



INTERNAL AUDIT DIVISION

REPORT 2014/090

Audit of contract administration at the
United Nations Office at Vienna

Overall results relating to the effective
administration of contracts at the United
Nations Office at Vienna were initially
assessed as partially satisfactory.
Implementation of three important
recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

18 September 2014
Assignment No. AE2014/321/01

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AUDIT REPORT

Audit of contract administration at the United Nations Office at Vienna

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contract administration at the United Nations Office at Vienna (UNOV).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNOV Procurement Unit provided purchasing and contracting services to UNOV, the United Nations Office on Drugs and Crime (UNODC) headquarters and field offices, and the United Nations Interregional Crime and Justice Research Institute (UNICRI). It was headed by a Chief at the P-4 level and supported by two staff at the P-3 level and six staff at the GS-level. The value of goods and services procured by the Unit amounted to \$33.5 million during the 2010-2011 biennium and \$32 million during the 2012-2013 biennium. The administrative budget of the Unit for the biennium 2012-2013 was \$1.9 million. It had 122 active contracts as of 31 May 2014.
4. In accordance with the United Nations Procurement Manual, the administration of contracts comprises activities related to actions undertaken by procurement personnel following the award of a contract, such as contract amendment or extension, contract closure, record retention and maintenance of the contract file, and handling of security instruments (e.g. performance security).
5. Comments provided by UNOV are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNOV governance, risk management and control processes in providing reasonable assurance regarding the **effective administration of contracts at UNOV**.
7. The audit was included in the 2014 internal audit work plan for UNOV due to control weaknesses in contract administration identified in previous audits and the risk of ambiguity in the role and responsibilities of UNOV Procurement Unit in terms of its administration of contracts on behalf of its client organizations.
8. The key control tested for the audit was **regulatory framework**. For the purpose of this audit, OIOS defined regulatory framework as a control that provides reasonable assurance that policies and procedures: (i) exist to guide UNOV in its contract administration related responsibilities; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit from May to July 2014. The audit covered the period from 01 January 2012 to 31 December 2013.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. UNOV governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective administration of contracts at UNOV**. OIOS made five recommendations to address issues identified in the audit. Regulatory framework was assessed as partially satisfactory because UNOV needed to strengthen the monitoring of the not-to-exceed amounts for long term agreements and systems contracts, and the controls over contract numbering. There was also a need to clarify the signing authority and referral to the Local Committee on Contracts when piggy-backing on existing contracts.

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1
Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective administration of contracts at UNOV	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Need to strengthen the monitoring of not-to-exceed amounts

14. Not-to-exceed amounts relate to long term agreements or systems contracts. In order to ensure that the not-to-exceed ceilings are respected, all the purchases that are covered by a long term agreement or a systems contract need to be monitored in an accurate and timely manner by the requisitioner and the procurement staff.

15. At UNOV, the monitoring of the not-to-exceed amounts was not part of the Procurement Tracking System, and, instead, the Procurement Unit was manually monitoring the not-to-exceed ceilings of individual vendors. The procurement officers summarized all the purchase orders issued and created a

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

monitoring table on a spreadsheet. Out of the 30 procurement case files reviewed during the audit, four files either did not include the monitoring sheet or it was not updated. The manual nature of monitoring the not-to-exceed amounts was not only inefficient but also increased the risk of error. The Procurement Unit indicated that it was working with the Information Technology Service to implement an automated monitoring template that would be incorporated into the Procurement Tracking System. It was still in its pilot stage and under testing.

(1) UNOV should strengthen its monitoring of not-to-exceed amounts by developing an appropriate automated solution.

UNOV accepted recommendation 1 and stated that the Procurement Unit will work with the Information Technology Service to expedite the incorporation of the not-to-exceed amount monitoring function into the automated Procurement Tracking System as quickly as possible. In the meantime, to ensure accuracy in the manual recording of not-to-exceed entries, the Procurement Unit staff have been instructed to increase diligence and thoroughness when recording such entries. Recommendation 1 remains open pending documentary evidence of the automation of the not-to-exceed amount monitoring function.

Weaknesses were identified in monitoring contract numbers

16. According to the Procurement Manual, the Chief Procurement Officer should ensure that the office maintains a regular register of contracts and that all contracts executed by the office are assigned a contract number. At UNOV, the Contract Database System was not providing unique contract numbers. The requestor needed to check the last contract number used by scanning the list of contracts in the system. The requestor then had to enter the last unused contract number manually into the system. The risk with this procedure was that duplicate contract numbers could arise when two or more requestors were accessing the system at the same time. OIOS identified three cases where two different contracts shared the same contract number.

(2) UNOV should create a log file of unique contract numbers to be recorded in the Contract Database System.

UNOV accepted recommendation 2 and stated that a separate log file of unique contract numbers would be created. The contract number will be selected from this log and will then be recorded in the Contract Database System. Recommendation 2 remains open pending the creation of a log file of unique contract numbers.

Need to clarify the delegation of authority for piggy-backing on existing contracts

17. According to the delegation of authority for procurement at UNOV and in UNODC field offices, the authority delegated to the Chief, Procurement Unit is for procurement up to \$200,000. The Director, Division for Management, UNOV/UNODC has delegated authority for procurement up to \$5 million. Contracts over \$200,000 need to be reviewed by the Local Committee on Contracts.

18. In the case of the contract for the provision of armed security services to UNODC in Afghanistan, the contract with the not-to-exceed amount of \$1.8 million was signed by the Chief, Procurement Unit, and was not submitted to the UNOV Committee on Contracts. The Procurement Unit explained that the contract represented piggy-backing on an existing contract of \$27 million established by the United Nations Assistance Mission in Afghanistan (UNAMA), which UNAMA had already been presented to the Headquarters Committee on Contracts in New York. According to the Procurement Unit, the contract had been approved by the Assistant Secretary-General of the Office of Central Support Services of the

Department of Management and hence, no further authorization was required as it would not have added any further value. In the opinion of OIOS, however, the delegation of authority for procurement by UNOV was not respected in this case.

(3) UNOV should clarify, if necessary in coordination with the Office of Legal Affairs or the Department of Management, the treatment of cases involving piggy-backing on existing contracts in terms of the signing authority and referral to the Local Committee on Contracts.

UNOV accepted recommendation 3 and stated that it would seek clarification from the relevant offices at United Nations Headquarters and would inform OIOS of the outcome. Recommendation 3 remains open pending the outcome of the consultations on the treatment of cases involving piggy-backing on existing contracts in terms of the signing authority and referral to the Local Committee on Contracts.

Need to strengthen the handling of performance security instruments

19. According to the Procurement Manual, the purpose of security instruments is to provide the United Nations with security against expenses and losses that result from a failure by a vendor to perform its obligations. The Procurement Manual states that “any decision to refrain from requiring security is subject to the approval of the Director, United Nations Procurement Division or the Chief Procurement Officer, as applicable. Any such decision, including the reasons therefor, must be recorded in writing and disclosed in the source selection plan and submissions to the Local Committee on Contracts”.

20. Out of the 30 procurement cases reviewed, there were 18 cases (or 60 per cent) without any performance security requested or documentation explaining why the performance security was not duly considered as required by the Procurement Manual. The reasons for not including performance security in the contracts were also not stated in any of the underlying source selection plans or submissions to the UNOV Committee on Contracts. Since the aggregated value of these contracts was estimated to be approximately \$21 million, the potential impact of this non-compliance with the Procurement Manual could have been a significant financial loss for the United Nations should any of the vendors have failed to comply with the contractual obligations. According to the Procurement Unit, liquidated damages clauses were always included in contracts with a maximum of 10 per cent and this mitigated performance risks to the same extent as performance bonds. However, the Procurement Unit agreed that any decisions made not to include security performance instruments would be documented in the future, including during the source selection plan preparation.

(4) UNOV should instruct its procurement staff to give due consideration to the applicable performance security requirements when preparing new or amending existing contracts.

21. *UNOV accepted recommendation 4 and stated that it has been implemented. Procurement Directive 21 was issued to the concerned Procurement Unit staff to outline the procedures to be followed when determining applicability of performance bonds. Based on the action taken, recommendation 4 has been closed.*

Vendor performance evaluations mechanisms needed to be strengthened

22. According to the Procurement Manual, procurement officers and requisitioners must ensure that a vendor performance evaluation with a satisfactory result is on file before processing any amendment (including any extension) to an existing contract. Although it is primarily the responsibility of the requisitioner and/or end user to complete vendor performance evaluation in a timely manner, the

Procurement Manual states that “it is the responsibility of the procurement staff to do their utmost in monitoring contract files and contract execution activities”.

23. There were two contract files among the 30 reviewed (or seven per cent) that did not include any vendor performance evaluation report even though key events such as contract closure or amendments took place for these two contracts. Further, in the Procurement Tracking System, vendor performance evaluation was one of the highest among all procurement steps in terms of the number of pending actions, namely 56 evaluations pending completion, including two for contracts dating back to 2009. Inadequate vendor performance evaluations increased the risk of unresolved cases of poor performance.

<p>(5) UNOV should strengthen its vendor performance evaluation mechanisms by raising awareness of the related requirements among requisitioners, end-users and procurement staff.</p>

24. *UNOV accepted recommendation 5 and stated that it has been implemented. Procurement Directive 22 was issued emphasizing to the concerned procurement staff the need for them to follow-up the completion of vendor performance reports with requisitioners. Automated reminders will continue to be sent. After the third automated reminder, the Chief, Procurement Unit will send a message to the requisitioner(s) with copy to the respective Chiefs of Unit/Section. Based on the action taken, recommendation 5 has been closed.*

IV. ACKNOWLEDGEMENT

25. OIOS wishes to express its appreciation to the Management and staff of UNOV for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of contract administration at the United Nations Office at Vienna

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNOV should strengthen its monitoring of not-to-exceed amounts by developing an appropriate automated solution.	Important	O	Documentary evidence of the automation of the not-to-exceed amount monitoring function.	31 July 2015
2	UNOV should create a log file of unique contract numbers to be recorded in the Contract Database System.	Important	O	Creation of a log file of unique contract numbers.	31 October 2014
3	UNOV should clarify, if necessary in coordination with the Office of Legal Affairs or the Department of Management, the treatment of cases involving piggybacking on existing contracts in terms of the signing authority and referral to the Local Committee on Contracts.	Important	O	The outcome of the consultations on the treatment of cases involving piggy-backing on existing contracts in terms of the signing authority and referral to the Local Committee on Contracts.	31 October 2014
4	UNOV should instruct its procurement staff to give due consideration to the applicable performance security requirements when preparing new or amending existing contracts.	Important	C	Action completed.	Implemented
5	UNOV should strengthen its vendor performance evaluation mechanisms by raising awareness of the related requirements among requisitioners, end-users and procurement staff.	Important	C	Action completed.	Implemented

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNOV in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of contract administration at the United Nations Office at Vienna

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOV should strengthen its monitoring of not-to-exceed amounts by developing an appropriate automated solution.	Important	Yes	Chief, Procurement Unit (PU) in coordination with the Information Technology Service (ITS)	July 2015	The Procurement Unit (PU) will work with the Information Technology Service (ITS) to expedite the incorporation of the NTE amount monitoring function into the automated Procurement Tracking System as quickly as possible. Meantime, to ensure accuracy in the manual recording of NTE entries, PU staff have been instructed to increase diligence and thoroughness when recording such entries.
2	UNOV should create a log file of unique contract numbers to be recorded in the Contract Database System.	Important	Yes	Chief, Procurement Unit	October 2014	A separate log file of unique contract numbers will be created. The contract number will be selected from this log and will then be recorded in the Contract Database System.
3	UNOV should clarify, if necessary in coordination with the Office of Legal Affairs or the Department of Management, the treatment of cases involving piggy-backing on existing contracts in terms of the signing authority and referral to the Local Committee on Contracts.	Important	Yes	Chief, Procurement Unit	October 2014	UNOV will seek clarification from the relevant offices at UNHQs and will inform OIOS of the outcome.
4	UNOV should instruct its procurement staff to give due consideration to the	Important	Yes	Chief, Procurement	Implemented as of end July 2014	The recommendation has been implemented.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

Audit of contract administration at the United Nations Office at Vienna

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	applicable performance security requirements when preparing new or amending existing contracts.			Unit		Procurement Directive 21 was issued to concerned PU staff by the Chief of the Procurement Unit to outline the procedures to be followed when determining applicability of performance bonds.
5	UNOV should strengthen its vendor performance evaluation mechanisms by raising awareness of the related requirements among requisitioners, end-users and procurement staff.	Important	Yes	Chief, Procurement Unit	Implemented as of end July 2014	The recommendation has been implemented. Procurement Directive 22 was issued by the Chief of the Procurement Unit, emphasizing to concerned procurement staff, the need for them to follow-up the completion of vendor performance reports, with requisitioners. Automated reminders will continue to be sent. After the third automated reminder, the Chief, Procurement Unit will send a message to the requisitioner(s) with copy to the respective Chiefs of Unit/Section.