Law and Order Trust Fund for Afghanistan

Management Review

15 December 2012

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Executive Summary

1. At the request of UNDP senior management, a Management Review Team (MRT)[1] was in Kabul from 4 to 20 November 2012 to review the management arrangements of the Law and Order Trust Fund for Afghanistan (LOTFA). Starting in 2002, LOTFA has mobilized and delivered about $2.5 billion to support the Ministry of Interior (MOI) establish a professional Afghan police force, through six short-phased (15-30 months) programmes. Next to the World Bank managed Afghanistan Reconstruction Trust Fund (ARTF), LOTFA is the second largest provider of on-budget police and related security sector salary (excluding military) through the Ministry of Finance (MOF).

2. The MRT considered how the UNDP and LOTFA management and operations arrangements could have contributed to mismanagement and procurement fraud and what actions UNDP should take to manage the risk and potential impact of such problems in the future. The MRT, which has a forward looking focus, examined areas where changes should be considered in the way LOTFA is organized and operates, how it fits within the context of other ongoing efforts to strengthen Ministry of the Interior (MOI) and Afghan National Police (ANP), and the role of UNDP to make for a more effective programme of support to MOI. The MRT received very good cooperation from the UNDP Country Office (Country Office), LOTFA project staff, MOI staff, partners and other stakeholders.

3. The fact that procurement fraud occurred and continued undetected for so long was only possible due to the failure of UNDP management, in particular the Country Office, to provide the necessary oversight, guidance, support and quality assurance to the LOTFA project and staff. While the MRT focused on LOTFA, it seems likely that these management weaknesses would also affect other UNDP projects as well. Significant improvement in the quality of UNDP Country Office management and support to projects is central to any solution to the current problem and management of future risks.

4. By the time the MRT arrived in Kabul, UNDP had taken important steps to strengthen LOTFA project management. These steps included: formal investigation of the fraud allegations, with suspension or termination of the staff involved; appointment of a new Country Director with considerable post-conflict operations experience; recruitment of a highly-qualified acting Project Manager; initiation of the process to more than triple national and international project staff; special support in the area of procurement; creation of an Oversight and Compliance Unit in the Country Office; initial development of internal standard operating procedures (SOPs) for key processes; and MRT recruitment.

5. National ownership is fundamental for the effectiveness and sustainability of a crucial programme like LOFTA. The MRT found a surprisingly low level of MOI ownership of LOTFA. MOI's principal interest appears to be for payment of salaries and related expenses, for which LOTFA is seen as an external body operating relatively satisfactorily. LOTFA is not seen by MOI as a strategic instrument for development of the MOI or the ANP. If LOTFA is to serve as such an instrument, it must operate as part of a broader international strategy for the MOI, owned by the MOI. To this end, it will need

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to be seen as a support unit within MOI, reporting to MOI, rather than, as at present, a UNDP unit outside MOI that reports to UNDP.

6. It is also important that LOTFA operations fit within a broader strategy for the strengthening MOI and ANP. To be clear, this does not refer to a LOTFA strategy but rather to a strategy of the Government of Afghanistan (GoA) and the international community, such as is now being developed under the umbrella of the International Police Coordination Board (IPCB). UNDP is and will be one of several partners to provide support to MOI and ANP. UNDP should actively engage in the relevant IPCB working groups, including LOTFA staff when appropriate. The vision statement and implementation plan for MOI produced by the IPCB should be available around March 2013. LOTFA VII, currently under preparation, needs to be designed around this so that future LOTFA institution building takes place within an agreed "whole" strategy for MOI rather than being an isolated effort that has little MOI buy-in and ownership.

7. The existence of a comprehensive MOI strategy drawn up by the IPCB will help overcome some of the limitations imposed to-date by the short-term perspective of the "phased" approach applied thus far to LOTFA. Such a strategy should provide longer-term perspective on support, including a plan for handover of LOTFA payroll support activities to GoA.

8. UNDP appears to be somewhat uncomfortable with provision of the LOTFA payroll support function, without simultaneously accompanying it with other "capacity development" activities. Given LOTFA's crucial role in the proper functioning of the national police force, it is critically important that the payroll services are provided well with clear dedicated management and resources. Since UNDP appears to be interested to continue and strengthen the payroll function, it should maintain a dedicated project team for this specific purpose, not burdened with other responsibilities.

9. To gain MOI ownership and to enhance the development impact of funds channeled to MOI by opening up implementation to whichever entity has comparative advantage in a particular topic; the MRT recommends that the trust fund management aspect of LOTFA (receipt and fiduciary management of funds from partner; allocation and distribution to implementing entities) should be separated from project implementation. A Multi-Partner Trust Fund (MPTF) should be established, similar to the World Bank-managed Afghanistan Reconstruction Trust Fund (ARTF) and to United Nations MPTFs in many other countries, administered by the UNDP MPTF Office. The proposed LOTFA MPTF would be open to proposals from a wider range of possible implementing organizations and have a government-UN-partner Steering Committee to interpret the broader strategy, decide on allocations of funds to projects and implementing entities, and monitor progress. MPTFs provide a higher standard of transparency in public on-line financial and narrative reporting.

10. The role of the existing Steering Committee needs to be radically changed from one that is swamped with voluminous reports and acts more as an "advisory body" to one that sets policy, is involved in discussion of issues, and takes decisions. This enhanced role will become all the more important when the Steering Committee, or a sub-group of the Steering Committee, takes decisions on what projects to fund and what not to fund. Lessons should be drawn from the successful ARTF.

11. Conversion to the LOTFA MPTF should allow the IPCB's findings to be fully taken on board and be carried out in a way that does not negatively affect current project implementation. The key actions to develop the MPTF infrastructure do not involve LOTFA project staff and can take place concurrently with continuing project actions over a period of transition. Someone (e.g. UNDP MPTF

Office) with appropriate MPTF experience should assist the parties to understand the process and agree on the basic infrastructure. This recommendation should be discussed and agreed with the Steering Committee.

12. Current Phase VI should be extended for a minimum of three months to enable design of LOTFA VII to be based on the strategic framework being developed by the IPCB in the first months of 2013. This will also enable LOTFA MPTF preparations to move forward without being unduly rushed.

13. Transparency in overall operations and particularly in procurement actions should be greatly increased. This will minimize the chance of future fraud and improve the competitive results to be obtained from the procurement processes. UNDP should ensure that all procurement requirements (NIM and DIM) are widely circulated, including posting on the UNDP and government procurement webpages as well as in the commercial press. The procurement results should be similarly posted, including awardee, number of bidders and disqualified bids.

14. UNDP should ensure that there is written agreement with government (MOI and MOF) and partners regarding the specific basis for reimbursement of MOI expenditures: account codes to be reimbursed and shares to be covered by government, LOTFA and possibly other sources. LOTFA should develop an agreed Table of Concepts and the Corresponding Objects of Expenditure, which shall be the basis for Monitoring Agent review and determination of eligibility for reimbursement. The table should be agreed in writing among LOTFA, MOI and MOF; it should be presented for information to the LOTFA Steering Committee and referred in specific partner contribution agreements. The table should be kept current, amended in writing when appropriate, and reconfirmed at least annually. The various MOI and MOF IT systems and administrative work procedures should be adapted to record the specific Objects of Expenditure.

15. The Monitoring Agent (MA) has played an important role to reduce the risk of accidental or intentional mis-payment of salary and related funds, including reduction in the frequency of duplicate payments. LOTFA should make better use of the MA, encouraging reporting to MOI and the Steering Committee regarding trends and issues identified, etc. The MA should certify the amount of each quarterly reimbursement request eligible as the basis for payment each quarter. The MA should address greater attention to salary payments made outside the banking system (e.g., through "trusted agents" and M-Paisa) as well as to salary payments in inaccessible areas.

16. The MA has consistently found that many expenditures for foodstuff lack the proper contract-related documentation. LOTFA should only reimburse those expenditures which are fully eligible and properly documented. Those expenses which are not properly documented when submitted should be deducted from the quarterly MOF request. The MRT recommends that proper documentation received prior to the next quarterly reimbursement request be considered for payment of pending expenditures, but that any expenditure is permanently excluded if it has not been fully documented and become fully eligible by the next quarter after the original request. Such a change will be an incentive for MOI to improve its administrative performance.

17. MOI should have a single authoritative Human Resources database, linked to the payment system. LOTFA should ensure the further development of the internal systems used for payment (electronic payment system (EPS), etc.) to obtain the flexibility, security and possibility for effective integration with the Afghan Human Resources Information Management System (AHRIMS). On behalf of MOI, LOTFA should ensure the integration of the AHRIMS, EPS and other relevant IT systems to manage

and pay MOI/ANP and Central Prisons Department (CPD) personnel. It should recruit a professional IT firm to review the current IT systems, design an end-to-end payroll system fully integrated with the HR and Finance systems, building on but not limited to the current EPS and AHRIMS systems.

18. The MOI IT function should be professionalized to ensure the most useful IT system results and minimize the costs and limitations inherent in compartmentalized systems development supported by individual partners. MOI should develop a high-level IT Steering Committee to prioritize, oversee and coordinate IT initiatives, to ensure that all departments and partners cooperate in the design, development and rollout of IT systems, prevent duplication of efforts and share resources. LOTFA should develop a plan with a time-table for the eventual transfer of the systems under its custody to full MOI responsibility, with on-going LOTFA support as may be required by MOI.

19. Audit should be used more effectively as a management and control instrument. The 2012 external audit of the LOTFA project should apply the fraud standard for audit of LOTFA procurement. The audit should focus particular attention on the MOI food procurement process, and provide management comments on the quality and risks in the process, the cause and significance of frequently missing documentation requested the MA, and recommendations as to how the food procurement process might be improved for greater effectiveness, transparency and accountability.

20. A management audit of LOTFA procedures and practices should be conducted during the first quarter 2013 to identify the status of institutionalization of appropriate LOTFA management processes and areas in which further work is required, in particular in areas related to asset management, procurement, finance, and reporting.

21. Given that it was a failure of UNDP management that created the conditions for LOTFA mismanagement and procurement fraud, UNDP should avoid the tendency for the pendulum to swing toward excessive control. UNDP should strengthen the quality of its services to projects and ensure that project staff have the expertise, knowledge and SOPs necessary to provide the services expected of them. The Country Office should conduct a Client Satisfaction Survey to serve as a baseline and guide for strengthening services. In conjunction with the Project Managers, the Country Office should review processes between the Country Office and projects for which SOPs and Service Level Agreements (SLAs) would be beneficial and develop them.

22. LOTFA will always face multiple risks – financial and operational – exaggerated by the broader context of transitional Afghanistan, with continuing security uncertainty, the prevailing challenge of corruption, and technological limitations, among other factors. LOTFA was established to mitigate those risks and it has done so to a significant extent. Much remains to be done. Systems have been established to effect payment, but they are fragile and open to abuse. All of the partners with whom the MRT met expressed awareness of those risks and of the impossibility of eliminating them. Furthermore, all agreed with the MRT perspective that on-going efforts will continue to reduce those risks over time. UNDP and the many LOTFA stakeholders should formally recognize that risks are real and that they are shared, as long as each party – MOI, LOTFA, UNDP, Steering Committee – does its best to minimize or manage risks over which it has any control. The MRT is convinced that the recommendations contained herein, when implemented, will provide a more effective management platform from which to manage the still significant risks while continuing the critical support to development of MOI and ANP.

Introduction

23. At the request of senior UNDP Management, a Management Review Team (MRT) was recruited to undertake a forward looking review of the overall management and operations of the Law and Order Trust Fund for Afghanistan (LOTFA), in light of the allegations of LOTFA mismanagement and procurement fraud (Annex 1, MRT Terms of Reference). During the period 4-20 November, the MRT worked in Kabul to examine key aspects of LOTFA management, including: overall governance, management controls regarding LOTFA operations; payroll management process; and systems related to payroll management. The MRT was well received by LOTFA, UNDP, and partners funding LOTFA, and benefited from open and frank interviews with a wide range of stakeholders (Annex 2).

24. The MRT did not conduct its own investigation of mismanagement and the alleged procurement fraud whose exposure precipitated the crisis that eventually led to the fielding of the mission. The MRT's understanding is that some project staff abused their positions and colluded with vendors to determine the outcome and inflated the cost of procurement exercises over a period of several years. This was made possible and exacerbated by serious management failure and lack of oversight from the UNDP Country Office.

25. The MRT sought to respond to several related concerns.

   - How did existing management control systems allow procurement fraud to continue for so long without detection?
   - Did the procurement fraud affect the core LOTFA function of salary payment?
   - How confident should one be that LOTFA funds are being used for intended purpose?
   - What can UNDP do to increase the level of confidence that funds are being used for their intended purpose?

Background

26. LOTFA was established in 2002 as a mechanism through which partners could provide financing to ensure that the Afghan National Police (ANP) would be paid, with actual payment to take place on-budget with reimbursement from UNDP to the MOF of eligible expenditures for salary and related support. Over time LOTFA has been increasingly charged to minimize leakage and ensure that only bona fide police are paid, leading to increased attention to the need for accurate employment records and a tamper-proof payment systems.

27. LOTFA is approaching the conclusion of its sixth Phase of activity over a ten year (2002-2012) period. What began as a small $20 million project in the first phase has cumulatively disbursed about $2.5 billion, with more than $650 million annually in the current phase. This has occurred without the framework of a comprehensive development strategy for LOTFA support to MOI and ANP. (See Annex 3 for Contributions by Year and Phase and Annual Expenditure by Major Outputs.)

28. The outlines within which a comprehensive strategy may be developed have been provided by agreements at the Kabul and Bonn Conferences, the NATO Chicago Conference, and the Tokyo donor Conference, which have established key calendar transition benchmarks in 2014, 2017 and 2024 for the development of the national police capacity and international support. Building on Kabul, the Bonn Conference provided a framework of firm mutual commitments for a long-term

partnership between the Government of Afghanistan and international partners. The objective was to assist Afghanistan achieve sustainable growth and development and fiscal sustainability through the 'Transformation Decade' (2014-2024). It was expected that as the Afghan economy and fiscal revenues grow the government would assume increasing financial responsibility, and that "no later than 2024, Afghanistan would assume full financial responsibility for its own security forces".

29. Tokyo went further recognizing very clearly that Afghanistan will not be able to meet its fiscal obligations (from domestic revenues) over coming years without substantial assistance from partners. At the Conference, the International Community committed to "directing financial support towards Afghanistan's development through the 'Transformation Decade'. In this context, the International Community committed to providing over $16 billion through 2015, and sustaining support, through 2017 at or near levels of the past decade to respond to the estimated fiscal gap".[2] In short, there is a firm commitment from partners to continue to support the budget and the security forces albeit with a declining proportion of the funds coming from partners over time. This is important when considering future interventions through LOTFA as a further series of short interventions or a more sustained commitment where goals can be more ambitious.

30. Until the reports of alleged mismanagement and corruption broke in the press in May 2012, LOTFA was considered to be a highly successful and well-run UNDP operation. Once questions arose, serious weaknesses became immediately apparent.

31. UNDP took several important steps in the months between the public disclosure of the alleged mismanagement and the arrival of the MRT. These included, among others:

- Investigation of the facts by Office of Audit and Investigations (OAI)-Investigations, with final report expected soon.
- Firing of short term personnel and administrative leave for regular staff apparently involved, pending resolution of the investigation.
- Appointment of a new Country Director and review of the structure and staffing of the Country Office, which has already led to the recruitment of new Country Office managers.
- Review of LOTFA's structure and staffing, resulting in a decision to more than triple the number of national and international staff. Increases were particularly high for staffing of Pillars II and III and general operations support.
- Development of new Request for Proposals (RFP) for Monitoring Agent services.
- Use of special surge support in area of procurement to ensure pending processes move ahead correctly.
- Steps toward establishment of a new Oversight and Compliance Unit within the UNDP Country Office.
- Development of Standard Operating Procedures (SOPs) for internal operations and for interaction between the project and the Country Office.
- Organization of the Management Review mission.

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[2] See communiqués from Chicago Summit dated 21 May 2012, and the Tokyo Conference dated July 8, 2012.

General Assessment

32. Procurement fraud within LOTFA could only have occurred for such an extended period of time due to serious management failures in exercising proper oversight and support on the part of UNDP. The UNDP Country Office failed to ensure that its project and project staff had the necessary expertise and work processes to fulfill their responsibilities. There was no LOTFA staff member with procurement expertise for most of the period of concern, even though project staff were conducting procurement. When the project requested recruitment of a national procurement staff member, it was reportedly blocked by the Country Director. There was no project/country procurement handbook and SOPs to guide staff unfamiliar with UNDP procedures.

33. In general, the Country Office took the position that LOTFA was operating under the National Implementation Modality (NIM), with the MOI responsible for overall achievement of the results, and therefore UNDP was not responsible for procurement. No support was provided by the Supply Chain Management Section to ensure project staff knew how to correctly conduct procurement. The Programme Section did not ensure that procurement was properly planned and conducted. The Country Office stated that LOTFA conducted procurement on a "hybrid" basis involving NIM and Direct Implementation Modality (DIM) – as if specific procedures had been adopted drawing on the best of UNDP and Government procedures – when in fact the project followed neither UNDP nor Government procedures and acted in a manner to avoid oversight. This was a management failure driven from the top leadership of the Country Office and carried out by each of the responsible sections that did not act to ensure that appropriate staff were in place to fulfill project responsibilities, that the staff knew what to do and that they were operating according to correct procedures applied with the appropriate quality.

34. Significant leakage of payroll funds (ghost workers, partial salary payments, etc.) is a serious fiduciary risk. Given the hundreds of millions of dollars directed at salaries each year, a small leakage could theoretically have resulted in the loss of tens of millions of dollars of partner contributions. Even so, if handled professionally by LOTFA, this would have constituted less of a reputational risk for UNDP than would result from mismanagement by UNDP project staff of even a relatively small amount of funding (under 1% in this case). The first situation would have demonstrated the need for the LOTFA mechanism, while the second damages the reputation of UNDP and thus undermine to the soundness of the UNDP-managed mechanism. While it is very important to note that appropriate actions began to be taken by UNDP when the allegations came to light, there was still an unfortunate tendency to minimize the problem as "involving only a small amount of funds." The central question was not the amount but rather implications and responsibility.

35. Fortunately, the procurement fraud does not appear to have had any effect on the police payroll payment process. This is due primarily to the fact that the payroll process is not in any way dependent upon LOTFA procurement actions.

Recommendation:

- To prevent such fraud from again arising and remaining undetected for long, UNDP at the highest corporate level should unequivocally communicate that UNDP is responsible to

ensure that its country offices and projects have staff with the appropriate expertise, guidelines and SOPs to conduct the work expected of them. This implies that country offices are responsible to provide training and support, ensure that SOPs are developed, and monitor their application, so that project staff can work effectively, regardless of implementation modality. This should be communicated through the Regional Bureau and become part of the expectations and performance review criteria for Country Directors and Country Office staff.

Governance

Government Ownership

36. The MRT had only one meeting with a senior official of the MOI – the Deputy Minister, Administration, who is also the LOTFA National Director. There was no MOI presence at either the MRT's inception meeting with the LOTFA Steering Committee, which is co-chaired by the MOI, or at the round up meeting again with the Steering Committee that was attended by nearly all partners and other stakeholders. The MRT finds that there is remarkably little sense of ownership of LOTFA within MOI. The MRT was however pleased that the MOF participated in the round-up meeting and presented the GoA's positions with clarity.

37. LOTFA has not been perceived as a support unit within MOI. LOTFA staff are UNDP staff; they report first and foremost to UNDP (a view also held by the UNDP Country Office). Although the LOTFA VI Project Document clearly details and contains an organigram that shows the LOTFA Project Coordinator/Chief Technical Advisor, who manages the full range of LOTFA operations, reporting to the Deputy Minister/National Director. This is however not how it is perceived within UNDP or the MOI. Given this, it is difficult for senior MOI management to perceive LOFTA as truly belonging to them, an essential ingredient in ownership. Without enhanced ownership, LOTFA will remain a unit external to the MOI, with little substantive impact on the long-term development and performance of the Ministry.

38. When LOTFA started in 2002, its essential purpose was to pay police salaries. This has almost no developmental impact, although improved security is a critical prerequisite to delivery of development services and it was crucially important to demonstrate good governance and assure partners that their funds are being used as intended. As such, it made sense that LOTFA should fall under the Deputy Minister for Administration and Finance. Indeed it may still be best for the salary and benefits component of LOTFA (Pillar I) to fall under Administration. But LOTFA has changed over time and now seeks to address substantive issues of institutional capacity and development that cut across the full MOI mandate. These components in Pillars II and III as of Phase VI are, in most respects, quite separate from Pillar I. They represent line items in what would normally be a relatively small institution-building project (of some $20 million but with a slow implementation rate). The MOI appears to be interested only in the payment of its police salaries and benefits with little interest in the capacity building components supported by LOTFA in their present design.[3]

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[3] It was not part of the terms of reference of the MRT to determine the impact of these Pillars II and III. Suffice it to say, that the consensus seems to be that, apart from the hiring of some 1,300 female police officers out of a total of 140,000 (itself a very significant contribution), the developmental impact of these Pillars appears to have been small to insignificant.

39. As the International Police Coordination Board (IPCB) clarifies the MOI vision, implementation strategy, and the role of the many partners in supporting the MOI, it may make sense to shift responsibility of Pillars II and III to the parts of the Ministry that address such capacity building programmes. This may help with building ownership within the MOI.

LOTFA as part of MOI Vision and Institution Building

40. Part of the problem is that Pillars II and III have been developed in the absence of any vision of:

- what the Ministry is setting out to achieve,
- an agreed strategy to move forward,
- a longer-term implementation plan, and
- real regard for what other partners are doing in the Ministry. (One partner for example, commented to the MRT that they were reluctant to support LOTFA since its institutional objectives seem to be inconsistent and/or duplicative of their efforts.)

41. Fortunately, following the May 2012 NATO Chicago Conference, it was agreed that the IPCB would be reinvigorated and empowered with developing a vision for the MOI – a conceptual framework for policing in Afghanistan that puts less emphasis on ANP being an adjunct to the Afghan National Army (ANA) and more on civilian policing. It aims to bring the many independent threads together (there are multiple partners and partners working with the MOI – more often than not without coherence of effort) in readiness for transition at the end of 2014. LOTFA has allocated $5-8 million to help IPCB develop this strategy and move it forward with a surge of effort between now and the end of 2013. Four working groups have been established by IPCB: ANP professionalization; police-justice linkages; MOI reform; and the Ministerial Working Group. Major outputs of these groups are likely to be ready in first quarter 2013.

42. For LOTFA to have an impact as part of an integrated effort to develop the MOI into an effective civilian police force – rather than be a small capacity building effort that is not linked to a bigger whole – it is imperative that it play a key role in assisting to develop the vision and implementation strategy to be laid out by the IPCB. Since the IPCB will lay out the future of the MOI, active participation in the four IPCB working groups is important for UNDP and for LOTFA.

43. The current timing of LOTFA VII is not ideal. As of now, the draft LOTFA VII project document has to be completed by January 2013 so that implementation can start on April 1, 2013. On the current schedule, the LOTFA VII project concept would be completed before IPCB has laid out an agreed vision and implementation strategy for the Ministry. This will likely make it impossible to agree to institution-building components for the MOI that are agreed by MOI and stakeholders and make real sense in terms of the "whole".

Recommendations:

- The UNDP Country Director or a senior Country Office manager should lead UNDP participation in the IPCB and its working groups, along with relevant LOTFA project staff. LOTFA support under Pillars II and III should be designed around the work of the IPCB, taking into account the efforts of other partners.

- The start of LOTFA VII should be delayed for at least three months to put preparation on a schedule that fits with timing of the IPCB work.

Role of the Steering Committee (SC)

44. Under previous LOTFA management, the SC was involved in few substantive decisions. As one partner informed the MRT, the SC was kept involved with a "tsunami of impenetrable reports". Past reports submitted by LOTFA ran to great length and were silent on key issues and challenges. A reader had the impression that all was well, there were no major concerns, and if there were issues, they were hidden with oblique references that made it difficult for the reader to sort the forest from the trees.

45. The situation of LOTFA is in marked contrast to the World Bank managed Afghanistan Reconstruction Trust Fund (ARFT) or to the experience of UN Multi-Partner Trust Funds (MPTFs) administered by the MPTF Office located in UNDP. The ARTF is co-chaired by the Minister of Finance and the World Bank Country Director. The ARTF SC sets the overall financing strategy and is kept fully informed of issues as they arise. The ARTF Monitoring Agent, the same company as for LOTFA, reports to the SC from time to time and is then intensively interrogated by members of the SC: how often do they get to the provinces, what do they find, how do they verify expenditures, what happens to ineligible items, how do they verify procurement processes etc. It is not a hostile session but hugely informative, frequently clarifying issues in the eyes of the partners, and highlighting to the Monitoring Agent or the Bank that something need to be done differently. In the case of the ARTF, this interchange with partners led the Bank to appoint a Supervising Agent to physically verify the construction of assets: did they exist where they were meant to be, with what quality, and what lessons could be drawn from findings. Such discussions with the LOTFA MA might have engendered an enlightening discussion on ghost workers and what can and is being done to minimize the number of such workers.

46. The MRT considered three options for the SC which need further discussion with the SC:

- An umbrella SC for the ARTF and LOTFA. This would emphasize the development nature of the police force and perhaps help shift the MOI more toward civilian policing (away from an ANA support role). The ARTF works well and deals effectively, under the Minister of Finance, with policy and decision-making. This arrangement would put the two trust funds under one roof (while keeping the funds separate). A further advantage is that it would highlight the level of recurrent cost funding to Government; between them, the ARTF and LOTFA provide about $1 billion a year, some 30% of Government's total recurrent expenditures. As agreed in Chicago and Tokyo, there needs to be a plan to phase that proportion down over time; the ARTF SC, with its focus on economic management, might be a good vehicle to do so.[4] A disadvantage is that members of the ARTF tend to be heads of development agencies while the composition of LOTFA's SC is different – often more military and more embassy. Furthermore, the agendas of both the ARTF and LOTFA, particularly in this period of change for LOTFA are very charged.

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[4] The MRT met with the Deputy Minister of Finance and the Director General, Budget in MOF. Because of the very large sums of money involved in paying police, the use of on-budget mechanisms, issues with procurement of foodstuffs (where there is ample room for abuse), and their experience with the ARTF, the Ministry of Finance is interested in playing a much stronger role in the SC and LOTFA going forward. They would also be keen to co-chair meetings. The MRT actively supports an enhanced role for the MOF and recommends this be discussed with MOI and the LOTFA SC.

- A high level umbrella SC that will oversee both LOTFA (ANP) and ANA. This second option which appears to be under consideration would be a very high level Oversight Committee for the Afghan National Security Forces (ANSF) covering both the ANP and ANA, but with a lower level SC much like the current SC having major responsibility for LOTFA.
- A third option would be leaving the SC much as it is but have a very close link (semi merging) with the IPCB. LOTFA would effectively become akin to an operating arm of the IPCB on institutional development. This would make LOTFA central to the overall transformation of MOI and would help build ownership and credibility.

47. All three options are predicated on a much stronger role for the MOI. Without this, efforts to make the SC and LOTFA effective vehicles for development, will most likely fail.

Recommendations:

- The SC should be the key policy and decision making body – it should be setting policy, alerted early to concerns for consideration, and deciding on issues that are presented to it by LOTFA and deciding on what is funded by LOTFA and who should implement the activities. It needs to be chaired by a very senior official from the MOI. It will need to be supported, as it has been in recent months, by a subgroup of partners and LOTFA that meets on a more regular basis – akin to the ARTF Financing Group. It should be supported by a small Technical Secretariat which is not involved in implementation.
- The Monitoring Agent should be asked to present regularly to the SC.
- Another discussion that should take place soon with the SC is an early presentation of the content of LOTFA VII and how it fits with work being done by the IPCB. The chair of the IPCB should be invited to this discussion (or her representative). This would enhance buy-in from partners and the MOI.
- In short, the role of the SC needs to change to one of policy setting, discussion of key issues, and decision-making. This change in role for the SC will become all the more important if LOTFA moves to a MPTF model where LOTFA funds projects that are approved by the SC.
- A draft LOTFA Steering Committee Terms of Reference is attached as Annex 4.

Conversion of LOTFA into a Multi-Partner Trust Fund

48. Although called a "trust fund", LOTFA is actually a third-party cost sharing project. The fact that it has never been a trust fund has contributed to the less-than-optimum management arrangements that currently exist.[5] Compared to the current standard arrangements for Multi-Partner Trust Funds (MPTFs), LOTFA does not have the same rigour of fund management, financial reporting and public transparency; the Steering Committee does not exercise authority over the fund strategy and allocations; funds are managed by the same party which implements projects; and it does not include other UN or non-UN partner agencies, and the public transparency of LOTFA's finances and operations is less than desirable, amongst other features. The MRT believes that a continuation of LOTFA in its present form will likely lead to UNDP/LOTFA playing an increasingly marginal role in the transformation of MOI into a sound policing institution.

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[5] In 2004, at the beginning of Phase II, the decision was taken to separate the "Law and Order Trust Fund" from the "Support Project for the Rule of Law." Although the problems resulting from fusing the two together was recognized, the separation was not carried through and the problems have continued to this day.

49. The MRT is of the view that UNDP should aim to support MOI using a MPTF model akin to the ARTF managed by the World Bank. Under this approach UNDP would differentiate services to LOTFA as (i) fund administrator, (ii) Technical Secretariat, and (iii) programme implementing partner for salary payments (Pillar I) and potential programme implementing partner, along with other organizations, for institutional and capacity building programmes (under Pillars II and III), based on a review of the soundness of its proposal and its delivery capacity.

50. UNDP would continue to manage salary payments,[6] but as explained above implement other LOTFA projects or project components upon review of its proposal, along with potential proposals from other organizations, and approval by the Steering Committee. LOTFA would thus cease to be an implementing agency and would become a funding mechanism akin to the ARTF, which does not implement any projects. The LOTFA Trust Fund Secretariat would support the Steering Committee to fulfill its strengthened decision-making responsibilities by receiving, vetting (or organizing the vetting of proposal) from UNDP and other UN agencies Proposal approval would rest with the SC chaired by the MOI – a key factor in growing MOI ownership. Once approved, proposals would be funded by LOTFA from the trust fund. For example, UNFPA might propose and implement a project on gender within MOI. UNDP might undertake capacity building. EUPOL might receive funding to do police training and sponsor MOI staff to visit other police forces. This would spread implementation risk – rather than having it all locked up within LOTFA – and would help to ensure that the most relevant and competent entities implement the projects.

51. Multi-Partner Trust Funds are generally established with a multi-tier governance structure that promotes strong National and UN inter-agency coordination, including peer and technical reviews, and collaboration with national governments and contributors/partners. The UNDG organizations have developed a generic MPTF architecture that permits quick MPTF set-up and operation. The mechanism allows appropriate flexibility in the structure, composition and operations of the MPTF-constituting bodies in response to country or situation-specific contexts. This enables the UN system to quickly deploy available systems for the rapid mobilization of the technical, operational and administrative capacities of the UN and the expeditious approval and implementation of projects and programmes.

52. While participating UN organizations operate under the governance and accountability framework of their own organization, MPTFs have the following common governance elements:

- The MPTF is established based upon an agreed strategy framework (agreed by governments, partners and participating UN agencies);
- A policy level Steering Committee, comprising national authorities, the UN (and the World Bank where it is involved) and contributors/partners, as appropriate, sets fund policy according to the agreed strategy;
- The Steering Committee or a smaller Executive Board that makes funding allocations, comprising national authorities, Participating UN Organizations, and sometimes a small number of contributors (the two bodies are often combined in a single entity, when this is not too unwieldy);

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[6] Focusing on (a) building and improving the systems to support payments and (b) the transfer of this function to MOI once the systems are operational, recognizing that this may take a minimum of 2-3 years.

- A technical secretariat reviews programmes and projects submitted for funding, either by using the capacities of Participating Organizations or by establishing a stand-alone Technical Secretariat to service the above bodies;
- Partners and UN agency participation are each formalized through specific standard model agreements used for all MPTFs.
- Funds are received and managed as a trust fund by one UN agency (designated the Administrative Agent or AA) with demonstrated capacity to provide this service separately from its other functions, with clear overall accounting and tracking of any agreed ear-marking, for which it receives a management fee of 1%;
- Multiple UN agencies access funds and conduct project activities under their own rules.

53. For LOTFA and UNDP this has several important implications:

- Explicit strategic framework agreement among all parties to guide allocation of funds;
- Clear separation ("firewall") between management of the trust fund by the AA and management of projects by UN agencies;
- Improved financial reporting, with current financial information available online;
- Need for a small technical secretariat to support the Steering Committee;
- Besides UNDP, other UN agencies and international partners to access funds through Steering Committee decision and AA transfers under Pillar II (capacity development of MOI) and Pillar III (capacity development of the national police). These agencies normally would operate according to their own rules and not be "under" UNDP or the AA;
- How UNDP organizes management of its projects is its own decision:
  o UNDP could decide to have an overall Project Coordinator/Chief Technical Advisor, as it has at present, for all of its LOTFA funded projects supported by three Project Managers responsible to manage projects under each of the three pillars. This is similar but not identical to the present UNDP arrangement under LOTFA VI. However the UNDP Project Coordinator would not be responsible for the trust fund as a whole nor for the projects of other agencies.
  o UNDP could decide that a project(s) under a single pillar funded by LOTFA operates with its own Project Manager without need for an overall Project Coordinator/Chief Technical Advisor. In this case the Project Managers can report to the UNDP Country Office manager responsible for the area, e.g., Rule of Law.
- UNDP presence on the Steering Committee should be at a senior Country Office level, preferably the Country Director; at the working level it could be the head of the Rule of Law practice team, the head of the relevant UNDP project, or depending on the case the LOTFA fund manager.

54. LOTFA VII is only months away and it would appear to be a lot to ask LOTFA, for several years understaffed and under-supported by UNDP, to change its role so radically and so quickly. Staff with different skills will need to be hired to manage a trust fund and the overall management of UNDP projects in this area will need to be carefully reconsidered. Nonetheless the negotiation and establishment of the MPTF framework are separate from the daily management of the current LOTFA projects. The MRT thus recommends a period of transition, where LOTFA VII would continue with Pillar I and current projects from Pillars II and III; while Pillars II and III would be strategically modified based on the vision and implementation plan under preparation by the IPCB to include funding of additional projects as they are warranted, vetted and approved by the Steering Committee. New projects would not be implemented by LOTFA but could be undertaken by UNDP,

other UN agencies, or other partners. The UNDP Multi-Partner Trust Fund Office has ample experience of such proposal-based approaches.

55. The MRT strongly endorses the change of LOTFA to a proper MPTF model. If this proposal to convert to a MPTF is accepted, the modalities and timeframe for the transition should be discussed and agreed with full participation of key partners in Kabul. The conversion should not jeopardize current activities or management strengthening. Conversion will not be a difficult process and the key steps can be taken even while LOTVA VI and VII are ongoing, especially as it involves people other than the project staff involved in daily management and implementation. LOTFA VII might thus start with Pillars I, II and III (as modified following the contribution from the IPCB) with either the addition of a new window for funding for proposal-based projects or treatment of Pillars II and III as windows for proposal-based projects in support of the MOI and ANP, respectively. The full conversion to a MPTF would happen on a timeframe agreed with concerned parties.

56. Finally, the annual financial activity of LOTFA is comparable to the annual sum of all the trust funds handled by UNDP's Multi-Partner Trust Fund Office. LOTFA should have a website similar to that of the MPTF Office GATEWAY (http://mptf.undp.org/), to ensure clarity, public disclosure and transparency in current financial reporting as well as to provide a central location for project level information and progress reporting. In addition, the substance and layout of reports should be improved to increase clarity and issues focus, and UNDP Country Office should provide quality assurance to this process without delaying presentation of information to stakeholders and the interested public generally.

Recommendations:

- The MRT recommends that all stakeholders would be better served by converting LOTFA into a Multi-Partner Trust Fund, a funding and management mechanism that UNDP with the UN system has developed largely since the creation of LOTFA. Some of the features and benefits of an MPTF can and should be developed under the current LOTFA model, but they will only be securely institutionalized with conversion of LOTFA into an MPTF.[7]
- Someone (e.g., MPTF Office staff) with operational experience of setting up and running such a trust fund should visit Kabul to explain to all stakeholders how this might work and assist with its setup.
- Once there is agreement to convert LOTFA into an MPTF, all further contribution agreements should incorporate reference to the planned change in modality and agree that funds contribute to LOTFA can be transferred to the new Trust Fund once it has been established. This will simplify future partner consultation for this purpose.
- The following measures should be taken to begin to manage LOTFA according to the best-practice experience of the Multi-Partner Trust Funds. As noted, the timeline for this should be discussed and agreed by UNDP with MOI and the Steering Committee:
  - Separate trust fund administration from programme management in the Country Office;
  - Formally recognize the LOTFA Steering Committee as the decision-making body for all LOTFA operations;
  - Establish Technical Secretariat mechanism independent of UNDP and that reports to the Steering Committee to review, vet and recommend actions to the Steering Committee;
  - Adopt a broad strategy to define what types of activities are fundable under LOTFA;

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[7] See MPTF Office GATEWAY (http://mptf.undp.org/overview/funds) for more background.

- Open Pillars II and III (capacity development of MOI and capacity development of national police) to proposals from other organizations besides UNDP;
- Establish a LOTFA public website that transparently displays relevant information, including: resources contributed to LOTFA; decisions made by the Steering Committee; activities funded by LOTFA; procurement processes, notices and final awards; periodic reports on progress and challenges of LOTFA operations; etc.

57. The above measures are likely to help MOI, MOF and partners see LOTFA as a key player – as a funding source – a true partner in the transformation of ANP into a viable civilian police force. LOTFA will be seen by MOI as the main source of support rather than being one of several players involved in capacity building. It provides the opportunity for real MOI ownership – the kind of ownership that the MOF feels toward the ARTF.

Operational Management

External Audit

58. Among the initial questions identified by the MRT even before the mission travelled to Afghanistan was why had the External Auditor not detected the alleged fraud? The MRT is not in a position to determine whether the fraud should have been detected during the normal audit conducted in the first quarter of 2012, even though the External Auditor reported having applied a medium-risk standard. However, had UNDP advised the External Auditor in late 2011 of its suspicion of fraud, the auditors would have proposed different terms of reference – application of a fraud standard – which would have been likely to detect the fraud. Such revised ToR would have involved a high level of sampling of the set of suspect transactions, with a concomitant higher cost. UNDP is partly responsible for the fact that the External Auditor did not conduct their audit in a manner that would have been likely to detect the suspected fraud.

Recommendations:

- The 2012 External Audit – which includes procurement actions initiated in 2011 and 2012 – should be conducted with application of a fraud standard for procurement and for any other function which the OAI Investigations determines to have been mismanaged. Since the main category of initially ineligible expenditures is for food procurement conducted by MOI, the 2012 External Audit should include a special focus on food procurement (with application of a fraud standard) at HQ and provincial levels, examining process, procedures and documentation. The results of this part of the External Audit should inform the future role of the Monitoring Agent in this area.
- A thorough management audit should be conducted during the first quarter of 2013 of LOTFA's internal managements systems, processes and SOPs (with particular attention to asset management, procurement, finances and reporting) to determine what has been established, how well they are followed in practice, and what gaps remain. This will orient further work and serve as a benchmark for the clean-up of the previous LOTFA management systems.

Monitoring Agent

59. The role of the Monitoring Agent (MA) is to check MOI payments for salary and food against underlying information, including some spot checks for physical verification of police officers and food stocks. The MA does not monitor LOTFA. It is part of the control system which LOTFA has at its disposal to enable it to pay only justified expenditures and to assist MOI to improve its own administration in the field. The MA has identified a number of incorrect payments (double payments to the same person; payments to people not in attendance). Such anomalies totaled about 2% of payroll and were corrected whenever identified. In general these types of problems once identified have become far less frequent. The MA presence has greatly reduced the risk to UNDP and partners regarding the use of funds provided, and to a limited extent has helped improve MOI's own administration by calling attention to problems.

60. LOTFA, UNDP and MOI have not made adequate use of the MA and the information it produces (unlike the World Bank ARTF, which engages much more effectively with the same MA). LOTFA management went so far as to prohibit direct contact between the MA and the MOI. For years MA reports have been treated at a low level by LOTFA and by MOI. Reports are seen only as a listing of cases to be addressed, rather than to identify systemic points of strength and weakness within MOI. The MA reports are not presented in a manner to encourage review and understand highlights and issues, and are not discussed in that way by LOTFA, MOI, UNDP or the Steering Committee. The MA has repeatedly noted the need for guidelines, manuals and SOPs for salary payment and food contracting processes. Such documents would be issued by the MOI to its staff for their guidance regarding their own work and supervision by the monitoring agent. The guidelines would also collect the individual agreements regarding what specific categories and expenditure codes are allowable by MOI and reimbursable by LOTFA. All of this would be improved with greater engagement with the MA, a process which has begun with new LOTFA staff involvement in recent months.

61. The extent of doubt and uncertainty about the payment of police salaries is lower today than it was five years ago. Today, roughly 83% of police (and of public servants globally) are paid through electronic transfer of funds to individual bank accounts. The potential risks and abuses inherent in a manual/cash payment system have been reduced from 100% a decade ago to roughly 17% today. While it is still possible to abuse the electronic system, such abuses are easier to detect. The risks of abuse are higher for the 17% of payments handed through "trusted agents"; the extent of abuse is unclear. The solution will come with extension of the banking system, but in the meantime this would be a useful area of extra attention by the MA to identify specific problems and profile the weaknesses of the system for institutional response.

Recommendation:

- The MA should continue to monitor payments through electronic funds transfer, but at a more reduced level unless problems appear, and shift greater attention to food procurement and payment of salaries other than through the banking system. MA should be tasked to prepare draft guidelines for issuance by MOI regarding coding and processing of salary payments.

- The MA should focus particular attention on integrity of the process of salary payments through M-Paisa and "trusted agents."

Reimbursement Procedure

62. LOTFA reimburses the GoA on a quarterly basis for expenditure considered eligible (primarily ANP and Central Prisons Department (CPD) salary and food allowance). Reimbursement documentation is prepared after each quarter by the MOF's Treasury Department and sent to LOTFA, which is supposed to verify the request but does not appear to do so. The Treasury Department prepared reimbursement applications are formally signed and submitted by the MOI to UNDP and then paid in full.

63. According to the ToR of the Monitoring Agent, the MA should provide support to the MOF in preparing the reimbursement applications. It is understood, however, that the MA has so far not been requested to support the process. Alternatively, it could be asked to certify the amount of the MOF reimbursement request which is suitable for LOTFA processing.

64. The following <u>weaknesses and problems</u> have been identified regarding the reimbursement procedure:

- While UNDP's ToR for LOTFA (revised 2008) outlines the nature of the financial contributions (payment of salaries, training, rehabilitation, equipment, etc.), there is no formalized basis or documentation setting out the details regarding the expenditures which LOTFA will reimburse to the GoA.[8] UNDP Afghanistan has stated that "*Decisions on details such as food cost and base salary reimbursement that LOTFA covers is agreed in the project steering committee minutes which constitutes an integral part of UNDP legal framework.*"[9] However, a review of the minutes for the meetings held from 2009 to 2012 does not provide any such specific information except in one case;[10]
- There is agreement that the GoA for 2012 (SY1391) funds 7.5% of salaries (seemingly only related to object codes 21102 and 21103), while the US Combined Security Transition Command – Afghanistan (CSTC-A) will provide US$ 42.75m. However, it has apparently not been formally agreed whether the LOTFA reimbursement is based on budgeted cost (the full *Tashkeel* of 157,000 ANP) or actual expenditure (estimated average for 2012 of 148,000 ANP) despite this having a significant financial implication;
- There is agreement that the GoA for 2012 (SY1391) covers the food allowance costs for 98,239 ANP. Based on the full *Tashkeel* of 157,000 ANP, this would mean that LOTFA would cover 36.1% of food allowance costs up to a maximum of approximately US$ 96.8m. However, there appears to be no formal agreement between the GoA, UNDP/LOTFA and partners as to whether the

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[8] The MRT was advised that the LOTFA project office in 2012 informed the Monitoring Agent that only the following object codes are eligible for reimbursement: 21102 (Military officers), 21103 (Armed forces), 21131 (Professional and cadre allowance, Uniformed), 21132 (Hazard or regional pay, Uniformed), and 21205 (Food for Employees, Uniformed). Object code 21133 (Bonus, Uniformed) is also eligible, but has not been used in recent years since all entitlements (incentive and bonus payments) are being covered by object code 21131.

[9] E-mail from UNDP Afghanistan to the MRT dated 12 November 2012.

[10] At the Steering Committee meeting on 18 October 2011, a proposal to provide ANP Specialist Pay (top-ups) for the MOI Crisis Response Unit, Air Interdiction Unit and General Directorate of Police Specialized Units was approved. However, the payment details (conditions under which it applies and the amount) are not stated in the meeting minutes. Prior year minutes provide similar incomplete information: "pay parity with ANA officers from captain and below, sergeants and patrolmen was approved starting from the current month." "Decisions were taken regarding food allowances."

LOTFA reimbursement should be based on budgeted cost (157,000 ANP) or actual expenditure (estimated average for 2012 of 148,000 ANP) despite this having a clear financial implication;[11]

- Food contracts constitute roughly one-fifth of the value of reimbursements paid by LOTFA to MOI. Nearly half of the value of those contracts is not fully supported by available documentation at the time of the monthly MA visits. Much of the documentation is eventually produced, but after many months and sometimes with suspicious results. The Deputy Minister (LOTFA National Project Director) was surprised to learn of this, and described a rigorous procurement process with multiple checks and balances that should ensure that all documentation is in order.
- About 6% of LOTFA reimbursements during 2007/08-2011/12 (SY1386-SY1390) relate to object codes that are not eligible, but apparently has been deemed miscoding (based on the use of old codes referring to the same expenditure categories) and therefore included in the reimbursement applications.[12] This has also been noted by the Monitoring Agent.[13] While this may not be a problem if it is the result of miscoding, it has not been possible for LOTFA or UNDP to clarify the issue;
- While the Project Document for Phase VI states that "*Ineligible expenditure identified will be deducted from future reimbursement*",[14] it appears that this procedure is not being applied, which means that the MOI has little or no incentive to improve its financial management and accounting processes (and that LOTFA in principle is reimbursing expenditure that technically are deemed to be ineligible);
- It does not appear that LOTFA (or UNDP) actually reviews the reimbursement documentation prepared by the MOF's Treasury Department; and,
- The Monitoring Agent has noted that there are, as such, no clear eligibility rules prescribed by LOTFA that detail the eligibility/ineligibility of expenditure in terms of what is reimbursable by LOTFA. The risk mitigation measure proposed by the Monitoring Agent (developing a manual for use by MOI and LOTFA) has not been implemented.[15]

Recommendations:

- LOTFA should on an annual basis prepare and maintain a document that states the specific items covered and calculation basis for reimbursements to the GoA, and ensure that it is discussed and formally agreed by all stakeholders, including the MOI and the MOF;[16]
- LOTFA should raise with the MOI Deputy Minister the issue of missing documentation for food contracts to ensure the problem is known and that instructions are given within MOI to give greater importance to provide such documentation to the MA (this is part of making greater use of the MA);

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[11] It is noted that the MOI in the past four fiscal years has had funding shortfalls (unpaid food contracts) of between US$ 3.8m and US$ 33m due to what appears to be a lack of financial discipline. In earlier years the over-spending was covered by CSTC-A and, apparently, also LOTFA. For 2012 (SY1391), a shortfall of between US$ 24-43m is expected. It is currently unclear how this will be covered.

[12] It is noted that the share of reimbursement pertaining to non-eligible object codes fell from 21.6% in 2007/08 (SY1386) to 1.0% in 2011/12 (SY1390), which presumably is a result of accurate accounting.

[13] Joshi & Bhandari (2011): "Risk Assessment Tool / Risk Register", August, p. 4, 15 and 20.

[14] UNDP (2011): "LOTFA Phase VI, Project Document", p. 34.

[15] Joshi & Bhandari (2011): op.cit., p. 20.

[16] The MRT was informed that the interim LOTFA Project Manager has prepared a spreadsheet outlining financial details related to the LOTFA reimbursement so as clarify the method of and basis for reimbursements, which is being used in discussions with the GoA and partners. However, the document does not have a formal or binding status.

- LOTFA should clarify with the GoA and stakeholders the treatment of ineligible expenditure as identified by the Monitoring Agent and the MOF in terms of full deduction from the reimbursement amounts;
- LOTFA should instruct the Monitoring Agent to prepare a manual that defines the details regarding eligible and ineligible expenditure and the procedures and internal controls regarding payroll and food expenditures;
- LOTFA should request the Monitoring Agent to certify for payment the amount of the MOF quarterly reimbursement request that it has found to be fully supported;
- LOTFA should make no payment to MOF for expenditures which have not been adequately supported – the MA should certify the amount of the MOF invoice eligible for payment. Furthermore, LOTFA should allow only until the next quarterly request for MOI to provide missing documentation.[17]

Procurement without Professionals – High Risk of Fraud

65. The procurement process as conducted by LOTFA was a case study in the multiple risks that exist at the various stages of the process, and the need for professional checks and balances to mitigate the risks. The detail of the process, the risks at each step in the absence of professional controls, and their implications are presented in Annex 5. A few basic transparency measures can greatly reduce the likelihood of procurement fraud occurring or continuing undetected.

Recommendations:

- All procurement requirements above an agreed threshold (e.g., $10,000) should be announced publicly, including: UNDP (and the future LOTFA) website; Government procurement website; and local newspapers.
- The results of all procurement processes should be publicly announced in the same media, including name of the successful bidder, list of all bids received, and identification of any bids disqualified.
- All LOTFA procurement for goods and works should be conducted by joint procurement teams (LOTFA and MOI); LOTFA should take extra measures to ensure that language is not a barrier to effective work of the joint teams.
- To the greatest extent reasonable, LOTFA should utilize national procedures for the procurement of goods and works, and monitor progress.
- UNDP procurement staff should be available to provide support as necessary and to ensure quality of procurement.
- Other recommendations to strengthen LOTFA procurement will come from the focused review concurrently underway by the UNDP surge support in area of procurement.

Further Action by UNDP Country Office

66. LOTFA grew significantly over the past few years. In 2012, it was variously described as "80% of UNDP Afghanistan portfolio," "the largest UNDP project in the world," "18% of UNDP portfolio

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[17] This would mean that each quarter there would be a rolling account of (a) newly reported expenditures that are fully supported and will be paid; (b) newly reported expenditures that lack supporting documentation and will be held for one quarter pending receipt of supporting documentation; (c) expenditures from the previous quarter that were lacking but now have supporting documentation and will be paid; (d) expenditures from the previous quarter that continue to lack supporting documentation and will now be dropped from further consideration.

worldwide," etc. Yet it was not given the resources, attention and oversight that such size would warrant. Furthermore, there seems to have been some discomfort with the core activity – police payroll – if it was not accompanied by "real" UNDP capacity development work. The 2011-2012 growth of Pillars II and III seems to be driven largely by this UNDP desire to work in areas of institutional development, gender and police-community relations, rather than by a comprehensive assessment of MOI/ANP need and comparative advantage of actors in the rule of law sector.

67. At the Country Office level, the Supply Chain Management Section has a particular responsibility to ensure that procurement principles and procedures are well understood and applied, Programme Section that the range of project staffing is suitable for the activities to be carried out, and other Oversight sections to monitor capacities and practice in order to ensure that training and SOPs are available and applied.

68. The new Country Office Oversight and Compliance Unit under finalization should be developed with a focus somewhat different from that in its draft Terms of Reference. In the view of the MRT, the ToR for this unit evinced excessive focus on compliance and insufficient attention to organizational development to improve the quality of work of the various units.

69. The conclusion and recommendations of the MRT regarding the UNDP Country Office are derived from examination of LOTFA. While it is possible that the issues identified are unique to LOTFA, it is more likely that similar problems may have surfaced in the other projects.

70. The issues and fraud that came to light in the second quarter of 2012 were to a large degree the product of multiple years of management failure. UNDP should act now and provide the level of support and quality assurance necessary for effective implementation of all project activities in the country.

Recommendations:

- UNDP should ensure that (a) overall fund management is conducted according to the current UNDP best practice standards and also exemplified by the Multi-Partner Trust Fund Office and (b) payroll project (Pillar I) has appropriate staffing and dedicated management (not confused with that which may be required for other components under Pillars II and III) to ensure it receives the attention necessary to deliver the expected quality of service.
- Noting that the Country Office was the site of systematic management failure, the new unit should preferentially address improvement to the work of the various CO sections and their support to projects. This could involve detecting need for training, SOPs, SLAs, etc. and assisting to develop them.
- The UNDP Country Office (with the support of the Afghanistan Division) should determine whether the issues identified in this report apply to the management of the UNDP portfolio in Afghanistan in general.
- Further actions which the UNDP Country Office should undertake include:
  - Expeditiously conclude all pending staff recruitments for LOTFA and the Country Office;
  - Conduct a Client Satisfaction Survey of all projects regarding Country Office functions and units to establish current benchmarks and orient action for improvements;
  - Develop guidelines and SOPs for standard processes conducted between projects and the Country Office;

- Draw up service-level agreements for Country Office services to projects, indicating respective roles and expected timeframes for action;
- Ensure the Supply Chain Management Section develops a quality improvement support role for all NIM projects;
- Consider matrix reporting for project procurement and finance staff to ensure professional quality and service;
- Develop the new Compliance and Oversight Unit with a combination of oversight and support role to help strengthen the Country Office and projects.

Further Action by UNDP Headquarters

71. UNDP at the HQ level (the Regional Bureau for Asia and Pacific and Corporate) should confirm its commitment to continue providing the core fund management and salary payment services (Pillar I) that constitute LOTFA's raison d'être. Given LOTFA's crucial role in the proper functioning of the national police force, it is critically important that the payroll services are provided well with clear dedicated management and resources.

Recommendations

- Confirm that UNDP will continue to provide the Pillar I services and ensure the necessary actions to make this effective.
- Support the Country Office to ensure the LOTFA project receives the support and oversight it requires to be effective and that LOTFA is managed in a manner consistent with UNDP interests and best practices; taking care that the previous absence of management attention is not replaced by excessive control efforts, but rather by more effective support to increase operational effectiveness.
- Since a significant number of the observations of the MRT reiterate recommendations of earlier evaluations that do not appear to have received appropriate action, the Afghanistan Division should review all past evaluations and discuss implications and further actions with the Country Office and the LOTFA Project Manager.

Payroll Payment Process and IT Systems

72. The MRT was unable to obtain documentation (manuals, policies, procedures or guidelines) regarding established payment process. Under the conditions of shortage of qualified personnel and in the absence of capable machinery in the MOI in 2002 and 2003 to implement reliable payroll system, timely payment of police salaries was rightfully the top priority objective of LOTFA. The question of integrity of payment, double payments, payment to non-existent personnel (ghost personnel), paying at incorrect rank/grade, and payment of established entitlements have remained unresolved. Each of these issues has been raised multiple times but they have not been addressed in a systematic manner. The computerized salary payment application has been developed in isolation and is geared towards basic salary calculations only. Although, disbursement to government is based on specific objects of expenditure, the supporting information cannot be accessed in any of the computerized applications nor can it be meaningfully vetted.

Payroll Payment Process

73. The following provides a brief outline of the salary payment process as applied by the MOI for the ANP at the provincial level.[18] The processes applied for payment processing at the central level and for the CPD are similar, and thus do not require a separate description with regard to identifying procedural weaknesses. The following refers to the flowchart titled 'Payroll Salary Process – Provincial Level' in Annex 6.

- HR data is prepared at the district level on the basis of an attendance book (signed every day by staff). The payment process starts after the end of the month with the ANP Provincial HR Departments collecting attendance sheets from the districts together with required documentation, if/as relevant (e.g. appointment papers for new staff).
- The HR Departments prepare personnel records for each staff (which include grade, position, appointment details, etc.) that are consolidated per district and for the province.
- The consolidated provincial personnel records are sent to the ANP Provincial Finance Department where the data is entered in the Electronic Payroll System (EPS/WEPS) after which payroll lists (M41 forms) and summary salary lists are generated.[19] Separate lists are made for each payment type (EFT, cash and M-Paisa) as well as staff type (officers and NCOs, and patrolmen), i.e. up to six lists per province. Based on these lists, separate salary payment requests (M16 forms) are prepared, in all cases manually.
- The ANP Provincial Finance Departments submit the M16 forms to the *Mustoufiats*, where the data is entered manually into AFMIS. The Mustoufiats check for funds sufficiency, but it does not seem that they otherwise undertake controls (e.g., that only eligible/correct object codes have been used).[20]
- The processing of the M16 forms is undertaken centrally by the MOF's Treasury Department, which prepares cheques and payment lists.
- Cheques and payment lists are sent to the Da Afghanistan Bank (DAB), which transfers the funds to the applicable payment provider for each payment type together with the payment details.
- Reconciliation undertaken by LOTFA on payments is a manual review of EPS-generated pay slips (M40 forms) vis-à-vis bank statements from commercial bank(s) selected based on random sampling.
- LOTFA sends a monthly EPS/WEPS report to the MOI and partners.

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[18] It is noted that the flowchart and description only includes the details necessary for establishing the functioning of the current process and that some details – that are not imperative for identifying potential weaknesses – are excluded (e.g. regarding pension and cooperation aspects).
[19] EPS/WEPS only include total monthly payment per staff; details in the form of expenditure object codes are not captured in the system. The data stored for each staff in the EPS/WEPS includes: Name; ID number (registration number from the DynCorp International system, national ID number and/or bank account number); bank details; rank, grade and salary scale; entitlements (the total sum of incentives and bonuses, if/as applicable); and, deductions (e.g. tax and pension).
[20] Since the MOF's Treasury Department at the time of preparing the quarterly reimbursement documentation assesses the expenditure reports for ineligible object codes and removes those identified, the controls undertaken by the Mustoufiats cannot be fully comprehensive. It is noted that CSTC-A conducts similar reviews since mid-2012.

Weaknesses in Payroll Process

74. Ambiguous personnel identification (ID numbers): The police personnel (officers, NCOs and patrolmen) can have one or more of three types of IDs, only one of which can be deemed reliable and authoritative, i.e., the ID generated by DynCorp ID application. The other two IDs used for convenience can be either a bank account or *tazkera* (the old national ID). There is nothing to prevent one person being registered more than once to receive salary.

75. Lack of a reliable police headcount database: There is no single authoritative and reliable source of data regarding the exact number of persons that should be in the payroll. *Paizhantoon* or the HR department of the Ministry of Interior is the owner of this data, who generate and submit the list of "eligible" payees every month to LOTFA for payment. The process of preparing these records is manual and is initiated at the district level. The basis of the preparation of the list is the attendance book at the districts which is signed every day in the beginning of the day and the end of the day by the employees. The weaknesses in this process are many:

    - Lack of an authoritative database of all employees against which the monthly list should be compared.
    - The list prepared by the district contains only names and father's names and days present at work. There is no ID number of the employee.
    - The high level of police force attrition (about 17% annually) makes keeping track of employees even more difficult.
    - Unclear procedures on new recruits. The MRT reconstructed the process of registering new recruits in the computerized payroll system which is indicated in Annex 7. While 80% of ANP registered and have a DynCorp ID number, delays of up to six months in issuing and using the unique registration numbers risk potential double registrations in EPS/WEPS, and mean that reconciliation of HR and payroll data cannot be undertaken in a systematic manner.

76. District level attendance sheets are then manually consolidated by the Provincial HR departments. Manual consolidation of the attendance sheets at the provincial levels and assignment of various entitlements can lead to additional errors and leaves the door open for manipulation and abuse.

77. The Provincial Finance Departments then calculate the entitlements and enter them into the computerized EPS. Manual calculation of some of the entitlements such as professional allowances, incentives and bonuses can lead to errors and abuse.

78. EPS generates separate payroll request forms (M41 forms) for each category of employee and each category of payment method in each province. The system also generates summary payroll request sheets, which are then manually transcribed into formal payroll request forms known as M16. To the MRT knowledge, M16 is the only document that contains object codes. These object codes are manually entered against values generated by the EPS. It appears that more than one object code may be lumped together under one code.

79. There are currently 47 different types of incentives and bonuses, but the entitlement details (type and amount) are only stored at the provincial level in the manual personnel records, and there are

no systematic controls of their validity (in EPS/WEPS only the total amount per employee is registered).

80. MOF enters the M16 form into a computerized financial system, owned and operated by MOF, known as AFMIS. Data entry into the AFMIS cannot be without its own errors. There are no automated controls in AFMIS to ensure that only eligible/correct object codes are applied for ANP salary payment requests. However, the volume of data entered into AFMIS is relatively small and so the number of errors will also likely be small. Since this information is in summary form, the risk of abuse may be small.

81. MOF then generates bulk payment checks and a list of the employees who should be paid from the check which is handed over to:

- Bank: The bank (mainly Kabul Bank) receives a check issued by the central bank along with a list of the persons that should be paid from this check. The list is known as the "Bank Report" and in addition to the name of the persons being paid, contains their bank accounts. The bank then electronically transfers funds to the account number of the individuals. This is known as EFT. The weaknesses in this process are the possibility of Bank employees manipulating the Bank Report which is in Excel format.
- M-Paisa (a payment facility developed and operated by Roshan Mobile Telephone Company): This process is similar to the process in (a) above, however the Bank Report contains mobile phone numbers instead of bank account numbers. The weakness here is that the money can be collected from the phone company if one has access to the physical mobile phone. Also the amount of money that is dispensed to the payee is at the discretion of the phone company agent.
- Bonded trustee: In this case the check is issued in the name of a person or a company that is the bonded and trusted agent who receives a list of the payees with their ID numbers. The weakness is that the agent can dispense the amount at his discretion, jeopardizing timely and accurate salary payment.

82. The reconciliation undertaken by LOTFA (between EPS-generated pay slips and bank statements) is manual and appears to be unsystematic. As personnel records and EPS data are not reconciled, it is not possible to accurately determine the actual ANP numbers entitled for salary payment, and hence there is no guarantee that LOTFA funding covers only eligible costs.

Recommendations:

- LOTFA should continue to support the development and roll-out of AHRIMS by CSTC-A, so as to ensure that a single authenticated and reliable source of personnel data is being established, and as soon as possible is linked to EPS/WEPS;
- LOTFA should discuss with the MOI the possibility of revising the HR lists and forms used in the Districts to include ID numbers (if/as available);

- LOTFA should discuss with the MOI and relevant partners the possibility of rationalising the entitlement scheme as well as how to ensure that entitlement can be included in EPS/WEPS and AHRIMS;[21]
- While the work and functioning of DynCorp International in issuing IDs to the ANP is beyond the control of LOTFA, LOTFA should support the Steering Committee and stakeholders in placing maximum emphasis on this task being expedited and the existing database cleaned of inactive ANP personnel;
- LOTFA should re-configure the EPS/WEPS so as to include approved expenditure object codes;
- LOTFA should discuss with the MOF's Treasury Department whether automated controls can be established in AFMIS to ensure that only eligible/correct object codes are applied for ANP salary payment requests;
- LOTFA should discuss with the MOI if and how the staff numbers included in M16 forms can be used for headcount purposes;
- The reconciliation undertaken by LOTFA of EPS-generated pay slips vis-à-vis bank statements should be automated; and,
- While the establishment of commercial bank branches is beyond the control of LOTFA, LOTFA should support the Steering Committee and stakeholders in placing maximum importance vis-à-vis commercial banks and mobile network operators, as appropriate, on extending their network/coverage.

Information Technology Management and Environment

83. In the past ten years the MOI, in collaboration with partners, have initiated various information technology (IT) initiatives, including computerized systems to assist it in its core business of policing and security as well in administrative and operational matters. The following initiatives are noteworthy:

- Private Network of the MOI: The establishment of a nationwide secure network under difficult and challenging circumstances is a major success. This secure network has been built in partnership with private sector, mainly Afghan Wireless Company and utilizes mostly microwave technology. Portions of the network links use Very Small Aperture Terminals (VSAT) and fiber optics technology. The bandwidth is 10 MBPS which is planned to double in a few months. The secure network covers 29 out of 34 provincial police command centers, 6 out of 7 zonal (regional) police command centers, 23 out of 36 coordinated command centers and various other police establishments all over the country. It is unclear when the network will cover all the 34 provincial and 7 regional zone command centers. It has been stated that work on the provincial and regional centers, except for the province of Nooristan is ongoing. The MOI hopes to gradually move from microwave technology to fiber optics service and thus to a virtual private network by 2017 for two reasons, i.e., cost and bandwidth. In addition to data service the network provides audio and video communication within the entire ministry.
- Centralized data center at the ministry: A building in the MOI has been equipped with generators, UPS, air conditioners and server racks to house the servers of the Ministry. However, there is neither a disaster recovery site nor plans to have one at this time.

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[21] It is noted that CSTC-A currently is discussing with MOF's Treasury Department the possibility of establishing separate object codes for some entitlements, which would come into effect from SY1392 (2012/13). It is noted that the configuration of AHRIMS currently does not allow for specification of entitlements.

- Police ID card Database: MOI with technical help from DynCorp has established a reliable and authoritative database of police force ID which records biometric and other information about each and every employee of the police force and issues unique identification number and ID card to the individuals. The database has been rolled out since 2005 and reportedly now covers about 85% of ANP personnel.
- Human Resource Management System (HRMS): There have been several attempts to develop and roll out an HRMS in the MOI. The most recent of these attempts is the development of Afghan Human Resource Information Management System (AHRIMS). The development of the system, which uses Microsoft SQL server as the back-end and JSP as the front end, is reportedly complete but full rollout is pending. The AHRIMS is a web-based application and has no stand-alone versions. It has the potential to store and retrieve scanned documents with respect to each employees.
- Electronic Payroll System: The MOI, with the help of LOTFA, has developed an electronic payroll system (EPS), which pays the entire uniformed police of Afghanistan. The system has three versions: provincial, central office and web-based. The provincial versions are stand-alone applications running on a single PC and accessed by the finance person in the province, the central version is client-server application running on a server and accessed from several desks in the MOI, and the web version, which is termed WEPS, is a web application with centralized processing and distributed access over the Internet, currently operating in 14 provinces. (See Annex 8 for further background on EPS/WEPS.)
- Finance System: Although we did not see any computerized financial application at the MOI, the Ministry uses MOF's financial application known as the Afghan Financial Management Information System (AFMIS) for paying the police and for requesting reimbursements from LOTFA. AFMIS is based on FreeBalance Accountability Suite software and may include more than one module of the suite. FreeBalance is a Canadian company that offers a full suite of accountability package aimed at governments. It calls its accountability suite as Government Resource Planning (GRP) as compared to Enterprise Resource Planning (ERP).

84. It should be noted that there was no evidence that any of the application development efforts or rollout of computerized systems were conducted in a coordinated manner. It appears that each application was developed in isolation from other applications by partners who thought that the systems were required.

Weaknesses of IT System Management

85. Current IT system management suffers from several important weaknesses:

- Ownership of applications: Development of purposeful applications has been proposed by partners or sponsors. Government has interacted meaningfully in the development process; however, the oversight of the development process has been mainly conducted by the sponsors. In cases that applications have rolled out, the operation is still being overseen by the sponsors and not by the Government. The government is not actively involved in putting a framework for future changes in the software, both immediate and long terms.
- Software development life cycle: Software development has been an on-going process, starting small and growing as further requirements emerge. The developers may keep track of the changes in a systematic manner in their office, but there is neither an established software development life cycle (SDLC) process nor the related service level agreement (SLA) between the developer(s) and the owner.

- Lack of segregation of business and IT service: The three computerized systems used by the MOI are operated by the same people who are involved in development and technical support of the applications. The DynCorp ID and the AHRIMS are operated by Vekti, while some functions of the EPS/WEPS are carried out by the IT personnel. To minimize risk to the data integrity, IT personnel should not perform business transactions in any environment; in turn, persons responsible for data entry must not report to IT supervisors.
- Disaster recovery: WEPS data is replicated on a secondary database server. Monthly backup of the data are being made and kept off site. However, there exists no disaster recovery site for EPS or for that matter for the AHRIMS. A mishap in the MOI data center could paralyze the payroll operation of the entire police force.
- Staffing: LOTFA has only one IT professional who understands the architecture of the EPS/WEPS, knows the database and the programming platform. The entire set of servers and stand-alone installations are maintained by just one person. This situation is not sustainable. AHRIMS, its development, operation and maintenance is still supported by NTM-A / STSTC-A and is currently outsourced to Vekti. However, there is no indication of institutional arrangements for the operation of AHRIMS post-2014.
- Documentation: No technical documentation exists for EPS/WEPS and this makes maintenance and further development of the system difficult.

Weaknesses in Software

86. IT initiatives in the MOI have been undertaken as the need has been felt. Each initiative has started with minimum of requirements. No comprehensive analysis of the requirements has preceded the development.   As soon as the development of the software based on limited requirements has completed, new requirements have emerged and the application has been modified/expanded. Major shortcomings of applications in MOI are evident:

- Compartmentalized application development: All applications have been developed in their own silos. There has been no effort to coordinate applications development between various departments. The user has consisted solely of one single organizational unit for which funds were made available for the development of application.
- Lack of development standards: There have been no development standards that should be adhered to in any new application. There has been no research or investigation to seek Commercial-Off-The-Shelf software for the intended purpose and to do feasibility study. For some reason, it has been decided that very important software is purpose built either in house or through an external firm. These efforts, in the absence of standards and in the absence of full requirement study, have resulted in monolithic and inflexible applications where even the simplest codes have been hard coded.
- No business controls: One would expect that an HR application would have at least a recruitment module and an entitlement module. These modules would have the necessary checks and balances to ensure that a person may not be recruited twice and may enjoy only specific types of entitlements based on his/her profession, skill sets or duty station. No such checks and controls exist in the current systems. Once established that expenditure may be committed for specific objects of expenditure, then the systems should be able to track these objects of expenditure and prevent expenditure for ineligible objects of expenditure. The existing systems have no such mechanisms in place.

- Insufficient reporting: Only basic reporting is in place. No full reconciliation of data is possible under the current situation of lack of authoritative databases and absence of integration between various systems. There are no exception reports to scrutinize the process or question payment or reimbursement transactions during the various phases of their process.

Recommendations:

- Hire an external system integration firm to:
  - Study the entire payroll process, including HR elements (recruitment, assignment, movement, entitlements, promotion, separation, etc); study the existing computerized systems (DYNCORP ID system, AHRMIS, EPS and AFMIS) and conduct business analysis of the end-to-end process.
  - Design an end-to-end payroll system, addressing the existing weaknesses of the current systems and full integration of the systems.[22]
  - Review AHRIMS in view of implementing enhancements to accommodate staff recruitment, entitlements and controls around it.
  - Revise EPS to ensure that the system meets the requirements of object codes and controls around them, accommodate processing of reimbursements, reconciliation, etc.
  - Integrate EPS with AFMIS, eliminating manual preparation of manual M16 and receiving reimbursement data from AFMIS.
  - Automate data interface between EPS and the systems of the client banks and M-Paisa, including reconciliation.

- Professionalize LOTFA and MOI IT function:
  - Coordinate IT systems in MOI under a high-level IT steering committee: The IT steering committee will ensure that all departments cooperate in the design, development and rollout of all IT initiatives, prevent duplication of efforts and share resources between various departments. The IT steering committee will be responsible for setting policies and funding for various initiatives and ensuring future system development.
  - The professionalization of the IT function means that a functional IT unit with appropriate staffing level is created, for which the IT staff have their own job description that do not include business functions such as registering new recruits in the data base, data entry or answering questions related to the payments or entitlements of staff.
  - Professionalization also means development of policies and guidelines for development, maintenance and helpdesk support. For systems development, it may adopt a system development life cycle methodology. A brief description of SDLC is provided in Annex 9.
  - Combine maintenance and support for EPS and HR applications under one umbrella, i.e., LOTFA, to ensure coordinated development and maintenance and reduce cost. The operation of the systems will still be located at their functional departments, e.g., the AHRIMS will be fully operated by *Paizhantoon* or the HR Department of the MOI.
  - Establish disaster recovery site. This will ensure that in case one site is hit by some disaster, the business of paying the police or the HR functions will not come to halt but the secondary site or the disaster recovery site would be able to become operational and replace the primary site within a couple of days or even hours.

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[22] This does not necessarily mean that a new system should be built from scratch. It is also possible that the system requirements and feasibility study may show that purchasing a commercial off the shelf (COTS) product may be the best option to move forward.

- Finally, develop a plan to complete full transfer of all EPS operations to MOI within two years and the IT department within one year after all developments and integrations are completed.

Conclusion

87. LOTFA will always face multiple risks – financial and operational – exaggerated by the broader context of transitional Afghanistan, with continuing security uncertainty, the prevailing challenge of corruption, and technological limitations, among other factors. LOTFA was established to mitigate those risks and it has done so to a significant extent. Much remains to be done. Systems have been established to effect payment, but they are fragile and open to abuse. All of the partners with whom the MRT met expressed awareness of those risks and of the impossibility of eliminating them. Furthermore, all agreed with the MRT perspective that on-going efforts will continue to reduce those risks over time. UNDP and the many LOTFA stakeholders should formally recognize that risks are real and that they are shared, as long as each party – MOI, LOTFA, UNDP, Steering Committee – does its best to minimize or manage risks over which it has any control. The MRT is convinced that the recommendations contained herein, when implemented, will provide a more effective management platform from which to manage the still significant risks while continuing the critical support to development of MOI and ANP.

88. The MRT believes that the management review will prove its worth many times over, if its recommendations are acted upon. This review was provoked by a particular crisis and was carried out as something quite different from a normal project evaluation. The MRT suggests that UNDP should establish such reviews as normal practice for large and important projects.

Table of Recommendations and Responsibilities for Action

Category	Recommendation – What?	Responsibility – Who?	Deadline – When?	June 2013 – Status?
Table of Recommendations and Responsibilities for Action				
Category	Recommendation – What?	Responsibility – Who?	Deadline – When?	June 2013 – Status?
Governance	UNDP Management Response to the MRT Report	UNDP RBAP and UNDP CO	December 2013	
Governance	Mission to support MPTF formulation	UNDP-HQ (MPTF Office)	February 2013	
Governance	Intensive dialogue with SC on MPTF and LOTFA VII	UNDP-CO	February-April 2013	
Governance	Revised/strengthened policy role of Steering Committee	LOTFA, Steering Committee	February 2013	
Governance	Open windows to fund non-UNDP projects	Steering Committee, UNDP	March 2013	
Governance	Approval of MPTF structure for LOTFA	UNDP-CO	June 2013	
Governance	Clear separation of TF management from project implementation	UNDP-CO	June 2013	
Governance	Funding for first non-UNDP implementation project	Steering Committee	June 2013	
Governance	Senior level UNDP participant in IPCB WGs	UNDP-CO	December 2012	
Governance	Extend Phase VI to permit incorporation of IPCB vision and strategy into future LOTFA	UNDP-CO, SC	December 2012	
Operations	Confirm UNDP commitment to salary payroll service	UNDP HQ; UNDP-CO	January 2013	
Operations	Public announcement of procurement requirements and results via web and commercial newspapers	LOTFA	January 2013	
Operations	Request Monitoring Agent to prepare manual of procedures for MOI handling of expenditures	LOTFA	December 2012	
Operations	Apply fraud standard to procurement – 2012 audit	UNDP-CO; external auditor	2012 audit	
Operations	Reimbursement of only fully eligible expenditures	LOTFA, SC	4Q12 request	
Operations	Increase involvement with Monitoring Agent	LOTFA	January 2013 onwards	
Operations	Conduct Client Satisfaction Survey of project staff;	UNDP-CO	February 2013	

	use results as benchmarks and future guidance			
Operations	Monitoring Agent increase attention to salary payments through trusted agents and M-Paisa	LOTFA, Monitoring Agent	January 2013	
Operations	Review recommendations of past evaluations and status of actions taken or pending	UNDP-Afghanistan Division	January 2013	
Operations	Management audit of LOTFA internal SOPs and practices (asset management, finance, procurement)	LOTFA	February 2013	
Operations	Increase utilization of national procurement processes and procedures with MOI	LOTFA, MOI	February 2013	
Operations	Prepare table of eligible expenditure categories, related object codes and calculation basis	LOTFA, MOI, MOF	February 2013	
Operations	LOTFA website for transparent public reporting	LOTFA	March 2013	
Systems	Hire IT integration firm(s) to review current payroll processes and systems, conduct business analysis and prepare SOW.	LOTFA	March 2013	
Systems	IT firm to modify and enhance current systems and develop new end-to-end payroll system based on accepted SOW.	LOTFA	Dec 2013	
Systems	Develop interfaces between payroll/HR/Finance and third party systems in accordance with SOW	LOTFA	Dec 2013	
Systems	Roll out new system	LOTFA/MOI	March 2014	
Systems	Professionalize LOTFA IT function	LOTFA	October 2013	
Systems	Create MOI IT Steering Committee	MOI/LOTFA	July 2013	
Systems	Combine IT support & maintenance functions of AHRIMS and EPS under LOTFA	MOI/LOTFA/NTMA	July 2013	
Systems	Create DR site	MOI	Mar 2014	
Systems	Extend the MOI private network to all provinces and all police command centers	MOI	Mar 2014	
Systems	Extend use of M-Paisa in regions where banking system does not exist	LOTFA/MOI	Mar 2014	

Annexes

Annex 1 – LOTFA Management Review Terms of Reference

Context

1. The Law and Order Trust Fund for Afghanistan (LOTFA) was set up in 2002 as a mechanism for the international community to mobilise resources for the establishment; salary payment; infrastructure creation; capacity development; and gender empowerment of the police force in Afghanistan. It is currently in its 6th Phase, which will run until 31 March 2013.

2. The project is divided into three pillars:

   Pillar 1:   Support to police remuneration and police infrastructure;
   Pillar 2:   Consolidated capacity development and institutional reform; and
   Pillar 3:   Community Policing – the building of effective police-community partnerships under the police-e-mardumi project.

3. **Pillar 1** is the original foundation of the LOTFA project, and remains by far the largest of the three Pillars in dollar volume. The priority objectives of Pillar 1 are:

   - Payment of police force remuneration;
   - Payment of the remuneration of uniformed personnel employed by the Central Prisons Department (CPD) through specially earmarked contributions;
   - Procurement, maintenance and operation of non-lethal police equipment and supplies; and
   - Construction, rehabilitation, maintenance and operation of police facilities.

4. **Pillar 2** focuses on consolidated capacity development and institutional reform. It's primary objectives are:

   - Capacity development (CD) and institutional reform of the Ministry of Interior (MOI) at the policy, institutional, and individual Afghan National Police (ANP) levels; and
   - Linked to the CD component, gender orientation, including recruitment, training, and gender mainstreaming of police.

5. **Pillar 3** aims to build effective police-community partnerships under the Afghan "police-e-mardumi" concept, based on best democratic policing principles.

6. LOTFA activities are implemented in Kabul and in 34 provincial police headquarters, supported from the LOTFA project office based within the Ministry of Interior (MOI) in Kabul. Records are maintained in the provincial police headquarters, MOI and MOF. The current annual budget is approximately USD 613 million. The project is implemented under the National Implementation modality (NIM), with the Deputy Minister of the Interior (Support) serving as National Director.

7. LOTFA has a Project Steering Committee, chaired by the Minister of Interior, with representatives from UNAMA, UNDP, MOI, MOF, EUPOL, EU, USA, UK, Japan, Germany, Netherlands, Norway, Finland and LOTFA.

8. Given the transition taking place in Afghanistan, the changing development landscape and the need to have a "fit for purpose" LOTFA, a decision has been made to undertake a Management Review the LOTFA Trust Fund Mechanism. This is particularly important given the need to make an eventual transition of LOTFA to the Government of Afghanistan, the importance of enhancing the capacity development dimensions of the initiative, and the responsibility to more effectively manage and share risks. Moreover, it is important to assess and identify measures that will strengthen the disbursement mechanisms of the payroll component of the programme.

9. Proposed terms of reference for this management review follow.

Objective

10. The objective of the review is to assess the overall governance and management arrangements, as well as the disbursement systems of the project. The efficiency and effectiveness of such arrangements and systems will be assessed, and recommendations will be made on areas where further improvements are required. To the extent possible, the review will be expected to anticipate the requirements of future phases of LOTFA.

It is intended to be action-oriented and will focus on identifying implementable corrective actions, or improvements, that will have an important and sustainable impact. It will:

(i)   Assess the overall governance arrangements of the project and make recommendations for improvements and changes that may be required;

(ii)   Review the appropriateness of the management and structural arrangements, including the staffing depth of the current project management framework;

(iii)   Review the existing risk mitigation mechanisms of the project, and recommend measures to more effectively manage and share risks with stakeholders;

(iv)   Review the effectiveness of the existing monitoring arrangements and identify alternative systems and approaches if required;

(v)   Review the robustness of the disbursement systems, and recommend measures that will help prevent duplication of payment or fraudulent payments.

The ultimate aim of the Review is to ensure that LOTFA has the requisite governance and management arrangements to effectively meet its present and future needs, and to ensure that the strongest possible risk management and mitigation measures are in place. It also seeks to identify mechanisms to further strengthen and enhance the payroll functions component of the programme.

Methodology

11. The Management Review Team (MRT) will confer at UNDP HQ and Kabul with key stakeholders, review documentation, and, if necessary, make site visits to inform their deliberations. Stakeholders in Kabul include the Government of Afghanistan, partners, UNDP Afghanistan and other partners (such as the World Bank) based in Kabul, LOFTA project staff and others as required. The MRT may also review governance, management and structural arrangement of other comparable trust funds to identify possible lessons that can be learned. This is with the recognition of the unique development situation and realities of Afghanistan.

12. The UNDP Afghanistan Country Office will assist the MRT in coordination and support of the review.

Logistics

13. Review activities will take place at the UNDP Country Office in Kabul, the LOTFA project office in Kabul, and any provincial offices as required. Fact-finding approaches should be interactive, through structured interviews and appropriate risk analysis exercises. Available reference materials, such as past evaluations, audits and manuals will be made available.

14. The MRT will make an initial presentation of the objective and approach of the review to Government and Partners and at the end of its mission present its initial findings and proposed recommendations.

Reporting Arrangements:

15. The MRT will undertake its work over a period of 4-5 weeks and shall report to the Director, Regional Bureau for Asia and Pacific.

16. The MRT shall prepare an Inception Report within five days of undertaking the assignment outlining the tasks to be undertaken, the proposed methodological approach and the time frame for delivery of each dimension.

17. The MRT will submit a concise draft Final Report within 4-5 weeks after commencing the assignment. The Draft Final Report will include:

(i)   An assessment of the present governance, management and structural arrangements noted above with specific and actionable recommendations.
(ii)   Specific recommendations on improved risk mitigation and sharing approaches, including a draft risk compact.
(iii) Specific recommendations on monitoring mechanisms, including the services of the Monitoring Agent.

Assessment of the systems for disbursement and specific recommendations to minimize double and fraudulent payments and for further enhancing efficiency, transparency and accountability.

Annex 2 – LOTFA Management Review Mission - Persons Met

Organization	Person Met	Position	Contact Info
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MOI	Sayed Omar Saboor	Deputy Director Gender & Human Rights	
MoI	Gen Mohammad Shamsi Noori	Director of Procurement, Deputy Director	
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Partner Contributions ("Total Received") to LOTFA, 2002-2012

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Year-to-Date	Total	Share
UNDP												-	0.0%
Latvia			-	-	-	-	20,000	-	-	-	-	**20,000**	0.0%
Iceland			-	-	-	-	100,000	-	-	-	-	**100,000**	0.0%
Czech Republic			-	-	-	-	-	150,602	-	-	-	**150,602**	0.0%
Ireland	250,000	285,715										**535,715**	0.0%
Belgium			-	652,225	-	-	-	-	-	-	-	**652,225**	0.0%
Australia			-	-	-	1,550,388	1,919,386	-	-	-	-	**3,469,773**	0.1%
World Bank (ARTF pass-through)	836,360	4,000,000										**4,836,360**	0.2%
Italy			-	-	-	1,418,440	1,295,337	1,125,176	1,221,001	-	-	**5,059,954**	0.2%
Afghanistan GLOC (contribution from Japan through GoA)			-	-	-	5,999,950	3,822,896	-	-	-	-	**9,822,846**	0.4%
Denmark	100,000		-	-	-	-	-	1,999,966	1,359,223	6,939,844	-	**10,399,034**	0.4%
Finland	98,280		-	-	928,996	2,103,583	1,943,005	-	1,360,544	2,139,800	1,882,058	**10,456,267**	0.4%
Switzerland	247,059	11,721,531	-	-	1,718,485	280,000	-	679,592	1,024,590	1,668,582	-	**17,339,839**	0.7%
Norway	1,046,726	5,174,923	-	-	468,022	-	-	10,812,343	3,772,346	15,938,297	-	**37,212,658**	1.5%
UK / DFID	-	-	-	-	2,608,696	2,652,259	3,569,949	11,562,734	14,885,408	11,727,103	15,893,862	**62,900,011**	2.5%
Netherlands			-	1,248,439	6,587,615	18,524,066	-	25,575,448	13,105,908	14,666,667	-	**79,708,143**	3.2%
Canada*	2,434,633	-	-	-	-	29,132,054	17,897,616	8,008,843	17,460,399	12,337,397	-	**87,270,942**	3.5%
Germany	2,017,840		-	-	6,587,615	2,949,853	16,822,621	19,578,313	43,500,000	46,511,628	26,560,425	**164,528,295**	6.6%
European Union			2,225,091	35,303,533	32,111,065	49,041,298	53,108,808	61,173,544	47,018,367	51,466,259	2,414,406	**333,862,372**	13.3%
Japan			-	-	-	-	10,000,000	124,800,000	180,000,000	240,000,000	231,101,044	**785,901,044**	31.4%
USA			-	-	49,369,767	40,000,000	90,000,000	93,100,000	267,361,734	257,074,432	80,000,000	**876,905,933**	35.0%
Interest			-	8,569,871	-	-	-	1,681,951	-	1,451,019	-	**11,702,841**	0.5%
Total	7,030,898	21,182,169	2,225,091	45,774,068	100,380,262	153,651,891	200,499,619	360,248,513	592,069,521	661,921,028	357,851,795	**2,502,834,855**	100.0%

Note: Canada's funding is from CIDA and the Department of Foreign Affairs & International Trade (DFAIT).
Source: UNDP Afghanistan.

Partners Contributions ("Total Received") to LOTFA, Phases I-VI (2002-2012)

	Phases						Total	Share
	I	II	III	IV	V	VI (to date)		
	11/2002-03/2004 (SY1381-1382)	04/2004-03/2005 (SY1383)	04/2005-03/2006 (SY1384)	04/2006-08/2008 (SY1385-1387)	09/2008-12/2010 (SY1387-1389)	01/2011-03/2013 (SY1389-1391)		
UNDP							-	0.0%
Latvia			-	20,000	-	-	**20,000**	0.0%
Iceland			-	100,000	-	-	**100,000**	0.0%
Czech Republic			-	-	150,602	-	**150,602**	0.0%
Ireland	535,715						**535,715**	0.0%
Belgium			652,225				**652,225**	0.0%
Australia			-	1,550,388	1,919,385		**3,469,773**	0.1%
World Bank (ARTF pass-through)	4,836,360						**4,836,360**	0.2%
Italy			-	1,414,427	2,420,513	1,225,014	**5,059,954**	0.2%
Afghanistan GLOC (contribution from Japan through GoA)			-	5,999,948	3,127,488	695,409	**9,822,846**	0.4%
Denmark	100,000		-	-	3,359,189	6,939,844	**10,399,034**	0.4%
Finland	98,280		-	2,519,143	2,442,267	5,396,578	**10,456,267**	0.4%
Switzerland	11,968,590		-	1,626,311	1,072,105	2,672,833	**17,339,839**	0.7%
Norway	6,221,649		-	180,793	14,867,384	15,942,831	**37,212,658**	1.5%
UK / DFID	-	-	-	8,754,991	24,930,929	29,214,091	**62,900,011**	2.5%
Netherlands			1,248,439	25,111,329	38,681,607	14,666,767	**79,708,143**	3.2%
Canada*	2,434,633	-	-	38,945,597	33,553,315	12,337,397	**87,270,942**	3.5%
Germany	2,017,840		-	9,537,284	53,786,466	99,186,705	**164,528,295**	6.6%
European Union		2,225,091	35,303,533	90,969,452	105,003,327	100,504,398	**334,005,802**	13.3%
Japan			-	-	306,140,195	479,760,849	**785,901,044**	31.4%
USA			-	129,960,064	270,556,137	476,389,732	**876,905,933**	35.0%
Interest			8,569,871	-	1,681,951	1,451,019	**11,702,841**	0.5%
Total	**28,213,067**	**2,225,091**	**45,774,068**	**316,689,727**	**863,692,863**	**1,246,383,468**	**2,502,978,285**	100.0%

Note: Canada's funding comes from CIDA and the Department of Foreign Affairs & International Trade (DFAIT).

Source: UNDP Afghanistan.

LOTFA Expenditures by Major Outputs, 2002-2012

US $	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Year-to-Date	Total
Police Remuneration	7,030,898	21,182,169	40,117,319	41,890,907	96,363,376	91,791,296	227,987,410	248,580,139	468,346,275	542,628,822	539,054,714	**2,324,973,325**
CPD Remuneration								576,371	14,345,494	15,644,712	11,341,921	**41,908,498**
Electronic Payroll System			65,334	178,719	507,869	297,577	-24,302			460,301	273,965	**1,759,462**
Procurement of Non-Lethal Equipment										2,194,705		**2,194,705**
Construction of Police Facilities / Infrastructure					207,558	4,494	119,921	1,295,797	6,540,990	1,966,377	367,425	**10,502,562**
Total Pillar I	**7,030,898**	**21,182,169**	**40,182,653**	**42,069,626**	**97,078,803**	**92,093,367**	**228,083,029**	**250,452,306**	**489,232,759**	**562,894,917**	**551,038,025**	**2,381,338,552**
Institutional Development											89,944	**89,944**
Procurement (equipment for DIAG)						130,000	1,437	1,877,679	6,916,940	2,410		**8,928,466**
Capacity Development							30,392	787,729	1,008,792	4,312	85,197	**1,916,422**
Gender Mainstreaming					4,078	146,271	398,311	437,263	623,605	1,150,523	725,014	**3,485,065**
Total Pillar II	**-**	**-**	**-**	**-**	**4,078**	**276,271**	**430,141**	**3,102,671**	**8,549,337**	**1,157,245**	**900,155**	**14,419,898**
Capacity Development				3,828,659						4,236,323	71,629	**8,136,611**
Public-Police Relation Development										825,382	1,313,327	**2,138,709**
Total Pillar III	**-**	**-**	**-**	**3,828,659**	**-**	**-**	**-**	**-**	**-**	**5,061,705**	**1,384,956**	**10,275,320**
Total Project Management Unit (PMU)			**-**	459,172	350,133	656,061	366,097	825,154	1,277,047	1,941,448	3,653,545	9,528,656
General Management Support (GMS) Fee	210,927	635,465	1,205,480	1,376,949	2,912,486	2,771,089	9,140,527	12,677,749	24,889,105	22,764,555	22,132,925	100,717,256
Grand Total	**7,241,825**	**21,817,634**	**41,388,133**	**43,905,746**	**100,345,500**	**95,796,788**	**238,019,793**	**267,057,880**	**523,948,248**	**588,758,165**	**577,724,650**	**2,506,004,362**

Note: The 2002 and 2003 expenditure figures are based on partner commitment and pledges.

Applied GMS Fee Rate:	3%	3%	3%	3%	3%	3%	4%	5%	5%	4%	4%

Annex 4 – LOTFA Steering Committee – Draft Terms of Reference

Composition:

The Steering Committee (SC) is co-Chaired by the Minister of MOI and the UNDP Country Director. Members include the Ministry of Finance[23] and other government representatives involved in or impacted by LOTFA, Partners contributing to the Fund, and as appropriate, Civil Society or other organizations. The Steering Committee sets strategy and policy for LOTFA.

Key Functions:

- To review, approve and update the Terms of Reference and Rules of Procedures of the Steering Committee;

- To establish and formalize Working Groups to support the SC as deemed appropriate;

- To establish rules for accepting donor funds, for example the degree to which funds can be earmarked;

- To decide on the use of funds provided by donors. Thus

    o For earmarked contributions to a Pillar or Sub-Pillar, to review and ensure the alignment of the earmarking with the LOTFA strategic framework and relevant approved national priorities;

    o For unearmarked contributions, to allocate available resources to the different LOTFA Pillars taking into account the programme of work and resource requirements of the different Pillars.

- To review and approve project proposals from implementing organizations that have been vetted by or through the Technical Secretariat by relevant Working Groups (e.g. Working Groups established by the SC, the IPCB or similar WGs for proposals of Pillars 2 and 3);

- To periodically be briefed by the LOTFA Monitoring Agent of its key findings and areas of concern;

- To ensure appropriate consultative processes take place with partners supporting MOI outside of LOTFA to ensure coherence of assistance , avoid duplication or overlap between LOTFA and other funding mechanisms. In this regard, the IPCB is expected to have a particularly strong role;

- To review and approve the periodic progress reports (programmatic and financial) consolidated by the Fund Administrator based on the project progress reports submitted by the implementing organizations. To commission independent "lessons-learned and review" of LOTFA implementation of recommendations);

- To review findings of audit or evaluation reports and ensure important recommendations and lessons learnt are properly documented and acted upon;

- To decide on LOTFA information management issues including acknowledgement of contribution of partners.

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[23] The role of the MOF needs to be discussed and agreed by all concerned. The MOF who co-chair the ARTF and who have ultimate responsibility for use of all on-budget funds, expressed an interest to the MRT to be more involved in decision-making and oversight of LOTFA including the possibility of becoming a co-chair of the SC.

Annex 5 – LOTFA Procurement – Risky Business for Amateurs

After a thorough process of interviews and analyses it is clear that old LOTFA procurement processes involved the following weaknesses and risks:

- Accords state that the procurement should had been done through National Implementation Module (NIM), however, it was neither NIM nor done under the DIM.
- On the UNDP part, the Country Office should have become aware of LOTFA problems, yet they lacked quality assurance mechanism to ensure that all procurements are conducted according to rules required.
- LOTFA lacked professional human resources which led to conduct inadequate needs assessment, poor procurement planning and poorly conducted procurement process
- Technical specifications sometimes too vague or not based on performance requirements
- Selection criteria sometimes defined in terms that favored a specific bidder
- Information on the procurement opportunity sometimes not provided in a consistent manner to all bidders could lead to inadequate competition or in some cases collusive bidding lead to inadequate prices or even illegal price fixing.
- Procurement from a limited number of suppliers, leads to limited choices and risks for high prices and delays.
- Pillar members not involved in assessing compliance of the product to technical specifications set in the tender
- Poor evaluation of the financial viability of the supplier; subjective evaluation favors a specific bidder.
- Lack of effective separation of financial, contractual and project authorities in delegation of authority structure, creates opportunity for abuse of authority.
- Failure to monitor performance of contractor or partners or to hold contractor accountable;
- False or duplicate invoices for goods/services jeopardize contract management and payment

Recommendations:

- Hire competent staff and conduct regular departmental or individual performance review
- UNDP Country Office oversight role should be stronger, there should be a spot check mechanism to monitor the contracts to ensure that they are done properly and should identify irregularities
- UNDP Country Office should have support and compliance role to help LOTFA in the transition process that could be sustained post-LOTFA
- Recognizing that there may be problems and flaws within MOI procurement systems, UNDP should maintain oversight of embed advisers activities within MOI for better coordination and strengthening the initiative of capacity building
- Develop detailed specifications as per requirement, train LOTFA's staff and develop the capacity of MOI staff through their advisers
- Publicize procurement opportunities and documentation on line, on newspapers and other information outlets
- Set up a secure process for receiving, recording and acknowledging submissions
- Set up a procedure for opening the bid box; several public agents should attend the official opening of the submitted bids that could be bid opening committee

- Obtain conflict of interest declarations from team members commission to eliminate conflicts of interests among members of bidding commissions
- Technical evaluation process should include technical specialist of requesting unit, procurement specialist and at least one technical specialist without interest in the outcome and MOI specialist
- Thoroughly check the specifications of the product offered against the requirements submitted in the tender documents, including the competence and capacity of the supplier
- Setup a secure mechanism for reporting fraudulent, corrupt, or unethical behavior
- All procurement announcements and decisions should be publicly posted on UNDP and government website as well as national commercial news media
- Ensure adequate planning, clear terms of contract, restrictions and controls over change in the terms of the contract, public scrutiny of results

LOTFA Procurement Process (old)

Initiation-Team

Start

LOTFA lacked procurement expertise team

Identify need for goods/Services

The lists were developed by LOTFA staff members with no procurement expertise

Project Staff conducts need assessment

Dev. Specs List

Specs list were too vague which gave possibility to favor particular vendors in some situations

Pillar staff dev. Specs lists

Fill Procurement Template

Due to the lack of expertise LOTFA procurement team filled the procurement forms not completely in line with National Procurement Law

Staff Fill in Template

Supervisor Approval

Due to the lack of expertise in this control function, risks and errors could have been identified both intentional and unintentional

Supervisor reviews requisition

Announcement

For contracts under $10000 LOTFA team contacted vendors directly/over $10000 all Procurements have been advertised on all required web sites

Procurement team announces RFA/RFQ

Bids Collection

National Procurement law has not been followed in cases of bid collection

Procurement team collect RFA/RFQ

Bid Opening

Bids were at the risks of being altered

Procurement team opens RFA/RFQ

Evaluation

The evaluation was conducted by incompetent team with/without the presence of MOI representative with no clear understanding of procurement cases

Procurement team evalutes RFA/RFQ

Contract Preparation

Contracts have been prepared by incompetent individuals at project level

Procurement team prepares the contract

Review of contract

This step could have been a good step for quality assurance and spotting irregularities but seems that contract weren't reviewed or were reviewed inappropriately prior to signing of it

UNDP/MOI

Sign Contract

Project Director/ Manager Signs contract

Contract Management

It has been done by requesting unit

LOTFA/UNDP failed to monitor performance of contractor and failed to conduct fraud audits

Payment

Payment processed

End

Final payments have been made based on above explained processes which clearly compromise quality of it

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	Function	Risks	Implications	Prevention Measure
1	Initiation – procurement team	Lack of professional human resources leads to conduct inadequate needs assessment, poor procurement planning, and failure to budget realistically, could be influenced by external actors	Unnecessary procurement, results not match requirements, poor quality, more costly	Hire competent procurement staff for LOTFA/MOI and conduct regular departmental or individual performance review. Revise TORs for UNDP advisors within MOI and technical staff of MOI procurement directorate.
2	Identification of need for goods/Services	Goods/services may not be required; or requirement not correctly specified	Unnecessary procurement, results not match requirements, poor quality, more costly	Develop SOPs, train staff on need assessment
3	Development of list of specifications requirements	Too vague or specs not based on performance requirements to favor selected vendor	Results not fulfill requirements, poor quality, more costly	Develop guidelines for setting up standard specifications for goods, services works. Train LOTFA/MOI staff on how to develop detailed specifications as per requirement/Involve third party for developing specs for big amount of project
4	Fill Procurement Template	Errors and delays	Errors and delays	Develop guidelines
5	Supervisor Approval	Negligence, influence of external actors to approve procurement	This is a control function, to reduce other risks and errors	UNDP-LOTFA/MOI control and oversight mechanism. Establish governance structure
6	Bid announcement	A timeframe for the preparation of the bid that is insufficient and it is not consistently applied across bidders; information on the procurement opportunity not provided in a consistent manner to all bidders; absence of public notice for the invitation to bid, lack of competition or in some cases collusive bidding that leads to inadequate prices or even illegal price fixing	Failure to obtain good results from market, weak competition, higher prices, and favor selected vendor.	Mandatory publication of procurement opportunities and all documentation online and on newspapers and other information outlets
7	Bid Collection	Direct procurement from limited suppliers, leading to limited choices and risks for high prices and delays; bids being lost; bids not confidential, could become known to other bidders and influence offers	Collusion among bidders, favored bidder knows how much to offer to beat others, more costly	Set up a process for receiving, recording and acknowledging Submissions

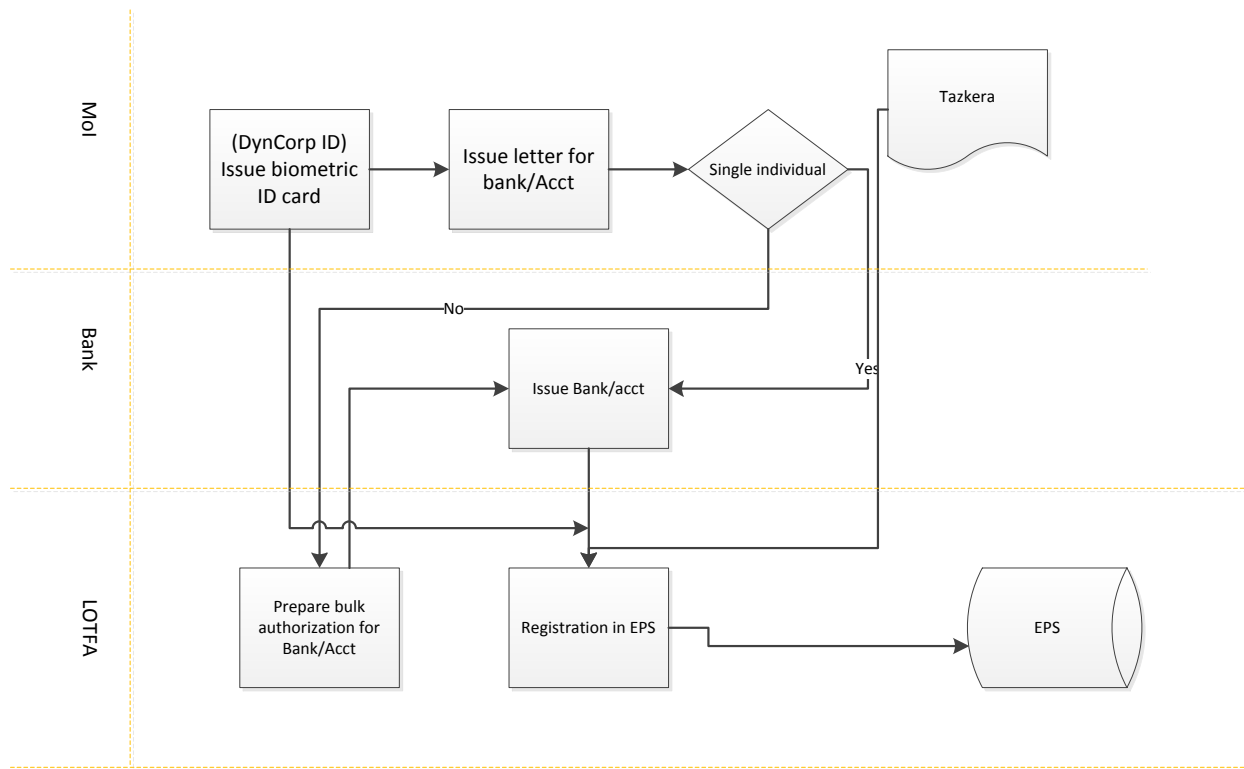| 8	Bid Opening	Sensitive or non-public information disclosed; information of other bidder disclosed to favored bidders; opportunity to modify bids with new information	If not prompt and public, could mean that bids can be altered	Set up a procedure with minimal delay for opening the bid box; several public agents should attend the official opening of the submitted bids
9	Evaluation	Conflict of interest; familiarity with bidders over the years may create personal interests; no effective implementation of the "four-eyes" principle; no involvement of pillar experts in assessing compliance of the product to technical specifications set in the tender; poor evaluation financial viability of the supplier; subjective evaluation that favors a specific bidder; selection criteria are defined in terms that favors a specific bidder; failure to reject a bidder in a situation when the premises for rejection existed	No compliance of procurement procedure followed that's either NIM nor DIM, selection of favorite bidder based on personal interest, no effective separation of financial, contractual and project authorities in delegation of authority structure; less response offer, more costly result	Obtain conflict of interest declarations from team members to eliminate conflicts of interests among members of bidding commissions; the evaluation team should include at least five individuals; thoroughly checking the specifications of the product offered against the requirements submitted in the tender documents the supplier criteria competence and capacity
10	Contract Preparation	Lack of clarity in terms and responsibilities	Difficult to hold contractor accountable for product	Use standard contract documents and develop specifics with technical staff
11	Review of contract	UNDP/MOI support team could have reviewed the contract and in case of irregularities could reject the contract		UNDP PSU/FSU team should review the contract
12	Contract Signature	Abuse of authority		All decisions are publicly posted on a government website and other easily accessible place as
13	Contract Management	Failure to monitor performance of contractor; subcontractors and partners are chosen in a non-transparent way, or not kept accountable	Loss of quality; time and cost overruns	Reports of award proceedings, e.g. who won etc; adequate planning, restrictions and controls over change in the terms of the contract, public scrutiny a secure mechanism for reporting fraudulent, corrupt, or unethical behavior;
13	Payment	False or duplicate invoicing for goods and services not supplied and for interim payments in advance of entitlement; payments made without having original invoices/receipts.	Payment could be made twice; same product/service could be charged to more than one contract	Only pay against original invoices. Ensure payment request signed off to reflect goods/services received as per contract.

Annex 6 – Police Salary Payment Process at the Provincial Level

Salary Payment Process – Provincial Level

Legend: Manual Input | Document | Decision | Process | Data

Provincial HR Dept.
- Collects Attendance Sheets from Districts
- Prepares Personnel Record for each staff and consolidates these per district and province

Provincial Finance Dept.
- Data entry
- Prepares monthly Payroll Lists (M41 forms) in EPS – per payment type and staff type
- Prepares Summary Sheet
- Prepares monthly Payment Requests (M16 forms) for each entity and payment form
- Data revised

Mustoufiat
- Sends hardcopies
- Payment Requests (M16s) entered into AFMIS
- Entry accepted (funds sufficiency)
  - No
  - Yes

MoI – HR and Finance Departments
- 1) HR data sent from Provincial HR Departments (Personnel Statistics Directorates) to EPS.
  2) Consolidated Bank Report sent.
- Payment Requests (M16 forms) and Payroll Lists (M41 forms)
- Sends monthly Consolidate Bank Report

MoF Treasury Dept.
- Payroll Lists (M41s) in EPS: Automatically for WEPS, via e-mail or CD ROMs for Stand-alone
- AFMIS Database
- Prepares cheques and makes payment lists

DAB (Central Bank)
- EFT: Transfers to commercial bank(s) for deposit in bank a/c
- Bonded Trustees: Transfers to commercial bank(s) for deposit in designated bank a/c
- M-Paisa: Transfers to commercial bank(s) for deposit to service providers

LOTFA
- LOTFA staff undertake manual Reconciliation of EPS-generated Pay Slips (M40 forms) with bank statements from commercial bank(s) based on random sampling
- EPS Database
- LOTFA sends monthly EPS reports to the MoI and Donors

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Annex 7 – Registration of New Recruits in EPS

Registration of new recruits in EPS

MoI

- (DynCorp ID) Issue biometric ID card
- Issue letter for bank/Acct
- Single individual
- Tazkera

Bank

- No
- Yes
- Issue Bank/acct

LOTFA

- Prepare bulk authorization for Bank/Acct
- Registration in EPS
- EPS

Annex 8 – Development of the Electronic Payroll System (EPS)/Web-based EPS

Computerisation of the MOI payroll was initiated during Phase I (2002-2004) and the EPS configured and tested during Phase II (2004-2005). The system was rolled-out to 14 provinces during Phase III (2005-2006). At the end of Phase IV (2006-2008), EPS had been deployed in all 34 provinces and was operational in 106 of 115 MOI payroll stations. During Phase V (2008-2010), 99.7% of all ANP salaries were processed with the EPS (and 79% were paid via the EFT), and the centralised WEPS had been set-up in five provinces. There has thus been some development of the EPS during all first five phases, but given that these covered a total of eight years, progress has overall been very slow.

The external review carried out for Phase IV found that the reliability of the personnel data was being disputed by many stakeholders, and continued to be a source of fiduciary risk.[24] Also, a lack of confidence in the assurance process and the reliability of the payroll led the EU for a time to demand application of conditionalities for continued financial support. The report furthermore found a risk of systemic leakage due, *inter alia*, to imprecise personnel ANP data, and noted that expectations among stakeholders had been unmanaged.[25]

The external review carried out for Phase V noted that while there was a level of maturity in the establishment of payroll mechanisms, there continued to be concerns over verification of the *Tashkeel* numbers and with some stakeholders expressing concern about the on-going fiduciary risk posed by unreliable provincial headcount data.[26]

The Project Document for Phase VI (2011-2013) states, *inter alia*, that: "*With the enhanced LOTFA financial commitments, there will be corresponding and compelling imperative for further strengthening the accountability and transparency facilitation measures for MOI to ensure that funds are disbursed only to policemen physically serving in the field. This will entail continuous verifications at the central, provincial and district levels of disbursement of salaries, reconciliation with existing payroll records of MOI, review of procurement and distribution procedures for food items, as well as supporting MOI in developing institutional capacities at sub-national level to be able to meet the necessary transparent and accountable financial and HR standards.* (…) *The goal will be full reconciliation of these various sources into a centralized web-based database application system for payroll and personnel information. Progressively, MOI will be handed over independent management of all payroll technologies, with completion time- lines…*" (pp. 12-13). It is, however, noted that few of these aspects are included in the Results & Resources Framework (pp. 34-35), and – given the status as of November 2012 – the ambitions for Phase VI will not be met.

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[24] Atos Consulting (2009): "Evaluation of the LOTFA Phase IV: Report:, 22 February, p. 26.
[25] Ibid, p. 36.
[26] Atos Consulting (2012): "Evaluation of the LOTFA Phase V: Report", 17 April, p. 5, 27, 30.

Annex 9 - System Development Life Cycle

The System Development Life Cycle is the process of developing information systems through investigation, analysis, design, implementation, and maintenance. Below are the steps involved in the System Development Life Cycle. Each phase within the overall cycle may be made up of several steps:

1. **Software Concept:** The first step is to identify a need for the new system. This will include determining whether a business problem or opportunity exists, conducting a feasibility study to determine if the proposed solution is cost effective, and developing a project plan. This process may involve end users who come up with an idea for improving their work, or may only involve IS people. Ideally, the process occurs in tandem with a review of the organization's strategic plan to ensure that IT is being used to help the organization achieve its strategic objectives. Management may need to approve concept ideas before any money is budgeted for its development.
2. **Requirements Analysis:** Requirements analysis is the process of analyzing the information needs of the end users, the organizational environment, and any system presently being used, developing the functional requirements of a system that can meet the needs of the users. Also, the requirements should be recorded in a document, email, user interface storyboard, executable prototype, or some other form. The requirements documentation should be referred to throughout the rest of the system development process to ensure the developing project aligns with user needs and requirements. IS professionals <u>must</u> involve end users in this process to ensure that the new system will function adequately and meets their needs and expectations.
3. **Architectural Design:** After the requirements have been determined, the necessary specifications for the hardware, software, people, and data resources, and the information products that will satisfy the functional requirements of the proposed system can be determined. The design will serve as a blueprint for the system and helps detect problems before these errors or problems are built into the final system. IS professionals create the system design, but must review their work with the users to ensure the design meets users' needs.
4. **Coding and Debugging:** Coding and debugging is the act of creating the final system. This step is done by IS professionals.
5. **System Testing:** The system must be tested to evaluate its actual functionality in relation to expected or intended functionality. Some other issues to consider during this stage would be converting old data into the new system and training employees to use the new system. End users will be key in determining whether the developed system meets the intended requirements, and the extent to which the system is actually used.

Other points to consider

Buy vs. Develop: The system development life cycle does not change if the decision is made to purchase an off-the-shelf program rather than develop a home grown system. The coding and debugging process is replaced with a process used to evaluate the potential purchased products, and to actually purchase the software.
Coding and debugging may be required for the interfaces that link the purchased software to existing systems that must communicate with the new system.

Importance of planning: The planning stages, requirements analysis and architectural design, are the most important stages. Good planning will help reduce errors and reduce the chance for missing or

extending production schedules. An undetected design error will take 10 times longer to fix during the debugging stage than had it been detected and corrected during the planning stage.

Moving back: It is possible to go back to previous steps as subsequent analysis warrants. Typically, the life cycle has a spiral shape rather than a linear one, with repeated steps back to prior activities as requirements are refined and new information is gathered.

Business Case & Project Plan: A business case and a project plan are created during the concept stage, and then continually updated throughout the life cycle as users and developers gain a clearer idea of the scope of the project. Management reviews both of these revised documents on a regular basis and determines whether resources should continue to be committed to the project.