



INTERNAL AUDIT DIVISION

REPORT 2015/089

Audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia

Overall results relating to the effective management of contracts in the United Nations Support Office for the African Union Mission in Somalia were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

31 August 2015
Assignment No. AP2014/638/04

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AUDIT REPORT

Audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia (UNSOA).
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 Contracts Management Section was responsible for managing contracts considered by UNSOA as critical to its operations and complex (e.g., those involving several contractors and locations) as well as all contracts with individuals not-to-exceed \$500,000 or more. During the audit period, the Contracts Management Section managed 79 contracts with the combined not-to-exceed amount of \$575 million, comprising 73 locally-established contracts valued at \$199 million and 6 headquarters-established contracts valued at \$376 million. Self-accounting units were responsible for managing 61 other locally established contracts during the audit period with a combined not-to-exceed value of \$59 million.
4. The Contracts Management Section was headed by a Chief at the P-4 level. The Section in 2013/14 had 12 approved posts including 4 professional, 2 field service, 5 national officers and 1 general service post.
5. Comments provided by UNSOA are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNSOA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of contracts in UNSOA**.
7. The audit was included in the 2014 risk-based work plan of OIOS because of the operational and financial risks related to contracts management in UNSOA.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide management of contracts in UNSOA; (b) are implemented consistently; and (c) 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 November 2014 to May 2015. The audit covered the period from 1 July 2012 to 31 October 2014.

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

III. AUDIT RESULTS

12. The UNSOA governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of contracts in UNSOA**. OIOS made three recommendations to address the issues identified. UNSOA obtained required performance bonds and certificates of insurance to protect the United Nations against the risk of loss related to contractor performance. However, UNSOA needed to: (a) effectively monitor and evaluate the performance of contractors and report contractors’ performance to the Office of the Director; (b) expedite the processing of invoices and payment of contractors; and (c) implement procedures on post-contract completion performance evaluation of contractors managed by self-accounting units and preparation of the related closure reports.

13. The initial overall rating was based on the assessment of key control presented in Table 1. 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 management of contracts in UNSOA	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

There was a need for improved monitoring and reporting of contractors’ performance

14. The Departments of Peacekeeping Operations and Field Support (DPKO/DFS) Contract Management Policy requires UNSOA to dedicate adequate resources to contracts management and to evaluate contractors’ performance against the terms of the contract. The Policy further requires the Contracts Management Section to: (a) maintain sufficient records on contracts management; and (b) frequently report contractors’ performance to the Director of UNSOA. The Procurement Manual requires UNSOA to maintain contract files that include copies of correspondence, contracts, contract extensions, evaluation reports and details resulting from monthly monitoring meetings. UNSOA standard operating procedures require the Contracts Management Section to manage and monitor complex contracts and those with individual not-to-exceed value of \$500,000 or more, and to oversee self-accounting units’ contracts management activities.

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.

15. UNSOA established a Contracts Management Section with dedicated resources. The Section maintained sufficient records of contracts under its purview and the Procurement Section maintained adequate records of contracts managed by self-accounting units. However, a review of 22 contracts with a total not-to-exceed value of \$432 million, including 18 contracts under the purview of the Contracts Management Section and 4 contracts under the purview of self-accounting units, indicated that:

(a) The Contracts Management Section did not regularly monitor the performance relating to five contracts. This was because the Section did not hold: (i) performance monitoring meetings for one contract; (ii) annual performance meetings for three contracts; and (iii) bi-annual performance meetings for one contract;

(b) The Contracts Management Section did not: (i) monitor an additional 16 locally established contracts with individual not-to exceed value of \$500,000 or more; (ii) oversee self-accounting units' contract management activities; (iii) prepare 27 of the required 180 performance reports for the months of September, November and December 2013 and June 2014 in respect of contracts under its purview as well as contracts under the purview of self-accounting units; and (iv) submit any contractors' performance reports to the Office of the Director; and

(c) Self-accounting units did not consistently hold routine contractors' performance review meetings nor evaluate the performance of three locally established contracts with a total not-to-exceed value of \$5.7 million and one headquarters-established contract valued at \$5.9 million.

16. The above conditions were partly because the Contracts Management Section did not have adequate staff as it had a 33 per cent vacancy rate from July 2014 to March 2015. At the time of the audit, UNSOA was finalizing recruitment for the vacant posts. Moreover, UNSOA did not implement adequate procedures to: ensure all the required performance reports were prepared; and enforce the DPKO/DFS Policy that required the Contracts Management Section to support, advise and contribute to the overall implementation of the Office's contract management activities.

17. As a result of the lack of adequate performance monitoring, there were: (a) an increased risk that contractors did not meet their performance expectations; (b) prolonged unresolved partial delivery issues (since June 2012) related to one systems contract; and (c) inconsistencies in contractor performance ratings. For example, self-accounting units rated the overall performance of four contractors as satisfactory although the results of performance monitoring reviews indicated unsatisfactory performance.

(1) UNSOA should implement procedures on the management of contracts to ensure that: (a) the performance of contractors is effectively monitored and accurately evaluated; and (b) contractor performance is reported to the Office of the Director for all contracts.

UNSOA accepted recommendation 1 and stated that the Contracts Management Section had an established procedure for monthly reporting to relevant stakeholders, including the Office of the Director, on all contracts under its purview. Recommendation 1 remains open pending receipt of evidence that UNSOA has implemented procedures on the management of contracts to ensure that the performance of contractors is effectively monitored and accurately evaluated.

Adequate controls existed to protect the United Nations from losses related to contractors' performance

18. The United Nations General Conditions of Contracts require UNSOA to maintain valid performance bonds and certificates of insurance from contractors to protect the United Nations against the risk of loss related to contract implementation. A review of 22 contracts indicated that UNSOA obtained

the required performance bonds and certificates of insurance. OIOS concluded that UNSOA implemented adequate controls to protect the United Nations against the risk of loss related to contractor performance.

Need for prompt payment of contractual obligations

19. The Procurement Manual requires UNSOA to pay for goods or services within 30 days of a contractor's satisfactory completion of their contractual obligations to take advantage of prompt payment discount where applicable.

20. Analysis of UNSOA register of invoices for five contractors indicated that UNSOA had not settled a backlog of 204 line items valued at \$27 million after an average of 231 days as at 31 March 2015. The contracts of these vendors had been extended repeatedly and included: lease of space, system contracts for supply of fuel, rations and medical supplies, and a vehicle repairs and maintenance contract.

21. The lack of timely payment of invoices resulted as UNSOA had a 33 per cent vacancy rate in the Contracts Management Section. UNSOA had also not implemented adequate procedures to monitor the payment process, such as obtaining proof of receipt of goods and services, to ensure invoices were settled in a timely manner. As a result, UNSOA forfeited prompt payment discounts estimated at \$240,000 for two of the five contracts. Delays in payment of vendors increased the risk of critical supplies and services not being available when required, adversely impacting operations. At the time of the audit, UNSOA transferred the processing of invoices to the Regional Service Centre in Entebbe, but continued to be responsible for certifying the receipt of goods and services prior to payment.

(2) UNSOA, in collaboration with the Regional Service Centre in Entebbe, should implement procedures to expedite the processing of invoices and payment of contractors and to ensure the backlog is cleared.

UNSOA accepted recommendation 3 and stated that UNSOA was working with the Regional Service Centre in Entebbe to finalize the procedures for invoice processing and to clear any backlog of invoices. Recommendation 2 remains open pending receipt of evidence that UNSOA has finalized the procedures for the processing of invoices and payment of contractors, and has cleared the backlog of invoices.

Post-completion performance evaluations needed to be conducted by self-accounting units

22. The DPKO/DFS Contract Management Policy requires UNSOA to conduct a post-completion performance evaluation of contractors and prepare the related closure reports. The Procurement Manual requires UNSOA to promptly recover equipment or unused materials provided to contractors by the United Nations, and recover related cost of loss or damaged equipment.

23. The Contracts Management Section conducted post-completion performance evaluations and prepared the related closure reports in respect of the eight expired contracts it had managed, and recovered equipment provided to contractors or the cost of lost and damaged equipment. However, self-accounting units did not conduct post-completion performance evaluations of the 22 expired contracts valued at \$7.6 million. As a result, there was an increased risk of the Organization rehiring under-performing contractors.

(3) UNSOA should implement procedures on post-contract completion performance evaluation of contractors managed by self-accounting units and preparation of the related closure reports.

UNSOA accepted recommendation 3 and stated that it was in the process of developing a mechanism to ensure the performance evaluation of all contracts managed by the self-accounting units. Recommendation 3 remains open pending receipt of evidence of the mechanism emplaced, and that self-accounting units have conducted post-completion performance evaluation of contractors they had managed.

IV. ACKNOWLEDGEMENT

24. OIOS wishes to express its appreciation to the management and staff of UNSOA 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 contracts management in the United Nations Support Office for the African Union Mission in Somalia

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNSOA should implement procedures on the management of contracts to ensure: (a) the performance of contractors is effectively monitored and accurately evaluated; and (b) contractor performance is reported to the Office of the Director for all contracts.	Important	O	Receipt of evidence that UNSOA has implemented procedures on the management of contracts to ensure the performance of contractors are effectively monitored and accurately evaluated.	31 August 2015
2	UNSOA, in collaboration with the Regional Service Centre in Entebbe, should implement procedures to expedite the processing of invoices and payment of contractors and to ensure the backlog is cleared.	Important	O	Receipt of evidence that UNSOA has finalized the procedures for the processing of invoices and payment of contractors in a timely manner, and has cleared the backlog of invoices.	30 September 2015
3	UNSOA should implement procedures on post-contract completion performance evaluation of contractors managed by self-accounting units and preparation of the related closure reports.	Important	O	Receipt of evidence of the mechanism emplaced, and that self-accounting units have conducted post-completion performance evaluation of contractors they had managed.	30 September 2015

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

³ C = closed, O = open

⁴ Date provided by UNSOA

APPENDIX I

Management Response



United Nations Support Office for AMISOM (UNSOA)

Interoffice Memorandum

To: Ms. Eleanor T. Burns, Director
Internal Audit Division
Office of Internal Oversight Services (OIOS) **Date:** 13 August 2015

From: Amadu Kamara, Director **Ref:** UNSOA/0815/M.029

Subject: **UNSOA – Draft report on an audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia (Assignment No. AP/2014/638/04)**

Further to your memorandum of 31 July 2015 on the above subject, please find attached UNSOA's response to the draft report.

Best regards.

cc: Mr. Harjit Dhindsa, Deputy Director, UNSOA
Mr. Robert Kirkwood, Head of Somalia Support, UNSOA
Mr. Ebenezer Aryee, Chief, Contracts Management Section, UNSOA
Mr. Joseph Twine, Chief, Procurement Section, UNSOA
Mr. Dolapo Kuteyi, Senior Administrative Officer, UNSOA
Mr. Bolton Tarleh Nyema, Chief, Peacekeeping Audit Service Internal Audit Division, OIOS
Ms. Andrea Charles-Browne, Chief Resident Auditor,
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS



APPENDIX I

Management Response

Audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNSOA should implement procedures on the management of contracts to ensure: (a) the performance of contractors is effectively monitored and accurately evaluated; and (b) contractor performance is reported to the Office of the Director for all contracts.	Important	Yes		Implemented	<p>Management requests the closure of this recommendation as it has been fully implemented.</p> <p>Management wishes to advise the Auditors that UNSOA Contracts Management Section has an established procedure for monthly reporting to relevant stakeholders including the Office of the Director on all contracts under its purview.</p> <p>As evidence of implementation, kindly refer to the attached memorandum of 23 July 2015 to the Office of the Director and all Section Chiefs, transmitting the link for access to the summaries for the period ending 30 June 2015 as well as the database of contracts.</p>
2	UNSOA, in collaboration with the Regional Service Centre in Entebbe, should implement procedures to expedite the processing of invoices and payment of contractors and to ensure the backlog is cleared.	Important	Yes	Office of the Director	30 September 2015	<p>Management accepts the recommendation. The vendor payment function has been transferred to the Regional Service Centre in Entebbe (RSCE) and UNSOA is working with RSCE to finalize the procedures for invoice processing and to clear any outstanding backlog.</p>

¹ Critical recommendations address critical and/or pervasive deficiencies 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.

APPENDIX I

Management Response

Audit of contracts management in the United Nations Support Office for the African Union Mission in Somalia

Rec. no.	Recommendation	Critical/ Important?	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	UNSOA should implement procedures on post-contract completion performance evaluation of contractors managed by self-accounting units and preparation of the related closure reports.	Important	Yes	Office of the Director	30 September 2015	Management accepts this recommendation. A mechanism to ensure the performance evaluation of all contracts managed by the Self Accounting Units is under development, and is expected to be completed by 30 September 2015.