

United Nations Development Programme
Office of Audit and Investigation (OAI)



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1 February 2013

CONFIDENTIAL

FINAL REPORT TO DONORS ON THE OAI INVESTIGATION INTO THE LAW AND ORDER TRUST FUND IN AFGHANISTAN (LOTFA)

Background

Between November 2011 and January 2012, OAI received a series of complaints through the UNDP hotline concerning allegations of abuse of authority, procurement fraud and mismanagement of UNDP resources within the Law and Order Trust Fund in Afghanistan (LOTFA). The information, which was sometimes anonymous, was limited and quite general but named several persons working in the project as being involved in wrongdoing. OAI's investigators undertook confidential inquiries with a view to determining the scope of the alleged irregularities and the credibility of the initial reports. The investigation was commenced in March 2012. Reports of the alleged irregularities appeared in the Wall Street Journal on May 10, 2012.

OAI's investigation into LOTFA has been completed. The subsequent findings, which corroborate the allegations, have resulted in three personnel being dismissed from their positions and a full review of LOTFA procurements. Two UNDP staff members have been placed on administrative leave and a decision will be taken on further appropriate action, once all the evidence is compiled. Further details are provided below.

Assessment

Upon receiving the initial complaints, OAI conducted an assessment which included several witness interviews and a review of supporting documentation related to the procurement of goods and services where irregularities had been reported. Based on those inquiries, a full investigation was launched. This led to two separate investigation missions to Afghanistan and an interview mission to two other countries.

Investigation

The three missions conducted by OAI to investigate the matter have included;

- The interviews of 80 witnesses;
- 35 separate meetings with UNDP CO senior management and project personnel;
- The scanning and analysis of approximately 1500 procurement files, approximately 650 of which were found to be in non-compliance with UNDP procurement guidelines;
- Visits to local vendors in Kabul to confirm their legitimacy;
- Review and analysis of 12 hard drives seized from LOTFA offices;
- Meetings and interviews with international vendors in 2 countries outside of Afghanistan;
- 13 subject interviews.



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In addition to the work conducted by investigators, OAI hired an accounting firm to conduct due diligence inquiries on an international firm providing services to the LOTFA project, and obtained expert analysis from two procurement specialists regarding certain procurements conducted by LOTFA personnel.

Mission I - 16 May to 12 June 2012

The first mission to Kabul was conducted by four OAI investigators. The investigators secured relevant evidence, interviewed witnesses, conducted vendor verifications and reviewed a sample of procurement files. The focus of this investigation work was on Phase VI of LOTFA (January 2011– March 2013) because the initial allegations related to irregularities during this period.

Witness testimony and the review of the procurement files corroborated the allegations. Vendor visits showed that several were either fictitious or did not have the capacity to provide the goods and services as per the contract. In addition, OAI found evidence that some vendors had colluded with or had a conflict of interest relationship with certain LOTFA personnel. OAI conducted formal recorded subject interviews with a number of LOTFA personnel. These personnel were either unable to provide justifications for the discrepancies identified or admitted to wrongdoing.

Based on OAI's initial report, UNDP management in Afghanistan took immediate action to terminate the contracts of three locally engaged LOTFA personnel on service contracts. Two senior staff members were placed on administrative leave pending the outcome of the investigation. Further action will be taken in line with the internal justice system of the UN, as appropriate.

OAI took steps during the early stages of the investigation to safeguard and prevent the possible loss of or interference with evidence.

Mission II - 7 September 2012 to 10 October 2012

Five OAI investigators undertook further "on the ground" inquiries during a second mission in September and October 2012. The main objective of this mission was to complete a full review of procurements in all Phases (I-VI) of LOTFA in order to determine the extent of procurement irregularities/fraud. Other inquiries included witness interviews, vendor verifications, review of audit reports and financial records and field work to refute or substantiate the allegations.

The evidence obtained from the second mission has confirmed that the three dismissed personnel were actively involved in procurement violations. One example of this involved payments made to the three dismissed LOTFA personnel for expenses on training abroad, which actually did not occur.

Mission III - 12 November 2012 to 27 November 2012

The third mission was conducted by OAI investigators in November 2012 to two countries outside Afghanistan. The focus of this mission was to conduct several key witness interviews as well as to interview two staff members who are subjects of the investigation.



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Procurement Fraud and Irregularities

Analysis conducted by OAI has identified irregular procurements valued at approximately \$8.4 million between Phases I-VI of LOTFA, with an estimated loss of 10-20% or between \$0.8 million and \$1.7 million.

A precise quantification of the loss is not feasible given: (1) while we have been informed that most of the goods and services were delivered, these date back some years, making it difficult to independently confirm the quality and quantity of goods received; (2) there is a lack of available market prices to benchmark against; and (3) the procurement files reviewed often lacked the relevant supporting documentation.

OAI has identified the start of procurement irregularities as being late in Phase III (2005). A handful of Phase III procurements showed some minor irregularities, which continued into Phase IV. However, the analysis of the supporting documentation shows that around 90% of the irregularities in various forms occurred in Phases V and VI, starting in about 2009. Examples of irregularities identified include:

- 15 vendors associated with, or colluding with, contract personnel working in LOTFA who have since been dismissed;
- 8 instances of collusion between vendors;
- Quotations purporting to be from vendors that do not exist;
- Over-inflated pricing on goods and services;
- Rigged vendor evaluations and bid-rigging;
- A lack of systematic management procurement of procurement files;
- Lack of a proper numbering/reference system;
- Documents created to intentionally circumvent correct procedures.

ANP numbers and reporting

OAI has been investigating allegations that data in some of the monthly Electronic Payroll System (EPS) reports were altered to show a higher amount of Ministry of Interior personnel than there actually were. OAI investigations confirmed that from February 2010 until June 2012, there was an inaccurate reporting of numbers. On the basis of available records, it is not possible to precisely quantify the level of error, but it is believed to be no more than 5 percent. OAI has not found evidence of a financial loss resulting from this.

OAI is unable to confirm the reasons for the alteration of the figures but cannot exclude that it was motivated by a desire on the part of one individual to show that the recruitment efforts for ANP and the roll-out of the electronic payroll system were slightly more successful than actual results.



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OAI has completed its inquiries into ANP numbers and reporting. Evidence collected will form the basis of potential disciplinary and other action. Further reconciliation work is in the hands of the Country Office.

Status of OAI Investigation

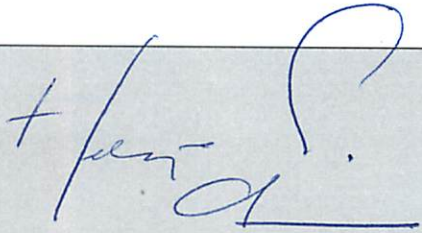
OAI's inquiry into LOTFA is now complete.

Over the coming months, OAI will be submitting investigation reports, and all associated evidence, to the UNDP Legal Support Office. OAI will also report its findings in a Management Letter addressed to the UNDP Country Office and Bureau Management. This will include any issues identified in the investigation requiring management action, other than those already identified through the work of the Management Review Team.

OAI established that some vendors, who received contracts from LOTFA, engaged in proscribed practices (i.e. corruption, collusion and like offenses). As a result, OAI has referred a number of cases to the Vendor Review Committee (VRC). These cases are currently under active review for possible sanctions, including debarment. OAI will be referring further cases to the VRC once evidence is compiled.

OAI will also seek to refer this matter to national authorities, in accordance with GA Res 62/62, for investigation and possible prosecution.

Because this is the subject of possible disciplinary and other action, the details that OAI can give to donors is limited to the information provided above.



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