



## INTERNAL AUDIT DIVISION

### REPORT 2017/110

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Audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund

There was need to strengthen contract management practices and processes to ensure best value for money

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Assignment No. AS2017/800/01

# **Audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over procurement and contract management in the UNJSPF Secretariat.

The audit showed that the UNJSPF Secretariat needed to strengthen its contract management practices and processes to ensure best value for money.

OIOS made four recommendations. To address issues identified in the audit, the UNJSPF Secretariat needed to:

- Review the relevance of its Procedure General on procurement and update it accordingly.
- Strengthen its contract management practices by ensuring that: (i) work orders issued to contractors are within the scope of the contract and the related statement of work; and (ii) best value for money is obtained through competitive and transparent sourcing when new requirements arise.
- Strengthen its contract management processes by ensuring that: (i) payments against completion of milestones are made in full compliance with contractual provisions; and (ii) subcontracting arrangements are allowed only after prior approval has been granted.
- Strengthen its contract management processes by ensuring that cost-benefit analysis is documented for options such as subscriptions for upgrades before payments are made for such subscriptions under the contract for the Integrated Pension Administration System with Vendor D.

The UNJSPF Secretariat accepted two recommendations and stated it will initiate action to implement them. For the other two recommendations, the UNJSPF Secretariat either partially accepted or did not accept them. OIOS maintains that these recommendations relate to significant control deficiencies that the Fund needs to address to improve its contract management practices to ensure fairness, transparency and accountability. These unaccepted recommendations have been closed without implementation and may be reported to the General Assembly indicating management's acceptance of residual risks.

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# Audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF).

2. UNJSPF was established by the General Assembly to provide retirement benefits and social security protection (death, disability and other related benefits) for the staff of the United Nations and 22 other member organizations. The UNJSPF Secretariat incurred \$39.45 million towards administrative expenditures (excluding staff costs) for the biennium 2014-2015 and had budgeted \$36.5 million for the biennium 2016-2017 as shown in Table 1. The cost of contractual services was the largest item of expenditure during the biennium 2014-2015 and accounted for 63.2 per cent of the total non-staff costs.

Table 1

**Actual and budgeted non-staff expenditures of the UNJSPF Secretariat for 2014-2015 and 2016-2017**

Item description	Thousands of United States dollars			
	Actual expenditure 2014-2015	Proportion	Proposed budget 2016-2017	Proportion
Contractual services	\$24,930	63.2%	\$15,548	42.6%
Rental and maintenance of premises	9,185	23.3	13,445	36.8
Bank charge	1,754	4.4	2,440	6.7
Furniture and equipment	1,063	2.7	1,955	5.4
Travel	605	1.5	1,025	2.8
Consultant	349	0.9	632	1.7
Communication services	385	1.0	600	1.6
Supplies and materials	150	0.4	191	0.5
Other operating expenses	1,033	2.6	688	1.9
<b>Total non-staff costs</b>	<b>\$39,454</b>	<b>100.0%</b>	<b>\$36,524</b>	<b>100.0%</b>

Source: Financial statement for the biennium 2014-2015, Proposed budget for the biennium 2016-2017

3. By resolution 51/217 of 18 December 1996, the General Assembly requested the Secretary-General to continue to make available to the Fund the United Nations machinery for contracting and procurement. Except for procurement of low value requirements which UNJSPF conducted on its own, it utilized the services of the Procurement Division of the United Nations Secretariat whose functions are governed by the United Nations Financial Regulations and Rules (UNFRR) and the Procurement Manual.

4. During the period January 2014 to April 2017, the UNJSPF Secretariat initiated 473 procurement actions of which 365 were considered as low value procurement. The remaining 108 cases were processed by the Procurement Division either through informal methods of solicitation (such as Request for Quotations) or formal methods (such as Invitation to Bid or Request for Proposal). Of these 108 cases, 81 (or 75 per cent) represented the purchase of goods or services relating to information and communications technology (ICT).

5. Comments provided by the UNJSPF Secretariat are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over procurement and contract management in the UNJSPF Secretariat.

7. This audit was included in the 2017 OIOS risk-based work plan for the UNJSPF Secretariat due to the usual risks associated with procurement of goods and services, including the risk that best value for money may not be secured.

8. OIOS conducted this audit from April to June 2017. The audit covered the period from January 2014 to June 2017, including amendments made during this period to previous contracts. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in procurement which included needs assessment, vendor evaluation and selection, and contract management.

9. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample review of procurement cases and contracts.

### **III. AUDIT RESULTS**

#### **A. Regulatory framework**

##### Need to review the relevance of the Procedure General for procurement

10. Policies and procedures serve as an important part of internal control by providing guidance on accepted practices and enabling consistency in implementing those practices.

11. There were several policies and procedures on UNJSPF procurement activities. According to General Assembly resolution 71/265 of 18 January 2017, the UNFRR remain the highest framework governing all aspects relating to the administrative services provided by the United Nations Secretariat, including procurement of goods and services. Therefore, the UNFRR relating to procurement as well as the general principles (such as best value for money, fairness, integrity and transparency, effective international competition and the best interest of the United Nations) are applicable to UNJSPF.

12. In addition, UNJSPF had its own financial rules which were expected to address the financial administration of the Fund and fill in gaps not otherwise covered by the Regulations and Administrative Rules of UNJSPF. At its 63<sup>rd</sup> session in July 2016, the United Nations Joint Staff Pension Board (UNJSPB or the “Pension Board”) approved these rules to be part of the Administrative Rules of UNJSPF with effect from 1 January 2017.

13. Since UNJSPF utilizes the procurement function of the United Nations Secretariat, the Procurement Manual serves as the operational guidelines for purchasing activities of UNJSPF. The Procurement Manual is based on the UNFRR as well as principles and best practices recognized by the Organization. In addition to the Procurement Manual, UNJSPF had an internal operational guideline called the Procedure General which explains the authority of the Chief Executive Officer (CEO) of UNJSPF in directly procuring goods and services under certain circumstances (such as time restrictions and non-acceptance of recommendations made by the Procurement Division). It also established the UNJSPF Procurement Advisory Committee (PAC) which would review and provide advice to the CEO as to whether it recommends authorization of the proposed procurement actions.

14. OIOS noted that some of the requirements in the Procedure General were not in line with the Procurement Manual. For example, according to the Procurement Manual, any purchases above \$4,000 should be made by the Procurement Division by using informal or formal methods of solicitation. However, the Procedure General provides that PAC should recommend direct procurement when the value of goods or services are under \$30,000.

15. There were 60 purchasing activities under \$30,000 from January 2014 to April 2017 excluding low value purchases under \$4,000. OIOS review of the 60 cases showed that the UNJSPF Secretariat sent all the cases to the Procurement Division for source selection even though the Procedure General provided for direct procurement in cases under \$30,000. Further, OIOS review of six high-value cases which had been submitted to the Headquarters Committee of Contracts (HCC) showed that the Fund accepted the recommendation of HCC in five cases; the sole exception pertained to a case in 2014 (previously discussed in OIOS Report 2016/136 on an audit of cash management in the Secretariat of UNJSPF). The UNJSPF Secretariat stated that there had been no such exceptions since then. It also stated that in the absence of direct procurement cases, PAC had never been constituted.

16. Considering that the Procedure General was last updated in February 2008 and no longer reflected the current procurement practices (including the procurement thresholds), UNJSPF needs to review its relevance and validity. Misalignment of operating procedures with current policies may create confusion and lead to inconsistency in practices.

**(1) The UNJSPF Secretariat should review the relevance of its Procedure General on procurement and update it accordingly.**

*The UNJSPF Secretariat accepted recommendation 1 and stated that it will update the Procedure General taking into account General Assembly resolution 51/217, Pension Board decisions on procurement arrangements for the Fund, the Office of Legal Affairs' opinion on the same matter, and UNJSPF Financial Rules. Recommendation 1 remains open pending receipt of the updated version of the Procedure General on procurement.*

## **B. Contract for accounting consultancy services**

### Need to ensure comprehensive needs assessment and competitive source selection

17. Chapter 1.2 of the Procurement Manual states that one of the factors to determine best value for money is competitive, fair, ethical and transparent sourcing conducted consistently in accordance with best practices and United Nations procurement standards. The Manual also states that the best value for money principle is applicable throughout the acquisition process, i.e., from planning to contract management.

18. On 19 April 2011, UNJSPF entered into a contract with a vendor (“Vendor A”) for providing expert advice on the Fund’s compliance with the International Public Sector Accounting Standards (IPSAS) for a duration of 19 months until November 2012. The contract was extended multiple times and expired on 31 July 2015. Prior to expiration, UNJSPF raised a requisition for the acquisition of accounting consultancy services to replace the contract and the Procurement Division issued a Request for Proposals (RFP) on 21 October 2014 to 121 vendors of whom only 3 responded. As a result of the procurement exercise, the same contractor (Vendor A) was proposed as the qualified vendor with the lowest cost proposal. The case for award of contract to Vendor A was reviewed by the HCC in August 2015 and approved by the CEO in November 2015. Accordingly, on 14 April 2016, UNJSPF signed the new contract with Vendor A for accounting consultancy services for a period of five years until 2021 with a possible extension for two additional years, with the not-to-exceed (NTE) value of \$3.75 million for five years or \$5.25 million with two additional years. OIOS observed the following issues concerning the selection and use of Vendor A.

(a) The contract was used for purposes other than accounting consultancy services

19. Chapter 1.2 of the Procurement Manual states that the responsibility for ensuring best value for money is not limited to procurement staff. Staff developing budgets, requisitioners, end-users, contract

managers, finance officers, etc. also have a key role in applying the best value for money principle. Chapter 8.2 of the Manual provides that specifications, statement of works (SOW) and terms of reference (TOR) fulfill the essential features of procurement such as: (i) informing vendors of the nature of the requirements and what is needed to fulfill them; (ii) constituting the basis for evaluating submissions to determine if they satisfy the Organization’s requirements; and (iii) binding the successful vendor to perform in accordance with the specifications, SOW and TOR.

20. The contract with Vendor A for accounting consultancy services provided for the use of the contractor’s accounting advisory services as needed, based on work orders issued by UNJSPF. After signing the contract on 14 April 2016, UNJSPF issued several work orders which were unrelated to accounting consultancy services as defined in the contract. The first work order was placed for the post-implementation review of the Integrated Pension Administration System (IPAS) one day after signing the contract. Subsequently, UNJSPF issued additional work orders for: (i) an “end-to-end review” of pension administration; and (ii) review of the UNJSPF enterprise-wide risk register. These services were also outside the scope of the contract, which was established to procure accounting consultancy services.

21. From 14 April 2016 to 30 June 2017, UNJSPF had spent \$2.2 million for services rendered by Vendor A of which only \$497,815 (or 21.8 per cent) was within the contract scope as shown in Table 2.

Table 2  
**Services rendered to UNJSPF by Vendor A since 14 April 2016**

Description of services rendered by Vendor A	Within the scope of contract?	Amount	Proportion
End-to-end review of pension administration	No	\$1,396,633	61.0%
Review of IPAS post implementation	No	\$291,220	12.7%
Review of enterprise-wide risk register	No	\$101,810	4.5%
Advisory on statement of internal control	Yes	\$497,815	21.8%
<b>Total</b>		<b>\$2,287,478</b>	<b>100.0%</b>

22. The SOW and evaluation criteria for the contract were developed based on the need for accounting consultancy services. At the time of technical evaluation of proposals, Vendor A was assessed based on criteria such as the level of expertise in IPSAS and the International Financial Reporting Standards (IFRS), and experience in training on technical accounting issues (see Table 2). However, most of the works (78.2 per cent) awarded to the contractor under this contract related to non-accounting services which were outside the contract scope. Therefore, there was no assurance that these works were awarded based on “competitive, fair, ethical and transparent sourcing ... in accordance with best practices and United Nations procurement standards”, as required by the guidance provided in Chapter 1.2 of the Procurement Manual.

23. Financial Rule 105.5 of the UNFRR states that “Certifying officers are responsible for managing the utilization of resources ... in accordance with the purposes for which those resources were approved ...”. Financial Rule 105.6 of the UNFRR states that approving officers are responsible for “approving the payments once they have ensured that they are properly due, confirming that the necessary goods and services have been received in accordance with the contract ...”. As previously stated, the contract with Vendor A had been established, after HCC review, for acquisition of accounting consultancy services. However, even though the three work orders for non-accounting services amounting to \$1.8 million were outside the scope of the contract, these works were awarded, certified and paid. OIOS concluded that this was due to significant control weaknesses in contract management which failed to ensure that all parties involved fulfill their respective roles to achieve best value for money in accordance with the Organization’s procurement standards.

(b) The costs charged by Vendor A were not in line with its financial proposal

24. According to the solicitation document (RFP), the financial proposal “shall list all costs associated with the required services/product”, and “in determining the fixed cost and unit prices offered, the contractor is deemed to have exercised appropriate professional judgement and to have given full consideration to working conditions where this contract is executed.”

25. After receiving proposals from the three bidders in response to the solicitation of 21 October 2014, UNJSPF technically evaluated them based on criteria relevant to the accounting services which were detailed in and derived from the SOW. [REDACTED]

Table 2  
**Technical evaluation criteria for accounting consultancy services**

Section	Section criteria summary	Section Weight	[REDACTED]	[REDACTED]	[REDACTED]
A	Financial and operational standing of the firm and role in accounting standard setting boards	10%	[REDACTED]	[REDACTED]	[REDACTED]
B	Expertise in consultancy/assistance on IPSAS/IFRS conversions and related issues in public pension funds	20%	[REDACTED]	[REDACTED]	[REDACTED]
C	Understanding of the statement of work (i.e. new accounting standards, accounting system, financial instruments, investment strategy, training on technical accounting updates, control and assurance review.)	70%	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total</b>		<b>100%</b>	[REDACTED]	[REDACTED]	[REDACTED]

26. Following the technical evaluation and a “due diligence review” which cleared all the three vendors, the Procurement Division evaluated their financial proposals. Vendor A indicated the lowest cost in its financial proposal, which led the Procurement Division and HCC to recommend the award of contract to Vendor A. In the RFP issued on 21 October 2014, vendors were requested to indicate hourly rates for each of four categories of personnel: (i) Partner; (ii) Director; (iii) Manager; and (iv) Senior Associate. [REDACTED]

[REDACTED] Table 3 shows the hours estimated by the three bidders to deliver the services indicated in the SOW.

Table 3  
**Financial evaluation for accounting consultancy services**

| [REDACTED] |
|------------|------------|------------|------------|------------|------------|------------|
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |
| [REDACTED] |

Note: Allocation of hours based on an average of six possible assignment scenarios specified in the SOW.

27. Vendor A’s financial proposal became the lowest [REDACTED]

However, OIOS observed that for the four engagements awarded to Vendor A through work orders issued by the Fund, the actual percentage of hours charged for Partner and Director was 12 per cent and 38 per cent, respectively, of the total hours. These were much higher than the hours proposed to be expended by Vendor A's Partner(s) and Director(s) in response to the RFP/SOW.

The top-heavy billing of hours by Vendor A resulted in the actual costs being higher by approximately \$495,000. The actual hours and fees charged for the four engagements are shown in Tables 4 to 7, and the total hours charged for the four engagements combined are shown in Table 8.

Table 4

**Engagement 1: Hours and fees charged for the end-to-end review of pension administration**

Consultant Title			Total fees	Proportion of hours	Proportion of fees
Partner			\$273,125	14%	20%
Director			\$673,908	47%	48%
Manager			\$449,600	39%	32%
Senior Associate			\$0	0%	0%
Consultant			\$0	0%	0%
<b>Total</b>			<b>\$1,396,633</b>	<b>100%</b>	<b>100%</b>

Table 5

**Engagement 2: Hours and fees charged for the IPAS post-implementation review**

Consultant Title			Total fees	Proportion of hours	Proportion of fees
Partner			\$58,900	15%	20%
Director			\$142,400	47%	49%
Manager			\$89,920	38%	31%
Senior Associate			\$0	0%	0%
Consultant			\$0	0%	0%
<b>Total</b>			<b>\$291,220</b>	<b>100%</b>	<b>100%</b>

Table 6

**Engagement 3: Hours and fees charged for the enterprise-wide risk register**

Consultant Title			Total fees	Proportion of hours	Proportion of fees
Partner			\$19,000	14%	19%
Director			\$46,280	43%	45%
Manager			\$36,530	43%	36%
Senior Associate			\$0	0%	0%
Consultant			\$0	0%	0%
<b>Total</b>			<b>\$101,810</b>	<b>100%</b>	<b>100%</b>

Table 7

**Engagement 4: Hours and fees charged for internal controls over financial reporting**

Consultant Title			Total fees	Proportion of hours	Proportion of fees
Partner			\$40,375	4%	8%
Director			\$106,800	16%	21%
Manager			\$126,450	24%	25%
Senior Associate			\$122,430	28%	25%
Consultant			\$101,760	28%	20%
<b>Total</b>			<b>\$497,815</b>	<b>100%</b>	<b>100%</b>

[Redacted]

Table 8  
**Hours and fees charged for four engagements combined**

Consultant Title			Total fees	Proportion of hours	Proportion of fees
Partner			\$391,400	12%	17%
Director			\$969,388	38%	42%
Manager			\$702,500	35%	31%
Senior Associate			\$122,430	7%	5 %
Consultant			\$101,760	7%	4%
<b>Total</b>			<b>\$2,287,478</b>	<b>100%</b>	<b>100%</b>

28. The UNJSPF Secretariat made a number of comments (see Appendix I for details) relating to the issues discussed above. The Fund’s key comments are excerpted in Table 9 below and OIOS remarks are provided alongside.

Table 9  
**UNJSPF Secretariat’s comments and OIOS remarks**

UNJSPF Secretariat’s comments	OIOS remarks
<p><i>The reference in paragraph [18] to previous contracts between UNJSPF and Vendor A is not relevant because the current contract with Vendor A is the result of a new bidding exercise for services different from those subject to the previous contract. The subject contract with Vendor A is not a replacement of the former contract; it is a new contract for a new set of consulting services.</i></p>	<p>As explained below, the contract with Vendor A was for “accounting consultancy services” and not for “a new set” of consultancy services other than or in addition to accounting. In its budget submission to the Pension Board for the 2016-2017 biennium (document JSPB/62/R.16 dated 2 June 2015), the UNJSPF Secretariat informed the Board: “The Accounting Advisory consultancy contract expired and procurement of new adviser is underway”. OIOS therefore maintains that the new contract that was eventually established with Vendor A was for accounting consultancy services to replace the old (expired) contract for the same services.</p>
<p><i>Several parts of the report reference the formula “accounting consulting services” to deduct the rationale for some observations. It is inappropriate to refer to Headings and Titles (such as “accounting consultancy services”) to interpret the subject and reach of a contract. Article 12.3 of the contract with Vendor A ... clearly specifies that: “Headings and titles listed in the Contract are for reference purposes only and shall not be deemed a part of this contract for any purpose whatsoever”. Using the header as a mean to interpret the services that are available from the Vendor A is inappropriate and misleading ...</i></p>	<p>OIOS is aware of Article 12.3 of the contract with Vendor A as well as its implications. OIOS’s reference to the term “accounting consultancy services” is not based on “Headings and Titles” in the contract. It is based on specific clauses in the contract, as indicated below:</p> <p>(a) Preamble to the contract which says: “WHEREAS, the United Nations wishes to engage the Contractor ... to provide accounting consultancy services in support of UNJSPF ...”.</p> <p>(b) Article 1.1 of the contract which says: “This document together with the Annexes ... constitute the entire contract between the UN and the Contractor for the provision of accounting consultancy services in support of UNJSPF ...”.</p> <p>(c) Article 3.2 of the contract which says: “The Contractor shall perform the accounting consultancy services (the “Services”) as more particularly described in Annex B ...”.</p> <p>Additionally, the minutes of the HCC meeting (including the questions asked by the Committee and answers provided by the Fund) shows that the Committee understood this as a solicitation for accounting consultancy services and</p>

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recommended for approval “the proposed contract award ... for the provision of accounting consultancy services in support of UNJSPF ...”

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*Chapter 9 part 2. Paragraph 9.15.2 [of the Procurement Manual] states that any authorized official shall ascertain whether a Systems Contract is currently in effect for the required services and if so, make the purchase under the Systems Contract.*

The Expression of Interest (EOI) issued by the Procurement Division on 15 January 2014 stated that: “The Secretary-General of the United Nations seeks an experienced **accounting firm** to provide consultancy services, support and advice for the [UNJSPF] on an “as needed” basis on **various investment and pension fund accounting related issues**” [emphasis added]. The description of requirements in the EOI went on to say: “... The Fund is now seeking to retain the services of an experienced accounting firm to provide ongoing accounting advice and support ... **on various IPSAS or IFRS related accounting issues that may arise owing to the complex accounting requirements of the Fund ...**” [emphasis added]. Therefore, the requirements described in the EOI clearly indicate that its scope was limited to accounting consultancy services. The EOI did not state that it was for a “Systems Contract” covering a range of consultancy services that went beyond accounting. Similarly, the RFP did not include any wording to suggest that the requirement was for a “Systems Contract” covering accounting and non-accounting consultancy services.

Additionally, Chapter 9.23.2 of the Procurement Manual states: “At a minimum, the Solicitation Documents shall include all elements that may have an impact on price, such as ... anticipated minimum and maximum values for Systems Contracts”. Chapter 13.9.6 of the Manual says regarding Systems Contracts: “The UN is not obliged to forecast the precise quantities to be ordered under a Systems Contract. However, in order to maximize the benefit of using Systems Contracts, the Solicitation Document and the Contract shall, to the extent possible, specify a minimum number and indicate a non-binding maximum number of deliverables to be procured ...”. Since none of these provisions pertaining to Systems Contracts had been complied with, the contract with Vendor A cannot be described as a Systems Contract.

Furthermore, the contract with Vendor A was not found in the database of Systems Contracts published by the Procurement Division for possible use by other departments/offices of the United Nations Secretariat.

Therefore, the Fund’s reference to the Procurement Manual’s provisions relating to Systems Contracts is not relevant to the present case.

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*As specified in the contract and in clarification provided by Fund’s officials to [Procurement Division] and the Office of Legal Affairs prior to signing the contract in March 2016, the contract was to be considered as a Master Services Agreement to cover “other related consultancy*

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There is no provision in the contract to suggest that it was to be considered as a “Master Services Agreement”. The EOI or RFP did not include any wording that prospective bidders could interpret as a requirement for a “Master Services Agreement” that went beyond accounting consultancy services. Further, there is no such term as

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*services as may be deemed necessary by the Fund” and it was not limited to “ancillary accounting-related consulting services”.*

“Master Services Agreement” in the Procurement Manual which governs procurement actions in the Organization. The “clarification” referred to by the Fund was long after the bidding process had concluded. In the absence of any indication in the EOI or RFP that the solicitation was for a “Systems Contract” or a “Master Services Agreement” that included a range of consultancy services beyond accounting, it is reasonable to conclude that bidders and the HCC were under the impression that the requirement was only for accounting consultancy services.

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*... The [United Nations] Procurement Practitioner’s handbook ... states that the practice of “splitting” requirements by processing them under several lower monetary requirements is a short-sighted business approach ... [which] actually hinders the procurement process because it: i) contravenes the spirit of the [United Nations] financial rules which require “best value for money”; and ii) is not cost effective, increases the procurement office’s administrative workload, and increases monitoring problems.*

The requirements indicated in the work orders issued by the Fund pertaining to consultancy services other than accounting (see Tables 4 to 6 above) had no relation to the accounting consultancy services described in the EOI, solicitation document, SOW and contract. As such, references to “splitting” of requirements are not relevant since the requirements covered by the work orders pertaining to those services were distinct, unrelated and non-recurring in nature.

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*Moreover, the Practitioner Handbook further specifies that “The level of detail [of technical evaluations] should enable suppliers to understand on which grounds their offer will be judged, and indicate which areas they should explore in their offers.”*

As explained above, OIOS maintains that it is reasonable to conclude from the EOI and solicitation document that it was not possible for potential bidders to construe the requirements as anything except accounting consultancy services. The technical evaluation criteria indicated in the RFP also focused on accounting issues. Accordingly, their “offers” (i.e., proposals) were also centered on accounting-related criteria. In these circumstances, there was no assurance that best value was achieved in the present case because the level of detail provided to bidders was insufficient to enable them to: (i) understand that the services required included a variety of undisclosed non-accounting consultancy services; and (ii) adequately factor this in their proposals.

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*The intention of this agreement with a reputable international professional service firm was to procure industry specific knowledge and advice ... Therefore, the Fund needed to obtain a “Master Service Agreement” to solicit external advisors providing industry specific consultancy services ... The services obtained were well within the scope of the contract and the initial rationale to tender and procure this contract. Accordingly, work orders for the end-to-end review and review of IPAS post-implementation were placed by the Fund in accordance with paragraph 4.2 (g) of the contract and the work order for review of the enterprise-wide risk register falls in the scope of paragraphs 4.2 (f) and (g).*

The intention of this agreement, as now described by the Fund’s Secretariat, was neither written expressly nor implied in any documentation pertaining to this solicitation including the EOI, RFP, SOW, HCC minutes, and the contract signed with Vendor A. The notion that this contract was a “Master Services Agreement” was advanced in informal internal email exchanges long after the competitive bidding exercise had concluded. Potential bidders had no grounds to assume that the requirement was for a “Master Services Agreement” covering a wide, undefined range of consultancy services besides accounting, or that most of the services required would not be related to accounting even though the requirement was explicitly defined as the acquisition of accounting consultancy services.

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Article 4.2 of the accounting consultancy services contract with Vendor A described the types of services as follows [emphasis added]:

- (a) Advice on new **accounting** standards under IPSAS/IFRS impacting defined benefit pension plans;
- (b) Advice of **accounting** for new financial instruments to be invested or invested by the Fund;
- (c) Advice on **accounting** for new investment strategy entered into;
- (d) Training of staff member on technical **accounting** updates following changes in items (a), (b) and (c) above;
- (e) Advice and assist in the implementation of new internal **accounting** system;
- (f) Independent control and assurance reviews to be provided on **accounting** and reconciliation in case of financial transformation undertaken;
- (g) Other **related** consultancy services as may be deemed necessary by the Fund.

The term “accounting” appears in each item from (a) to (f). Therefore, the term “related” used in item (g) refers to residual or additional items of work related to the items listed from (a) to (f). As previously explained, nowhere in the EOI, RFP or SOW was there any indication that the services being sought to be procured related to consultancy on subjects other than accounting. Yet, at least 78.2 per cent of the work awarded under this contract pertained to consultancy services that did not relate to accounting. OIOS therefore maintains that the contract with Vendor A was used for purposes other than what was indicated in the EOI, RFP, SOW and the contract. Since the manner in which the EOI and solicitation documents were written gave no indication to potential bidders that an unspecified, indefinite range of consultancy services other than accounting were being sought to be procured, there is no assurance that the pricing obtained through the solicitation was competitive, fair and transparent. This is evident from the pattern of billing for these non-accounting consultancy services



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29. Based on the audit results, OIOS concluded that: (i) there was no assurance that the works referred to in Tables 4 to 6 above were awarded based on competitive, fair, ethical and transparent sourcing in accordance with best practices and United Nations procurement standards as required by the Procurement Manual; and (ii) the significant gap between the costs indicated in the financial proposal (which had led to Vendor A’s proposal being deemed as the lowest) and the costs actually charged for the engagements entrusted to it under the contract did not assure that best value for money was obtained in this case.

**(2) The UNJSPF Secretariat should strengthen its contract management practices by ensuring that: (i) work orders issued to contractors are within the scope of the contract and the related statement of work; and (ii) best value for money is obtained through competitive and transparent sourcing when new requirements arise.**

*The UNJSPF Secretariat partially accepted recommendation 2. It indicated that it accepts part (i) stating that it will continue to ensure that work orders issued to contractors are within the scope of the contract and the related SOW. The Fund Secretariat did not accept part (ii) stating that the services obtained from Vendor A were well within the scope of the contract and the initial rationale to tender and procure the contract. As specified in clarifications provided to the Procurement Division and the Office of Legal Affairs, the contract was to be considered as a Master Services Agreement with a reputable international professional service firm to solicit industry specific consultancy services. The recommendation limits the procurement options available to the Fund by recommending to conduct competitive sourcing (and limiting the possibility of using existing applicable contracts as permitted by the Procurement Manual) for all new requirements.*

With regard to part (i) of the recommendation, the Fund's comment that it will "continue to ensure" that work orders issued are within the contract scope implies that this had occurred in the present instance as well, which was not the case. Therefore, OIOS considers part (i) of the recommendation as unaccepted.

As explained in detail in Table 9 above, OIOS maintains that the services indicated in Tables 4, 5 and 6 were not accounting consultancy services and were therefore outside the scope of the contract and the SOW. Article 4.2 (a) through (f) of the contract lists the types of accounting consultancy services to be performed by the Contractor and item (g) thereunder states: "Other **related** consultancy services as may be deemed necessary by the Fund" [emphasis added]. Each of the items in Article 4.2 (a) through (f) has the term "accounting" mentioned in it. Therefore, the word "related" used in Article 4.2 (g) clearly means any other consultancy services related to the accounting services itemized from 4.2 (a) through (f). Further, neither the EOI nor the solicitation document indicated that the requirement was for a "Master Services Agreement" covering a wide variety of consultancy services for the Fund besides accounting; on the contrary, they specifically stated that the requirement was for "accounting consultancy services" and the evaluation criteria in the RFP also indicated accounting-related criteria. The question of limiting the procurement options available to the Fund does not arise because the Fund did not comply with the applicable provisions of the Procurement Manual as explained in Table 9 above. OIOS therefore maintains that the UNJSPF Secretariat needs to address the control deficiencies identified by this audit and improve its contract management practices to ensure fairness, transparency and accountability. This unaccepted recommendation has been closed without implementation and may be reported to the General Assembly indicating management's acceptance of residual risks.

## C. Contract for implementation of IPAS

### Need to improve contract management

30. Chapter 15.1 of the Procurement Manual states that contract management is a critical function for the Organization; it consists of ongoing monitoring and management of the vendor's performance and obligations under the contract for goods, services or works, including terms and conditions such as quality, time-lines (e.g. delivery and project deadlines), and payments.

31. On 3 August 2015, the UNJSPF Secretariat rolled out IPAS to replace the legacy pension entitlement system (Pensys), the financial accounting system (Lawson), the content management system, as well as other stand-alone systems. The procurement process for this requirement had commenced in early 2011 and UNJSPF entered into a contract with a vendor ("Vendor D") in June 2012. The contract is effective until 31 July 2020 with a NTE amount of \$27.3 million. As of 30 June 2017, the remaining

balance against the NTE amount was \$2.6 million. In its review of contract management, OIOS observed the following.

(a) Milestone payments were made without meeting the acceptance criteria

32. The contract with Vendor D states that “the payment of implementation service fees should be subject to the acceptance by the United Nations of the milestones, in accordance with the procedures for acceptance of each milestone set forth in the contract.” Annex-O of the contract states that in order for UNJSPF to accept the project milestones, 100 per cent of ‘critical’ and ‘high’ rated issues, 75 per cent of ‘medium’ and 50 per cent of ‘low’ rated issues need to be resolved in User Acceptance Testing and End-to-End testing. According to Annex-O of the contract, an issue is deemed ‘critical’ if the product is “unusable or an entire module is unusable” or “if the user is prevented from completing multiple business processes, or blocks multiple test cases that span business processes.” A defect is rated ‘high’ “if proper operations within [the solution] are severely hindered and no suitable workaround is available” or “if the user is prevented from completing a single business process, due to an Exception Error or other blocking condition.”

33. The contract with Vendor D indicated that the payment of the implementation service fees in the amount of \$500,000 was due on the acceptance date of the system<sup>2</sup> and another \$500,000 was due 90 days after the acceptance date. Issuance of acceptance certificate by the Procurement Division was a pre-requisite for making such milestone payments to Vendor D.

34. By its memorandum of 18 November 2015, UNJSPF requested the Procurement Division to issue the acceptance certificate stating that “the acceptance testing has established that the software is performing satisfactorily in accordance with contractual specifications”. Accordingly, Procurement Division issued the acceptance certificate on 25 November 2015 and the amount of \$1 million was paid to Vendor D on 7 January 2016. However, the issue and project tracking system (JIRA) indicated that on the acceptance date (25 November 2015), there were 984 open issues related to functionalities of IPAS, ranged from ‘low’ to ‘critical’ priority. Of these 984 issues, 84 were ‘critical’ and 452 were ‘high priority’. OIOS review showed that UNJSPF made the acceptance decision before the User Acceptance Testing and End-to-End testing milestones were fully executed in accordance with the contract. Further analysis showed that the priority functionalities identified by UNJSPF before IPAS go-live included processing of the most frequent benefit types, the payroll process, two-track and client services. Completion and testing of several key functionalities listed in the contract as part of the requirements (such as processing less-frequent benefit types which included some of the high priority benefit types, Certificate of Entitlements, year-end and monthly reconciliations, self-services, and several management and operational reports) were postponed to after go-live. A separate OIOS audit of IPAS post-implementation (Report 2017/104) noted that UNJSPF was implementing these incomplete or erroneous functionalities after the acceptance date by deploying additional resources. As of 9 March 2017, 8 out of 84 ‘critical’ and 55 out of 452 ‘high priority’ issues identified as of the acceptance date were still open.

35. According to Annex-C of the contract, any changes to project milestones and payments relating thereto should be made through a contract amendment. While some functionalities might be of higher criticality to UNJSPF operations, the changes in acceptance criteria and payments based on new criteria were not justified when the Fund requested the Procurement Division in November 2015 to issue the acceptance certificate. The Fund needs to strengthen its contract management processes to ensure effective monitoring and compliance with the terms and conditions of contract before certifying the delivery of services and issuance of acceptance certificates.

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<sup>2</sup> According to Article 22 of the contract, the acceptance date is the date of execution of the acceptance certificate after go-live.

36. *The UNJSPF Secretariat stated that issuance of the acceptance certificate was based on the results of the tests conducted and not on the number and criticality of open JIRAs. The JIRA system is an internal change management tool and the definitions utilized in it are not to be confused with contract language. In this regard, it is incorrect to state that there were changes in the acceptance criteria not communicated to the Procurement Division when requesting the issuance of the acceptance certificate.* OIOS notes that the UNJSPF Secretariat recorded all test results in JIRA, which was the system of record for tracking all issues arising out of the testing results. The JIRA system was accessed by the Fund as well as Vendor D to record various actions taken to resolve open issues. The information contained in JIRA on the status of open ‘critical’ and ‘high’ priority issues is directly related to determining whether the acceptance certificate could be issued in accordance with the acceptance criteria defined in the contract with Vendor D. As explained in paragraphs 14 and 16 of OIOS’ Report 2017/104 on the post-implementation of IPAS, at the time of issuing the acceptance certificate, the Fund had not performed acceptance tests for several important functions; several functionalities had not yet been delivered; and there were 984 open issues (including 84 ‘critical’ and 452 ‘high priority’) which prevented the usability of some functionalities. OIOS therefore maintains that the Fund requested issuance of the acceptance certificate without verifying all the deliverables and completing all the acceptance tests in accordance with the acceptance criteria stipulated in the contract which resulted in a milestone payment to Vendor D even though the milestone was not fully achieved.

(b) Vendor D’s subcontractor was not cleared prior to contracting

37. Chapter 15.8 of the Procurement Manual and the United Nations General Conditions of Contract (UNGCC) provide that “contractors shall obtain prior written approval and clearance from the United Nations for all subcontractors”.

38. In August 2012, Vendor D entered into contract with a subcontractor who it tasked with implementing the financial component of IPAS. Vendor D did not obtain prior written approval and clearance from the United Nations for this arrangement. The subcontractor was originally estimated to complete the work by November 2014. However, due to delays in the IPAS project, the subcontract was still in force at the time of the audit and the subcontractor’s personnel were working occasionally in the premises of UNJSPF.

39. UNGCC also provide that the terms of any subcontract should be subject to and construed in a manner that is fully in accordance with all the terms and conditions of the contract. However, the subcontract agreement did not adequately reflect the terms and conditions in the principal contract and UNGCC. For example, UNGCC provides that to the extent the contract involves the provision of any services to the United Nations by the contractor’s personnel including subcontractors, all parties are subject to the provisions relating to their professional and technical competence, qualification and responsibility. While the principal contract required the contractor to provide detailed qualifications of the project personnel, the subcontract limited this to designation of key posts, and Vendor D’s authority to replace the subcontractor staff in certain circumstances. Only Vendor D reserved the right to request and approve a replacement whereas according to UNGCC, such a right should have been available to the Organization as well.

40. Also, Vendor D did not adequately reflect in the subcontract certain United Nations policies which were included in the principal contract. For example, while the subcontract signed by Vendor D stated that the subcontractor’s personnel should abide by UNJSPF security policies and building policies, it made no reference to other UNJSPF and United Nations policies which were reflected in the principal contract, such as privacy and confidentiality and compliance with applicable laws and regulations.

41. Although the contract between the United Nations and Vendor D indemnified the Organization from liability caused by the subcontractor, any underperformance by the subcontractor would have an impact on the IPAS project. Similarly, potential breach of data confidentiality or unauthorized access could adversely impact the Fund. Also, the omission of certain terms and conditions may result in subcontractor conduct which is not in line with the principles and values of the United Nations. In such an event, apart from any financial implications, there may also be risks to the Organization's reputation. UNJSPF needs to strengthen its contract management practices by ensuring that no subcontractors are allowed without prior authorization in accordance with UNGCC.

(c) Costs and benefits of subscribing to software upgrade needed to be assessed

42. According to Chapter 1.2 of the Procurement Manual, best value for money is defined as the "optimization of whole-life cost and quality needed to meet the user's requirements, while taking into consideration potential risk factors and resources available." In order to determine best value for money, cost and non-cost factors should be considered. The Procurement Manual defines cost-related factors as the entirety of cost components that comprise the total cost of ownership of the acquired goods, services or works, whether direct or indirect, fixed or variable.

43. After IPAS go-live, Vendor D provided maintenance and support services to UNJSPF through periodic product updates by releasing new versions. These releases included new features and functionality, usability and performance enhancements, product modifications to accommodate new releases in underlying technology (i.e., newer database versions, operating system patches, etc.) or product bug fixes. According to the contract, Vendor D would publish major releases approximately every one to one-and-a-half years, minor releases approximately quarterly, and patch releases every four to six weeks.

44. The contract further stated that IPAS would be designed to allow the implementation of future updates without the concern of reintegration with existing custom modifications and configurations. In reality, however, upgrading IPAS would involve much complexity and additional cost, given that it was significantly customized from the standard package. Therefore, UNJSPF had not applied major updates to IPAS and its underlying system software even though it kept paying \$375,000 annually for the software upgrade subscription. UNJSPF only used the 500 prepaid service hours which came with the software upgrade subscription.

45. If IPAS and the underlying system software are not upgraded for a prolonged period, they may become obsolete. The Fund may face compatibility issues with other systems as years pass. It may also experience performance issues and security problems. The upgrade subscription gives the Fund the option of upgrading IPAS in future. However, further analysis is required on the benefits of keeping the option vis-à-vis the cost (\$375,000 per year) for services which have not been used, taking into consideration the potentially significant additional cost of upgrading IPAS if the Fund chooses to exercise that option.

**(3) The UNJSPF Secretariat should strengthen its contract management processes by ensuring that: (i) payments against completion of milestones are made in full compliance of contractual provisions; and (ii) subcontracting arrangements are allowed only after prior approval has been granted.**

*The UNJSPF Secretariat partially accepted recommendation 3 stating that it will continue to ensure that payments to contractors are made in compliance with contractual provisions. Regarding part (ii) of the recommendation, the UNJSPF Secretariat stated that Article 5 of UNGCC does not require prior written approval for all subcontractors. Further, the provision in the Procurement Manual requiring contractors to obtain prior approval for subcontractors is not binding as it is not referenced in the contract with Vendor D.*

The Fund's comment regarding part (i) of the recommendation that it will "continue to ensure" that payments to contractors are made in compliance of contractual provisions implies that this had occurred in the present instance as well, which was not the case. Therefore, OIOS considers part (i) of the recommendation as unaccepted.

With regard to part (ii), OIOS notes that the relevant article of UNGCC regarding subcontractors unambiguously states: "In the event that the Contractor requires the services of subcontractors to perform any obligations under the Contract, the Contractor shall obtain the prior written approval of the United Nations". This was not done in the present case. Furthermore, provisions of the Procurement Manual, which are a source of guidance and meant for internal use of the United Nations, do not have to be included in contracts with external parties for those provisions to be valid or applicable. OIOS therefore maintains that the Fund Secretariat should have complied with the provisions of the Procurement Manual and the UNGCC, which it failed to do. This unaccepted recommendation has been closed without implementation and may be reported to the General Assembly indicating management's acceptance of residual risks.

**(4) The UNJSPF Secretariat should strengthen its contract management processes by ensuring that cost-benefit analysis is documented for options such as subscriptions for upgrades before payments are made for such subscriptions under the contract for IPAS with Vendor D.**

*The UNJSPF Secretariat accepted recommendation 4 and stated it will conduct a cost-benefit analysis on the benefits of keeping the option of upgrading IPAS in future. Recommendation 4 remains open pending receipt of evidence showing that cost-benefit analysis has been documented for options such as subscriptions for upgrades before future payments for such subscriptions are made under the contract for IPAS with Vendor D.*

#### **IV. ACKNOWLEDGEMENT**

46. OIOS wishes to express its appreciation to the management and staff of the UNJSPF Secretariat for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of procurement and contract management in the Secretariat of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical <sup>3</sup> / Important <sup>4</sup>	C/ O <sup>5</sup>	Actions needed to close recommendation	Implementation date <sup>6</sup>
1	The UNJSPF Secretariat should review the relevance of its Procedure General on procurement and update it accordingly.	Important	O	Receipt of the updated version of the Procedure General on procurement.	31 December 2018
2	The UNJSPF Secretariat should strengthen its contract management practices by ensuring that: (i) work orders issued to contractors are within the scope of the contract and the related statement of work; and (ii) best value for money is obtained through competitive and transparent sourcing when new requirements arise.	Important	C	This recommendation has been closed without implementation based on management's acceptance of residual risks.	Not applicable
3	The UNJSPF Secretariat should strengthen its contract management processes by ensuring that: (i) payments against completion of milestones are made in full compliance of contractual provisions; and (ii) subcontracting arrangements are allowed only after prior approval has been granted.	Important	C	This recommendation has been closed without implementation based on management's acceptance of residual risks.	Not applicable
4	The UNJSPF Secretariat should strengthen its contract management processes by ensuring that cost-benefit analysis is documented for options such as subscriptions for upgrades before payments are made for such subscriptions under the contract for IPAS with Vendor D.	Important	O	Receipt of evidence showing that cost-benefit analysis has been documented for options such as subscriptions for upgrades before future payments for such subscriptions are made under the contract for IPAS with Vendor D.	31 December 2018

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> C = closed, O = open

<sup>6</sup> Date provided by the UNJSPF Secretariat in response to recommendations.

# **APPENDIX I**

## **Management Response**

UNITED NATIONS JOINT STAFF PENSION FUND  
CAISSE COMMUNE DES PENSIONS DU PERSONNEL DES NATIONS UNIES

NEW YORK (Headquarters)  
P.O. Box 5036, UNITED NATIONS, N.Y., N.Y. 10017  
Tel: (212) 963 -6931; Fax: (212) 963 -3146  
E-mail: [UNJSPF@UN.ORG](mailto:UNJSPF@UN.ORG)  
Cable: UNATIONS NEWYORK  
Web: <http://www.unjspf.org>

OFFICE AT GENEVA  
c/o PALAIS DES NATIONS  
CH - 1211, Geneva 10  
Tel: +41 (0) 22 928 8800; Fax: +41 (0) 22 928 9099  
E-mail: [UNJSPF.GVA@UNJSPF.ORG](mailto:UNJSPF.GVA@UNJSPF.ORG)  
Web: <http://www.unjspf.org>

## MEMORANDUM

Ref: New York, 18 October 2017

To / A: Mr. Gurpur Kumar, Deputy Director Internal Audit Division, OIOS

From / De : Sergio B. Arvizú, Chief Executive Officer, United Nations Joint Pension Fund

*b1* *Arvizu* *CEFO*

Subject / Objet: **UNJSPF response to draft report audit of procurement and contract management in the UNJSPF secretariat (Assignment No. AS2017/800/01)**

1. Reference is made to your memorandum dated 4 October 2017, in which you submitted for the Fund's comments and clarifications, the draft report on the above-mentioned audit.
2. As requested, the Fund's response to the audit recommendations is included in **Annex I**. Factual corrections and clarifications on key aspects are provided in **Annex II**.
3. Thank you in advance for considering the comments and clarifications provided in this memorandum.

cc.: Mr. P. Dooley, Deputy Chief Executive Officer  
Mr. K. Soll, Chief Financial Officer  
Mr. D. Dell'Accio, Chief Information Management Systems Service  
Ms. J. Sareva, Chief Risk Management and Legal Services Section  
Ms. K. Manosalvas, Risk Officer, Audit Focal Point

## AUDIT RECOMMENDATIONS

## Audit of procurement and contract management in the UNJSPF secretariat

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	Accepted ? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNJSPF Secretariat should review the relevance of its Procedure General on procurement and update it accordingly.	Important	Yes	Contracts Officer and Chief RMLS	December 2018	<p>The Fund secretariat will update UNJSPF General Procedure # 56 Rev. 4 “Guidelines for undertaking direct procurement action” taking into account General Assembly Resolution A/RES/51/217; Pension Board decisions on the procurement arrangements for the Fund (JSPB/47/R.45 and JSPB/48/R.36); UN Office of Legal Affairs opinion on the same matter, and UNJSPF Financial Rules.</p> <p>However, the Fund secretariat highlights that it is inappropriate to seek alignment between the United Nations Procurement Manual and UNJSPF General Procedure # 56 Rev. 4. While the UN Procurement Manual provides guidelines for procurement activities conducted by the United Nations Procurement Division, UNJSPF General Procedure # 56 Rev 4 outlines the procurement authority granted to the Fund’s Chief Executive Officer and the special situations where UNJSPF will exercise its direct procurement authority. These documents therefore cover distinct aspects.</p>

<sup>1</sup> 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.

<sup>2</sup> 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.

						<p>Moreover, as the Fund secretariat has been using the UN Procurement Division machinery for all procurement requests for at least the last 7-10 years, General Procedure # 56 Rev.4 has not been applied and does not create risks to the Fund.</p> <p>Please refer to detailed comments in Annex II.</p>
2	<p>The UNJSPF Secretariat should strengthen its contract management practices by ensuring that: (i) work orders issued to contractors are within the scope of the contract and the related statement of work; and (ii) best value for money is obtained through competitive and transparent sourcing when new requirements arise.</p>	Important	<p>i) Yes and ii) No</p>	<p>i) All Service/ Section Chiefs ii) N/A</p>	<p>i) December 2018 ii) N/A</p>	<p>(i) The Fund secretariat will continue to ensure that work orders issued to contractors are within the scope of the contract and the related statement of work.</p> <p>It is noted, that the services obtained from Vendor A were well within the scope of the contract and the initial rationale to tender and procure the contract. As specified in clarifications provided to UN Procurement Division and the UN Office of Legal Affairs, the contract was to be considered as a Master Services Agreement to solicit industry specific consultancy services.</p> <p>The purpose of the contract with Vendor A is defined in its terms and conditions. It is inappropriate and misleading to refer to Headings and Titles (i.e. "<i>accounting consultancy services</i>") to interpret the subject and reach of the contract. Article 12.3 of the contract with Vendor A, clearly specifies that: "Headings and titles listed in this Contract are for reference purposes only and shall not be deemed a part of this Contract for any purpose whatsoever".</p>

						<p>(ii) The Fund secretariat is unable to accept this recommendation as, in accordance with UN procurement provisions, the best value for money principle is obtained through both: i) competitive and transparent sourcing; and ii) by seeking efficiencies and not splitting procurement requirements.</p> <p>As written, OIOS recommendation limits the procurement options available to the Fund by recommending to conduct competitive sourcing (and limiting the possibility of using existing applicable contracts as permitted by the UN Procurement Manual) for all new requirements.</p> <p>Please refer to detailed comments in Annex II.</p>
3	The UNJSPF Secretariat should strengthen its contract management processes by ensuring that: (i) payments against completion of milestones are made in full compliance of contractual provisions; (ii) subcontracting arrangements are allowed only after prior approval has been granted; and (iii) cost-benefit analysis is documented for options such as subscriptions for upgrades before payments are made for such subscriptions under the contract for IPAS with Vendor D.	Important	i) Yes; ii) No ; iii) Yes	i) All Service/ Section Chiefs ii) N/A iii) Chief of IMSS	i) December 2018 ii) N/A iii) December 2018	<p>(i) The Fund secretariat will continue to ensure that payments to contractors are made in compliance of contractual provisions;</p> <p>(ii) The condition presented in the report does not create additional risks to the Fund since: i) Article 5 of the UN General Conditions on Contract (UNGCC) does not require prior written approval "<i>for all</i>" subcontractors; and ii) as per article 5 "<i>the terms of any subcontract shall be subject to, and shall be construed in a manner that is fully in accordance with, all of the terms and conditions of the Contract</i>". Further, the provision in UN Procurement Manual requiring contractors to obtain prior UN approval for all subcontractors is not binding</p>

						<p>as it is not referenced in the contract with Vendor D.</p> <p>(iii) The Fund will conduct a cost-benefit analysis on the benefits of keeping the option of upgrading IPAS in the future.</p> <p>Please refer to detailed comments in Annex II.</p>
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## **General Comments, Factual Corrections and Clarifications to Draft Report Audit of procurement and contract management in the UNJSPF secretariat**

The Fund secretariat kindly requests OIOS to consider the following comments and factual corrections and clarifications:

### **General Comments to the Report**

- **Paragraph 22:** OIOS states in paragraph 22 that “**UNJSPF Secretariat** had spent \$2.2 million for the services rendered by Vendor A”. The Fund secretariat and IMD placed separate work orders for risk management and internal control services provided by Vendor A. **A portion of the services detailed in Table 2 which states were outside the scope of the contract were requested and paid by IMD.** Tables 6, 7 and 8 need to be corrected as these include hours and fees charged for services provided to IMD and one work order shared with IMD. Any OIOS observations on work orders raised or fees paid by IMD, should be addressed to and responded by IMD, and not by the Fund secretariat.
- **Various paragraphs:** Several parts of the report reference the formula “*accounting consulting services*” to deduct the rationale for some observations. It should be noted, however that the purpose of a contract is defined and should be deducted from the language of its terms and conditions. It is inappropriate to refer to Headings and Titles (such as “*accounting consultancy services*”) to interpret the subject and reach of a contract. Article 12.3 of the contract with Vendor A, as any other contract issued by the UN, clearly specifies that: “*Headings and titles listed in the Contract are for reference purposes only and shall not be deemed a part of this Contract for any purpose whatsoever*”. Using the header of the contract as a mean to interpret the services that are available from the Vendor is inappropriate and misleading because the sentence “*accounting consulting services*” does not represent all types of services that could be delivered under the contract.

### **Comments and factual corrections and clarifications to specific paragraphs:**

- **Paragraphs 12, 13 and 14:** Regarding OIOS comments that the UN Financial Regulations and Rules and the UN Procurement Manual are applicable and serve as operational guidelines for purchasing activities of UNJSPF, and that Procedure General #56 was not in line with the UN Procurement Manual, the following details need to be accurately reflected in the audit report:
  1. The General Assembly in resolution 51/217 of 18 December 2016 endorsed the Board’s recommendation that the Fund utilizes the services of the UN Procurement Division, as made available by the Secretary-General. Under this arrangement: i) procurement decision-making authority remains with the Secretary/CEO, and ii) the Secretary/CEO is also authorized to act on his own authority in special situations.
  2. The UN Financial Regulations and Rules remain the highest framework governing all aspects related to the administrative services provided by the United Nations Secretariat, including the procurement of goods and services.
  3. UNJSPF General Procedure #56 Rev 4 “Guidelines for undertaking direct procurement action” outlines the CEO’s procurement authority (on all procurement cases including those when the CEO utilizes the UN procurement machinery) and the special situations where the CEO will exercise its direct procurement authority instead of using UN machinery (not to be confused with UN authority on procurement which remains with the CEO). The analysis in paragraph 14 of the report is limited to only one of the functions covered by the Procedure General.

## Contract with Vendor A

- **Paragraphs 18 and 19:** OIOS references Chapter 1.2 of the UN Procurement Manual which states that one of the factors to determine best value for money is competitive sourcing, and that the best value for money is applicable throughout the acquisition process. In this respect, the Fund secretariat requests OIOS to reflect in the report that Chapter 9 part. 2 Par. 9.15.2 states that any authorized official shall ascertain whether a Systems Contract is currently in effect for the required services and if so, make the purchase under the Systems Contract. Moreover, the UN Procurement Practitioner's handbook (that can be consulted, as per PM Chapter 1 Par. 1.2, in the event of any ambiguities or lacunae in the Procurement Manual, SGBs and AIs relating to procurement) states that the practice of "splitting" requirements by processing them under several lower monetary requirements is a short-sighted business approach that is generally counterproductive, and undermines the integrity of the whole system. In particular, it is indicated that splitting a requirement actually hinders the procurement process because it: i) contravenes the spirit of the UN financial rules which require "best value for money"; and ii) is not cost effective, increases the procurement office's administrative workload, and increases monitoring problems.

The reference in paragraph 19 to previous contracts between UNJSPF and Vendor A is not relevant because the current contract with Vendor A is the result of a new bidding exercise for services different from those subject to the previous contract. The Subject contract with vendor A is not a replacement of the former contract; it is a new contract for a new set of consulting services.

- **Paragraph 20:** While the SOW constitutes the basis for evaluation of submissions it does not and should not specify the Technical Evaluation Criteria which should instead be spelled out in the Bidding documents as an annex. Among the criteria spelled out in the Technical Evaluation Criteria there was the "*other related consultancy services undertaken for defined benefit Pension Funds and buy-side investment firms*". Moreover, the Practitioner Handbook further specifies that "*The level of detail [of the technical evaluations] should enable suppliers to understand on which grounds their offer will be judged, and indicate which areas they should explore in their offers.*" Vendors' responses to the above mentioned evaluation criteria were accepted as relevant, therefore it implies that the "relevance" of the "other services" language in the contract is widened beyond "*accounting consulting services*".
- **Subsection (a) and paragraph 21.** The contract with Vendor A specifies in paragraph 4.2: "**Without limiting the generality of the foregoing, the Contractor's activities in performing Services shall comprise the following types of services which shall be more fully described in each Work Order, as applicable:**
  - (a) *Advice on new accounting standards under IPSAS/IFRS impacting defined benefit pension plans;*
  - (b) *Advice of accounting for new financial instruments to be invested or invested by the Fund;*
  - (c) *Advice on accounting for new investment strategy entered into;*
  - (d) *Training of staff member on technical accounting updates following changes in items (a), (b) and (c) above;*
  - (e) *Advice and assist in the implementation of new internal accounting system;*
  - (f) *Independent control and assurance reviews to be provided on accounting and reconciliation in case of financial transformation undertaken; and*
  - (g) **Other related consultancy services as may be deemed necessary by the Fund.**

The language used at the beginning of the quote and option is similar to the "including, but not limited to,..." formula, and it provides for more types of services than the ones listed from (a) to (f); option (g) is basically summarizing the generality of all of them. For this reason, in fact, the contract further maintains in article 4.5 that "*Article 4.2 [basically the list (a) to (g)] generally describes the services the United Nations is requesting the Contractor to perform. From time to time, as mutually agreed to by the parties during the term hereof, the parties will enter into work orders which expressly*

*incorporate the terms of this Contract ("Work Orders") and which shall identify the services to be performed, the location and time schedule for completion of the Services and the relevant pricing as set out in Article 5 [and not in the Commercial evaluation document]"*.

The intention of this agreement with a reputable international professional service firm was to procure industry specific knowledge and advice, which is not available within UNJSPF or from peers in the UN system, as the Fund's business model is unique in the UN System. Some of the Pension Board's Audit Committee members also saw a need for industry specific expertise and supported the solicitation based on the fact that the specific industry knowledge and expertise could not be obtained from other Departments or peers within the UN system. Therefore, the Fund needed to obtain a "Master Service Agreement" to solicit external advisors providing industry specific consultancy services on a short notice. The services obtained were well within the scope of the contract and the initial rationale to tender and procure this contract. Accordingly, work orders for the end-to-end review and review of IPAS post-implementation were placed by the Fund in accordance with paragraph 4.2 (g) of the contract and work order for the review of the enterprise-wide risk register falls in the scope of paragraphs 4.2 (f) and (g).

- **Paragraph 22, 24, 25, 26.** As specified in the contract and in clarifications provided by Fund's officials to UNPD and the UN Office of Legal Affairs prior to the signing of the contract in March 2016 (**previously provided to OIOS**), **the contract was to be considered as a Master Services Agreement to cover "other related consultancy services as may be deemed necessary by the Fund" and it was not limited to "ancillary accounting-related consulting services"**.

All vendors were assessed based on technical evaluation criteria **including experience in "conducting independent control and assurance reviews" and "other related consultancy services undertaken for defined benefit pension funds and buy-side investment firms"** (i.e. governance reviews, risk assessments, reviewing internal control of IT systems, risk advisory and compliance reviews, performance consulting, tax advisory, IT infrastructure, data warehouse, board advisory services, Services Organization Control (SOC), project support and measurement, organizational change management, lean transformation, application development and implementation, corporate strategy, information management, portfolio management, security architecture, etc.). These services were established to be relevant to the assessment of the qualified Vendors thus justifying the recourse to the awarded Vendor in view of the UN Procurement Practitioner's Handbook.

- **Subsection (b) and Table 3 - Costs charged were not in line with financial proposal:** It is not appropriate to compare the costs indicated in the financial proposal with the fees charged for actual work orders since: i) the contract signed did not specify the composition of the team to be used for different possible assignments; and ii) the commercial evaluation process is not binding as it was not part of the contract signed with Vendor A.

For evaluation purposes only (the RFP sent to Vendor specifically stated: "**For illustrative purposes only, please specify in sufficient detail how your firm will allocate the work.**") , all bidders were requested to provide hourly rates by professional level and the percentage of time allotted to six possible project areas **defined by the requisitioner (IMD)**. IMD developed a scenario which was to be considered for the commercial evaluation only.

Since it is impossible to regulate in advance an external entity's time needed to provide a particular consulting service, the contract allows the parties to negotiate any work order before signing and executing it, thus allowing to change the percentage of the time allotted to each personnel as indicated in the financial proposal for "**illustrative purposes only**" (in accordance with article 4.5 of the contract).

In relation to the observation that for the work orders reflected top-heavy billing of hours, as noted above the Fund retained the services of Vendor A to obtain advice that was not available among UNJSPF staff. The Fund had an interest in obtaining the most qualified staff, as it required specific industry expertise rather than qualified staff to execute work. The work order required a “top-heavy” team and the provision of a top heavy team for this advice was in the best interest of the Fund.

### **Contract for the implementation of IPAS**

- **Paragraphs 30 to 33 - Payments vs. acceptance criteria:** As clarified during the IPAS post-implementation audit, the issuance of the acceptance certificate was based on the results of the tests conducted and not on the number and criticality of open JIRAs. The JIRA system is an internal change management tool and the definitions utilized in it are not to be confused with contract language. In this regard, it is incorrect to state that there were changes in the acceptance criteria not communicated to UNPD when requesting the issuance of the acceptance certificate.
- **Paragraphs 35 to 40 - Vendor subcontractor:** It is factually incorrect to state that the UN General Conditions of Contract provide that “all” contractors shall obtain prior written approval from the UN. Article 5 of the UNGCC specifies: “*The United Nations shall be entitled, in its sole discretion, to review the qualifications of any subcontractors and to reject any proposed subcontractor that the United Nations reasonably considers is not qualified to perform obligations under the Contract*”.

Further, any risk is also mitigated by:

- i) Article 5 which states that “*the terms of any subcontract shall be subject to, and shall be construed in a manner that is fully in accordance with, all of the terms and conditions of the Contract*”. As such, article 18.1 of the contract requires the Contractor to install and configure properly functioning Software (including any third party module as part of the Software package) in accordance with the terms and conditions of the contract. Liability therefore is completely assigned to the Vendor. The subcontractor is among the software considered as third party’s which are under the responsibility of the Vendor.
- ii) Article 1.2 of the UNGCC states that the subcontractors of each of the Parties shall not be considered as employees or agents of the other Party, and **each Party shall be solely responsible** for all claims arising out of or relating to its engagement of such persons or entities. Under this provision, each party remains liable and responsible for claims arising from the engagement of personnel including subcontractors; and, UNJSPF maintains independence from the contractor’s operations and its relationship with its personnel, including subcontractors.