medium priority recommendations. Of the 15 recommendations, 2 are of strategic nature; 11 are operational; and 2 refer to compliance matters.

Good practices

9. The audit identified several good practices implemented as regards condoms procurement which are discussed throughout the report. In summary, the audit noted: (i) a well-established and sound long-term agreement award process; (ii) the use of effective and consistent offer evaluation methods; (iii) a large long-term agreement portfolio to ensure sufficient geographic coverage; (iv) competitive prices obtained from suppliers that are periodically checked to market conditions; (v) a rigorous quality assurance process, including suppliers' pre-qualification and pre-shipment testing; (vi) coordination efforts with other key condom supply stakeholders to help achieve greater efficiencies and reduce global supply risks; and (vii) completion of a contraceptive supply positioning exercise to determine the strategy to be followed for each product category.

Strategic level

10. Three areas for improvement were noted relating to the need to: (i) reduce over-dependency on one supplier of female condoms; (ii) raise awareness and ensure adequate resources are allocated in order to improve demand forecasting and procurement planning processes; and (iii) operationalize the supply management strategy through a detailed action plan.

Operational level

11. The main areas for improvement relate to the need to: (i) explore alternatives to ease the impact of in-country product registration requirements and advocate for a risk-based approach to post-shipment testing of commodities; (ii) use generic specifications for the procurement of condoms; and (iii) enhance the process followed for sourcing orders against long-term agreements. Opportunities were also noted to improve: (i) the clarity of solicitation documents and the process of handling amendments thereof; (ii) the definition and dissemination of pre-shipment testing protocols and disposition of rejected batches; and (iii) existing PSB inventory management guidelines.

Compliance level

12. Identified issues relate mainly to compliance with: (i) delegated authority for review and award of contracts; and (ii) qualification requirements for individuals interpreting biocompatibility assessments conducted by suppliers.

Management response

13. Management agrees with the audit findings and recommendations. Separate comments are provided for each recommendation in the body of the report.

14. The OAIS team would like to thank the Management and personnel of the Procurement Services Branch and of the different Headquarters units and field offices involved in this audit for their cooperation and assistance.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered the period from 1 January 2014 to 31 March 2015. Transactions from previous periods and for periods subsequent to 31 March 2015 were covered by the audit, as appropriate.

2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to obtain reasonable assurance on the adequacy of design and operating effectiveness of the risk management activities and internal controls in place over the following condom procurement process areas:

a) Award of long-term agreements (LTAs).
   i. LTA award process; and
   ii. LTA modification management.

b) Management of LTAs:
   i. LTA coverage and prices;
   ii. Sourcing of orders;
   iii. Compliance with LTA provisions; and
   iv. Vendor performance management.

c) Quality assurance activities:
   i. Vendor pre-qualification;
   ii. Pre-shipment quality assurance; and
   iii. Post-shipment quality assurance.

d) Strategic supply-chain management activities:
   i. Demand forecasting;
   ii. Inventory management; and
   iii. Supply risk-management.

3. The scope of the audit included: (a) the application of analytical review procedures on available condom procurement financial and operational information; (b) an assessment of the design of controls in place over the in-scope process areas, leveraging on a previously completed assessment of the adequacy and effectiveness of the design of the governance, risk management and internal controls in place over the procurement process (Report N^{o} PSB 101, dated 31 December 2015); (c) a walk-through of controls in the in-scope condom procurement process; (d) inquiries of Management and personnel involved in condom procurement activities; (e) testing of a sample of condom procurement transactions amounting to USD 24.0 million to determine whether they were carried out with due consideration of UNFPA's procurement principles[1] and in compliance with the applicable rules, regulations, policies and procedures; (f) a visit to the largest male condom supplier's manufacturing site; and (g) other procedures as considered necessary under the circumstances.

4. The engagement was conducted by a team of OAIS audit specialists supported by staff from an external consulting firm with expertise in the fields of procurement and supply-chain management, starting on 24 August 2015. A field mission took place from 7 September to 1 October 2015. The findings and recommendations resulting from the audit were discussed with the Procurement Services Branch Management at an exit meeting held on 1 October 2015. Comments and clarifications provided thereafter to the audit team were reflected in a draft report submitted to Management on 18 July 2016. A final Management response was received on 7 September 2016 and reflected in the final audit report.

[1] Best value for money; fairness, integrity and transparency; open and effective international competition; and the interest of UNFPA

II. BACKGROUND

5. During the period under review UNFPA procured male and female condoms for supply to programme countries for an amount of approximately USD 32.0 million, in support of programme interventions in the areas of sexual and reproductive health, reduction of maternal mortality, family planning and HIV prevention. Over half of the procurement was funded by the UNFPA Supplies programme.

6. All condom procurement activities are undertaken by the Procurement Services Branch (PSB), based in Copenhagen, Denmark, following a stringent quality assurance process managed by a dedicated quality assurance team. The aim of the process is to identify suppliers that meet international quality standards and requirements and ensure that condoms supplied comply with the set standards.

7. Condoms procured must conform to the WHO[2]/UNFPA specifications for male latex condoms and female condoms, and be manufactured at sites that have successfully completed a rigorous pre-qualification process. The pre-qualification process for male condoms was established by WHO in 2001. Starting in 2005, UNFPA has managed the pre-qualification process for both male and female condoms, with WHO retaining its normative role of setting standards and guidelines. As of January 2016, there were 26 pre-qualified manufacturing sites for male condoms and 4 sites for female condoms.

8. UNFPA conducts pre-shipment inspection and testing on each batch of condoms it procures. Inspection and sampling for pre-shipment testing is conducted by an independent sampling and inspection agency. Sampled condoms are sent to a third-party independent laboratory for pre-shipment quality control testing. Testing of condoms is performed in accordance with the requirements of the WHO/UNFPA specifications and the relevant ISO standard for male and female condoms, respectively.

9. UNFPA has established 14 LTAs for the supply of male condoms and 2 LTAs for female condoms. Additionally, UNFPA has established two LTAs for sampling and inspection services of male and female condoms and pharmaceutical products, and four suppliers for male condom testing services. Award of LTAs is managed by PSB's Strategic Procurement Cluster (SPC) unit. LTAs are subsequently used by the PSB regional procurement teams to place orders on behalf of programme countries or for inventory replenishment.

10. Condoms represent the second highest UNFPA contraceptive procurement spend category, after hormonal contraceptives. Table 1 below presents an overview of UNFPA's procurement of condoms by category in the period 2013-2015.

Table 1 – **Analysis of condom procurement**
Amounts in thousands of United States Dollars (USD)

Condom categories	2013		2014		2015	
	USD	%	USD	%	USD	%
Male condoms (14 items)	29,368	72 %	20,821	72 %	18,161	72 %
Female condoms (2 items)	11,200	28 %	8,184	28 %	7,101	28 %
Grand Total	**40,568**	**100%**	**29,005**	**100%**	**25,262**	**100%**

11. Over half of the male condoms and approximately 80 per cent of the female condoms procured were supplied to programme countries in Africa.

12. UNFPA maintains a stock of condoms under PSB control, held at vendors' premises, and procured with funding from the Access RH Revolving Fund, to respond to urgent and emergency requests. Table 2 below presents details on condom inventory levels for the period 2013-2015.

[2] World Health Organization

Table 2 – **Analysis of condom inventory levels**

Condom categories	2013	2014	2015
Male condoms			
Average stock level (gross of 144 condoms)	425,899	663,321	564,666
Cost	1,706,155	2,641,111	2,190,441
Number of warehouses holding stock	3	4	4
Days of supply held	23	56	51
Female condoms			
Average stock level (pieces)	621,800	1,515,667	578,750
Cost	332,243	840,537	290.834
Number of warehouses holding stock	1	1	1
Days of supply held	11	38	32

III. DETAILED FINDINGS

A. AWARD OF LONG TERM AGREEMENTS — SATISFACTORY

Good practices identified

13. The audit identified the following good practices in the area of condom procurement LTA award, in line with established policies and procedures.

a) *A well established and sound procurement solicitation process*. This included: (i) advertisement of solicitation documents in the United Nations Global Marketplace (UNGM); (ii) use of appropriate solicitation methods for the goods and services procured and their value; (iii) sufficient time allowed to suppliers to prepare and submit responsive offers; and (iv) clarifications to solicitation documents provided simultaneously, in writing, to all suppliers;

b) *A robust bid receipt process.* This included (i) receipt of bids through sealed envelopes and/or secure email; (ii) receipt of bids by a staff member not involved in the procurement process and registered in a detailed bid receipt report; (iii) handling of bids in a confidential manner, with bids not shared with the bid evaluation team or other procurement staff until they have been formally opened; and (iv) opening of bids immediately after the deadline for submission, or shortly thereafter, by bid opening panels consisting of a minimum of two individuals, at least one of whom has no involvement in any subsequent stages of the procurement process. Further, bids obtained pursuant to invitations to bid (ITBs) were opened publicly at the time and place specified in the ITB and immediate record made thereof in the bid opening report; and

c) *The use of effective and consistent offer evaluation methods*.

A.1 – LTA AWARD PROCESS — SATISFACTORY

14. Audit work performed in this area included: (i) inquiries of PSB Management; (ii) a walk-through of the LTA award process; as well as (iii) detailed testing of the contract award process for all LTAs used during the period under review.

15. Based on the work performed, the audit identified five matters that need Management attention.

Improve the clarity of solicitation documents

16. Generally, clear and detailed bidding documents, including instructions to bidders, Terms of Reference, General Terms and Conditions, Special Conditions for Contracts and bid forms were used to advertise procurement opportunities. The audit noted, nevertheless, instances where the process could have benefited from more clarity in the solicitation documents.

17. The ITB used in the process to award male condom procurement LTAs in 2013 required bidders to submit offers for two main items (53mm and 49mm standard male condoms) while allowing them to submit offers for other items in the male condom category. Additionally, for each item, bidders were allowed to offer different prices for different volume breaks (i.e., ranges). However, the ITB did not specify how the different item(s) and pricing for the different volume ranges would be weighted and considered for the bid evaluation. This issue did, however, not affect the outcome of the bid evaluation as it resulted in the same bidders' ranking for 53mm and 49mm condoms for all volume ranges.

18. The evaluation of financial bids submitted in response to a request for proposal (RFP) issued in 2014 for condom testing services was based on average prices offered for small/large batch sizes and whether oven-conditioning (aging) was included. This evaluation method was, however, not expressly indicated in the RFP.

IMPACT	*Lack of clarity in the solicitation documents may result in bidders and evaluators' misunderstanding of requirements and /or create a perception of lack of transparency.*
ROOT CAUSE	*Guidance: inadequate guidance or supervision.*
CATEGORY	*Operational.*

RECOMMENDATION 1 ***PRIORITY: MEDIUM***

Include in future solicitation documents the detailed criteria, including evaluation parameters and how they will be applied, to be used for bid evaluation, in line with the required/expected bid components.

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

MANAGEMENT ACTION PLAN: DUE DATE: *October 2016*

This has already been implemented in big tenders in 2016 and will be done systematically going forward.

Enhance controls over amendments to solicitation documents

19. The audit noted that the deadline established to submit proposals in response to an RFP for the supply of quality assurance services (1 August 2014) was extended without modifying the original bid opening date indicated in the RFP (21 July 2014). All bids were opened on 4 August 2014.

20. Further, the audit noted that the RFP document published included an incorrect reference (i.e., RFP UNFPA/CPH/14/021 instead of RFP UNFPA/CPH/14/026). This reference was subsequently corrected directly in the initial RFP document without issuing a formal amendment. As a consequence, one bid submitted with the wrong reference (RFP UNFPA/CPH/14/021) was not initially considered at the time of bid opening (this bid was subsequently considered after a complaint filed by the bidder, and the bid receipt and opening reports amended accordingly to reflect the bid's inclusion).

IMPACT	*Inappropriate modifications to solicitation documents may cause misunderstandings, limit competition and undermine the procurement principle of transparency.*
ROOT CAUSE	*Human error: Un-intentional mistakes committed by staff entrusted to perform assigned functions.*
CATEGORY	*Operational.*

RECOMMENDATION 2 ***PRIORITY: MEDIUM***

Raise the awareness of PSB staff on the need to systematically process modifications to solicitation documents through formal amendments and to quality-review solicitation documents subsequent to each amendment for consistency and completeness.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2016*

PSB will develop a paragraph in the Instructions on the use of the tender documents, specifically on amendment/modification process of solicitation documents. This will be accompanied by an in-house capacity building session. Once the full e-tendering process is in place, this will no longer be an issue.

Submit contract award requests for review and approval by authorized individuals

21. The previously mentioned RFP for quality assurance services comprised seven lots and nine sub-lots, including one lot (lot 2) and two sub-lots (sub-lots 2A and 2B) for male and female condom suppliers' pre-qualification services. The award of the related LTAs was processed through two different requests for award, one of which did not indicate the specific lot to be awarded and whether the award was for a lead (pre-qualification) inspector or a co-inspector role. Further, the requests for award were not formally approved by the Chief, PSB as required by the procurement procedures. Both requests were pre-cleared by the Deputy Chief, PSB and one of them erroneously checked as approved in the contract award form. Upon inquiry, the audit was informed that the concerned SPC staff thought that these requests had been duly approved but got mislead by the pre-clearance authority having inadvertently checked the "approved" box on the contract award form. No recommendation is provided as regards this matter as it was assessed by the audit to be an isolated exception.

22. In addition, a purchase order for the supply of branded male condoms outside the geographical area for which an LTA had been previously awarded, for an amount of approximately USD 280,000, was issued in 2015 without the requisite prior Contracts Review Committee (CRC) review and Chief Procurement Official (CPO) approval. A post-facto submission and approval of this order took place in December 2015. Therefore, no recommendation is provided as regards this matter.

IMPACT	*Commitments may be made on behalf of UNFPA by unauthorized individuals.*
ROOT CAUSE	*Human error: un-intentional mistakes committed by staff entrusted to perform assigned functions.*
CATEGORY	*Compliance.*

Use generic specifications for condoms procurement

23. PSB procured 'Love' condoms, a brand developed and owned by a non-profit organization and subject to an exclusive licensing agreement for government procurement, for approximately USD 500,000 in 2014 and USD 280,000 in 2015, further to requisitions approved by the Commodity Security Branch (CSB) in response to country offices requirements. The initial LTA award was reviewed by the CRC and approved by the CPO.

24. The procurement of the branded condoms resulted in a cost approximately 28 per cent higher compared to similar generic products. While UNFPA is proactively looking for innovative ways to increase condom demand in programme countries, procurement procedures stress the need to avoid branding, and use, as much as possible, specifications that are linked to function and performance, to enforce the principles of fairness and open effective competition.

25. Based on discussion with CSB and the HIV/AIDS Branch (HAB) Management, the procurement of these branded products was authorized for use in promotional campaigns only. HAB Management explained that branded condoms are in high demand, especially among young people, which brought UNFPA to design its own '*CONDOMIZE!*' male condom brand in 2015. HAB Management informed that it will work with PSB to promote the use of *CONDOMIZE!* condoms, which will be supplied by vendors at the same price as unbranded condoms.

IMPACT	*The ability to achieve effective open competition and best value for money may be limited.*
ROOT CAUSE	*Guidance: inadequate guidance or supervision.*
CATEGORY	*Operational.*

RECOMMENDATION 3 ***PRIORITY: MEDIUM***

Raise the awareness of appropriate staff on the new UNFPA condom brand and promote its use in programme countries, when feasible.

RESPONSIBLE MANAGER: *Chief HAB with support from PSB and CSB* STATUS**:** *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *March 2017*

HAB, in collaboration with PSB and CSB, will create a newsletter or video about CONDOMIZE! condoms to help promote their use in the field.

Strengthen management oversight for better compliance with policies and procedures

26. The audit noted one instance where a regional male condom procurement LTA was awarded by the corresponding regional team instead of the SPC. Orders worth approximately USD 535,000 were subsequently placed against this regional LTA.

27. A review of the process followed to award the LTA revealed a number of compliance issues:

a) An informal method was used to solicit offers;

b) Procurement requirements were not communicated simultaneously to all potential bidders, and quantity requirements were not consistent in all communications issued;

c) Clarifications were provided to suppliers by the assigned buyer on a one-on-one basis instead of simultaneously to all bidders;

d) Quotations were received by the assigned buyer; and

e) The technical offer evaluation was limited to pre-qualification and registration requirements and was conducted for the lowest-priced offer only, instead of for all offers received.

28. A contract award request was submitted to the CRC for review and subsequently approved by the CPO. The CRC submission included, however, an unsubstantiated assertion that the recommended supplier had submitted a bid in response to a previous ITB that had been rejected because it was submitted after the deadline.

29. PSB Management explained that the regional LTA was necessary as there were no pre-qualified male condom suppliers registered in some countries in the particular region. Management also explained that the issues noted were mainly attributable to lack of experience of the staff member entrusted to conduct the procurement process. The audit believes, however, that proper supervision, as well as the involvement of the SPC in the procurement and contract award process, could have prevented these issues.

IMPACT	*The fairness, integrity and transparency of procurement processes may be diminished.*
ROOT CAUSE	*Guidelines: inadequate management structure (segregation of duties).* *Guidance: inadequate guidance or supervision.*
CATEGORY	*Compliance.*

RECOMMENDATION 4 ***PRIORITY: HIGH***

Restrict, as possible, the execution of LTA procurement processes for core commodities to the Strategic Procurement Cluster. Should there be a valid business need for a different PSB team to undertake a procurement process, ensure that all high-risk steps, including offer solicitation and evaluation, are pre-cleared by the Strategic Procurement Cluster.

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

MANAGEMENT ACTION PLAN: DUE DATE: *October 2016*

As soon as the report is issued, the Chief, PSB will issue a clear written instruction to the PSB Regional Team Leads as well as to the Supply Coordinator and ask them to get mandatory Strategic Procurement Cluster clearance for all high risk steps of procurement processes.

A.2 – LTA AMENDMENTS — SATISFACTORY

30. Audit work performed in this area included: (i) inquiries of PSB Management; (ii) a walkthrough of the LTA amendment process; as well as (iii) detailed testing of 16 LTA amendments (corresponding mainly to price reductions) undertaken during the period under review.

31. No reportable matters were identified based on the audit work performed.

B. MANAGEMENT OF LONG TERM AGREEMENTS — SATISFACTORY

Good practices identified

32. The audit identified the following good practices as regards the management of condom procurement long term agreements, which were in line with established policies and procedures:

a) Inclusion of clauses in LTAs to extend to UNFPA lower prices if offered by the suppliers to other customers;

b) Annual benchmarking of prices paid by UNFPA to those paid by other major condom procurers, to ensure the continued competitiveness of LTA prices; and

c) Disclosure to UNFPA of bidders' price structures and LTA prices, and periodic review and renegotiation of prices, as necessary.

B.1 – LTA COVERAGE AND PRICES	SATISFACTORY

33. Audit work performed in this area included: (i) inquiries of PSB Management as regards the adequacy of the number of pre-qualified suppliers and LTAs to cover expected demand; (ii) an analytical review of the geographical and product coverage across the full qualification list and portfolio of LTAs; (iii) an analytical review of the level of demand fulfillment; and (iv) inquiries of field offices' Management regarding past supply shortages.

34. The audit also included: (i) inquiries of PSB Management on the competitiveness of UNFPA LTA prices; (ii) an analytical review of UNFPA LTA prices and comparison to prices applied to other major condom procurers; and (iii) an analytical review of the trend of condoms and raw material (e.g., latex) prices over time.

35. Based on the work performed, the audit identified one high priority matter in need of Management attention**.**

Explore alternatives to ease the impact of in-country product registration requirements for quality-assured reproductive health commodities supplied by UNFPA

36. PSB manages a large portfolio of male condom procurement LTAs, partly as a consequence of varying product registration requirements in place at many programme countries supplied by UNFPA, aside from the rigorous quality assurance process implemented by PSB to ensure that its condom suppliers meet international quality standards, and requirements and condoms supplied comply with the set standards. The need to award and manage a larger number of LTAs not only increases administrative and support costs but may also prevent obtaining larger volume-related discounts.

37. As part of the process followed to award 12 male condom[3] and 2 female condom procurement LTAs in early 2013, bidders were requested to submit information about the countries where their products were registered. The information was used as one of several eligibility criteria for bid evaluation, as well as during the LTA award, to assess the level of geographic coverage provided by the LTAs. Further, LTA holders were required to update UNFPA about their product registration status on an annual basis.

38. In spite of the efforts to ensure adequate geographic coverage when awarding LTAs in 2013, an additional LTA had to be awarded later in the same year to address male condoms needs in the Latin America and the Caribbean region. Similarly, an LTA was awarded to another supplier in 2014, to address male condom procurement needs for Uzbekistan. For both additional male condom LTAs, prices offered were substantially higher than the average price of the initial seven main LTAs.[4] Further, the audit noted that LTAs were allocated to the various regional procurement teams,[5] instead of allowing the teams to leverage on all existing LTAs. While this distribution presents the advantage of simplicity, it may not necessarily allow for best value for money.

IMPACT	*The need to manage a larger portfolio of LTAs may originate higher administrative and operational costs and limit UNFPA's ability to enhance value-for-money.*
ROOT CAUSE	*Guidelines: Lack of or inadequate corporate policies or procedures.* *Other: Factors outside the control of UNFPA.*
CATEGORY	*Operational.*

RECOMMENDATION 5	***PRIORITY: HIGH***

Explore alternatives to further enhance the cost-effectiveness of condom procurement activities, including by: (a) advocating with the appropriate national authorities for the application, when allowed by national law, of exemptions from product registration requirements for pre-qualified reproductive health commodities, including condoms, supplied by UNFPA to programme countries; or (b) replicating or leveraging on WHO's Collaborative Registration Procedures for WHO pre-qualified medicines for fast-track registration of condoms and other reproductive health commodities, as allowed by national laws.

[3] Two additional LTAs were awarded later in 2013 and 2014

[4] Out of the 12 LTAs, seven were categorized as main LTAs and the remaining five as 'back-up' LTAs to be used only if none of the main LTA holders could fulfill an order

[5] Anglophone Africa, Francophone Africa, Latin America and the Caribbean, Arab States and Asia Pacific

RESPONSIBLE MANAGER: *Regional Directors and Chief, PSB (in collaboration with Heads of country offices, with extensive input and support from the Programme and Technical Divisions and the Legal Unit)*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2018*

PSB would like to take an active role in the implementation of this recommendation, noting that the Legal Unit and Regional Offices have agreed with it and committed their support. Thus, PSB will be including appropriate activities into its work plan. While it will be possible to provide evidence of such advocacy and promotion activities to be undertaken in the coming months, it may not be possible to evidence results immediately as advocacy activities typically require sustained efforts over extended periods of time.

B.2 – SOURCING OF ORDERS — PARTIALLY SATISFACTORY

39. Audit work performed in this area included: (i) inquiries of PSB Management and a walk-through of the process established to guide sourcing of orders against LTAs or stocks held under the control of PSB; (ii) application of analytical procedures to condom procurement data; and (iii) detailed testing of a sample of 24 male condom orders amounting to USD 17.4 million (74 per cent of orders in the period under review) and 11 female condom orders amounting to USD 6.6 million (50 per cent of orders in the period under review) for compliance with established criteria for sourcing from LTAs; reasonableness of lead time; and adequacy and competitiveness of the shipment method used.

40. Based on the work performed, the audit identified two matters in need of Management attention.

Enhance the process used for sourcing orders against long-term agreements

41. As part of the process followed to award male condom procurement LTAs in 2013, PSB committed to establishing standard operating procedures (SOPs) for using the LTAs. The SOPs were, however, not developed. Instead, SPC developed a spreadsheet-based '*supplier distribution tool*', which was provided to the PSB regional teams, indicating the list and ranking of LTAs by region, as well as the steps to follow in sourcing orders against the LTAs. Four versions of the tool were used during the period under review, each corresponding to a different semester.

42. Based on its review of the '*supplier distribution tool*', the audit noted the following areas for improvement:

a) Insufficient details on the basis used to rank suppliers and assign them to regions;

b) No requirement to document and justify the rationale for selecting suppliers other than those ranked first in each region (e.g., because of registration requirements, supplier's inability to meet the required lead time or provide the required quantities, etc.). From its detailed testing of 35 orders, the audit noted that eight (23 per cent) of them, worth USD 4.8 million, were not sourced from the first ranked regional supplier, with no documented justification as to the reasons thereof; and

c) No version control process to maintain a record of the different versions of the tool, the nature of the changes introduced, their review and approval by appropriate staff.

43. The audit noted that male condom orders worth approximately USD 3.8 million (16 per cent of orders in the period under review) were sourced from 'back-up' LTAs (see footnote 4). PSB Management informed the audit that, starting in 2015, after discounts were granted by all LTA holders in response to a call made by PSB to revise condom prices in view of latex price decrease, the distinction between main and back-up suppliers was discontinued to benefit from the more competitive prices offered by some suppliers previously considered 'back-up'. While justified to achieve better value-for-money, the decision to discontinue the distinction between main and back-up suppliers should have been treated as a contract award decision, as the conditions under which the LTAs were originally awarded were changed, and submitted for approval by the CPO.

IMPACT	*Lack of clarity in the procedures for sourcing orders may result in disadvantageous sourcing decisions. Procurement decisions may be taken by unauthorized individuals.*
ROOT CAUSE	*Guidelines: Inadequate corporate policies and procedures.*
CATEGORY	*Operational.*

RECOMMENDATION 6 ***PRIORITY: HIGH***

Develop clear and well-documented standard operating procedures for the sourcing of orders against long-term agreements, including clear criteria, steps and justifications for selecting the suppliers from which to source orders. In addition, implement version controls over the supplier distribution tool used to source orders.

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

MANAGEMENT ACTION PLAN: DUE DATE: *October 2016*

PSB's Strategic Procurement Cluster will develop a matrix for the different procurement teams recommending order placement to specific suppliers, together with a document showing the detailed rationale for the recommendation. This will include the process and steps required to issue purchase orders to suppliers other than the recommended one. To ensure balanced orders amongst all suppliers to the extent possible, the document will be reviewed, analyzed in relation to the procurement volume of each region, discussed with the regional teams and validated every six months.

RECOMMENDATION 7 ***PRIORITY: HIGH***

Submit a post-facto case for CRC review and CPO approval for the change in 'back-up" LTAs status and for the procurement transactions undertaken using them.

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

MANAGEMENT ACTION PLAN: DUE DATE: *October 2016*

PSB considers that the action taken is part of contract/supplier management and does not result in the change of the contract award as provided by the CPO. The case will be submitted to CRC though but it is not sure whether the CRC will consider/record the case as being a post-facto case.

Increase programme countries' awareness of new female condom products

44. The audit noted a high level of dependency on one of the two female condom procurement LTA holders. An analysis of female condom procurement in 2014 revealed that approximately 99 per cent of the orders were sourced from one of the suppliers, despite a much lower price offered by the other LTA holder. This situation continued in 2015, with over 90 per cent of the orders sourced from the same supplier.

45. Female condoms are a relatively new product. Unlike male condoms, there are different innovative condom designs, each one having its own unique features and specifications that influence user perception and preference. Therefore, the two female condom products are not necessarily interchangeable. While the first female condom supplier was initially pre-qualified in 2007, the second one was only pre-qualified in 2012. Based on discussions involving PSB and the Technical Division on possible ways of introducing the new female condom product, a decision was taken in 2013 to limit its procurement to allow countries to develop the capacity to properly programme it.

46. PSB Management is aware of this concern and has worked to increase the number of products offered, as evidenced by the increase in the number of pre-qualified female condoms manufacturers to four at the time of issuance of this audit report. Also, based on discussion with the Senior HIV Technical Advisor, HAB, the audit understands that the above-mentioned limitation put in place over the procurement of the new female condom product can now be lifted.

IMPACT	*Limited ability to promote competition and achieve best value for money.*
ROOT CAUSE	*Other: Factors beyond the control of UNFPA.*
CATEGORY	*Strategic.*

RECOMMENDATION 8 ***PRIORITY: MEDIUM***

Raise the awareness of programme countries key stakeholders about new female condom products with a view to expanding the choices available to beneficiaries and promoting the economical use of resources.

RESPONSIBLE MANAGER: *Chief, HAB with support from the Chief, PSB* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *December 2017*

HAB will create a newsletter and video to present all female condoms currently available for UNFPA to procure. These materials will be posted on the social media platforms and shared with all country offices. Efforts will be made to request manufacturers of new female condoms to donate condoms (in-kind donation) for awareness campaigns in countries, regions or during international CONDOMIZE! campaigns. This practice is already taking place with male condom manufacturers.

PSB stands ready to support HAB and will share with HAB the actions PSB already conducted to address the issue (e.g. quality assurance data sheet on female condoms now available in the UNFPA Product Catalog and shared with country procurement focal points and Reproductive Health Commodity Security coordinators).

B.3 – COMPLIANCE WITH LTA PROVISIONS — SATISFACTORY

47. Audit procedures performed in this area included: (i) inquiries of PSB Management on compliance with LTA provisions such as price, shipping and packaging, lead time, and payment terms; and (ii) detailed testing of a sample of 24 male condom orders amounting to USD 17.4 million (74 per cent of orders in the period under review) and 11 female condom orders amounting to USD 6.6 million (50 per cent of orders in the period under review).

48. No reportable matters were noted based on the audit work performed.

B.4 – VENDOR PERFORMANCE MANAGEMENT — SATISFACTORY

49. Audit procedures performed in this area included: (i) inquiries of Management and a walk-through of the vendor performance assessment process; as well as (ii) detailed testing of vendor performance evaluations for a sample of 24 male condom orders amounting to USD 17.4 million (74 per cent of orders in the period under review) and 11 female condom orders amounting to USD 6.6 million (50 per cent of orders in the period under review).

50. No additional issues were identified as regards this area other than those raised by the report on the audit of the design of internal controls over the UNFPA procurement process, issued on 31 December 2015. This report included three high priority recommendations with regard to vendor performance management; two of which are relevant to the condom procurement process, i.e., the need to enhance the design of the vendor performance process and improve the vendor performance evaluation application. The implementation of these two recommendations is monitored as part of the OAIS internal audit recommendation follow-up process. Accordingly, no new recommendation related to these matters is included in this report.

C. QUALITY ASSURANCE ACTIVITIES — SATISFACTORY

Good practices identified

51. The audit identified the following good practices in the area of quality assurance:

a) A robust pre-qualification process, including inspection of manufacturing sites, designed to assess the capability of manufacturers to supply quality products;

b) A clear and comprehensive manual on specifications, pre-qualification requirements and guidelines for the procurement of male and female condoms; and

c) A rigorous condom batch release independent testing process to provide evidence of batch quality prior to shipment.

C.1 – VENDOR PRE-QUALIFICATION	SATISFACTORY

52. Work performed in this area included: (i) inquiries of PSB Management and walkthrough of the process established to prequalify suppliers; and (ii) review of documentation evidencing compliance with pre-qualification requirements for the two largest male condom suppliers and the largest female condom supplier. The audit also included a visit to the largest male condom supplier's manufacturing site with the objective of validating conformance to the general requirements of the WHO/UNFPA specifications verified during pre-qualification.

53. Based on the work performed, the audit identified one medium priority matter that requires Management attention.

Enforce compliance with the requirement related to biocompatibility assessments

54. The '*Male Latex Condom: Specification, Pre-qualification and Guidelines for Procurement*' manual requires that biocompatibility assessments be conducted in accordance with the applicable ISO standards and the results interpreted by an accredited toxicologist or other suitably qualified expert. Compliance with this general requirement should be verified during a manufacturer's pre-qualification under the WHO/UNFPA Pre-qualification Programme.

55. There was, however, no evidence that an accredited toxicologist or other suitably qualified expert was employed by the supplier selected for the manufacturing site visit, to review the results of the biocompatibility testing undertaken by an accredited laboratory. Upon inquiry, the supplier Management indicated that it had been unable to identify a suitable local expert to undertake the assessment. Follow-up discussions with PSB Management indicated that this is a recognized issue which also affects other suppliers.

IMPACT	*Lack of review of the biocompatibility status of products may compromise timely detection and correction of quality problems.*
ROOT CAUSE	*Resources: Lack of or insufficient technical resources.*
CATEGORY	*Compliance.*

RECOMMENDATION 9	***PRIORITY: MEDIUM***

Raise manufacturers' awareness to the need to comply with WHO/UNFPA pre-qualification requirement to have biocompatibility assessment results interpreted by an accredited toxicologist; and periodically (during initial pre-qualification and requalification) confirm compliance with this requirement.

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

MANAGEMENT ACTION PLAN: DUE DATE: *April 2017*

As a first step to address this recommendation, UNFPA will include this item in the agenda of the next annual manufacturers meeting.

C.2 – PRE-SHIPMENT QUALITY ASSURANCE	SATISFACTORY

56. Audit procedures applied in this area included: (i) inquiries of PSB Management and walk-through of the pre-shipment quality assurance process; as well as (ii) detailed testing of documentation evidencing compliance with pre-shipment quality assurance testing for a sample of 24 male condom orders amounting to USD 17.4 million (74 per cent of orders in the period under review) and 11 female condom orders amounting to USD 6.6 million (50 per cent of orders in the period under review). The audit also conducted a survey of the 15 country offices with the largest volumes of condoms supplied during the period under review, as regards the effectiveness of the pre-shipment quality assurance process.

57. Based on the work performed, the audit identified two medium priority matters that require Management attention.

Develop and disseminate pre-shipment testing protocols

58. Pre-shipment testing of condoms is performed in accordance with the requirements of the relevant WHO/UNFPA specifications and ISO standards for male and female condoms. While the WHO/UNFPA specifications define testing parameters and pass / fail criteria, they do not outline the testing process specific steps. Of particular importance, there are no written guidelines for the actions to be taken by laboratories in the event of detection of a failure, which may include: (i) suspending testing and notifying the sampling and inspection organization (which reviews the test results and authorizes shipment) and/or PSB; or (ii) repeating the test one or more times on additional samples selected, as defined in the laboratory test protocols.

59. The audit also noted that inspection of testing laboratories by independent experts engaged by PSB revealed a number of areas for improvement in the methods and processes used. For example, one inspection report noted that not all technicians employed by the laboratory were qualified to conduct certain tests. There was no evidence that the sampling and inspection organization has records of specific personnel qualified to conduct specific tests. For another laboratory, the inspection report noted that, although SOPs were available for critical tests, there were none for some of the simpler tests, such as measuring condom dimensions. The same inspection report also noted that confirmation of the presence of holes in condoms failing the conductivity test was done by rolling, but that the rolling technique used by the technician was far too gentle and the closed end of the condom was not brought into contact with absorbent paper, as required by the applicable ISO standard.

IMPACT	*Performance data for manufacturers' products may be skewed due to lack of consistency in testing approaches.*
ROOT CAUSE	*Guidelines: Lack of inadequate corporate policies and procedures.*
CATEGORY	*Operational.*

RECOMMENDATION 10 ***PRIORITY: MEDIUM***

Develop and disseminate to testing laboratories testing protocols to be used for pre-shipment testing.

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

MANAGEMENT ACTION PLAN: DUE DATE: *December 2018*

PSB will establish a standard results reporting template for all the laboratories to enter results from the manufacturers. Regarding consistency in testing approaches, this can be verified during inspections and UNFPA will explore options of standardizing critical tests such as freedom from holes and airburst.

Develop and implement a process for manufacturers' disposition of rejected batches

60. There were no defined requirements for manufacturers to confirm to UNFPA the final disposition of batches of condoms rejected as a result of failures identified by pre-shipment testing, thus increasing the risk of condoms from failed batches re-entering the supply chain without formal approval of rework/retest. This risk is, however, mitigated by the review, during pre-qualification inspections, of records of rejected batches.

IMPACT	*The risk of defective products re-entering the supply chain may be increased.*
ROOT CAUSE	*Guidelines: Lack of corporate policies and procedures.*
CATEGORY	*Operational.*

RECOMMENDATION 11 ***PRIORITY: MEDIUM***

Develop and implement a process for suppliers to communicate the final disposition of batches rejected during the pre-shipment testing process.

RESPONSIBLE MANAGER: Chief, PSB STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *February 2017*

A clause to request manufacturers to submit destruction or disposition certificates will be included in LTAs. A process will be developed to guide the manufacturers to communicate the disposition of the non-conforming lots.

C.3 – POST SHIPMENT QUALITY ASSURANCE	SATISFACTORY

61. Audit procedures applied in this area included the review of documentation related to post-shipment quality issues and the actions taken by PSB to address them. The audit also included: (i) inquiries of PSB Management; and (ii) a survey of the 15 country offices with the largest volumes of condoms supplied during the period under review, as regards potential post-shipment quality issues, their root causes, including potential standards gaps, and the actions taken by PSB to address them.

62. Based on the work performed, the audit identified one high priority matter to improve efficiency that needs Management attention.

Advocate for a risk-based approach for in-country post-shipment testing requirements of quality-assured reproductive health commodities supplied by UNFPA

63. The audit noted that, in spite of the rigorous independent pre-shipment quality testing by certified independent laboratories applied to all condoms supplied by UNFPA,[6] many programme countries perform routine post-shipment testing of condoms after they arrive in-country, as a pre-requisite to authorizing their release for distribution. Further to a duplication of efforts, post-shipment testing has resulted in the rejection and destruction of condoms that met quality standards based on the results of the pre-shipment testing completed by the independent laboratories, contributing to a lack of trust and partnership among stakeholders. At least four instances of issues related to post-shipment testing of shipments worth approximately USD 1.5 million, involving four different programme countries, have been reported since 2013.

64. The PSB Quality Assurance team analyzed these cases and identified weaknesses in the testing processes of the concerned national laboratories in: sampling techniques; handling or preparation of test specimens; calibration and maintenance of test equipment; following established testing protocols; interpreting test results; and using appropriate standards and specifications.

65. PSB Management was already aware of the issues and challenges of post-shipment testing. A broad approach involving PSB, the Legal Office, the Technical and Programme Divisions and field offices is needed to address the issue, further to ongoing efforts in monitoring occurrences and participating in legal and political discussions to settle the matter.

IMPACT	*Quality-assured condoms may be inappropriately rejected and destroyed, correspondingly losing financial resources.* *The reputation of UNFPA may be affected by rejections, irrespective of their root cause.*
ROOT CAUSE	*Guidelines: Lack of inadequate corporate policies and procedures.* *Other – Factors outside the control of UNFPA.*
CATEGORY	*Operational.*

[6] UNFPA recommends post-shipment testing of batches sourced from pre-qualified manufacturers that have undergone pre-shipment testing only when there is evidence that condom integrity was compromised during transport due to, for example, faulty storage or shipping conditions that are outside Zone IV climatic conditions (hot and humid/very humid). Should post-shipment testing be required, it should be carried out by an ISO 17025 accredited laboratory, with male and female condom testing within the scope of its accreditation in line with WHO/UNFPA specifications and the relevant ISO standard

RECOMMENDATION 12 ***PRIORITY: HIGH***

Advocate with the appropriate national authorities for a risk-based approach to post-shipment testing of quality assured reproductive health commodities, including condoms, supplied by UNFPA. Should post-shipment testing be required, ensure that the appropriate programme documents signed with governments include clear language requiring the use of ISO accredited laboratories and that procedures are established for resolving discrepancies between pre-and post-shipment testing results.

RESPONSIBLE MANAGER: *Regional Directors and Chief, PSB (in collaboration with Heads of country offices, with extensive input and support from the Programme and Technical Divisions and the Legal Unit)*

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2018

Addressing this issue requires partnership and strong collaboration with programme countries. PSB will propose a revision of the pre/post-shipment testing policy (draft 80 per cent completed) taking into account today's realities, in particular increased country sovereignty on quality assurance issues and will discuss it with the Programme Division and the Legal Unit. In addition, during the revision of the WHO/UNFPA specification of male condoms, a new section on risk-based approach to quality assurance of condoms will be proposed. PSB will advocate for the use of ISO certified laboratories where there are conflicting results between pre-shipment and post-shipment tests. Efforts will be made to incorporate appropriate language in the relevant programme documents in those countries requesting post-shipment testing.

D. STRATEGIC SUPPLY CHAIN MANAGEMENT ACTIVITIES — PARTIALLY SATISFACTORY

Good practices identified

66. The audit identified the following good practices in the area of strategic supply chain management:

a) Establishment of Coordinated Supply Planning (CSP): USAID and UNFPA have established CSP as a way to achieve greater efficiencies and reduce global supply risk to all programs receiving family planning commodity support;

b) A supply positioning exercise was undertaken in 2015 to determine the strategy to be followed for each contraceptive category and items commonly procured by UNFPA; and

c) Annual evaluations of LTA holders are performed and communicated to the suppliers.

D.1 – DEMAND FORECASTING — PARTIALLY SATISFACTORY

67. Audit work performed in this area included: (i) inquiries of PSB Management and walk-through of the forecasting process and use of demand forecasts for strategic procurement, including pre-qualification and LTA tendering; (ii) an analytical review of demand forecasts reported by programme countries, central PSB forecasts and forecast information provided to suppliers; and (iii) inquiries of suppliers on their assessment of the relevance, sufficiency and timeliness of demand forecast information provided by UNFPA.

68. The report on the audit of the design of internal controls over the UNFPA procurement process, issued on 31 December 2015, included one recommendation of relevance to the condom procurement process, i.e., the need to periodically update and report on the implementation of procurement plans and to centrally monitor their quality and completeness. Implementation of this recommendation is monitored as part of the OAIS internal audit recommendation follow-up process. Accordingly, no new recommendation related to this matter is included in this report.

69. One additional high priority matter in need of Management attention was identified based on the audit work performed.

Improve demand forecasting and procurement planning

70. The preparation of demand forecasts is a complex undertaking requiring the involvement of multiple actors throughout the supply chain including government counterparts, NGOs, other development aid agencies and UNFPA country offices. The availability of reliable medium-term forecasts is key to PSB's ability to more effectively respond to programme country condom procurement needs and provide better value-for-money.

71. Currently, there is limited involvement of PSB in condom demand forecasting activities and limited visibility on the resulting unconstrained demand estimates (i.e., demand irrespective of available resources and capacity). Information available to PSB is limited to procurement planning data (i.e. constrained demand). Procurement plans submitted by country offices are consolidated into one 'master' procurement plan that is communicated to suppliers, to allow them to better plan their production. Third-party procurement demand (representing approximately 15 per cent of condom procurement, based on 2014 figures) was generally not reflected in the procurement plans reviewed.

72. Further, audit inquiries of four male condom and two female condom suppliers revealed that the suppliers put limited, if any, reliance on the procurement plan information provided by PSB and that they were mainly reactive to actual orders placed. The suppliers interviewed expressed the following concerns: (a) inaccuracy of procurement plan information communicated to them; (b) insufficient frequency of information updates; and (c) limited visibility on the orders to be allocated to each supplier. An improved demand forecast/procurement plan would enable suppliers to better plan their production capacity, decrease lead times from order to delivery, and avoid stock-outs.

73. No recommendation will be provided in this report as regards this matter, as OAIS is currently discussing with Management broader issues related to the need to consolidate and enhance supply-chain management organizational arrangements, processes and system, and to adopt and disseminate reproductive health forecasting commodities methods and tools, as part of the ongoing internal audit of the Governance and Strategic Management of UNFPA Supplies, part of a multi-year audit plan for the programme. In addition, a separate audit of reproductive health commodities forecasting and procurement planning, also part of the programme's audit plan, is scheduled to start in late 2016.

IMPACT	*The effectiveness and efficiency of procurement activities may be reduced.* *Limited ability to help prevent and/or reduce stock out situations and support resource mobilization for the procurement of commodities.*
ROOT CAUSE	*Resources: Insufficient resources (funds, skills, staff) to carry out an activity or function.*
CATEGORY	*Strategic.*

D.2 – INVENTORY MANAGEMENT	**PARTIALLY SATISFACTORY**

74. Audit work performed in this area focused on risks related to: (i) maintaining inventory without valid and relevant business needs; (ii) absence of criteria to determine required inventory levels and/or inventory levels not aligned with business needs; and (iii) potential inventory waste and damage attributable to inadequate warehousing conditions.

75. Audit procedures included: (i) inquiries of PSB Management on inventory management arrangements; and (ii) an analytical review of the level of inventory maintained over time, with focus on inventory management 'red flags' such as aged batches and write-offs.

76. One matter in need of Management was identified based on the audit work performed.

Further improve existing PSB inventory management guidelines

77. PSB maintains a stock of condoms under its control to enhance its ability to respond to urgent and emergency requests. Condom stocks are physically held at vendor premises. Detailed information on stock levels and values is shown in Table 2, included in Section II (Background) of this report.

78. Existing inventory management guidelines were developed in 2015 for use by PSB Management when determining the products to be held in inventory, and by the PSB inventory focal point for determining inventory levels. The guidelines could be further improved to provide clearer guidance for decisions relative to (i) the optimal

number of suppliers to hold inventory on behalf of UNFPA and the criteria to select them; and (ii) the level of inventory to be held by each supplier.

79. Depending on the quantity ordered, order urgency, necessary lead time and requirements for customized artwork, orders raised by country offices are sourced either from fresh production or inventory. In the absence of formal guidelines on this matter, decisions on how to fulfill orders are left to the discretion of buyers processing the requisitions and the PSB inventory focal point.

80. Finally, while the guidelines define minimum and maximum inventory levels for each product, the audit noted that these levels were not always adhered to. For male condoms, end-of-month inventory levels were within the defined levels in 7 out of 15 months during the period January 2015-March 2016. Average inventory levels for the remaining eight months were approximately 20 per cent higher than the maximum levels specified in the guidelines. Likewise, inventory levels were 25 per cent below the minimum level in two months during the same period. For female condoms, end-of-month inventory levels were within the defined levels in 2 of the 15 months during the period January 2015-March 2016.

IMPACT	*Order sourcing decisions may be impacted by the lack of clear guidelines.*
ROOT CAUSE	*Guidelines: inadequate corporate policies and procedures.*
CATEGORY	*Operational.*

RECOMMENDATION 13 ***PRIORITY: MEDIUM***

Enhance existing inventory management guidelines to provide clearer guidance for: (i) decisions as regards the number of suppliers holding inventory, the criteria to select them and the level of inventory to be held by each supplier; and (ii) decisions by buyers to source requisitions either from fresh production or from inventory.

RESPONSIBLE MANAGER: Chief, PSB *STATUS: Agree*

MANAGEMENT ACTION PLAN: *DUE DATE: December 2016*

The PSB Inventory team, in conjunction with the Strategic Procurement Cluster, will discuss and document the criteria and process for selection of suppliers as well as a rational method for determining the level of inventory to be held at each location. Regarding guidelines for PSB buyers as to whether a condom order is sourced from inventory or fresh production, the current business process provides scope for buyers to consult with the inventory team to request condoms from inventory, and the decision to do so will be driven by the country needs and the ability of the inventory team to fulfill the request.

RECOMMENDATION 14 ***PRIORITY: MEDIUM***

Review and, if deemed necessary, adjust defined inventory levels at least on an annual basis.

RESPONSIBLE MANAGER: Chief, PSB *STATUS: Agree*

MANAGEMENT ACTION PLAN: *DUE DATE: December 2016*

Ongoing monitoring and reporting of stock levels will be implemented. Review of the target Inventory levels to be formally introduced as an annual process to be completed at a given time of year.

D.3 – SUPPLY RISK MANAGEMENT **PARTIALLY SATISFACTORY**

81. Audit work performed in this area focused on assessing the adequacy of condoms' supply risk management and its effectiveness in supporting the decision making process. Audit procedures included: (i) inquiries of PSB Management; as well as (ii) the review of documentation related to the contraceptives supply positioning exercise undertaken by PSB in 2015.

82. Based on the work performed, the audit identified one matter in need of Management attention.

Operationalize the developed supply strategy through a detailed action plan

83. In 2015, PSB conducted a contraceptives supply positioning exercise. The exercise included: (i) a spend analysis per commodity; (ii) a supply risk assessment covering risk factors related to quality, supply security and sustainability of market prices; (iii) the classification of each commodity in one of four categories based on the identified level of risk and the relative expenditure by commodity; and (iv) the development of a supply management strategy for each commodity.

84. According to the contraceptives supply positioning exercise, male condoms fell under the category for which supply risk is relatively low due to the large number of pre-qualified and LTA suppliers. Female condoms presented a higher supply risk, due to the limited number of suppliers and lower procurement volumes.

85. The audit review of the supply positioning document identified areas for improvements related to operationalizing the strategy. Specifically, PSB needs to define concrete actions to be taken, designate responsible persons and due dates for each of the actions, and put in place a monitoring process to ensure that the risk assessment remains relevant and that planned actions are taken.

IMPACT	*The effectiveness of the supply risk management strategy may be diminished.*
ROOT CAUSE	*Guidelines: Inadequate risk management processes.*
CATEGORY	*Strategic.*

RECOMMENDATION 15 ***PRIORITY: MEDIUM***

Operationalize the supply management strategy through a detailed action plan defining concrete actions to be taken, corresponding due dates, and the responsible teams working on and tracking completion of the actions.

RESPONSIBLE MANAGER: Chief, PSB *STATUS: Agree*

MANAGEMENT ACTION PLAN: *DUE DATE: April 2017*

An updated version of the supply positioning study will be completed incorporating 2015 and 2016 data as well as available forecast data; in such report concrete actions will be defined and allocated to teams.

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

Acronym	Description
CPO	Chief Procurement Official
CRC	Contracts Review Committee
CSB	Commodity Security Branch
CSP	Coordinated Supply Planning
HAB	HIV/AIDS Branch
ITB	Invitation to Bid
LTA	Long Term Agreement
OAIS	Office of Audit and Investigation Services
PSB	Procurement Services Branch
RFP	Request for Proposal
SOP	Standard Operating Procedure
SPC	Strategic Procurement Cluster
UNFPA	United Nations Population Fund
UNGM	United Nations Global Marketplace
USAID	The United States Agency for International Development
USD	United States Dollars
WHO	World Health Organization