Audit Advisory Report

Fraud Control Assessment on Procurement

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EXECUTIVE SUMMARY

In accordance with its 2022-2023 audit work plan, the Office of the Inspector General (OIG) conducted a fraud control assessment focusing on Procurement including Letters of Agreement. The objectives of this audit advisory engagement were to raise management’s awareness of how the fraudster/(s) could exploit the recurring control gaps at decentralized offices to obtain financial gain or other benefits and recommend corrective actions at the corporate level. To develop more targeted controls, OIG came up with 9 fraud scenarios and highlighted possible preventive and detective controls at operational levels for each scenario.

KEY OBSERVATIONS

- In general, FAO has well established procurement procedures, but in the absence of proper monitoring on their enforcement, there have been some systemic and recurring internal control gaps in procurement of goods and services and management of Letters of Agreement at decentralized offices. Furthermore, OIG has observed that FAO management has grown accustomed to the recurring control gaps resulting in a diminished sense of alarm and impairing their ability to recognize red flags of fraud.
- Management tends to rationalize the recurring control gaps with reasons such as lack of training, limited staffing capacity, the operational context, and system limitations. However, fraudsters could exploit such control gaps to mask their schemes.

CONCLUSION

While it is not feasible to prevent all acts of fraud, Management needs to be vigilant about such risks and be aware that the recurring control gaps in Procurement including management of Letters of Agreement are impeding them from preventing or detecting fraud cases when they occur. To alleviate the situation, OIG has made seven advisory recommendations in this report for Management’s consideration. It is up to Management to determine which controls are worth implementing or prioritizing.

Mika Tapio
Inspector General
14 June 2024
INTRODUCTION

The past audits of decentralized offices have revealed recurring internal control gaps across the network, some of which increase the risk of fraud. While it is not feasible to prevent all acts of fraud, there are strategies for mitigating such risk depending on the level of complexity of the fraud schemes. To develop targeted controls countering fraud, it is crucial to be aware of how the fraudster/(s) could exploit the control gaps to obtain financial gain or other benefits.

OBJECTIVES

The objectives of this engagement were to:

- Raise management awareness of practices that allow fraudsters to mask their schemes;
- Highlight key internal control gaps and recommend actions at the corporate level to mitigate fraud risk in Procurement; and
- Identify possible fraud scenarios arising from the recurring control gaps in Procurement including management of Letters of Agreement (LoA) and accordingly propose possible preventive and detective controls at the operational level.
SCOPE AND METHODOLOGY

The fraud control assessment considered the systemic and recurring internal control gaps identified in the audit reports of decentralized offices issued between 2018 and 2023. In addition, OIG took into account the relevant investigation reports issued during the same period.

OIG developed possible fraud scenarios based on audit observations and typical workflows at decentralized offices. The fraud scenarios and the proposed controls were shared and discussed with the Procurement Services (CSLP) at Headquarters, the Shared Services Center (SSC) and the Enterprise Risk Management team (ERM team).
KEY OBSERVATIONS

OIG observed that some bad practices have become widely acceptable, allowing fraudsters to mask their schemes. FAO management has grown accustomed to using workaround solutions to circumvent established rules and internal controls, leading to a diminished sense of alarm and limiting management’s ability to recognize red flags. Management often does not perceive exceptions as worrisome and tends to rationalize them by citing justifications such as lack of training, limited staffing capacity, the operational context, and system limitations. For instance, the following recurring control weaknesses in Procurement and management of LoAs expose decentralized offices to fraud risk:

- Limited competitiveness in procurement processes and recurring direct procurement without proper justification;
- Procurement processes not transparent in the absence of proper documentation;
- No checks conducted on the incorporation documents of vendors and incomplete vendor registration in GRMS;
- Non-procurement personnel allowed to perform buyer functions;
- Direct deliveries from vendors to Implementing Partners without means of verification on the quantity and quality of goods received;
- Poor performance of vendors not systematically documented leading to their re-engagement including through direct selection.

OIG developed 9 fraud scenarios and identified some common issues among them that could be addressed through actions at the corporate level. While rotation of procurement personnel and segregation of duties in the procurement process are important controls to mitigate fraud risk, OIG does not make any recommendation on these matters in this report considering the procedures outlined in the “Guidelines on Fraud and Collusion in Procurement” of June 2022. Furthermore, there is an ongoing exercise by CSLC to address the issue of individuals having conflicting GRMS responsibilities.
Rec 01: Campaigns on bad and prohibited practices
CSLP with support of Regional and Sub-regional Offices, to conduct campaigns on bad and prohibited practices that are considered acceptable by country offices, including publishing them on the Intranet.

Rec 02: Training requirements for procurement-related functions
1) CSLP to map and develop required training for all essential functions in the procurement process;
2) CSLP to implement monitoring controls to enforce the training requirements for personnel involved in procurement.

ISSUES IDENTIFIED

Issue 01: Bad practices considered acceptable at Country Offices
1) Direct procurement without supporting evidence of justification provided;
2) Procurement without technical clearance of specifications and technical evaluation of bids;
3) Procurement personnel sharing contact details with potential suppliers during solicitation process;
4) Non-procurement personnel given buyer responsibilities.

Issue 02: Personnel involved in procurement lacks knowledge to perform their functions
1) Training is available for personnel in various procurement roles, but not for all essential functions. For instance, there is no training for Local Procurement Committee (LPC) members;
2) No monitoring to ensure that procurement personnel has completed the trainings relevant for their functions.

RECOMMENDATIONS
Rec 03: Guidelines for procurement-related reviews
CSLP to enhance its guidelines by clarifying:
1) The minimum required documentation that should be reviewed at each stage of the procurement process and the responsible party;
2) Targeted procedures to spot anomalies and red flags in procurement. E.g. same price, same formats used, same errors in bidding documents.

Rec 04: Implement controls over vendors’ performance evaluation
CSLP to develop SOP on Vendors’ Evaluation and enforce the use of the digital platform to file completed vendors’ performance evaluation. The records in this database could be analyzed to:
1) Assess the completeness of vendors performance evaluations. E.g. compare the database records against the list of vendors with late deliveries;
2) Identify re-engagement of vendors with poor performance.

Issue 03: Unclear guidelines on procurement-related reviews
FAO Manual Sections 502 and 507 outline the main goals and guidelines of the procurement process. Yet, there is a lack of detailed instruction on the minimal documentation to be reviewed at each procurement stage and on delineating the responsibilities of the involved parties, such as the requisitioner, buyer, LPC, and budget holder. Also, there were no targeted procedures to spot anomalies and red flags in procurement.

Issue 04: Vendors’ poor performance not duly recorded
Contrary to MS 502.13.2, Buyers often do not ensure that the Vendor Performance Evaluation is completed even when vendors’ did not meet the contracted requirements of quality, quantity and delivery timeliness. For example, vendors who were late in delivering the goods and services, did not have a completed performance evaluation on file and were re-engaged.
ISSUES IDENTIFIED & RECOMMENDATIONS

ISSUES IDENTIFIED

Issue 05: Lack of controls over the receipt and inspection of goods

The inspection of goods involves verifying whether the goods received meet the specified requirements and are of the right quantity, a vital step for deterring and detecting misrepresentation.

However, guidance on inspecting goods is unclear and often not enforced. In the GRMS, each purchase order (PO) indicates whether an inspection is required. However, it is unclear under what circumstances inspections are not necessary and when the receiving process can be considered as self-inspection. Additionally, even when inspections are required, there is no monitoring system in place to ensure they were actually performed. The buyer is responsible for keeping a copy of the inspection report cleared by the LTO in the procurement file but this was often not done.

RECOMMENDATIONS

Rec 05: Implement controls over receipt and inspection of goods

CSLP to:
1) Clarify the criteria when inspection of goods is mandatory and the required documentation, and circumstances, if any, when inspection are not required;
2) Establish monitoring controls on the enforcement of the inspection requirements. E.g. requiring the upload of supporting documentation on the Inspection of Goods in GRMS to detect cases of non-compliance.
ISSUES IDENTIFIED & RECOMMENDATIONS

ISSUES IDENTIFIED

Issue 06: Lack of targeted controls to detect anomalies by the second-line procurement function
CSLP has established a procurement dashboard with many monitoring reports. However, there is a need for targeted monitoring controls to detect anomalies. E.g. reports showing:
1) POs to the same supplier issued on the same day or within a short period of time at Country Offices
2) LoAs that were fully paid within a short period of time
3) Vendors with same contact information. E.g. same address, phone numbers, emails, bank accounts etc.

Issue 07: Unclear guidance on engaging with suppliers that are not registered in the United Nations Global Market (UNGM)
Although vendors sourcing guidelines state that all suppliers willing to do business with FAO must be registered in UNGM, guidelines on the use of In-Tend and UNGM for open submissions is not mandatory but recommended. Often country offices assume that if In-Tend is not used, they could engage with vendors that are not registered in UNGM.

RECOMMENDATIONS

Rec 06: Clarification for the roles and responsibilities of Second Line management functions
CSLP, the SSC and Regional Offices to clarify and affirm their roles and responsibilities in implementing monitoring controls to identify and detect red flags in Purchase Orders (POs) and LoAs. In the event that an Office/Division could not undertake such responsibility due to resources constraints, the Head of the respective Office/Division should escalate the matter by informing the Core Leadership Team about the magnitude of the risk.

Rec 07: Clarification on engagement with suppliers not registered in UNGM
CSLP Procurement guidelines to clarify the rules regarding the engagement of suppliers not registered in UNGM.
# OVERVIEW OF THE FRAUD SCENARIOS

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<tr>
<th>FRAUD SCENARIO #</th>
<th>SHORT DESCRIPTION</th>
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<tr>
<td>1</td>
<td>Collusion among bidders during bids submission (price fixing)</td>
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<td>Bidders misrepresenting their eligibility for the award by submitting falsified supporting certificates or documents</td>
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<td>Bidder submitting multiple bids under different names, or through affiliated companies</td>
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<td>Fraudulent payments to suppliers for goods that are not delivered or for goods of inferior quality</td>
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<td>6</td>
<td>Misrepresentation of procurement justifications in exchange for money/other benefits from suppliers or for personal use</td>
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<td>7</td>
<td>Intentional direct selection of a supplier in exchange for money or other favours</td>
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<td>8</td>
<td>Sharing of confidential information with bidders in exchange for money or other favours</td>
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<td>9</td>
<td>Fraudulent payments to LoA service providers for sub-standard/not delivered services in exchange for money/benefits</td>
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FRAUD SCENARIO #1
Collusion among bidders by agreeing on bidding prices with the intention of creating an artificial competition to inflate the prices of goods under tender, and to favour one of them.

Fraud risk
Collusion among bidders during bids submission (price fixing).

Weaknesses identified in existing controls
N/A

Possible preventive controls for consideration
• The Requisitioner(s), in close collaboration with the buyer, maintains an effective procurement plan to allow adequate bidding time, and together with the LTO and/or the requester conducts proper market research to increase the list of bidders.
• Buyer conducts a “similarities check” on bidding documents to identify suspected cases of collusion among bidders and reports them to OIGI. Buyer should also request copies of the bidders’ incorporation/registration documents to check if they are affiliated.

Possible detective controls for consideration
• Buyer monitors and performs due diligence of sub-contracting arrangements by the suppliers. Buyer looks out for patterns such as the selected supplier subcontracted the works to competitive bidders.
• Buyer compiles a list of qualified potential suppliers who did not submit their bids and contacts them to find out the reasons.
FRAUD SCENARIO #2

Bidder falsifies supporting documents (e.g. certificates of authenticity of products, certificate of appreciation/eligibility) in the bidding process to misrepresent their eligibility for the bids.

Fraud risk

Bidders misrepresenting their eligibility for the award by submitting falsified supporting certificates or documents.

Weaknesses identified in existing controls

- The responsibility for verifying the validity of the supporting documents (e.g. certificates of authenticity of products, certificate of appreciation/eligibility) is unclear.
- LPC members rely on the review of solicitation documents by the requester or buyer and do not verify the validity of review of bids done.

Possible preventive controls for consideration

Buyer verifies the authenticity of certificates submitted by the bidders with relevant associations or certifying bodies. In cases where the verification with the association or certifying bodies cannot be done, to the extent possible, the buyer should request to see the original copies of the documents concerned. At a minimum, this should be done for the technically qualified local bidders.

Possible detective controls for consideration

There is no effective detective control apart from tip-offs. Therefore, in the event that the Corporate Hotline is not accessible, the FAOR establishes and maintains an effective and well-communicated local complaint mechanism for personnel and external parties to report misconduct.
**FRAUD SCENARIO #3**

Bidder submitting multiple bids under different names, or through affiliated companies to create artificial competition.

**Fraud risk**

Bidder submitting multiple bids under different names, or through affiliated companies.

**Weaknesses identified in existing controls**

- The existing guidelines lack clarity regarding the responsible party for conducting checks and the specific elements to be reviewed when registering vendors. A comprehensive assessment of supporting documentation submitted by suppliers should be conducted.
- Country Offices engage with suppliers that are not registered in UNGM. The guidelines on E Tendering indicated that the use of In-Tend for open submissions is recommended but not mandatory. Often country offices assume that if In-Tend is not used, they could engage with vendors that are not registered in UNGM.
- For registered vendors in GRMS, there is a lack of monitoring by the second-line management regarding vendors’ information to identify possible red flags e.g. same address, emails, phone numbers, same bank accounts.

**Possible preventive controls for consideration**

Buyer requests copies of the bidders’ incorporation documents to check if they are affiliated. Pay attention to similarities in registration details including contact information. SSC to check similarities of vendor details including bank account information at the time of vendor registration.

**Possible detective controls for consideration**

- The Vendor and Banking Team in SSC analyses IMIS report “Vendors Site Banks” to identify cases of different suppliers having the same bank account or contact information. Specific tests on data are conducted to check for duplicate records.
- The Procurement Unit at the Country Office to review the completeness and accuracy of the information reported in the Vendor master file by Operating Unit e.g. check that vendors’ information in UNGM and in the vendor master file is accurate e.g. UNGM number.
FRAUD SCENARIO #4

Requester receives money or other benefits from suppliers in exchange for intentionally narrowing the technical specifications or evaluation criteria to favour certain supplier; or intentionally keeping the specifications ambiguous to allow unqualified suppliers to bid.

Fraud risk

Intentional formulation of technical specifications to favor certain suppliers in exchange for money or other benefits.

Weaknesses identified in existing controls

- Country Offices do not always request the required LTO clearances of technical specifications.
- Country Offices lack clarity on the technical clearances process.
- Although each project has assigned an LTO, sometimes LTOs do not have the technical competencies to clear all type of goods. In such cases, country offices do not know who is the appropriate unit/officer to provide technical clearance and support.
- Buyers fail to verify that LTO clearances are duly obtained.

Possible preventive controls for consideration

- LTO reviews technical specifications provided by the requester to identify and rectify cases where the specifications are too narrow to favour certain suppliers (e.g. mentioning of brand) or too ambiguous to meet requirements.
- The Procurement Unit to enhance clarity regarding the responsibilities and workflow associated with the process of requesting and obtaining technical clearances. This can be achieved through the creation of flowcharts or tables, providing a visual and easily referenced guide for all involved parties.

Possible detective controls for consideration

There is no effective detective control apart from tip-offs. Therefore, in the event that the Corporate Hotline is not accessible, the FAOR establishes and maintains an effective and well-communicated local complaint mechanism for personnel and external parties to report misconduct.
FRAUD SCENARIO #5

FAO personnel or Implementing Partner responsible for receiving goods colludes with the supplier to misrepresent goods received (either by overstating quantities received, or acceptance of goods of inferior quality than the one specified in the invoice or purchase order) in exchange for money or other favours.

**Fraud risk**

Fraudulent payments to suppliers for goods that are not delivered, or for goods of inferior quality.

**Weaknesses identified in existing controls**

- Receipt or inspection of goods at country offices is not properly done e.g. individual in charge of receiving the goods does not have the necessary technical skills and information about the quality/characteristics of the inputs delivered.
- Goods are delivered directly to the Implementing Partners at the field for distribution and any discrepancies in quality and quantity may not be detected or reported due to weaknesses in the receipt and inspection process.

**Possible preventive controls for consideration**

N/A

**Possible detective controls for consideration**

- Operational support/Admin personnel reconcile the PO quantity - quantity received (Bill of Lading) - Invoiced quantity with quantity distributed (input distribution records) or in storage (warehouse records).
- In the event that the Corporate Hotline is not accessible, the FAOR establishes and maintains an effective and well-communicated local complaint mechanism for personnel and external parties to report misconduct.
FRAUD SCENARIO #6
FAO personnel either misrepresent justification for procurement or inflating purchase quantities in exchange for money/other benefits from suppliers or for personal use.

Fraud risk
Misrepresentation of the justification for procurement in exchange for money/other benefits from suppliers or for personal use.

Weaknesses identified in existing controls
- Budget holders usually do not review in detail the need or justification for procurement e.g. they do not inquire how the requests are linked to specific project workplans.
- Budget holders usually do not inquire about the reasonability or justification for quantities of inputs to be purchased.

Possible preventive controls for consideration
Project Manager (Project Team Leader) and the AFAOR Programme to review the procurement request and justify it against project workplan and budget.

Possible detective controls for consideration
- Buyer or Monitoring and Evaluation (M&E) Team analyses significant deviation from procurement plan to identify unnecessary procurement (e.g. significant deviations without justification, PO quantity higher than quantity in PR, high level of inventory or consumables that remained unused, and subsequently written off).
- For procurement of assets, excessive number of assets assigned could be an indicator, but for expendables, it is difficult to detect unless there is a tip-off. Therefore, in the event that the Corporate Hotline is not accessible, the FAOR establishes and maintains an effective and well-communicated local complaint mechanism for personnel and external parties to report misconduct.
# FRAUD SCENARIO #7

Selection of suppliers through direct procurement without valid justification to favour certain supplier in exchange for money or other benefits.

## Fraud risk

Intentional direct selection of a supplier in exchange for money or other favours.

## Weaknesses identified in existing controls

- Country Offices use direct procurement without a proper justification. E.g. there are no other available/suitable vendors but there is no evidence to demonstrate so, for example through the results of market research conducted.
- Country Offices choose direct procurement even in cases where competitive procurement process was possible or feasible.
- The Procurement Committee does not request the buyer to provide evidence justifying the direct procurement and proving a competitive procurement process is not possible or feasible.

## Possible preventive controls for consideration

Procurement Committee reviews direct procurement is justified and supported with relevant evidence. For example, if the direct award was “Only known in the area”, the buyer should be able to demonstrate the work done to arrive at such conclusion. The Procurement Authority ensures that such checks were done by the Procurement Committee.

If the operational requirement is recurring, the Office should find ways to increase the competitiveness of the future procurement process to avoid cultivating a monopoly situation.

## Possible detective controls for consideration

Difficult to detect unless there is tip-off. However, CSLP/Regional International Procurement Officers (IPOs) could analyse cases of recurring direct selection of non-performing suppliers, and local procurement for items that could procured through Framework Agreements.
**FRAUD SCENARIO #8**

FAO personnel involved in tendering process receives money or other benefits from suppliers in exchange for leaking confidential information to the bidder.

**Fraud risk**

Sharing of confidential information with bidders in exchange for money or other favours.

**Weaknesses identified in existing controls**

Frequently, at Country Offices, buyers or procurement personnel engage with potential vendors using their FAO email accounts rather than the designated generic procurement email. Additionally, procurement personnel emails are included in the correspondence with suppliers, disclosing the identity of procurement personnel to potential vendors.

**Possible preventive controls for consideration**

- Buyer ensures bids from suppliers are submitted through E-Tendering System, which would be more secured than manual submission of bids.
- Buyer or designated personnel safeguards the access of confidential procurement information, including limiting the number of personnel who can access the information.
- The signed declaration of no conflict of interest and commitment to the ethics principles by personnel involved in procurement (requesters, BHs, Local Technical Experts, LTOs, buyers, members of tendering opening panel, and procurement committee) should be kept in their HR files.

**Possible detective controls for consideration**

Difficult to detect unless there is tip-off. Therefore, in the event that the Corporate Hotline is not accessible, the FAOR establishes and maintains an effective and well-communicated local complaint mechanism for personnel and external parties to report misconduct.
FRAUD SCENARIO #9

Project personnel colludes with LoA service providers to pay for services that were partially received or not received in exchange for money or other benefits.

Fraud risk

Fraudulent payments to LoA service providers for sub-standard services or services that are not delivered in exchange for money or other benefits.

Weaknesses identified in existing controls

- Responsible officers fail to conduct proper verification of the evidence of expenses and the achievement of milestones or completion of activities. Instead, they tend to rely solely on summary of expenses provided by service providers and reports describing activities implemented.
- Lack of proper monitoring by the M&E function of activities implemented by service providers.

Possible preventive controls for consideration

Rotation of personnel managing LoA to deter collusion.

Possible detective controls for consideration

- Local M&E personnel monitors and evaluates activities to verify the work completed by LoA service providers.
- Conduct data analysis to identify potential red flags; e.g. LoAs that were fully paid in a short period of time.
- The Budget Holder to assign responsibility to a designated personnel to periodically conduct analyses to identify:
  1. Purchase Orders for LoAs (with passed service end date) have only the up-front payment; and
  2. Recurring cases where payments to LoA's Service Provide always match the total LoA's value without verification of supporting documents for actual expenditures.