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19 September 2012

Dear Partners,

I am pleased to follow up, as promised, to our discussion on LOTFA in our meeting of 18 September. You know that UNDP shares your concern about the LOTFA project, but we were reassured by your willingness to learn about what measures we propose to translate that concern into effective remedial action.

As you know from our discussion, UNDP Afghanistan (with strong support from our headquarters) is acting quickly on what it already knows, and to inquire further into topics that will not be addressed by the continuing OAI investigation. I am pleased to provide below further information on the four related initiatives about which we have spoken to you. We encourage you to share this information with your capitals, and we will of course respond to your or their questions. The four initiatives are:

1. Quick Response Actions. Within less than a month of the termination or placement on administrative leave of LOTFA and CO staff, UNDP had approved a more robust organigramme, and recruited an experienced senior manager on an *ad interim* basis to stabilize current LOTFA operations, and to establish a clear direction and "culture of integrity" that will put LOTFA back on track. **Four areas of priority action have been adopted; most of them will be complete by the end of 2012:**

   o Staffing. LOTFA was inadequately staffed in both numbers and in necessary professional skills.

      • A revised organigramme was approved on 15 July 2012. It will increase international staff to 14, and national staff to 44, or a total of 58. Recruitment of all positions is expected to be complete by 31 December 2012.
      • Using BCPR rosters and the fast-track procedures available, accelerated recruitment has enabled quick interim staffing of key positions, including Pillar 2 (Capacity Development and Gender) Manager and Community Policing Specialist.
      • An external HR consultant/manager was brought in on 2 September 2012 to support international recruitment and to manage national staff recruitment to meet the 31 December 2012 target date.

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o   Procurement. Significant procurement irregularities were identified that stem from both ethical and professional shortcomings. In addition, the NIM and DIM procurement methods are inadequately understood and have been poorly implemented.

- On 3 September 2012 LOTFA was joined by the Head of Procurement from UNDP Somalia. She will be in place until 31 October 2012 and is responsible for reviewing and correcting all pending procurement action, including tenders, RFPs, bidding processes, contract awards, and contract issuance.
- On 22 September 2012 a Procurement Specialist will join LOTFA and will work under the supervision of the UNDP Somalia procurement expert, and will provide the link of continuity for professional procurement subsequent to the departure of the Somalia expert.
- On 1 November 2012 a procurement expert from the Copenhagen Procurement Support Office will commence a six-week assignment to build from the hands-on work of the Somalia expert to produce clear systems, documentation, checklists, samples and monitoring processes for LOTFA procurement staff to follow from mid-December onward.

o   IT. While the EPS system has been successful, it is weak both in terms of the management of the software development process, and in terms of internal control of payments, resulting in such problems as "ghost police", doubles, and incorrect entitlements.

- LOTFA and NTM-A are now engaged in several collaborative process regarding the data, including an effort to eliminate data problems by fitting together the EPS, the AHRIMS (HR system), the AFMIS (financial system), ID card system, and the GIRoA tashkil process. It is expected that this effort will be projectized with specific deadlines for elimination of data inconsistencies that are enabling misuse of the system.
- It is likely that LOTFA will request a review of the IT management environment, either through an external consultancy or with the assistance of UNDP's Office of Information Systems and Technology (OIST).
- LOTFA, CSTC-A, and MoI are currently considering a proposal put forward by LOTFA to simplify and rationalize the method of monthly/quarterly reimbursements to MoI. This is where the bulk of LOTFA funding goes and it is insufficiently clear or transparent.

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o   Delivery. Delivery of LOTFA non-payroll services has been low and slow through the current fiscal year. Some of this is due to the procurement mistakes, some is due to the lack of staffing (including the termination of three staff), and some is due to the establishment of more robust systems. While addressing those issues through the above and other measures will help,

- The LOTFA procurement plan, well behind schedule, has been reviewed line-by-line with the intent of identifying everything that can be responsibly delivered by 31 December 2012 and by 31 March 2013. This procurement will be accelerated under the oversight of the Somalia Procurement manager on detail.
- In the week of 23 September 2012, LOTFA will be proposing interim measures to temporarily suspend the NIM procurement modalities, which have been slow and error-prone, and replace them with DIM procedures under the LoA that UNDP has with the Ministry of Interior. This is intended to dramatically increase the speed and quality of procurement currently pending, and will be combined with training initiatives with MoI that will simultaneously enhance their skills.
- Realistic project and financial deliverables are being set by each of the three pillars and will be the basis for consultation with donors on delivery targets for their resources in the remainder of the year and Phase.

2. Audit response. The 2011 external audit findings include recommendations on five areas that require response. While UNDP initially put forward a management response to the audit findings, it has subsequently been decided to respond more aggressively through "supplementary responses". Thee supplementary audit response actions are specific to concerns identified in the audit report, and are targeted for quick-start action. Some of the intended results will take time to achieve, largely due to the still incomplete rebuilding of the staff capacity, which will take until the end of 2012 to complete. The actions, however, are clearly identified and will begin now. **The audit response initiative targets specific issues with immediate action, as noted in the following table. They will begin now; implementation will run through 2013 for some actions.**

Audit Observation	Intended Actions
Limited Monitoring of Government disbursements procedures by UNDP-LOTFA	o Continued checking and analysis of EPS Data o Review the effectiveness and value of the Monitoring Agent services (in concept and in practice) o Institute regular management review and proactive use of MA reports (not only corrective) o Re-engineering of payroll system to eliminate/reduce sources of error (this will be started now, but will take

Audit Observation	Intended Actions
	time to implement)
Reconciliation of records between MoI and MoF not prepared on quarterly basis	o Ongoing efforts to improve the reconciliation process continue, including the LOTFA proposal on simplifying the reimbursement/reconciliation process. o NTM-A data analysis is being used to identify and correct inaccuracies in food payment o The effort will be made to gain access to the AFMIS payment system for LOTFA technical staff – this will strengthen LOTFA ability to cross-check data o The LOTFA Phase VII Pro Doc will include targets for improved system integration
Uncertainty regarding the New Kabul Bank	o UNDP and LOTFA are engaging with various parties to assess the possibility of escalating use of M-Paisa and other mobile-money (cell-phone based) payment systems o Use of additional/other banks is being explored
Limited cases of double payment of salaries in Kandahar and difference between number of police personnel as per HR and EPS records	o Monitoring Agent review of the M41 forms will continue to be used to identify and correct these anomalies o EPS data reconciliations will continue o NTM-A "probes" will be used to correct and to identify patterns of misuse that can be used to improve the EPS system o Training workshops intended to reduce unintentional errors in the data will be accelerated o The LOTFA Phase VII Pro Doc will address this issue from a systems perspective
Lack of or inadequate information system controls and checks	o The continued roll-out of WEPS will close some of the opportunities for misuse through paper-based systems o A professional review of the IT technical and operational environment is strongly recommended o Recommendations for professionalization of the IT staffing approach will be put forward after the review

3. <u>Management Review.</u> Cognizant of some of the more fundamental shortcomings of LOTFA, and mindful of the need to "re-engineer" LOTFA to be properly configured and managed for the transition period on the horizon, UNDP is launching, in consultation with LOTFA

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stakeholders, a management review that will assess issues of LOTFA governance, structure, risk mitigation, monitoring mechanisms, and the payroll disbursement system. **The management review targets fundamental management issues that LOTFA must address in order to provide an effective and trusted platform for the future. It is expected to produce a report by 31 December 2012, with discussion and planning in the Phase VII ProDoc continuing in through the first quarter of 2013. It will:**
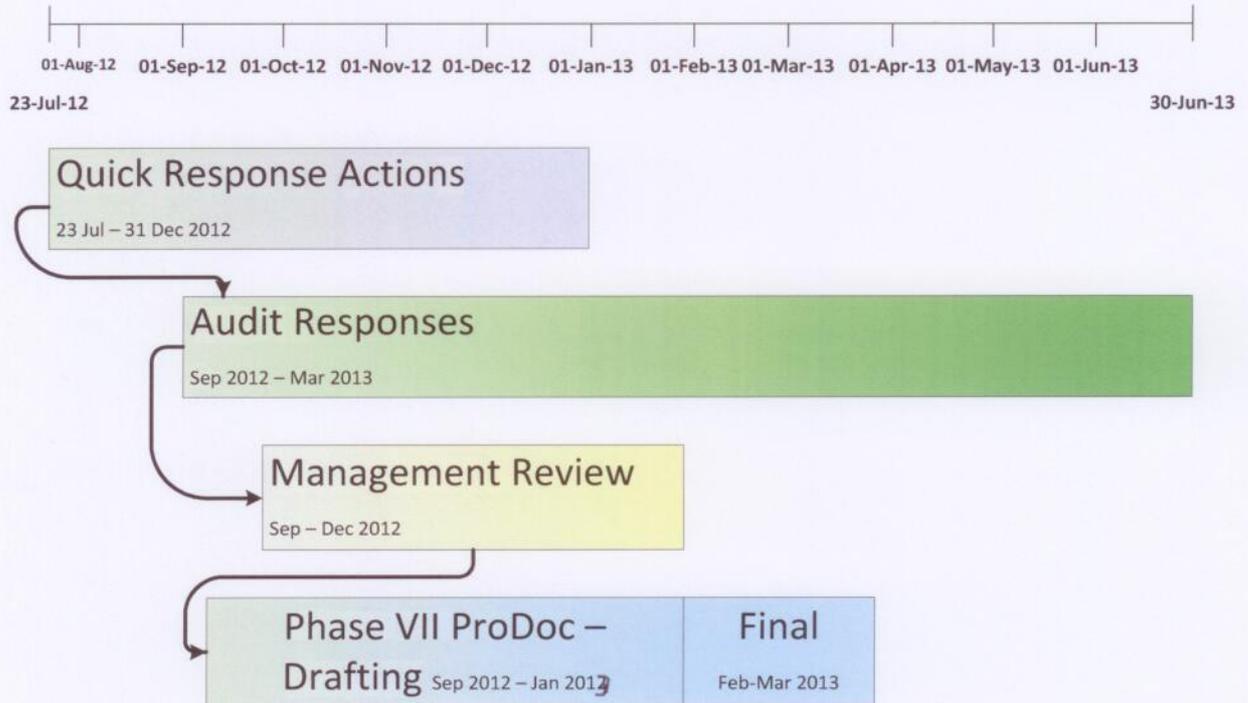
o   Assess the <u>overall governance arrangements</u> of the project and make recommendations for improvements and changes that may be required;

o   Review the appropriateness of the <u>management and structural arrangements</u>, including the staffing depth of the current project management framework;

o   Review the existing <u>risk mitigation mechanisms</u> of the project, and recommend measures to more effectively manage and share risks with stakeholders;

o   Review the <u>effectiveness of the existing monitoring arrangements</u> and identify alternative systems and approaches if required;

o   Review the <u>robustness of the disbursement systems</u>, and recommend measures that will help prevent duplication of payment or fraudulent payments.

4.   <u>Phase VII ProDoc.</u>   Phase VI of LOTFA will end on 31 March 2013. The police/prison guard payment system that is the backbone of LOTFA, and a key element of the post-Transition planning framework, requires both improvement and enhancement.   In terms of improvement, known irregularities in the payment system must be corrected, both within the technology environment and from the operational perspective. In terms of enhancements, it would be logical, and desirable, for the payment system to become more effectively linked to, or integrated with, other existing (finance, HR, Identity Card) or projected IT systems. At the same time, technology improvements cannot alone carry the Afghan security arrangements forward. A much stronger capacity development project component could be justified, as well as redoubled effort on gender and on community policing. Beginning in September 2012, UNDP/LOTFA will launch a consultative process, with an emphasis on strengthening involvement and ownership of the MoI, aimed at producing a final draft proposal of a LOTFA Phase VII by 31 January 2012. **The LOTFA Phase VII initiative will propose a multi-year strategic framework for leveraging previous accomplishments, while responding to expanding expectations of stakeholders.**

The four initiatives will take place concurrently, as illustrated below. They will be managed separately, but the audit response actions will help to inform the management review, which in

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turn will help to ensure that Phase VII proposals will be based on an organizational framework that is capable of realistically delivering them with integrity.

| 01-Aug-12 | 01-Sep-12 | 01-Oct-12 | 01-Nov-12 | 01-Dec-12 | 01-Jan-13 | 01-Feb-13 | 01-Mar-13 | 01-Apr-13 | 01-May-13 | 01-Jun-13 |

23-Jul-12   30-Jun-13

Quick Response Actions

23 Jul – 31 Dec 2012

Audit Responses

Sep 2012 – Mar 2013

Management Review

Sep – Dec 2012

Phase VII ProDoc –
Drafting Sep 2012 – Jan 2013   **Final**
                                       Feb-Mar 2013

Again, thank you for the support you have extended to UNDP and to LOTFA over the years. We will spare no effort to regain your confidence, and we will welcome your engagement in the process.

With best regards,

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Country Director

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