Internal Audit of the
Vendor Master Data Management

December 2018

Office of Internal Audit
and Investigations (OIAI)

oiai

Report 2018/11

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the vendor master data management. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and controls over UNICEF vendor master data. The audit engaged with the Division of Financial and Administrative Management (DFAM), Supply Division (SD), Field Results Group (FRG), Division of Human Resources (DHR), and the Global Shared Service Centre (GSSC) that were responsible to promulgate policies, procedures, and guidance on the management of vendor master data. The audit visited the GSSC in Budapest, Hungary. The audit also engaged ten country offices that were associated with the most number of vendor master records. The audit covered vendor master records as at 1 March 2018 and took place between March and July 2018.

Master records are fundamental to transaction processing in UNICEF's Enterprise Resource Planning system, VISION.[1] There are seven key types of master records in VISION: vendor, bank, customer, human resources, grant, material and general ledger. As of 31 December 2017, there were approximately 650,000 master records. Vendor master records represented 39 percent of these, and are a high-risk area for fraud and other irregularities as they are used in processing purchase orders and commitments for goods and services, and for making related payments.

Until September 2016, country, regional, and HQ offices were responsible for the creation, maintenance and deactivation of vendor master data. From that date, GSSC had progressively taken over these responsibilities while DFAM, SD, FRG, DHR, country, regional, and headquarters offices continued to share responsibilities for overall management of vendor master data.

The audit noted a number of positive practices, including the centralization at GSSC of the creation and maintenance of vendor master records, which could improve accountability for data quality and hence reduced the risk of fraud. Standard operating procedures had been established for creation and maintenance of vendor master records across offices. GSSC had instituted internal quality assurance mechanisms to ensure that improved quality vendor master data was maintained. Together with other offices, GSSC had conducted a series of clean-up exercises for vendor master records, deactivating several thousand inactive and duplicate vendor master records. The staff involved in master data management were found to be motivated and knowledgeable about their respective processes.

Action agreed following the audit

However, as a result of the audit, and in discussion with the audit team, offices have agreed to take a number of measures. Three were rated as High Priority (that is, requiring immediate management attention). These were as follows:

- DFAM agrees to, in consultation with GSSC, SD, and FRG, issue policy and supporting procedures on master data management, taking into consideration the issues and agreed actions highlighted in this report.
- DFAM agrees to, in consultation with GSSC, SD, and FRG, review the need and risks

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[1] From Virtual Integrated System of Information. Resource mobilization, budgeting, programming, spending and reporting are all recorded in VISION, along with much else.

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for the use of the functionality *one-time vendor* in VISION and, if deemed necessary, discontinue using it or issue clear procedures on its use.

- DFAM agrees to, in consultation with GSSC, SD, and FRG, review the use of the VISION functionalities *permitted payees, alternative payees and alternative payees in document*, and clarify the circumstances under which they may be used through issuance of pertinent policy and supporting procedures.

Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions described, the governance, risk management and control over the management of the vendor master data in UNICEF were generally established and functioning during the period under audit.

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Background

Master records are fundamental to transaction processing in VISION. There are seven key types of master records in VISION: vendor, bank, customer, human resources, grant, material and general ledger. As at 31 December 2017, there were approximately 650,000 master data records, with vendor master records representing 39 percent, as shown in the table below.

Vendor master records are a high-risk area for fraud and other irregularities, as they are used in processing purchase orders and commitments for goods and services, and for making related payments. Accurate, complete and reliable vendor master records can reduce the risk of fraud while contributing to efficient processing of procurement and payment transactions. Adequate and effective controls over the creation and maintenance vendor master records are key to ensuring the accuracy, completeness and reliability of the data.

Table 1: Number of master records per key type in VISION

Master record Type*	No. of records 31 Dec 2016	%	No. of records 31 Dec 2017	%	Increase	%
Vendor master	235,197	39	254,259	39	19,062	8.1
Bank master	147,795	25	160,224	25	12,429	8.4
Customer master	75,710	13	79,849	12	4,139	5.5
HR master	66,970	11	72,323	11	5,353	8.0
Grant master	35,294	6	39,703	6	4,409	12.5
Material master	26,697	4	28,964	5	2,267	8.5
General ledger accounts	11,874	2	12,149	2	275	2.3
Total	**599,537**	**100**	**647,471**	**100**	**47,934**	**8.0**

These are the key master data types and not an exhaustive list of master data in VISION.

Since September 2016, GSSC has progressively taken over the creation and maintenance of vendor master records from all UNICEF offices, including country, regional, and HQ offices. As of March 2018, there were over 256,000 vendor master records in VISION, of which more than 210,000 were created before GSSC took over their creation and maintenance. There were 21 vendor master account groups in VISION, with the group with largest number of records being the field office vendors (41 percent), followed by individual consultants (21 percent), implementing partners (15 percent), staff (10 percent), and others (13 percent).

Objective, scope and methodology

The objective of the audit was to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over the management of the vendor master data in UNICEF. The audit covered only the management of vendors master data and focused on governance, creation and maintenance of the vendor master records, access management, and monitoring.

The audit engaged with those UNICEF divisions and offices that influenced policies, procedures, and guidance on the management of vendor master data. These were the Division of Financial and Administrative Management (DFAM), Supply Division (SD), Field Results Group (FRG), Division of Human Resources (DHR), and the Global Shared Service Centre (GSSC). It also worked with the 10 country offices associated with the most number of vendor master records. The relevant roles of these were as follows:

- DFAM – overarching policy formulation;
- GSSC – issue of standard operating procedures, transaction processing and monitoring;
- SD – policy formulation for supply vendors and institutional contractors;
- FRG – policy formulation for implementing partners;
- DHR - policy formulation for staff and individual consultants; and,
- Regional/country/headquarters offices– requisitioning offices/users of vendor master data.

The audit included data analytics, review of relevant data, and communication with responsible personnel in the above divisions and offices and in the 10 country offices. The audit covered the vendor master records as of 1 March 2018 and took place between March and July 2018 with a visit to GSSC in Budapest, Hungary from 28 May to 1 June 2018.

Audit observations

Governance, roles and responsibilities

Roles and responsibilities when properly defined, communicated, and well understood can improve efficient and effective delivery of services. In mid-2016, UNICEF's Comptroller broadly outlined the responsibilities for finance and master data management processes that were expected to be affected by the establishment of the GSSC.[2] They were as follows:

1) DFAM, SD and FRG: Issue policy and procedures, accounting instructions and guidance for master data maintenance.

2) GSSC: Monitor compliance with relevant policies and procedures by offices, review and update the vendor master records based on requests received from offices, and perform periodic quality assurance checks.

Subsequently, in February 2018, the Comptroller issued a memorandum delegating authority to the GSSC Director to undertake a number of financial transactions in specific areas,[3] and ownership of the related processes, which entails the issue of process instructions and guidance to requesting offices, including for the creation of vendor master records.

However, there was still an unclear division of responsibilities, and delegation of authority, with regard to the specific areas of master data management for which DFAM, SD and FRG respectively were responsible. Based on operating practices at the time of the audit, it appeared that SD was responsible for policies, procedures and guidance on the maintenance of master data for supplies and services related to institutional contractors, while FRG filled those roles for implementing partners. Meanwhile DFAM was responsible for overall policies, procedures and guidance on the maintenance of master data for all vendors, since financial accounting and reporting naturally fall under its purview – including peripheral processes such as those related to cash management and vendor payments. If there was a shared responsibility for issuing the policies, procedures and guidance on the creation and management of vendor master data, the leadership and mechanisms needed to be clearly

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[2] *Division of Responsibility between Offices, Divisions and GSSC*, 7 July 2016.
[3] Bank reconciliation, matching and clearing of entries, assets, payroll accounting, invoice processing, change in funding source, personnel advances and recoveries, payments, master data management, and US tax invoice processing.

established.

Due to the lack of clear policy and supporting procedures including identification of process and data owners, here were therefore several unresolved issues on the creation/updating and management of vendor master records, and they were affecting the accuracy and reliability of the vendor master data. Examples occur throughout this report and included, amongst others: the use of one-time vendors; permitted payees, alternative payees and alternative payees in document; criteria/requirements for creating/updating vendors' master records; assignment of master data management role in VISION; grouping of vendor master records; and criteria for deactivation of vendors.

Agreed action 1 (high priority): The Division of Financial and Administrative Management agrees to, in consultation with Global Shared Service Centre, Supply Division, and Field Results Group, issue a policy and supporting procedures on master data management, taking into consideration the issues and agreed actions highlighted in this audit report. The policy and procedures should, among others, clearly identify the process and data owners, and delineate their roles and responsibilities; stipulate the criteria for creating/updating vendors' master records; clarify the assignment of master data management role in VISION; define the vendor account groups; clarify the use of the VISION functionalities one-time vendors, permitted payees, alternative payees, and alternative payees in document; and establish the conditions for the deactivation of vendors.

Responsible staff member: Chief Accounts, Financial Reporting and Grant Management
Target date for completion: 30 June 2019

Vendor master record creation/updating process
Following its establishment in 2016, GSSC had progressively taken over from offices the responsibility for the creation and updating of vendor master records.

The audit found staff involved in master data management to be knowledgeable about their respective processes and motivated to identify opportunities for continuous improvement. A workflow had been documented with the roles and responsibilities for creating/updating vendor master records established in regional, country and headquarters offices, including GSSC. Standard operating procedures and a template for the creation and updating of vendor master records had been established. Overall, the GSSC had made strides in streamlining processes and making the creation/updating of vendor master records efficient.

However, the audit has identified the following additional opportunities for enhancing efficiency and promoting best practice.

Creation and updating of vendor master records: GSSC created vendor master records in VISION in response to requests and related supporting documentation received from offices through a platform called MyCase. A staff member of the requesting office had to complete the request using a template prescribed by GSSC, and print it with the supporting documents for approval by a designated staff member in their office. The approved request was then scanned and manually uploaded in MyCase by another staff member of the requesting office. Upon receiving the request in MyCase, GSSC made sure that all sections of the template were filled out and manually recorded the same data in the template in VISION. This process was inefficient and prone to errors and irregularities, which could go undetected and not prevented.

The audit also noted that the process did not include adequate steps to ensure that the vendors were indeed valid and existed, or the requests had indeed been approved by the designated staff of the requesting offices. For example, in a test of six requests used by GSSC to create vendor master records, the audit found that none of the requests had the required supporting documents such as certificates of registration, articles of incorporation, personal identification cards, etc. In a sample of 137 vendors registered in VISION, the relevant country offices were unable to confirm the existence and validity for 12 vendors. Of those 12, the country offices told the audit that five did not belong to them and that they had not requested the creation of their master records, and three vendors were incorrectly registered in VISION as relating to them.

To reduce the risk of such errors/irregularities and enhance efficiency, there was a need to streamline the process. GSSC told the audit that it was planning to implement a new case-management system that would streamline the creation and updating of vendor master data.

Assessing the eligibility of vendors: For various reasons, such as UN-imposed sanctions, certain vendors were classified as ineligible to provide goods and services to UN organizations. Creating master records for these ineligible vendors can expose UNICEF to the risk of financial loss and reputational damage if any payment is made to them.

However, the mechanism to prevent such records being created was inadequate. There was a review by GSSC against the UNGM[4] database of ineligible and blacklisted vendors, but this was done manually and focused solely on the names of vendors. This could have been enhanced had offices required all potential vendors to register on UNGM. UNICEF's Supply Manual is ambiguous as to whether this is required; at one point it states that it is, but elsewhere says that potential vendors "will be encouraged" to register with UNGM. In discussion with the audit, SD also stated that UNGM registration was not mandatory, and the audit noted that some offices did not require vendors to register. In a survey of the 10 country offices with the most vendor master records, only three country offices insisted they all do so, while a further three country offices sometimes required it, depending on the contract value.

Registering in VISION modules: Vendor master records were routinely created in both the finance and the procurement modules in VISION, regardless of whether they would be used for bid solicitation only, payment processing only, or both. This was inefficient, and elevated the risk of irregularities, since master data was created in the finance module for vendors that might not be awarded the contracts. A vendor's bank details, for example, would not be needed in VISION if the vendor master record was intended only for bid solicitation.

Activation of sensitive data fields in VISION: All processes, including payment run, can be executed once the vendor master records have been created/updated in VISION – even before the review of a GSSC senior processor.

As a stop-gap measure, the GSSC processors were required to block the vendor master records involving banking information, pending review by GSSC senior processors. On completion of their review, the GSSC senior processors had then to unblock the vendor master record in question. However, this measure could be made unnecessary if the 'sensitive data fields' functionality was activated in VISION, as changes made by anyone in the sensitive fields such

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[4] The United Nations Global Marketplace (www.ungm.org) is a common procurement portal for United Nations system of organizations. It acts as a single window through which potential suppliers may register by completing one registration form.

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as the bank details would automatically require confirmation by another person in VISION, thus ensuring entries were authorized.

Another measure to mitigate fraud risk was piloted by GSSC in June 2018. This involved obtaining direct confirmation from vendors for bank updates that GSSC deemed high risk[5] by GSSC. This is in line with industry best practices and part of multi-faceted anti-fraud measures being implemented by the GSSC and DFAM.

Human resources-vendor interface: The HR-vendor interface eliminates the redundancy of manually re-entering the same data in the creation/update of vendor master records for staff members in the HR module and the vendor master records in VISION. However, there were cases where the transferred data was incomplete and therefore required manual intervention, raising the risk of erroneous or fraudulent entries.

For example, the international bank account number was not automatically populated in the vendor master records. Also, the interface stopped running if the bank account already existed in the vendor master record with different bank type. In both cases, the data had to be manually entered by GSSC processor without a documented change request. The Information and Communication Technology Division (ICTD) acknowledged the existence of the issues and said it would address the issues following the completion of work related to a VISION upgrade.

Agreed action 2 (medium priority): Supply Division agrees to, in consultation with the Division of Financial and Administrative Management, the Global Shared Service Centre, and the Field Results Group, clarify the requirement that vendors register in the United Nations Global Market and reflect these requirements in UNICEF's overarching policy and supporting procedures on the management of its vendor master data.

Responsible staff members: Quality Assurance Specialist and Quality Assurance Officer, Quality Assurance Centre
Target date for completion: 30 June 2019

Agreed action 3 (medium priority): The Global Shared Service Centre, in automating creation and updating of vendor master records, should:

   i.   Require the submission and review of relevant documentation to ensure the legitimacy of the vendors and include such a requirement in GSSC's standard operating procedures. The requirement should be defined in the policy and supporting procedures on master data management that will be issued by Division of Financial and Administrative Management in accordance with agreed action 1 in this report (see p7 above).
   ii. Institute measures to implement the requirements for registration by vendors in the United Nations Global Market, as prescribed by the Supply Division.
   iii. Eliminate redundancy in data entry, through implementation of the new case-management system.
   iv. Incorporate workflow management whereby all requests for creation and update of vendor master records are processed without the need to print, manually sign, scan, and upload them.
   v.   Register the vendor master records only in pertinent areas of VISION, i.e. finance and

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[5] High-risk bank updates may include cases where there have been multiple vendor data changes over a short period of time, or where vendors have been requesting changes to their bank account from one country to another.

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purchasing areas, based on the underlying objectives.

vi.   Activate the sensitive data fields functionality in VISION.

vii. Coordinate with Information and Communication Technology Division to resolve the issues in the HR–vendor interface.

Responsible staff member: GSSC Finance MDM Chief
Target date for completion: 30 June 2019

Master data management (MDM) role

At the time of the audit, there were 12 GSSC staff members responsible for creation and updating of vendor master records in VISION. However, the audit noted that two additional staff members in other HQ offices had been provided with the master data management (MDM) role, thus acquiring access to create and update vendor master records in VISION. One of them had been provided the role mainly for the clean-up of vendor master records related to implementing partners, and for routine quality assurance on partners as part of that exercise. At the time of audit, this clean-up exercise had been completed; however, the role had not been deactivated for that staff member.

The same role had also been provided to another staff member for reviewing information on specific fields in the partner tab and ensuring it was correct. The assignment of this role posed an additional risk, since the staff member had the conflicting roles of a receiving officer, a travel processor, and a commitment processor. With these roles plus the MDM role, one can potentially initiate a fund commitment and, once it is authorized, acknowledge receipt of goods on the invoice, and process an invoice payable to a personal bank account by changing the bank details of an existing vendor or by creating a dummy vendor. (The audit did not find the staff member exercising such incompatible roles.) The audit is also of the view that the quality assurance role can be done independently by GSSC.

Agreed action 4 (medium priority): The Division of Financial and Administrative Management (DFAM), together with the Global Shared Service Centre (GSSC) and the relevant offices, should review and assess the need of providing master data management (MDM) role to staff members who are not MDM processors as defined in DFAM's policy and supporting procedure on MDM that will be issued in accordance agreed action 1. If found unnecessary, their access to create and update vendor master records should be revoked.

Responsible staff member: Business Analysis Manager, Office of the Comptroller
Target date for completion: 30 September 2019

State of vendor master records

As of 1 March 2018, there were 256,268 vendor master records, including 24,625 staff-related records, in VISION. More than 210,000 of these records were created prior to 2016, when GSSC began to progressively take over the creation and management of vendor records. Following the clean-up exercises conducted by GSSC, a large number vendor master records were blocked and/or marked for deletion so that transactions could not be processed through them without further review and action by GSSC. As of 1 March 2018, there were 92,530 vendor master records (excluding staff members) that were considered active and unblocked.

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Regarding the 92,530 vendor master records, the audit noted several data quality issues. These were as follows.

Vendor account group: There was an unnecessarily large number of vendor account groups (21) used in the management of vendor records as shown in Table 2 below.

Table 2: Number of vendor master records per account group in VISION

Vendor Account Group	2011-2015	2016-2018	Total
Field Office Vendors	88,552	16,888	105,440
Individual Consultants	40,907	14,078	54,985
Implementing Partner	33,201	4,069	37,270
Staff	19,966	4,659	24,625
Vendors	16,068	467	16,535
Institutional Contractors	5,824	3,065	8,889
Local Vendor	2,472	167	2,639
International CSO	1,272	1	1,273
Global Vendors	818	41	859
UN Agencies	648	100	748
Travel Agency Vendors	537	83	620
Non-Government Organization	508	3	511
UNICEF Field Offices	429	2	431
Individual Contractors/Consult	370	37	407
Vendors - Others	341	25	366
Forwarders	315	3	318
One Time Account	139	16	155
Government	81	43	124
National Committees	44	-	44
Inter-governmental Agencies	14	-	14
Intra-agency - UNICEF Offices	9	-	9
Funds PO Vendor Group	6	-	6
Total	212,521	43,747	256,268

As shown in the Table, the vendor master records seemed to have been created and grouped without clear distinction among them, raising the risk of inaccurate reporting and potential duplication of vendor master records. In a review of the 21 vendor account groups maintained, the audit noted the absence of a clear, logical basis for the groupings. Examples included the following:

- Four account groups were used for vendors of supplies and equipment – local vendors, field-office vendors, vendors, vendors-others, and global vendor.
- Two account groups were used for individual consultants – individual contractors/consultants and individual consultants.
- Three account groups were used for implementing partners – non-government organizations, international civil service organizations, and implementing partners.

Due to the absence of a clear and logical basis for grouping vendor master records, there were several instances of records assigned to potentially inappropriate account groups. For example:

- 1,324 records of individuals were grouped under "field-office vendors", despite being more closely related to the group for individual contractors or consultants.

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- 149 travel agencies were grouped under "field-office vendors", although they were not vendors of supplies and equipment.
- 130 institutional contractors were grouped under "individual consultants".
- A travel agency, a religious organization and an individual lecturer were all placed under an account group meant for freight forwarders.

Vendor names: A naming convention had yet to be established to provide consistency in the key information fields of vendor master data, to avoid the potential for duplicate vendors and the related risk of duplicate payments. Although the VISION system was set to record information in English, the vendor names were registered in VISION in languages other than English, for example in French, Spanish, and Portuguese, and in Arabic characters.

There was inconsistency in the use of abbreviations in the vendor names, and also in ways of recording the type of entity (e.g. Incorporated *vs.* Inc, Corporation *vs.* Corp, Limited *vs.* Ltd. etc.) as part of the vendor names. There were 1,500 cases of vendors whose names included numbers that were either the addresses, account numbers, tax identification numbers or even mobile phone numbers of the vendors. GSSC stated that only one country required the inclusion of the tax identification numbers within the vendor names, but they had also been included in the names of vendors from other countries. There were also 44 cases of vendor names stated "in quotes".

Vendor address: There were 2,026 vendors (2 percent) with only PO Box and with no physical address in VISION, so that their existence could not be verified. Of these, 63 had a box number consisting only of one or more zeros while 120 did not have city addresses. Likewise, where the address fields had been populated, they were incomplete and inaccurate for a significant number of vendors. For example, for 94 percent of active vendors (87,321 of 92,530), the state, province, and county or region were not populated in VISION. GSSC told the audit that only the house number, street, city and country were required. However, the vendor registration template submitted by requesting offices had fields for district, state, province and region.

The template also required information about the city, but for 3 percent of the vendors (2,627 of 92,530) this field was not populated in VISION. However, the city fields for 1,605 vendors included numbers and, in some cases, regions or provinces of the countries. Further, the cities for 181 vendors did not match with the respective countries in VISION. For example, Quezon City in the Philippines was registered as in Switzerland; and Pyongyang in North Korea was recorded as in China. The fields for country for 134 vendors were unknown since their recorded country code was "000"; 40 vendors had South Sudan as the city; and 29 vendors had the fields for city populated with undiscernible characters (including in Chinese).

The audit noted a number of other omissions, including 5 percent of vendors (4,536 of 92,530) lacking house number and street fields; while 34 vendors had "New" as the house number and street name. GSSC said that, in certain countries, there were some places without street names, but that these were exceptions.

Bank accounts: Of the 88,507 vendor bank accounts, 10,345 (12 percent) did not have the account holders' names, and 517 had numbers in the name fields. The bank account holders' names for 28,253 bank accounts (32 percent) differed from the vendors' names. Allowing for a character difference of four between the vendors' and the bank account holders' names, there were 20,421 cases of mismatch. When the threshold of character difference was increased to 10, there were at least 13,000 cases where the account holders' names differed

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from the vendors' names. It was therefore difficult to be sure that the bank accounts of these vendors in VISION did indeed pertain to them. At the time of the audit, GSSC was still cleaning up the vendor master records and it expected to correct these anomalies.

Payment Method: Different payment methods – e.g. cheque, bank transfer letter, electronic banking – were associated with vendors in the master records irrespective of how they would eventually be paid, which could lead to fraudulent or duplicate payments and delay in processing of payments. Out of 7,539 vendors that did not have bank accounts, more than 4,000 were associated with at least four payment methods including bank transfer. Vendors with bank accounts were assigned cheques and transfer letters as payment methods.

It was also noted that VISION was configured to allow payments in any payment method, regardless of those specified in the vendor master records. This further increased the risk of duplicate payments, especially since payments by cheque and transfer letter were manually effected by the country offices and not by GSSC. A discussion with Information and Communication Technology Division (ICTD) established that it would be feasible to introduce an additional system validation, so that vendors could only be paid in accordance with the payment methods listed in the vendor master records.

Notwithstanding the above, the audit noted that GSSC was continually improving the quality of MDM data. Its actions to this end included reduction of the number of account groups being used, periodic clean-up especially on the legacy records, redesign of the request template to ensure complete provision of data, and return of requests that did not meet the requirements. However, as highlighted by a fraud and risk control best practice assessment commissioned by GSSC in 2017, the master data management process carries a high degree of inherent fraud risk. It is therefore essential to use the results of this assessment, and to do so in alignment with UNICEF's overall anti-fraud strategy to ensure that the mitigation measures are commonly understood and applied across the organization.

Agreed action 5 (medium priority): The Division of Financial and Administrative Management agrees to, in consultation with Supply Division, the Field Results Group, and the Global Shared Service Centre, review the existing vendor account groups, identify and take action for those that are to be discontinued, and clearly define the vendor account groups that need to be operational in VISION.

Responsible staff member: Chief Accounts, Financial Reporting and Grant Management
Target date for completion: 30 June 2019

Agreed action 6 (medium priority): The Global Shared Service Centre agrees to, in consultation with Supply Division, the Field Results Group, and the Division of Financial and Administrative Management, develop and implement a strategy for the clean-up of the vendor master records to correct incomplete and inaccurate fields, particularly in relation to information about the vendor names, addresses, and bank accounts. This should also include action to:

   i.   Establish a naming convention to provide consistency in the vendor master data.
   ii. Identify and enforce the mandatory address fields in vendor master records for requesting offices to provide and for GSSC to enter in VISION.
   iii. Minimise the use of PO box numbers as the sole address without the physical addresses of the vendors (for countries where this is possible); and consider using an

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        address verification tool and even tapping on the resources of the Universal Postal Union.

iv.   Review the bank account information and derive assurance, through the country offices, that the recorded vendors are indeed the holders of their respective bank accounts.

v.   Coordinate with Information and Communication Technology Division on introducing an enhancement in VISION whereby payments to the vendors are limited to the payment methods pre-registered in the vendor master records; and specify the appropriate payment method(s) for each vendor in the vendor master records.

vi.   Use the results of the risk assessment relating to the master data management processes in a way that is aligned with UNICEF's anti-fraud strategy.

Responsible staff member: GSSC Finance MDM Chief
Target date for completion: 30 June 2019

One-time vendor

A one-time vendor master record is supposed to be used for one-off payment to a vendor for one-time transaction when the organization does not foresee a continuing business relationship with that vendor. To save creating a master record for every vendor of this type and entering all vendor details, a generic one-time vendor master record is created. Since it will be used for many one-time vendors, that vendor master record should not include specific data of any particular vendor. The vendor's information – such as name, address and bank details – are to be entered only at the time of processing of the invoice and are kept within the processed transaction entries in VISION.

This function did eliminate the time and effort of creating a vendor master record that may not be used again. However, it significantly increased the risk of fraudulent payments – and of transacting with ineligible or blacklisted vendors, since there were no prior checks. Despite the significant risk in such payment options, there were no policy or supporting procedures on the criteria justifying the use of one-time vendors and the practices to be followed in such cases. Moreover, instead of a single organizational/country level generic vendor master record for one-time vendors, there were 53 of them, including 31 records for one country office alone, nine for another country office, four for yet another country office, and three for NYHQ.

The audit also noted the following:

- Instead of generic data in the vendor master record for a one-time vendor, 45 one-time vendor master records had been created with details of specific vendors like the vendors' names and addresses.
- Individual payments ranging from US$ 9.97 to US$ 1.6 million had been made using one-time vendor master records since 2012. There were no policy and supporting procedures that set the maximum transaction amounts for which one-time vendor master records could be used.
- It was also unclear whether there was any central periodic monitoring of the use of one-time vendors across the organization, to ensure that the transactions were made in good faith and recorded appropriately.

Agreed action 7 (high priority): The Division of Financial and Administrative Management agrees to, in consultation with Supply Division, the Field Results Group, and the Global Shared

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Service Centre, review the need for the use of the one-time master vendor record, and consider discontinuing its use, unless an assessment of its associated risks and benefits support its continuation. The conclusion of this assessment should be reflected, as appropriate, in the relevant policy and supporting procedures on the management of vendors' master data.

Responsible staff member: Chief Accounts, Financial Reporting and Grant Management
Target date for completion: 30 June 2019

Permitted and alternative payees

In VISION, there are functionalities that allow payments to be made to permitted payees, alternative payees, and alternative payee in document. Even though the use of these functionalities posed a risk of irregularities, including fraud, there were no policy or supporting procedures that defined the conditions under which they could be used. This had contributed to an increase in the use of the alternative and permitted payees without assessment of the risks involved.

Permitted payee: A vendor may request that certain payments due to it be directed to a payee other than itself. Such a payee is referred to in VISION as a permitted payee, as identified by the vendor. For example, when an implementing partner conducts a workshop at a hotel, it may request UNICEF to make a direct payment to the hotel for the use of hotel facilities. In this scenario, the hotel is the permitted payee. As of 1 March 2018, there were 2,288 vendors with active permitted payees, which totalled 15,818 (an average of seven permitted payees per vendor).

Of the 15,818 permitted payees, 555 were banks instead of implementing partners, service providers or suppliers. The audit noted that in one country, government implementing partners were not allowed to operate their own bank accounts, which meant that they were unable to receive direct cash transfers (DCTs) and distribute money directly to their beneficiaries to implement UNICEF's activities. To enable payments to these partners and particularly their beneficiaries, the country office had designated the banks and mobile phone operators as permitted payees to receive DCTs from UNICEF and disburse the money directly to the beneficiaries such as teachers. In another country, a bank was used as a permitted payee for a security company, to pay security guards who were deployed by the local police and were not staff of the company itself.

Assigning the banks and mobile phone operators as permitted payees of government partners posed a risk of fraudulent or erroneous payments, unless it was backed with supporting tripartite agreements coupled with strong due diligence arrangements at the field offices and GSSC, guided by organizational policies and procedures (which are currently not in place).

There were also 44 vendors who had travel agencies as their permitted payees. According to the country office concerned, due to restrictive processes on the purchase of foreign currencies, the travel agencies were used as permitted payees to pay allowances to staff, consultants and implementing partners for international travel.

The audit sampled six assignments of permitted payees. GSSC had received duly signed requests from the respective country offices to create permitted payees master records. However, none of the six assignments tested were supported by requests from vendors that the permitted payees be assigned in their master records. There was thus no assurance that

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the addition of permitted payees had indeed been requested by the vendors – or that the requests from the offices were valid since, as stated earlier, GSSC had no process to verify the authenticity of the signatures on the requests.

Alternative payee: In general, an alternative payee is like a permitted payee since payment is made to a third party designated by the vendor. The major difference is that a vendor can have only one alternative payee, since all payments are to be made to that payee. As in the case of permitted payees, the alternative payee had to be created and assigned to the vendor's master record. The most common scenario for alternative payees is where the government is an implementing partner and all payments are required to be made to the finance ministry/treasury, which is then set up as an alternative payee. Another situation where the use of an alternative payee is relevant and applicable is when the vendor is in receivership.[6]

 Alternative Payee in Document: In addition to permitted and alternative payee, there was a third functionality: Alternative payee in document. The audit found 90 vendor master records that had this feature enabled. It allows staff to enter an address or bank details that differ from those in the master record, at the time of invoice processing. In addition, permitted payees were also assigned to the 66 of the 90 vendor master records in which alternative payee in document had been enabled. In these cases, aside from directing payments to the permitted payees, the payments could also be made to another payee whose bank details were entered at invoice processing, like the one-time vendor (see previous observation, *One-time vendor record*).

Agreed action 8 (high priority): The Division of Financial and Administrative Management agrees to, in consultation with Supply Division, the Field Results Group, and the Global Shared Service Centre, review the use of permitted payees, alternative payees, and alternative payee in document, and establish clear conditions and requirements for their use. The conclusion of this review should be reflected in the policy and supporting procedures to be issued on the management of vendors' master data (see agreed action 1 in this report). The policy and supporting procedures should define the following:

   i.   Eligible vendor account groups where vendors can have permitted payees, alternative payees and alternative payee in document.
   ii. The appropriate context and conditions for the correct use of permitted payees, alternative payees and alternative payee in document, and the rules for managing exceptions to the policy.
   iii. The methodology for establishing the authenticity of such payees and the supporting documentation required.
   iv. The types of payee that are to be excluded (e.g. staff, individual consultants etc.), as appropriate.

Responsible staff member: Chief Accounts, Financial Reporting and Grant Management
Target date for completion: 30 June 2019

Agreed action 9 (medium priority): The Global Shared Service Centre agrees to review the existing assignment of permitted payees, alternative payees, and alternative payee in

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[6] In law, receivership is a situation in which an institution or enterprise is held by a receiver—a person placed in custodial responsibility for the property of others, including tangible and intangible assets and rights—especially in cases where a company cannot meet financial obligations or enters bankruptcy.

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document, and make necessary corrections to conform with the policy and supporting procedures (when issued) on permitted payees, alternative payees, and alternative payee.

Responsible staff member: GSSC Finance MDM Chief
Target date for completion: 30 June 2019

Vendor master record monitoring

GSSC had instituted internal quality assurance mechanisms (independent of the processing teams) to monitor activities related to master data management. On an ongoing basis, the quality assurance team reviewed a sample of requests for creation or update of vendor master records for accuracy and for compliance with standard operating procedures, and to assess the performance of the master data management team – e.g. timeliness in creation and updating. Exception reports were prepared and shared with the senior staff in GSSC.

GSSC, and other offices like FRG and SD, had conducted several clean-up exercises and deactivated a number of vendor master records due to inactivity and duplication. As of 1 March 2018, nearly 140,000 non-staff-related vendor master records had been considered as inactive and/or duplicate.

However, the audit noted that GSSC still needed to do more. For example, the clean-up exercises had not covered staff-related master records totalling 24,625, of which 22,836 were unblocked. The unblocked master records included those staff who had retired, resigned or been terminated. The audit also identified 272 potential duplicate staff-related vendor master records (following a further review of the staff profiles by GSSC, 122 of these did turn out to be duplicates). Further, the audit noted more than 550 non-staff vendor master records with the same names and in the same countries. But, due to the lack of adequate information such as complete addresses and bank accounts, it could not confirm whether these 550 were duplicates.

The audit also selected a sample of 137 vendors associated with the 10 country offices associated with the largest numbers of vendor records, and asked the offices to confirm their validity and existence. The offices found that 24 were invalid and/or non-existent; some were duplicated and in one case, the vendor was deceased. Moreover, 35 of the sample (including 15 permitted payees) had no transaction since they were created; 66 were considered inaccurate; and 70 were incomplete.

The audit also noted that the scope of the clean-up exercises and the criteria for identifying records to be deactivated needed to be enhanced. For example, the clean-up exercises did not cover vendor master records related to government, suppliers used by SD, freight forwarders, national committees or field offices. Further, the period of inactivity before deactivation seemed long (three years for implementing partners and two and a half years for all other vendors). The deactivation of the master records of implementing partners was carried out in the last quarter of 2017, based on the requests from the country offices. However, there were no policy or supporting procedures for the deactivation of vendor master records and the related threshold for inactivity period. This need for policy and supporting procedures on the deactivation of vendors' master data is addressed by the agreed action related to the promulgation of overarching policy and supporting procedures on the management of vendors' master data.

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Agreed action 10 (medium priority): The Global Shared Service Centre agrees to, in line with the overall policy and supporting procedures in agreed action 1 on the management of vendor master data, implement a medium-term strategy (e.g. for up to two years) for:

   i.   Clean-up of vendor master data created before GSSC fully assumed responsibility for creating and updating this data in September 2016.
   ii. Clean-up of master records pertaining to staff members.
   iii. Deactivation of vendor master records.

Responsible staff member: GSSC Finance MDM Chief
Target date for completion: 30 September 2019

Annex A: Methodology, and definitions of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. The audit team visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with its clients and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the client's (for example, a regional office or Headquarters division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of the International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. (Low-priority actions, if any, are agreed with the country office management but are not included in this final report.)

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Conclusions

The conclusions presented in the report summary fall into four categories:

[Unqualified (satisfactory) conclusion]

Based on the audit work performed, OIAI concluded at the end of the audit that the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]

Based on the audit work performed, OIAI concluded at the end of the audit that, subject to implementation of the agreed actions, the office's governance, risk management and internal controls were generally established and functioning during the period under audit.

[Qualified conclusion, strong]

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed improvement to be adequately established and functioning.

[Adverse conclusion]

Based on the audit work performed, OIAI concluded that the office's governance, risk management and internal controls needed **significant** improvement to be adequately established and functioning.