# OIOS
## Office of Internal Oversight Services

# INTERNAL AUDIT DIVISION

# REPORT 2019/111

## Audit of the strategic management of the procurement function in the United Nations Secretariat

While policy guidance provided to field missions and offices was generally effective, there was a need to improve overall governance, management and monitoring of the procurement function to achieve effectiveness and efficiency

18 November 2019
Assignment No. AH2018/513/01

# Audit of the strategic management of the procurement function in the United Nations Secretariat

## EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the strategic management of the procurement function in the United Nations Secretariat. The objective of the audit was to assess whether strategic management of the Secretariat-wide procurement function ensures that: (a) procurement is governed efficiently and effectively; (b) procurement activities are monitored; and (c) procurement fraud risks are identified and mitigated. The audit covered the period from 1 January 2017 to 31 December 2018 and included higher and medium risk areas related to: organization of the procurement function; training and guidance; efficiency and effectiveness of procurement activities; monitoring and reporting of procurement activities; and functioning of the Award Review Board (ARB). The audit also assessed the effects of the management reform on the functioning of the Procurement Division (PD) and the Logistics Division, both in the Department of Operational Support (DOS), effective 1 January 2019.

The segregation of responsibilities between requisitioning and procurement functions was maintained in the new organizational structure, and policy guidance provided by PD to field missions and other offices was effective. However, DOS and the Department of Management Strategy, Policy and Compliance (DMSPC) needed to improve the strategic management of the procurement function to enhance the efficiency, effectiveness, monitoring and reporting of the Secretariat-wide procurement activities.

OIOS made 13 recommendations to DOS and 4 recommendations to DMSPC. To address issues identified in the audit:

DOS needed to:
- Conduct comprehensive analyses of the current categorization of strategic goods and services;
- Refine the strategic goods and services matrix;
- Collect baseline data and analyze the workload of procurement offices across the Secretariat;
- Establish a monitoring mechanism over the completion of mandatory training by procurement staff in the Secretariat;
- Establish procedures to systematically record outcomes of market research;
- Analyze and prepare an action plan to address low utilization rates of systems contracts and aggregate procurement demands;
- Review continuous contracts awarded to the same vendors for extended periods;
- Review the timing of the assessment of the appropriateness of vendor registration levels in the procurement process;
- Establish a reporting mechanism on the extent of use of collaborative contracts by constituent United Nations organizations;
- Operationalize implementation of an e-tendering system throughout the Secretariat;
- Systematically record information pertaining to the key performance indicators to measure and manage procurement lead time;
- Monitor the impact of business seminars and intensify efforts to diversify the vendor base; and
- Implement a fraud risk management programme (**critical**).

DMSPC needed to:
- Expand the areas identified for procurement monitoring;

- Fully implement the bid protest system beyond the pilot phase and expand its scope, review and revise the terms of reference of the ARB and clarify the roles of its secretariat;
- Explore the options of segregating the holder of the position of Chair of the Headquarters Committee on Contracts from that of the Registrar of the ARB to avoid potential conflict of interest; and
- Maintain adequate records on the activities of the ARB and its secretariat.

DOS and DMSPC accepted the recommendations and initiated action to implement them.

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# Audit of the strategic management of the procurement function in the United Nations Secretariat

## I.     BACKGROUND

1.      The Office of Internal Oversight Services (OIOS) conducted an audit of the strategic management of the procurement function in the United Nations Secretariat.

2.      The United Nations procures goods and services to carry out its activities at Headquarters, offices away from Headquarters, peacekeeping and special political missions and other offices[1]. Procurement is undertaken at various locations according to the authorities delegated to staff at the procurement sections or units. The Procurement Division (PD) in the Office of Supply Chain Management (OSCM), Department of Operational Support (DOS), is responsible to ensure the effective administration of Headquarters' procurement function and provide policy guidance and executive direction to other locations. Procurement activities are governed by the United Nations Financial Regulations and Rules (FRRs) and the Procurement Manual.

3.      The Headquarters Committee on Contracts (HCC) and local committees on contracts review procurement cases above specified monetary thresholds and recommend officers with delegated procurement authorities to approve awards of contracts. The Award Review Board (ARB) reviews protests by unsuccessful bidders and provides independent advice on the merits of procurement challenges to the Under-Secretary-General of the Department of Management Strategy, Policy and Compliance (DMSPC).

4.      The procurement function establishes system[2] and regular contracts based on which one or more purchase orders may be issued specifying delivery and other instructions. The not-to-exceed (NTE) amounts of procurement contracts that were in force during the audit period are shown in Table 1.

**Table 1: Secretariat-wide active procurement contracts in 2017 and 2018**

| Procurement contracts | Active contracts | |
|---|---|---|
| | **Number** | **Total NTE amount (in billions of $)** |
| Systems contracts issued by PD | 297 | 8.3 |
| Regular contracts issued by PD | 664 | 7.3 |
| Regular contracts issued by other offices and field missions | 4,621 | 3.8 |
| **Total** | **5,582** | **19.4** |

Source: Umoja and PD's legacy Contract Administration Tracking System data

5.      Overall, the Secretariat raised purchase orders totaling $6 billion during the audit period. Out of this, PD issued purchase orders for $1.9 billion, which accounted for about 32 per cent of the global procurement value.

6.      PD is headed by a Director at D-2 level and at 31 March 2019 comprised 97 staff, including those of the Regional Procurement Office (RPO) at Entebbe.

7.      Comments provided by DOS and DMSPC are incorporated in italics.

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[1] Service centres, support offices, regional commissions and tribunals
[2] Contracts used for procuring goods and services required on a recurring basis

# II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8.      The objective of the audit was to assess whether strategic management of the Secretariat-wide procurement function ensures that: (a) procurement is governed efficiently and effectively; (b) procurement activities are monitored; and (c) procurement fraud risks are identified and mitigated.

9.      This audit was included in the 2018 risk-based work plan of OIOS due to the financial and operational risks related to the procurement function of the United Nations Secretariat. The General Assembly in its resolution 72/266 B of 5 July 2018 also requested the Secretary-General to entrust OIOS with continuing to monitor United Nations procurement and report thereon biennially.

10.     OIOS conducted this audit from November 2018 to May 2019. The audit covered the period from 1 January 2017 to 31 December 2018. Based on an activity-level risk assessment, the audit covered higher and medium risks areas related to: organization of the procurement function; training and guidance; efficiency and effectiveness of procurement activities; monitoring and reporting of procurement activities; and functioning of the ARB. The audit also assessed the effects of the management reform on the functioning of PD and the Logistics Division (LD), which from 1 January 2019 were both incorporated into DOS.

11.     The audit methodology included: (a) interviews of key personnel in DOS and DMSPC; (b) analytical review of data in Umoja and other information systems; (c) review of relevant documentation on a sample basis; and (d) interviews of 10 chief procurement officers/procurement officers from selected field missions and other offices.

12.     The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

# III. AUDIT RESULTS

## A. Organization of the procurement function

The segregation of responsibilities between PD and LD was maintained in the new organizational structure through separate functional reporting lines

13.     Following management reforms effective 1 January 2019, the Department of Management (DM) and the Department of Field Support (DFS) were disbanded and DMSPC and DOS were established pursuant to General Assembly resolution 72/266 B. In the new management architecture, PD and LD, previously in DM and DFS respectively, were integrated into OSCM. This was to allow for the consolidation of procurement, logistics, and enabling functions into a single entity for more efficient management of the end-to-end process of global requisitioning, sourcing and delivery of goods and services. The segregation of responsibilities between the functions of PD and LD was maintained through separate functional reporting lines to the Assistant Secretary-General, OSCM[3].

14.     PD was also restructured into teams responsible for procurement of specific commodities in line with the category management approach jointly adopted by PD and LD. The multifunctional team formed under this approach promises to improve the acquisition process and enable the Secretariat to focus on supply market capabilities and to develop market specific strategies for various commodities, which the

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[3] Subsequent to the audit, the Director of LD assumed responsibilities as an officer-in-charge of OSCM as a temporary measure.

Secretariat expects to achieve over the next three years. At the time of the audit, the operating model for the category management approach, including the specific roles of category managers and division of responsibilities between PD and LD for strategic sourcing, was being developed. Since the new organizational structure has been operational for a limited time, it is premature to conclude on the adequacy of safeguards to ensure the independence of the procurement function. OIOS will continue to review the adequacy of the segregation of duties between the requisitioning and procurement functions in future audits.

<u>DOS needed to conduct a comprehensive analysis of the categorization of strategic goods and services</u>

15.    One of the important elements of the ongoing management reform is the delegation of decision-making for administering the Staff Regulations and Rules and FRRs to officials closer to the point of service delivery. Accordingly, heads of entities were delegated unlimited authority to procure the goods and services they require, except for those categorized as strategic goods and services[4]. The strategic goods and services categorization replaced the earlier list of goods and services classified as "special requirements[5]" which required a local procurement authority (LPA) from PD to procure locally. Procurement of strategic goods and services will be done by PD or by field missions and other offices if they receive an LPA from PD. Based on OIOS analysis of global procurement activities in 2017 and 2018, strategic goods and services would account for approximately 76 per cent of the average annual global procurement value.

16.    Prior to the reforms, in line with the then delegation of procurement authority, peacekeeping missions procured about 15 per cent of their requirements, while the remaining 85 per cent were procured by either PD or through contracts established by PD. With the new categorization of strategic goods and services, based on activities in 2017 and 2018, around 88 per cent of peacekeeping procurement will be done by PD or under LPAs by missions as shown in Figure 1. The new categorization could potentially reduce the volume of direct procurement activities by missions or increase the number of requests for LPA.

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[4] Aviation, transportation, medical equipment, pharmaceuticals, vehicle fleet, power generation, accommodation, food rations, information and communications technology, fuel, security, physical security infrastructure, water and waste water treatment, financial services, professional services, engineering design & construction (above $250,000)

[5] Air and sea charters, vehicles, satellite imaging, satellite transponders, medical equipment, pharmaceuticals, plants, boats, generators, prefabricated structures, food rations, specialized services, information and communications technology hardware and software (above $500,000)

**Figure 1: Delegation of procurement authority to peacekeeping missions before and after management reform[6]**
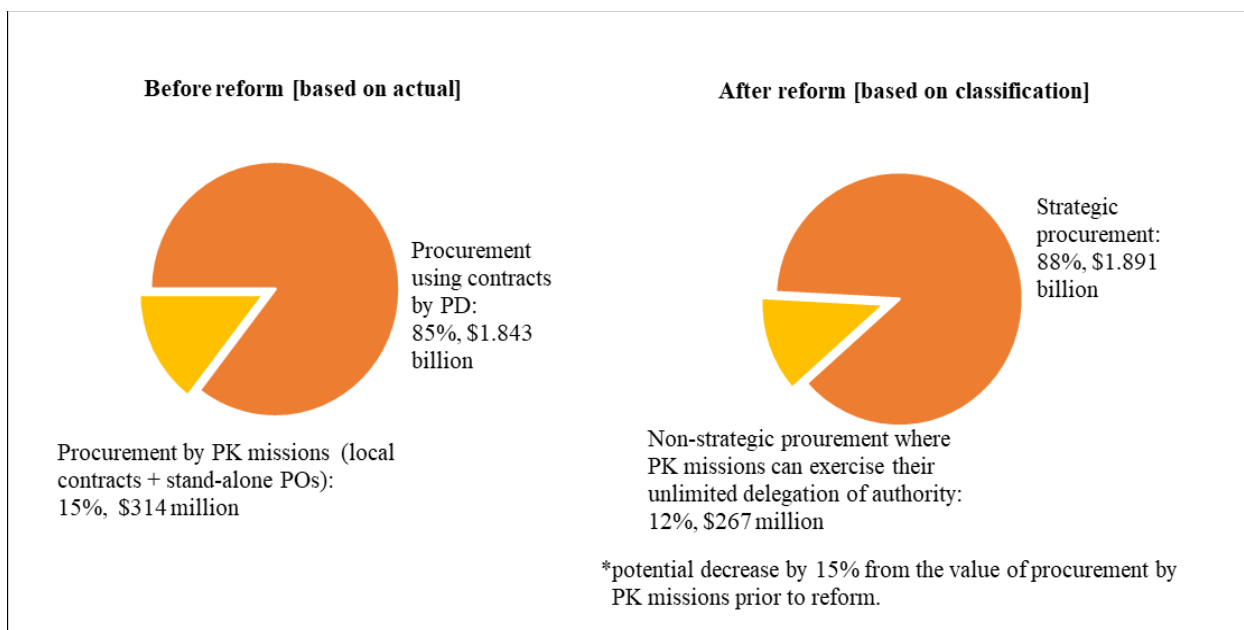


Source: Umoja data

17.     According to OIOS analysis of procurement data related to the audit period, there could be an additional requirement of around 580 LPAs annually for procurement of $35 million strategic goods and services under the new Delegation of Authority (DOA) framework, which may impact procurement efficiency and faster operational response to the needs of entities. As PD did not determine thresholds for the requirement to obtain LPAs for strategic goods and services, field missions are required to obtain LPAs for all small value purchases of strategic goods and services over the direct procurement threshold of $10,000. This may impede operational requirements of field missions and other offices and divert PD resources from other important priorities.

18.     PD advised that in determining the strategic goods and services, it considered the need for product standardization and economies of scale, high risk/value of certain commodities and inadequate procurement capacity of field missions and other offices. However, the analyses pertaining to these considerations were not documented to determine the potential impact. Furthermore, the DOA working group assessed that all field missions and other offices with existing delegation of procurement authority already had the capacity to execute procurement actions.

19.     DOS stated that it did not support OIOS analysis of the impact of the categorization of strategic goods and services on the scope of the new delegation of procurement authority to field missions, based on historical procurement data. The current matrix of strategic goods and services is an initial categorization that will continue to be updated through implementation of category management and monitoring of requests for LPA. The Secretary-General's report on the new management architecture (A/72/492) clearly stipulates that the bulk of high-value, high risk procurement, constituting more than 80 per cent of current procurement, will be conducted through central operational support resources, while low-value procurement will benefit from quicker decision-making at the point of delivery. The actual result after management reform is yet to be seen. OIOS conclusions that missions' unlimited DOA will result in 12 per cent of procurement and an additional 580 LPAs were therefore hypothetical. Additionally, LPAs would

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[6] Calculations based on average annual global procurement value related to 2017-2018.

be provided within one business day upon receipt of request and their requirement would not '…impede operational requirements…'.

20.     According to best practices, applying new policy requirements to historical data enables policy makers to assess the overall impact of the new policy. Furthermore, analysis of past procurement data is potentially the best available information under the given circumstances to make informed strategic decisions related to delegation of procurement authority and developing the strategic goods and services matrix. Additionally, DOS status report of June 2019 on the benefits related to the implementation of the new management paradigm indicated that the process to request and approve LPAs was being streamlined including creation of a single-entry point at the Global Service Centre in Brindisi, with the objective to reduce the approval time for LPA to 10 calendar days.

21.     Centralized procurement and/or the requirement to obtain LPA under special circumstances for goods and services currently classified as strategic may impede faster procurement decisions closer to the point of operations. PD was exploring ways to further diversify procurement responsibilities of certain commodities to local procurement hubs under the new category management approach.

> **(1)  DOS should, in consultation with DMSPC, conduct comprehensive analyses of the current categorization of strategic goods and services to assess its impact on operations of field missions and other offices and as a basis for diversifying procurement responsibilities to procurement hubs.**
>
> *DOS accepted recommendation 1 and stated that it would conduct a comprehensive analysis of the current categorization of strategic goods and services.* Recommendation 1 remains open pending receipt of the analysis.

The strategic goods and services matrix needed to be better defined

22.     The strategic goods and services matrix comprised 16 broad categories, 24 associated categories and about 100 subcategories of products with over 100,000 'Product IDs' in Umoja. However, the subcategories were not always well defined and there were no guidelines outlining the principles of the sub-categorization, which might lead to potential confusion in the operationalization of strategic goods and services matrix and inconsistency in procurement practices by various offices. For example, at the time of audit, DOS advised that aerial lifts and heavy construction and machinery should be classified as strategic goods and services. However, these were not included in the strategic goods and services matrix. Similarly, explosives were not included in the matrix although DOS advised that they should be. Also, lighting was considered under the product category of power generation and included as strategic goods, but DOS advised that it should be non-strategic. As a result, there was room for misinterpretation of the categorization of strategic goods and services leading to unauthorized procurement of goods and services locally by field missions. PD expressed difficulties in categorizing over 100,000 product IDs of strategic goods and acknowledged the need for more guidance.

> **(2)  DOS should refine the strategic goods and services matrix and reinforce it with additional guidelines to avoid confusion and misinterpretation by various offices and field missions.**
>
> *DOS accepted recommendation 2 and stated that it was currently assessing and updating the strategic goods and services matrix, which will be circulated shortly.* Recommendation 2 remains open pending receipt of the updated list of strategic goods and services and related additional guidelines.

23.     PD had not conducted an analysis to determine the optimal volume of procurement activities undertaken vis-à-vis the number of procurement staff required at the various locations. OIOS analyzed the ratio of PD staff to procurement staff at field and other locations in terms of the value and number of contracts and standalone purchase orders[7] established during the audit period (Figure 2 and Table 2). PD staff accounted for 23 per cent of all procurement staff but procured 76 per cent of the Secretariat's requirements and established 17 per cent of contracts. The contracts tended to be for strategic commodities, whose procurement were complex and generally of high value.

**Figure 2: Procurement expenditure generated through contracts established by PD and other field missions and other offices[8]**
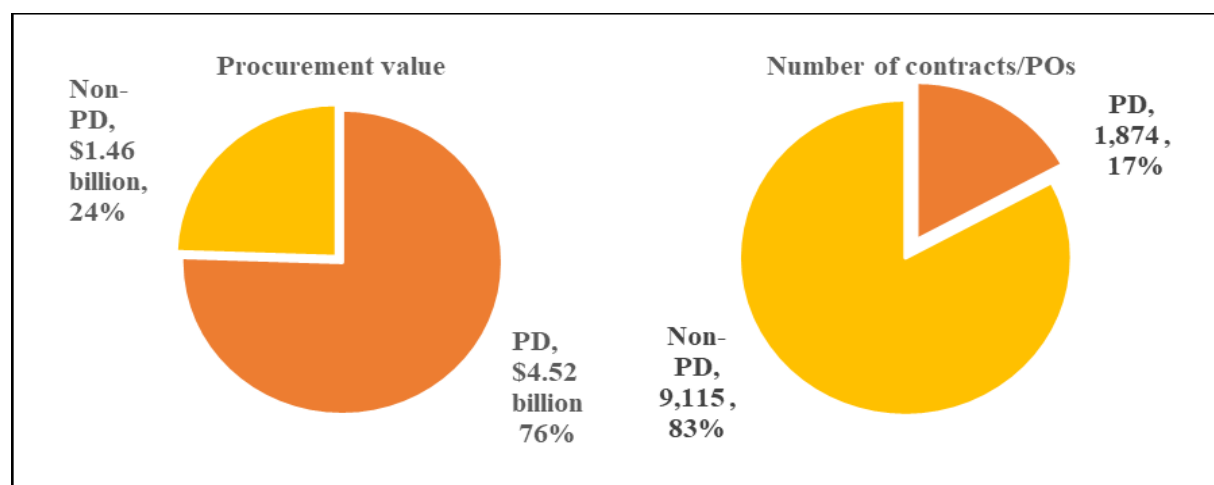


Source: Umoja data

**Table 2: Secretariat-wide distribution of procurement staff**

| Entity | No. of staff (March 2019) | Share (%) | No. of contracts /purchase orders[9] | Share (%) | Procurement value (in millions of $) | Share (%) |
|---|---|---|---|---|---|---|
| PD | 97 | 23 | 1,874 | 17 | 4,519 | 76 |
| Non-PD | 331 | 77 | 9,115 | 83 | 1,464 | 24 |
| **Total** | **428** | **100** | **10,989** | **100** | **5,983** | **100** |

Source: Umoja data

24.     A further breakdown of procurement activities for PD and 10 other field missions and other offices with the highest procurement values is shown in Table 3. The average number of contractual documents issued per staff ranged from 9 in the United Nations Assistance Mission for Iraq (UNAMI) to 31 in the Multidimensional Integrated Stabilization Mission in Mali (MINUSMA). The average value of contractual documents issued per staff ranged from $2.95 million in UNAMI to $46.58 million in PD.

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[7] An instrument issued for one-time purchases of goods and services.

[8] Procurement value under contracts established by PD includes purchase orders issued by other field missions and other offices against contracts established by PD.

[9] Excluding purchase orders for low-value acquisitions

**Table 3: Ratio of staff to procurement value in largest procurement offices in 2017 and 2018**

| Entity | No. of staff (March 2019) | Share (%) | No. of contracts / purchase orders | Share (%) | Procurement value ($ million) | Share (%) | Avg. no. of contracts /purchase orders per staff | Avg. procurement value per staff ($ million) |
|---|---|---|---|---|---|---|---|---|
| PD[10] | 97 | 23 | 1,874 | 17 | 4,519 | 76 | 19 | 46.58 |
| MONUSCO | 25 | 6 | 532 | 5 | 87 | 1 | 21 | 3.48 |
| MINUSMA | 23 | 5 | 704 | 6 | 172 | 3 | 31 | 7.48 |
| UNSOS | 23 | 5 | 432 | 4 | 169 | 3 | 19 | 7.35 |
| UNOG | 22 | 5 | 420 | 4 | 182 | 3 | 19 | 8.27 |
| MINUSCA | 19 | 4 | 282 | 3 | 68 | 1 | 15 | 3.58 |
| UNAMI | 16 | 4 | 148 | 1 | 47 | 1 | 9 | 2.94 |
| UNMISS | 14 | 3 | 307 | 3 | 136 | 2 | 22 | 9.71 |
| UNOV | 10 | 2 | 301 | 3 | 36 | 1 | 30 | 3.60 |
| UNAMA | 8 | 2 | 169 | 2 | 38 | 1 | 21 | 4.75 |
| MICT | 5 | 1 | 116 | 1 | 27 | 0 | 23 | 5.40 |
| Others | 166 | 40 | 5,704 | 51 | 502 | 8 | 34 | 3.02 |
| **TOTAL** | **428** | **100** | **10,989** | **100** | **5,983** | **100** | **26** | **13.98** |

Source: Umoja data

Abbreviations: MONUSCO, United Nations Organization Stabilization Mission in the Democratic Republic of the Congo; UNSOS, United Nations Support Office in Somalia; UNOG, United Nations Office in Geneva; MINUSCA, Multidimensional Integrated Stabilization Mission in the Central African Republic; UNMISS, United Nations Mission in South Sudan; UNOV, United Nations Office in Vienna, UNAMA, United Nations Assistance Mission in Afghanistan; MICT, Mechanism for International Criminal Tribunals

25.     While the establishment of contracts or standalone purchase orders involves the same core procurement processes irrespective of value (tendering, technical and commercial evaluation, and award) and therefore requires procurement staff at all locations, the wide variations of activities per staff indicate opportunities for better allocation of staff, taking into consideration the relative complexity of procuring some commodities.

26.     As the Secretariat-wide procurement undergoes changes with the implementation of the new DOA framework and category management approach, an analysis of procurement workload per staff for better alignment of resources is needed for greater efficiency. Baseline data needs to be collected to allow an analysis of workload before and after the implementation of the management reform.

> **(3)  DOS should, in consultation with DMSPC, collect baseline data and analyze the workload of procurement offices across the Secretariat after the implementation of management reform and propose a realignment of resources as may be needed.**
>
> *DOS accepted recommendation 3 and stated that it would analyze the resourcing of procurement offices across the United Nations Secretariat once the categorization of goods and services is completed.* Recommendation 3 remains open pending receipt of analyses of procurement workload and realignment of resources as needed.

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[10] Including the RPO, Entebbe

27.     The Procurement Manual stipulates monetary thresholds and procurement requirements for various values of procurement actions. For direct or low value purchases (less than $10,000) requisitioners are required to request informal quotations from three vendors, while for purchases between $10,001 and $40,000, they are required to issue requests for quotations (RFQs) to at least five vendors. These are relatively simpler processes than the requests for proposals and invitations to bid processes for high procurement values. The revised Procurement Manual (September 2019) increased the monetary threshold for RFQs from $40,000 to $50,000.

28.     An analysis of contracts and standalone purchase orders during the audit period indicate that 51 per cent of them were under the $40,000 threshold and accounted for 0.73 per cent of the total contract values. The proposed increase of the RFQ threshold from $40,000 to $50,000 would cover an additional 6 per cent of all contractual documents and 0.17 per cent more of the total contract values. OIOS noted that the United Nations Development Programme (UNDP), with annual procurement value of $2.1 billion in 2017 (approximately 70 per cent of the annual procurement value of the United Nations Secretariat) increased its RFQ threshold to $150,000 in September 2016. Such an increase in the Secretariat would cover 77 per cent of all contracts and standalone purchase orders and represent only 2 per cent of the total contract values. This would free up procurement staff and allow for a move away from transactional controls to increased risk-based monitoring controls by DMSPC. It would also allow PD to further enhance procurement processes in line with the United Nations reform initiatives and prioritize resources on strategic issues.

29.     However, DMSPC expressed concerns that risks would increase if procurement thresholds were higher since RFQs are processed without internal controls such as safeguarding of bids and a tender opening committee. Increasing the threshold beyond $50,000 without consideration to category management would result in increased spot purchases and would not be conducive of achieving best value for money. As a result, OIOS did not make a recommendation but strongly encourages ongoing review of this issue.

# B. Training and guidance

30.     In accordance with the Procurement Manual, PD issued and periodically revised guidelines and procurement practices, including an increase in threshold for low value acquisitions, guidance on the use of ex-post facto awards and Incoterms, and debriefing of unsuccessful bidders. At the time of the audit, PD revised the Procurement Manual to further streamline procedures.

31.     PD also undertook 13 procurement assistance visits to larger field missions and other offices to provide guidance on procurement policies and practices. OIOS interviewed procurement officers of 10 field missions and other offices to assess the extent of their satisfaction with the guidance provided by PD. All the interviewees stated that PD provided adequate clarification and support on procurement practices when needed. OIOS concluded that PD guidance to field missions and other offices was effective.

32.     The Secretary-General's bulletin on United Nations mandatory learning programmes (ST/SGB/2018/4) specifies seven mandatory learning courses for staff members working in procurement. The Procurement Manual requires PD to oversee training activities for all procurement staff.

33.      A review of the training database maintained by PD indicated that as at 6 March 2019, 90 and 73 staff (out of 97 staff with procurement responsibilities) had completed the mandatory basic and advanced procurement courses, respectively. The former Field Procurement Liaison Team (FPLT) in DFS maintained a database on the completion of mandatory training by procurement staff with delegated authority in field missions but did not obtain copies of the training certificates to confirm completion of training by staff. In addition, as FPLT had focused only on procurement staff with delegated authority in field missions, compliance with the mandatory training requirements by other staff working in procurement was not ascertained. Non-compliance with the mandatory learning for procurement may deter the organization from building capacity through progressive professionalization of the procurement function.

> **(4)  DOS should, in consultation with DMSPC, establish a monitoring mechanism over the completion of mandatory training by staff conducting procurement activities in the Secretariat.**
>
> *DOS accepted recommendation 4 and stated that it would monitor the completion of mandatory training courses, while BTA/DMSPC would perform the second line of global monitoring. DMSPC stated that with enhanced delegation of authority, some entities allow non-procurement staff to conduct procurement-related activities and they also needed to fulfil the mandatory training requirements.* Recommendation 4 remains open pending notification of the monitoring mechanism established and receipt of evidence of monitoring that all staff engaged in procurement-related activities are fulfilling mandatory training requirements.

## C. Efficiency and effectiveness of procurement activities

<u>DOS needed to establish procedures to systematically record outcomes of market research</u>

34.      PD conducted market surveys to identify potential supplier and product availability through issuing requests for expression of interest (REOIs) and requests for information (RFIs). However, there were no procedures to systematically record the outcomes of REOIs and RFIs. Although results of REOIs and RFIs were stored in the shared drive, lessons learned were not analyzed and documented. Some sections in PD conducted market surveys on an ad hoc basis and used online market research tools for analysis. For example, the Communications and Technology team used a market research tool. However, there was no mechanism to systematically record market analyses to facilitate dissemination of knowledge on market dynamics and key trends. The overall vendor response rate for solicitations during the audit period was 4 per cent, and 6 per cent for bids submitted through e-tendering system. The low response rate may indicate the need for improved supply market analysis prior to solicitation. Strengthening market research and establishing a market research database by product category are particularly important in view of implementation of category management approach.

> **(5)  DOS should establish procedures to systematically record outcomes of market research to optimize strategic sourcing decisions under the newly adopted category management approach.**
>
> *DOS accepted recommendation 5 and stated that it would be addressed through the implementation of the category management approach.*  Recommendation 5 remains open pending receipt of established procedures to systematically record outcomes of market research.

<u>DOS needed to take appropriate measures on the low utilization rate of systems contracts and contracts with the same vendors for extended periods of time</u>

35. Systems contracts are established by PD for use across the Secretariat to minimize the number of time-consuming and repetitive solicitation exercises and to achieve economies of scale. They should normally be subject to competitive bidding every five years, at a minimum.

36. The utilization of systems contracts was not optimal. Out of 297 active systems contracts established by PD during the audit period, 21 were not utilized and at least 96 were utilized for less than 50 per cent of their NTE amount. The details of the 117 systems contracts with no or low utilization rates are shown in Table 4:

**Table 4: Systems contracts that were active or expired during the audit period with low utilization rates**

| Utilization rate (per cent) | Number of systems contracts | Total NTE amount (in millions of $) | NTE apportioned through the period ending 31 January 2019 (in millions of $) | Total spend as at 31 January 2019 (in millions of $) | Average utilization (per cent) |
|---|---|---|---|---|---|
| 0 | 21 | 22.0 | 10.0 | 0.0 | 0 |
| 0 - 10 | 16 | 428.4 | 305.3 | 11.0 | 3.6 |
| 10 - 20 | 18 | 83.6 | 58.7 | 8.0 | 13.6 |
| 20 - 50 | 62 | 721.5 | 625.1 | 240.2 | 38.4 |
| **Total** | **117** | **1,255.5** | **999.1** | **259.2** | **X[11]** |

Source: PD's legacy Contract Administration Tracking System and Umoja data

37. The low utilization of systems contracts was attributed to: (a) determination of NTEs based on overstated demand forecasting; (b) higher cost of goods under systems contracts than local contracts because freight costs were not factored in; (c) changes in demand due to mission downsizing; and (d) systems contracts not tailored to the local requirements in field missions. Despite utilization rates of less than 50 per cent, 49 of these 117 systems contracts with NTE amount totaling $698.6 million were continually extended beyond their initial contract period, and justifications for extension were not always recorded. Overstatement of NTE amounts in contracts may raise expectations of vendors on the anticipated volume of business impacting on the prices being offered and preclude smaller vendors from participating in the procurement exercise and thus increasing competition. Recurrent low utilization rates may also adversely impact vendors' willingness to offer competitive prices in the future.

38. On the other hand, requirements were not always aggregated, and separate standalone purchase orders were issued bypassing the systems contracts established by PD to procure goods either from the same vendors with whom a contract existed or from different vendors. For example, 149 purchase orders totaling $1,268,678 were raised to buy licenses for the same software from 43 different vendors during the audit period. Even though, as of January 2018, PD had established several contracts with a vendor for purchasing this software, field offices raised 42 standalone purchase orders totaling $474,404 bypassing the systems contract. Similarly, 1,363 purchase orders were raised to buy about 21,600 branded laptops and about 22,000 laptop accessories totaling $26.2 million from over 230 different vendors. This happened due to fragmented acquisition planning as the new Global Acquisition Planning initiative led by LD had not yielded the desired results at the time of audit. DOS advised that fragmented purchasing of some products occurred due to requisitioners' inadequate use of the procurement catalogue to search related items in Umoja. The low utilization of systems contracts and fragmented purchasing deterred the Organization from realizing volume discounts and economies of scale.

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[11] Overall average was not calculated since the systems contracts with utilization above 50 per cent were not considered

39.     In addition, systems contracts totaling $8.2 billion with 49 vendors, and regular contracts established by PD totaling $9.7 billion with 85 vendors were either continually extended or awarded to the same vendor for more than 10 years. One of the reasons for continuous contracts was standardization of commodities (for example information technology and communication equipment for which system and regular contracts totaling $2.1 billion were established with at least 18 vendors). The cumulative expenditure for the top 10 vendors with continuous contracts of more than 10 years (excluding long-term leases at United Nations Headquarters and standardized goods and services) amounted to at least $9.3 billion. This included contracts for provisions of services with a vendor amounting to at least $1.7 billion for more than 20 years. Some of these contracts were for long-term air charters, fuel, food and rations, manpower and advisory services, and maintenance services. Continuous extension and re-establishment of contracts with the same vendors for extended periods of time may impede international competition and vendor diversity.

> **(6)  DOS should analyze and prepare an action plan to address: (a) low utilization rates of systems contracts; (b) methodology for determining the not-to-exceed amounts; and (c) methodology for aggregating procurement demands for better economies of scale.**
>
> *DOS accepted recommendation 6 and stated that such an analysis and action plan were critical elements of category management, as was the estimate of NTE amounts, based on an accurate forecast of demand and good market information.* Recommendation 6 remains open pending receipt of an action plan to improve the utilization of system contracts and aggregation of procurement demands.
>
> **(7)  DOS should review the continuous award of contracts to the same vendors for extended periods (in the absence of limiting market conditions such as product standardization) and analyze and address factors that may impede effective bidding by other vendors to improve international competition.**
>
> *DOS accepted recommendation 7 and stated that it would analyze goods and services for which standardization and other limiting market factors do not exist and take appropriate action.* Recommendation 7 remains open pending receipt of analysis of the factors that impede effective bidding by a diverse range of vendors and an action plan to improve international competition.

DOS needed to establish procedures on the timing of the assessment of vendor registration levels

40.     According to the Procurement Manual, vendors may register at one of three levels based on the value of estimated contract award: Basic for contracts below $40,000; Level 1 for contracts below $500,000; and Level 2 for larger contracts. The Manual stipulates the mandatory information and documents to be submitted by the vendor depending on the level of registration. The determination of vendors' eligibility for registration at appropriate levels is important to ensure that vendors are financially sound and capable to satisfactorily perform contractual obligations.

41.     OIOS review indicated that 484 contracts above $500,000 established globally with total NTE amount of $3.7 billion were awarded to vendors not registered at Level 2 but at Basic (203 contracts) and Level 1 (281 contracts). This included 25 per cent of contracts established by PD.  A review of a sample of 52 contracts totaling $385 million indicated that a special approval from the Vendor Review Committee in PD was also not obtained for 33 of these contracts (63 per cent) totaling $200 million, to justify the exceptions. This occurred because there was no predefined stage in the procurement process to verify vendors' registration level based on the estimated contract award. In PD, this verification was mostly done before the submission of the proposal of contract award to HCC, when a special approval was sought for vendors not registered at appropriate levels. However, verification of registration levels at such a late stage weakened the position of PD to reverse the recommendation to award a contract to a non-compliant vendor

without delaying the procurement process. As a result, special approval was normally granted, with the risk of awarding contracts to vendors without an adequate assessment of their financial stability, prior experience and capability to deliver the goods and services.

> **(8) DOS should review the timing of the assessment of the appropriateness of vendor registration levels to streamline the contract award phase of the procurement process.**
>
> *DOS accepted recommendation 8 and stated that it would assess vendor registration levels and take action to streamline its procurement processes.* Recommendation 8 remains open pending receipt of the results of the assessment and evidence of streamlining of the contract award phase of the procurement process.

DOS needed to establish a reporting mechanism on the use of collaborative contracts

42.      The Procurement Manual encourages procurement through cooperation with other United Nations organizations. However, the share of collaborative procurement with other United Nations organizations was low, due to diverse operational needs and competing priorities.

43.      During the audit period, three United Nations agencies procured goods and services at around $80 million, $12 million, and $0.9 million respectively on behalf of the Secretariat. Additionally, PD established eight contracts in 2017 with five vendors under a collaborative procurement of vehicles with NTE amount of $194.3 million. The Secretariat's consumption of these contracts was $17.1 million as of February 2019, but the extent of use of these contracts by other United Nations organizations could not be ascertained due to the absence of a relevant reporting mechanism. Therefore, PD could not determine if the applicable volume discounts could be obtained, and economies of scale realized on vehicle purchases.

44.      Also, although PD disclosed current Headquarters contracts on its website, there was no comprehensive information sharing mechanism among United Nations organizations on their established contracts to enable the use of each other's contracts for greater efficiency and economies of scale. The High-Level Committee on Management's Procurement Network at its 24th session held in September 2018 deliberated on the potential use of an e-commerce tool for placing orders against established contracts, including those under collaborative arrangements. A web-based global e-commerce solution with the facility to place orders directly from an online catalogue of available products and services would assist United Nations organizations, including the United Nations Secretariat, in reducing the procurement lead time.

> **(9) DOS should, in consultation with the High-Level Committee on Management's Procurement Network, explore possibilities to: (a) establish a reporting mechanism on the extent of use of collaborative contracts by constituent United Nations organizations to realize applicable volume discounts; and (b) use a web-based e-commerce solution for direct placing of orders across the United Nations System.**
>
> *DOS accepted recommendation 9 and stated that it would address it with members of the High-Level Committee on Management's Procurement Network to obtain relevant information and buy-in from the other United Nations organizations. Collaboration with United Nations entities across the range of supply chain solutions is one of the key strategic objectives of OSCM and the successful implementation of the recommendation is subject to their cooperation.* Recommendation 9 remains open pending receipt of evidence on actions taken by DOS to improve the use of collaborative contracts.

DOS needed to implement e-tendering across the Secretariat

45.     PD launched a pilot project for e-tendering in 2014 with the objective of enhancing efficiency and internal controls over the tendering process. UNOG and the United Nations Global Service Centre (UNGSC) in Brindisi also piloted the use of e-tendering in May and June 2015, respectively.

46.     PD used the e-tendering system for 291 out of total 895 tendering exercises during the audit period that resulted in the submission of 1,420 electronic bids from 25,247 vendors. Cumulatively, PD, UNOG and UNGSC used the e-tendering system for 751 out of total 8,324 Secretariat-wide tendering exercises[12]. However, the e-tendering project remained as a pilot after four years and was limited to only a few teams within PD. The legacy methods of delivering tenders and proposals through facsimile, email, postal mail or hand delivery were not as secure as the e-tendering process. Additionally, with the advancement of technology, most of the bids (including for large procurements and in field offices) were submitted electronically by email. However, PD did not establish procedures to safeguard submission of such bids through monitoring of access logs. The enhanced efficiency gains and internal controls of e-tendering could not be fully achieved since at least 90 per cent of the Secretariat-wide tendering exercises totaling $1.3 billion were done through manual submission of bids to tender opening committees. DOS advised that it was analyzing available options, based on previous pilots and lessons learned, to optimize benefits and to gauge the roll-out timeline for e-tendering across the Secretariat. The Secretary-General's report on procurement activities (A/73/704) indicated an expansion of e-tendering to the global Secretariat by 2019.

> **(10) DOS should develop an action plan to operationalize implementation of an e-tendering system throughout the Secretariat.**
>
> *DOS accepted recommendation 10 and stated that it was working on the implementation of an e-tendering system throughout the Secretariat.* Recommendation 10 remains open pending receipt of the action plan to implement e-tendering system.

PD was exploring options to better align its operations with the Sustainable Development Goals

47.     The 2030 Agenda for Sustainable Development adopted by Member States in September 2015 includes a goal to promote sustainable public procurement practices. PD had not established suitable criteria for sustainable procurement or undertaken an assessment of its impact on international competition, including for developing countries and countries with economies in transition, for consideration of the General Assembly. As a result, PD was not able to operationalize the relevant Sustainable Development Goal in its procurement policy and practices. Conversely, two United Nations agencies had established procedures on sustainable procurement. At the time of audit, the sustainable procurement working group set up by the High-Level Committee on Management's Procurement Network was in the process of finalizing the sustainable procurement indicators framework. The latest Secretary-General's report on procurement activities (A/73/704) indicated that to better align its operations with the Sustainable Development Goals, the Secretariat was committed to leveraging its strategic function in advancing sustainable development. In light of this commitment, OIOS did not make a recommendation on this issue.

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[12] Umoja Business Intelligence data

# D. Monitoring and reporting of procurement activities

The accountability framework for monitoring delegation of procurement authority needed strengthening

48.     The Secretary-General's bulletin (ST/SGB/2019/2) on the delegation of authority in the administration of the Staff and Financial Regulations and Rules is accompanied by an accountability framework to help heads of entities demonstrate that they are exercising the authorities delegated to them appropriately. With respect to procurement, the framework envisages minimal use of: standalone purchase orders; exceptions to formal methods of solicitations; and ex-post facto[13] awards. The Secretariat's performance in these areas during the audit period is analyzed below.

    a.   Standalone purchase orders

49.     Around $879 million or 15 per cent of global procurement value during the audit period was through standalone purchase orders as shown in Table 5:

**Table 5: Procurement through standalone purchase orders in 2017 and 2018**

| Missions/offices | Procurement value of standalone purchase orders (in millions of $) |
|---|---|
| PD | 193 |
| UNODC | 106 |
| MINUSMA | 99 |
| UNMISS | 65 |
| MINUSCA | 52 |
| Other | 364 |
| **Total** | **879** |

Source: Umoja data
UNODC, United Nations Office on Drugs and Crime

    b.   Exceptions to formal methods of solicitations

50.     These were used Secretariat-wide to procure $1.2 billion or 21 per cent of the total value of contracts and standalone purchase orders established during the audit period. The top five offices and field missions using such exceptions are shown in Table 6:

**Table 6: Procurement using exceptions to formal methods of solicitation[14] in 2017 and 2018**

| Office/Mission | Exceptions (in millions of $) | Percentage |
|---|---|---|
| PD | 297 | 24 |
| MINUSMA | 214 | 17 |
| MINUSCA | 145 | 12 |
| UNSOS | 77 | 6 |
| UNODC | 69 | 5 |
| Other | 447 | 36 |
| **Total** | **1,249** | **100** |

Source: Umoja data

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[13] An "ex-post facto" contract award is one where deliverables have already been either fully or partially furnished prior to the review and approval to enter into contract by the appropriate authority
[14] All exceptions under Financial Rule 105.16 (a) (i) to (ix)

51.     The exceptions included sole source procurement totaling $633 million and exigent procurement totaling $25.2 million in 2017 and 2018. According to PD, sole source procurement included the purchase or lease of real estate where comparable property was not available which accounted for an average of $121 million in 2017-2018; or where there was no competitive market place for an average of $123 million; or due to standardization for certain goods/services (such as IT equipment) accounting for $30 million. OIOS noted that around 80 per cent of exigent procurements were done at three locations, with UNSOS accounting for 53 per cent of such procurements. The top five offices and field missions using sole source procurements are shown in Table 7:

**Table 7: Sole source procurements in 2017 and 2018**

| Office/Mission | Exceptions (in millions of $) | Percentages |
|---|---|---|
| MINUSMA | 152 | 24 |
| MINUSCA | 134 | 21 |
| PD | 97 | 15 |
| UNSOS | 35 | 6 |
| MONUSCO | 30 | 5 |
| Other | 185 | 29 |
| **Total** | **633** | **100** |

Source: Umoja data

    c.   Ex-post facto awards

52.     Approximately 18 per cent of total procurement awards submitted to HCC during 2017 and 2018 were on an ex-post facto or partial ex facto basis. The high percentage of ex-post facto contract awards in high value procurement cases is an ongoing issue. A 2005 memorandum from the Controller had raised concerns on the increase of procurement awards submitted to HCC on an ex-post facto or partial ex facto basis to 23 per cent from just 5 per cent in 2003 and provided guidance for mitigating measures. However, only a modest improvement had been achieved. The ex-post facto contract awards by top five field missions are shown in Table 8:

**Table 8: Ex-post facto contract awards by field missions in 2017 and 2018**

| Missions/Offices | Total contract value of ex-post facto cases (in millions of $) |
|---|---|
| UNSOS | 101 |
| MINUSMA | 32 |
| UNAMA | 12 |
| MONUSCO | 11 |
| UNDOF | 9 |
| Others | 29 |
| **Total** | **194** |

Source: Consolidated ex-post facto reports by former FPLT, DFS
UNDOF, United Nations Disengagement Observer Force

53.     As part of the reforms, the Business Transformation and Accountability Division (BTA) in DMSPC is responsible for monitoring how heads of entities are exercising their delegated authorities and providing assurance to the Secretary-General that delegations are being appropriately managed. However, clear procedures were not yet in place for BTA's monitoring. Recommendation 11 addresses this issue.

BTA needed to expand areas of procurement monitoring

54.     Prior to the reforms, PD was responsible for ensuring compliance with all relevant FRRs on procurement activities. PD monitored procurement compliance through procurement assistance visits to various offices but did not establish procedures to monitor the Secretariat-wide procurement activities based on data analytics using Umoja Business Intelligence. This deterred PD from identifying red flags and potential irregularities and taking appropriate mitigating measures.

55.     OIOS analysis of procurement data across the Secretariat indicated the following cases of potential split contracts:
- A total of 9,939 purchase orders amounting to $37.9 million were potentially split and issued to the same vendors to keep the procurement value within the limit of $10,000 stipulated for low value acquisitions, thus avoiding RFQs. Of these, 1,864 purchase orders totaling $7.9 million were issued to the same vendors on the same date.
- Formal methods of solicitation such as invitations to bid or requests for proposal were required to be used for purchase orders above $40,000. However, for 12 contracts above $40,000 and totaling $910,429, RFQs were used. This included three contracts totaling $166,405 issued by PD;
- Sixty-one contracts and 290 standalone purchase orders totaling $8.7 million were potentially split to keep the procurement value within the limit of $40,000, thus avoiding formal methods of solicitation. Further, 105 of these contracts/purchase orders totaling $2.6 million were issued to the same vendors on the same date. This included two contracts totaling $80,000 established by PD with the same vendor.
- A total of 133 contracts and 106 standalone purchase orders totaling $15.2 million were potentially split to bring the value within the procurement authority of $150,000 delegated to chief procurement officers, avoiding reviews by local committees on contracts. Fifty-four of these contracts/purchase orders totaling $2.9 million were issued to the same vendors on the same date.
- Some of the above-mentioned cases also included splitting of purchase orders by different purchasing groups[15] co-located in the same field mission/office, including cases where the same procurement officer acted in two different purchasing groups.

56.     OIOS also noted the following discrepancies in Umoja:

- For 69 contracts totaling $114.8 million, duplicate records were created altering total NTE amounts in Umoja. As a result, for 18 of these contracts, purchase orders were raised against both the original and the duplicate contract record, exceeding the approved NTE amounts by $743,654.
- Two contracts with total approved NTE of $301,105 were recorded in Umoja as $553.7 million due to currency errors.
- Among contracts valid during the audit period, 142 contracts had no expiration dates in Umoja and at least 34 contracts had abnormal expiry periods ranging from 20 to 200 years.
- A total of 14,243 shopping carts created in Supplier Relationship Module (SRM) between 2013 and 2018 were not approved or rejected and remained in an abandoned state, distorting Umoja records.

57.     Effective 1 January 2019, BTA is responsible to provide support to programme managers in their monitoring, assessment, and reporting of programme performance. At the time of audit, BTA was in the process of establishing procedures to monitor procurement activities relating to utilization of long-term contracts, formal methods of solicitations, minimal use of standalone contracts and ex-post facto cases.

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[15] Purchasing group" comprises of a buyer or group of buyers dealing with certain products or services purchased at office, section, or unit levels.

However, as demonstrated above, there were other areas for potential irregularities in the procurement process that also needed to be monitored. BTA needed to leverage Umoja reporting capabilities and use data analytics to identify them and to ensure compliance and quality assurance related to the procurement function.

> **(11) BTA should, in coordination with the Procurement Division, expand the areas identified for procurement monitoring to include other potential irregularities and implement data analytics to identify and establish accountability for unjustified and/or recurrent use of standalone purchase orders, exceptions to formal methods of solicitation and procurement awards on an ex-post facto or partial ex-facto basis.**
>
> *DMSPC accepted recommendation 11 and stated that BTA would prepare an action plan, in coordination with PD, to implement the recommendation.* Recommendation 11 remains open pending receipt of the action plan.

<u>DOS needed to capture accurate data on procurement milestones for monitoring procurement lead time and managing performance</u>

58.      PD hired a consultant in 2011 to set key performance indicators (KPIs) to measure and manage performance effectively. The consultant recommended 21 KPIs measuring efficiency and effectiveness of the procurement process, vendor management, and client satisfaction. However, the KPIs were not implemented. Although PD captured some performance data in a separate database and spreadsheets, accurate data on procurement lead time, a key measure of procurement efficiency, was often not available because: a) requisitioners and procurement staff across the Secretariat did not capture necessary information in Umoja; b) the SRM did not reflect all the steps of the procurement process; and c) workarounds in Umoja resulted in incomplete or erroneous lead time data. For instance:

- Time of approval of statements of works or launching REOIs to vendors was not captured in SRM;
- Although PD normally created solicitation invitations to vendors in SRM, field missions and other offices often bypassed this step, resulting in no record of when vendors were invited;
- Shopping carts were created or re-created just before the creation of a solicitation instrument or contract/purchase order in SRM altering lead time data;
- Actual signature date of the contract or purchase order were not consistently captured in SRM upon issuance. Contracts or purchase orders were created in SRM later, altering lead time data;
- There were many instances of cancellation of shopping carts, solicitation instruments, contracts and purchase orders in SRM due to error or inaccurate data. This normally required creating new transactions in SRM, which did not reflect the actual procurement timeline; and
- Lead time estimates were further complicated by the frequent one-to-many relationships between shopping carts, solicitation instruments, contracts and purchase orders in SRM.

59.      In the programme performance report for biennium 2016-2017 to the General Assembly, PD indicated its achievement of average lead time of 7.2 weeks (36 business days) from creation of solicitation instrument to award of contract. PD did not have documented data to support the reported achievement.

> **(12) DOS should establish a comprehensive approach to systematically record the information pertaining to its key performance indicators to accurately monitor procurement lead time and measure and manage performance.**
>
> *DOS accepted recommendation 12 and stated that it had been working actively towards establishing a comprehensive performance management framework for the entire supply chain, including*

| *procurement KPIs.* Recommendation 12 remains open pending establishment of the performance management framework including procurement KPIs. |
|---|

DOS needed to monitor the impact of business seminars

60.	General Assembly resolution 69/273 requested the Secretary-General to intensify efforts to promote procurement from developing countries and countries with economies in transition, including through business seminars. Resolution 62/269 also stressed the need for business seminars to be more results-oriented.

61.	During the period under review, 5,105 (out of 6,792) vendors from developing and transitioning countries participated in business seminars. The registration of vendors from developing and transitioning countries in United Nations Global Marketplace, a common procurement portal of the United Nations system of organizations, increased almost five times from 2014 to 2018 (from 16,345 to 77,262) and four times for vendors from least developed countries (from 7,975 to 32,165). However, only 465 vendors (out of 156,000 total registered vendors) from developing and transitioning countries were registered at Level 2, allowing them to be awarded contracts above $500,000 (around 81 per cent of contracts established during the audit period were for NTE amounts over $500,000). The percentage of vendors from developing, transitioning and least developed countries invited to participate in solicitations increased from 40 to 49 per cent of the total invitations from 2014 and 2018. Although developed countries accounted for 21 per cent of total countries from which goods and services were procured, they accounted for 49 per cent of procurement value. Procurement value from developed, developing and least developed countries is shown in Figure 3.

**Figure 3: Secretariat-wide procurement from developed, developing, and least developed countries**
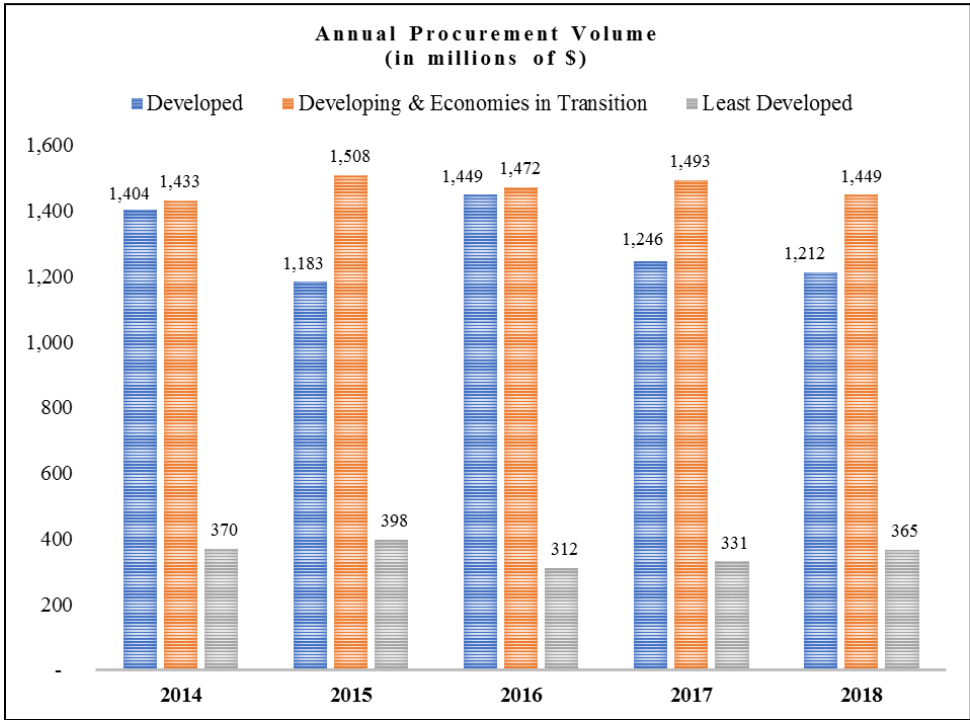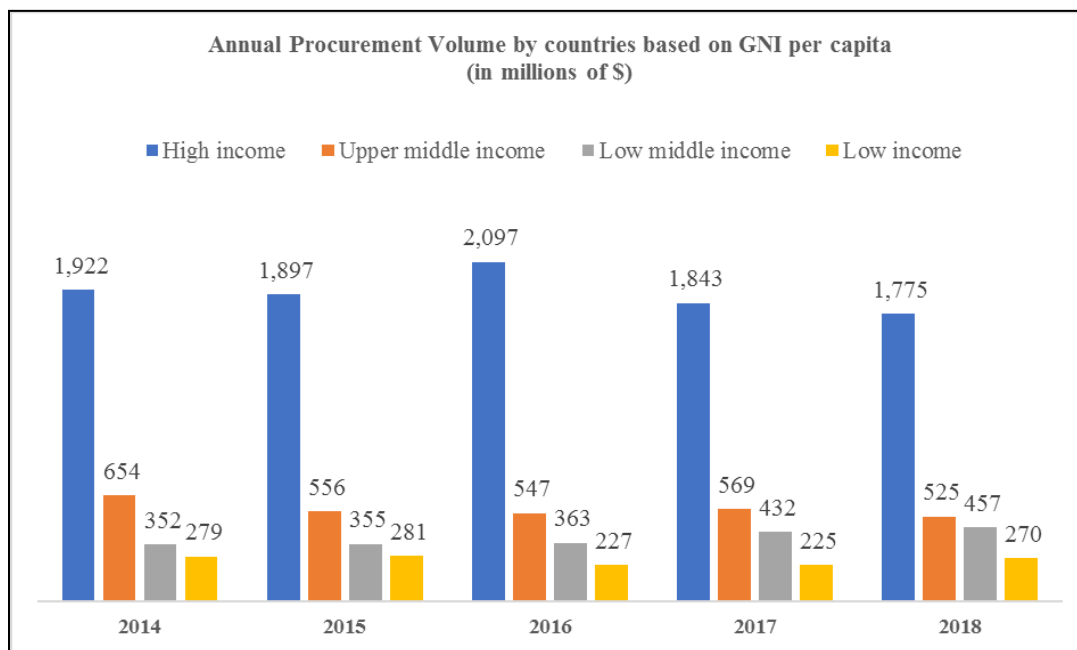
Source: PD business intelligence data

62.	However, some vendors were registered in developing countries that were not their principal place of business operations or the location of the head and/or principal shareholders of the company due to

various reasons, including low tax regimes. OIOS identified at least five such vendors with whom the Secretariat had contracts for protracted periods ranging from 5 to 20 years. During this period, the cumulative procurement value from these five vendors was $4.2 billion. Goods and services procured from them were mainly fuel, food rations and sea charters, that were sourced globally and did not involve economic activities in the countries in which they were registered. DOS advised that it was up to vendors to choose the location for their registration country, as many companies operate on a global scale with supply chains spread across countries and regions including developing countries. However, reports on procurement from developing and transitioning countries based on the place of registration of vendors may not be reflective of the spirit of General Assembly resolutions to encourage vendor participation from these countries in United Nations procurement.

63.      OIOS also noted that in reports on contract awards by the Secretariat, PD categorized countries according to their stage of economic development (developed, developing, transitioning, and least developed) based on the classifications provided in the World Economic Situation and Prospects Report[16], as shown in Figure 4. Other categorizations, such as by income level (high, upper middle, lower middle, and low-income based on gross national income (GNI) per capita present a very different picture of United Nations procurement activities as shown in Figure 4, which indicates a much higher proportion of procurement volume from high income countries than from developed countries.

**Figure 4: Secretariat-wide procurement from countries classified based on GNI per capita**



Source: PD business intelligence data analyzed on the basis of country classifications per the United Nations' 2017 World Economic Situation and Prospects Report

64.      DOS advised that it was not mandated to use income categories to classify countries and a number of General Assembly resolutions referred to reporting procurement data based on development classification. Therefore, OIOS did not make a recommendation to revise the categorization of countries but requests DOS to keep this issue in view.

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[16] Published jointly by the Department of Economic and Social Affairs, United Nations Conference on Trade and Development and the five United Nations Regional Commissions

65.     PD conducted 54 out of 76 business seminars in developing and transitioning countries during the audit period. Thirty-six of the 54 seminars (67 per cent) were in countries that could be also categorized as high income and upper middle-income countries, but PD incurred $105,097 in travel costs because the costs of business seminars held in developing and transitioning countries are borne by the Secretariat. PD also did not put in place a mechanism to monitor the results of such business seminars. Although the award of contract was the outcome of competitive procurement processes, PD did not monitor whether there was an increase in the share of procurement value or an increase in the rate of participation of vendors from countries where business seminars had been conducted. As a result, the impact of business seminars to increase procurement opportunities from developing and transitioning countries could not be assessed.

> **(13) DOS should establish a mechanism to monitor the impact of business seminars and intensify efforts to diversify the vendor base, including through outreach activities.**
>
> *DOS accepted recommendation 13 and stated that it would monitor the outcome of business seminars and develop appropriate outreach programmes.* Recommendation 13 remains open pending receipt of evidence of monitoring the outcomes of business seminars and outreach activities.

DOS needed to implement a fraud risk management programme

66.     The Secretariat's risk register updated in October 2018 identified procurement fraud risks as very high. The Board of Auditors' report of July 2018 identified that PD's approach to preventing and detecting fraud was not commensurate with the level of related risks and recommended that the Division establishes a comprehensive ongoing fraud risk management programme.

67.     PD issued memoranda from time to time reminding its procurement staff of the professional and ethical behaviours expected from them while discharging procurement responsibilities. In June 2018 at United Nations headquarters in New York, PD conducted training on bid rigging to raise fraud awareness among procurement staff. The draft of the revised Procurement Manual includes an anti-fraud framework to help prevent, detect and deter fraud. However, PD did not maintain a Secretariat-wide log of suspected and/or detected procurement fraud cases to analyze fraud schemes and take appropriate risk mitigating measures. OIOS received 37 reports on suspected procurement fraud in 2017 and 2018 that were either investigated or referred to the head of department/office or mission. Also, PD did not conduct any specific procurement fraud-related training in field missions and other offices.

68.     Additionally, PD did not take appropriate action to deal with a vendor that had been suspended due to suspected fraudulent activities. The Special Investigation Unit of a field mission reported in September 2014 and OIOS investigation subsequently substantiated that a vendor was responsible for the theft of 3.3 million litres of fuel valued at $4.7 million over a period of nine months. PD had established a contract with the vendor in June 2014 to supply aviation fuel and related services with an NTE amount of $47.5 million. The vendor was suspended by the Vendor Review Committee in December 2015. Meanwhile, in July 2014, the field mission had requested PD to amend the contract to create additional fuel distribution points. However, while PD was negotiating with the vendor, the field mission bypassed PD and directed the vendor to create the new distribution points without amending the contract. More than two years later, in view of these material changes in requirements, an ex-post facto proposal for contract amendment of $4.5 million was submitted to HCC for recommendation. HCC did not agree with the proposal and recommended that the Assistant Secretary-General of the former Office of the Central Support Services request the field mission to explain the proposed ex-post facto award to a suspended vendor. Noting that the vendor had already provided the additional requirements, PD amended the contract in May 2017 to incorporate a one-time increase of $2.3 million in operations and maintenance fees and a monthly increase of $93,790. These amendments were done within the existing NTE amount and without re-submitting the contract amendments to HCC. OIOS noted that the field mission paid $6.7 million to the

suspended vendor through funds commitments without raising purchase orders in 2016 and 2017. This included reserve fuel of $1.8 million purchased from the suspended vendor just before the end of the contract, although another contract was already in place for the same product with a new vendor. There were reports that the suspended vendor allegedly conducted similar fuel pilferage and overbilling with other government organizations. BTA intends to expand the monitoring of procurement activities as indicated in recommendation 11, which would enable identification of such irregularities and establishing accountability in the future.

69.     DOS stated that the fraud case was appropriately dealt with by suspending the vendor and cutting short its contracts, while not affecting the Mission's operations. However, the vendor was only effectively suspended from participating in future bids as it continued to provide goods and services and receive payments during suspension. This weakened the effectiveness of the United Nations' risk mitigating measures against fraud. PD also did not conduct a review or take action against staff who had contravened established procurement procedures by instructing the vendor to provide additional requirements without a formal contract amendment, ordering reserve fuel from the suspended vendor despite another contract being in place, and making payments to the suspended vendor through funds commitments.

> **(14) DOS should, in consultation with DMSPC: (a) implement a fraud risk management programme to identify, analyze and manage procurement fraud risks; (b) conduct a systematic fraud risk assessment of the procurement function; and (c) maintain a log of suspected and detected fraud cases in order to analyze fraud schemes and design appropriate mitigating measures.**
>
> *DOS accepted recommendation 14 and stated that it would work with DMSPC to establish an appropriate risk management programme.* Recommendation 14 remains open pending receipt of evidence of implementation of an appropriate fraud risk management programme for procurement.

# E. Functioning of the Award Review Board

<u>DMSPC needed to strengthen the functioning of the Award Review Board and its secretariat</u>

70.     Pursuant to General Assembly resolutions 61/246 and 62/269, an ARB was established in 2009 to pilot an independent bid protest system. The HCC secretariat acts as the secretariat of ARB, and the Chair of HCC as the Registrar of ARB. Bid protests considered eligible by the Registrar are transmitted to the ARB for review by a panel of one to three independent experts from a list approved by the Under-Secretary-General for Management (now DMSPC).

71.     OIOS review of TOR for ARB and 11 case files pertaining to submitted bid protests indicated shortcomings that had impeded the effective functioning of ARB as indicated below.

(a) The pilot programme continued for around 10 years

72.     The 2009 pilot of the bid protest system allowed bidders to challenge procurement-related decisions on solicitations issued by PD for more than $300,000. In January 2014, the TOR was updated to include solicitations issued by RPO, Entebbe, and the threshold was lowered to $200,000. The scope of ARB was extended from January 2016 to also include UNOG, UNOV and the United Nations Office at Nairobi. However, the functioning of ARB has continued on a pilot basis without full-scale implementation and broader coverage. Bid protests against solicitations issued by field missions and other offices that accounted for 71 per cent of the total number and 64 per cent of the estimated value of Secretariat-wide solicitations during the audit period remained outside the scope of ARB.

(b) Outdated TOR and unclear procedures for the selection of ARB experts

73.     The latest TOR of ARB expired on 30 June 2015 and had not been renewed. Furthermore, the following shortcomings needed to be addressed in the revised TOR:

74.     The definition of "procurement challenge" was limited to the substantive technical and/or commercial evaluation process and did not include other aspects of procurement such as changes in the scope and/or specifications of requirements after solicitation documents had been issued, or rejection of bids prior to the completion of the procurement exercise. The ARB secretariat applied this restrictive definition to reject bid protests.

- The Registrar had authority to dismiss a case and his/her decision was final and not subject to appeal. This was contrary to the goal of promoting the principles of ethics, integrity, fairness, and transparency in the procurement process espoused in the TOR. In addition, the Registrar had authority to determine the number of panel members ranging from one to three without defined criteria, which allowed for arbitrariness in making the decision.
- PD's website indicated that for procurement challenges to be receivable, unsuccessful bidders had to: (a) request for a debrief from PD within 10 business days of receipt of the regret letter; and (b) file the challenge within 10 business days of the formal debrief meeting. However, the limit of 10 business days to submit the bid protest was not formalized in the TOR. This limit may also be restrictive, and an extension of the time would allow vendors the flexibility to decide on the merit of their procurement challenges following a debrief.

75.     The list of independent experts on the ARB panel had not been updated since February 2011 and there was no record confirming their continued availability. Furthermore, the records on the selection of the original 21 experts between 2009 and 2011 was not adequate to demonstrate the transparency of the selection process. This may impact the perceived impartiality of the ARB experts.

(c) Potential conflict of interest

76.     The HCC Chair is also the Registrar of ARB, which led to situations where the acceptance of a procurement challenge was decided by the same official who had signed the recommendation for contract award to the winning bidder. A bid protest of $9.3 million is an example of such a scenario.  The ARB Secretariat advised that the HCC Chair and Deputy Chair recused themselves from ARB cases involving awards they had recommended; however, this was not enough to mitigate the conflict due to the supervisory relationship between them.  Furthermore, costs to engage the independent ARB experts and pay compensations to unsuccessful bidders whose complaints were upheld, had to be borne from budget resources appropriated to the HCC secretariat. These factors increased the risk of conflict of interest in the functioning of the ARB secretariat.

(d) Functioning of the ARB secretariat

77.     The ARB secretariat did not accept any of the 11 bid protests received during the audit period. A review of the case files indicated that in some cases, the ARB secretariat assumed the role of the Board and communicated to complainants that the Board had considered the bid protest, although there had been no review by ARB.  For example, in some of the bid protests, the Register examined the cases without referring them for review by ARB and communicated his decisions to the bid protestors as the ARB's decisions. Presenting the decision of the secretariat as ARB's decision increased reputational risk to the Organization.

78.     Additionally, the procedures adopted by the secretariat to dismiss a complaint were not clear as the case summaries on files were neither dated nor signed by the preparer or decision maker. In the absence

of documented evidence, it was not possible to ascertain whether the decision to reject a bid protest was arrived at on a consensus basis within the ARB secretariat or taken individually by the Registrar.

> **(15) DMSPC should, in consultation with DOS: (a) fully implement the bid protest system beyond the pilot phase and expand its scope to include solicitations issued by all procurement offices in the Secretariat; (b) review and revise the terms of reference of the Award Review Board and clarify the role of its secretariat; and (c) update the list of independent panel of experts through a transparent and well-documented selection procedure.**
>
> *DMSPC accepted recommendation 15 and stated that it would liaise with DOS for the necessary training of procurement staff and requisitioners on conducting debriefs with unsuccessful bidders prior to expanding the scope of the bid protest systems. DMSPC would also review and revise the TOR of the ARB as appropriate, and review and update the current list of experts while ensuring transparency of the selection process.* Recommendation 15 remains open pending receipt of evidence of implementation of these actions.
>
> **(16) DMSPC should explore the options of segregating the holder of the position of Chair of the Headquarters Committee on Contracts from that of the Registrar of the Award Review Board to avoid potential conflict of interest.**
>
> *DMSPC accepted recommendation 16 and stated that it would explore options for separating the roles of the Chair of HCC from that of the Registrar of ARB.* Recommendation 16 remains open pending receipt of evidence of such action.
>
> **(17) DMSPC should implement procedures to maintain adequate records on the activities of the Award Review Board and its secretariat to ensure completeness of records.**
>
> *DMSPC accepted recommendation 17 and stated that it would review and revise current record keeping procedures to achieve optimal record keeping.* Recommendation 17 remains open pending receipt of evidence of maintenance of adequate records on the activities of the ARB.

# IV.   ACKNOWLEDGEMENT

79.     OIOS wishes to express its appreciation to the management and staff of DOS and DMSPC 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 the strategic management of the procurement function in the United Nations Secretariat

| Rec. no. | Recommendation | Critical[17]/ Important[18] | C/ O[19] | Actions needed to close recommendation | Implementation date[20] |
|---|---|---|---|---|---|
| **DOS** | | | | | |
| 1 | DOS should, in consultation with DMSPC, conduct comprehensive analyses of the current categorization of strategic goods and services to assess its impact on operations of field missions and other offices and as a basis for diversifying procurement responsibilities to procurement hubs. | Important | O | Receipt of analysis of categorization of strategic goods and services. | 31 December 2020 |
| 2 | DOS should refine the strategic goods and services matrix and reinforce it with additional guidelines to avoid confusion and misinterpretation by various offices and field missions. | Important | O | Receipt of updated list of strategic goods and services and related additional guidelines. | 30 June 2020 |
| 3 | DOS should, in consultation with DMSPC, collect baseline data and analyze the workload of procurement offices across the Secretariat after the implementation of management reform and propose a realignment of resources as may be needed. | Important | O | Receipt of analyses of procurement workload and realignment of resources as needed. | 30 June 2021 |
| 4 | DOS should, in consultation with DMSPC, establish a monitoring mechanism over the completion of mandatory training by staff conducting procurement activities in the Secretariat. | Important | O | Notification of the monitoring mechanism established and receipt of evidence of monitoring that all staff engaged in procurement-related activities are fulfilling mandatory training requirements. | 30 June 2020 |
| 5 | DOS should establish procedures to systematically record outcomes of market research to optimize strategic sourcing decisions under the newly adopted category management approach. | Important | O | Receipt of established procedures to systematically record outcomes of market research. | 30 June 2021 |

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[17] 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.

[18] 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.

[19] C = closed, O = open

[20] Date provided by DOS and DMSPC in response to recommendations.

**STATUS OF AUDIT RECOMMENDATIONS**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[17]/ Important[18] | C/ O[19] | Actions needed to close recommendation | Implementation date[20] |
|---|---|---|---|---|---|
| 6 | DOS should analyze and prepare an action plan to address: (a) low utilization rates of systems contracts; (b) methodology for determining the not-to-exceed amounts; and (c) methodology for aggregating procurement demands for better economies of scale. | Important | O | Receipt of an action plan to improve the utilization of system contracts and aggregation of procurement demands. | 30 June 2021 |
| 7 | DOS should review the continuous award of contracts to the same vendors for extended periods (in the absence of limiting market conditions such as product standardization) and analyze and address factors that may impede effective bidding by other vendors to improve international competition. | Important | O | Receipt of analysis of the factors that impede effective bidding by a diverse range of vendors and an action plan to improve international competition. | 30 June 2020 |
| 8 | DOS should review the timing of the assessment of the appropriateness of vendor registration levels to streamline the contract award phase of the procurement process. | Important | O | Receipt of the results of the assessment of vendor registration levels and evidence of streamlining of the contract award phase of the procurement process. | 30 June 2020 |
| 9 | DOS should, in consultation with the High-Level Committee on Management's Procurement Network, explore possibilities to: (a) establish a reporting mechanism on the extent of use of collaborative contracts by constituent United Nations organizations to realize applicable volume discounts; and (b) use a web-based e-commerce solution for direct placing of orders across the United Nations System. | Important | O | Receipt of evidence on actions taken by DOS to improve the use of collaborative contracts. | 30 June 2021 |
| 10 | DOS should develop an action plan to operationalize implementation of an e-tendering system throughout the Secretariat. | Important | O | Receipt of an action plan to implement e-tendering system throughout the Secretariat. | 31 March 2021 |
| 12 | DOS should establish a comprehensive approach to systematically record the information pertaining to its key performance indicators to accurately monitor procurement lead time and measure and manage performance | Important | O | Receipt of the established performance management framework including procurement KPIs. | 31 March 2021 |

# STATUS OF AUDIT RECOMMENDATIONS

## Audit of the strategic management of the procurement function in the United Nations Secretariat

| Rec. no. | Recommendation | Critical[17]/ Important[18] | C/ O[19] | Actions needed to close recommendation | Implementation date[20] |
|---|---|---|---|---|---|
| 13 | DOS should establish a mechanism to monitor the impact of business seminars and intensify efforts to diversify the vendor base, including through outreach activities. | Important | O | Receipt of evidence of monitoring the outcomes of business seminars and outreach activities. | 31 December 2020 |
| 14 | DOS should, in consultation with DMSPC: (a) implement a fraud risk management programme to identify, analyze and manage procurement fraud risks; (b) conduct a systematic fraud risk assessment of the procurement function; and (c) maintain a log of suspected and detected fraud cases in order to analyze fraud schemes and design appropriate mitigating measures. | Critical | O | Receipt of evidence of implementation of the fraud risk management programme for procurement. | 31 March 2021 |
| **DMSPC** | | | | | |
| 11 | BTA should, in coordination with the Procurement Division, expand the areas identified for procurement monitoring to include other potential irregularities and implement data analytics to identify and establish accountability for unjustified and/or recurrent use of standalone purchase orders, exceptions to formal methods of solicitation, and procurement awards on an ex-post facto or partial ex-facto basis. | Important | O | Receipt of an action plan to expand the areas for procurement monitoring. | 31 December 2020 |
| 15 | DMSPC should, in consultation with DOS: (a) fully implement the bid protest system beyond the pilot phase and expand its scope to include solicitations issued by all procurement offices in the Secretariat; (b) review and revise the terms of reference of the Award Review Board and clarify the role of its secretariat; and (c) update the list of independent panel of experts through a transparent and well-documented selection procedure. | Important | O | Receipt of evidence of actions taken to expand the scope of bid protest system; update the TOR of ARB and update the list of experts on the ARB. | 30 June 2020 |
| 16 | DMSPC should explore the options of segregating the holder of the position of Chair of the Headquarters Committee on Contracts from that of | Important | O | Receipt of evidence of action taken to separate the roles of the Chair of HCC from that of the Registrar of ARB. | 30 June 2020 |

**STATUS OF AUDIT RECOMMENDATIONS**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[17]/ Important[18] | C/ O[19] | Actions needed to close recommendation | Implementation date[20] |
|---|---|---|---|---|---|
| | the Registrar of the Award Review Board to avoid potential conflict of interest. | | | | |
| 17 | DMSPC should implement procedures to maintain adequate records on the activities of the Award Review Board and its secretariat to ensure completeness of records. | Important | O | Receipt of evidence of maintenance of adequate records on the activities of the ARB. | 30 June 2020 |

# APPENDIX I


# Management Response

# United Nations     Nations Unies

INTEROFFICE MEMORANDUM     MEMORANDUM INTERIEUR

Immediate

| | |
|---|---|
| DATE: | **NOV 1 1 2019** |
| REFERENCE: | DOS-2019-07472 |

TO:  Ms. Muriette Lawrence-Hume, Chief
A:  New York Audit Service
Internal Audit Division
Office of Internal Oversight Services

THROUGH:
S/C DE:

FROM:  Atul Khare, Under-Secretary-General
DE:    for Operational Support

SUBJECT: **Draft report on an audit of the strategic management of the procurement function**
OBJET:   **in the United Nations Secretariat (Assignment No. AH2018/513/01)**

1.     I refer to your memorandum dated 6 September 2019 regarding the draft report on the above-mentioned audit. Please find attached comments from the Department of Operational Support (Appendix I).

2.     Thank you for the opportunity to provide comments on the draft report. We stand ready to provide any further information that you may require.

CC:  Cynthia Avena-Castillo

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[21]/ Important[22] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| **OSCM, DOS** | | | | | | |
| 1 | OSCM should, in consultation with DMSPC, conduct comprehensive analyses of the current categorization of strategic goods and services to assess its impact on operations of field missions and other offices and as a basis for diversifying procurement responsibilities to procurement hubs. | Important | Yes | Director, PD | Fourth quarter of 2020 | The Administration will conduct a comprehensive analysis of the current categorization of strategic goods and services. Additional comments by the Department of Operational Support (DOS) are reflected in paragraph 19 of the draft report. |
| 2 | OSCM should refine the strategic goods and services matrix and reinforce it with additional guidelines to avoid confusion and misinterpretation by various offices and field missions. | Important | Yes | Director, PD | Second quarter of 2020 | DOS comments are reflected in the report. |
| 3 | DOS should, in consultation with DMSPC, collect baseline data and analyze the workload of procurement offices across the Secretariat after the implementation of management reform and propose a realignment of resources as may be needed. | Important | Yes | Director PD & Chief, Enabling and Outreach Service | Second quarter of 2021 | The Administration will conduct the analysis of the resourcing of procurement offices across the United Nations Secretariat once the categorization of goods and services is completed. |
| 4 | DOS should, in consultation with DMSPC, establish a monitoring mechanism over the completion of mandatory training by procurement staff in the Secretariat. | Important | Yes | OSCM | Second quarter of 2020 | DOS will monitor completion of the mandatory training courses while BTA/DMSPC will perform the second line of global monitoring. |

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[21] 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.

[22] 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.

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[21]/ Important [22] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| 5 | OSCM should establish procedures to systematically record outcomes of market research to optimize strategic sourcing decisions under the newly adopted category management approach. | Important | Yes | Director, PD | Second quarter of 2021 | DOS' comments are reflected in the report. |
| 6 | OSCM should analyze and prepare an action plan to address: (a) low utilization rates of systems contracts; (b) methodology for determining the not-to-exceed amount; and (c) methodology for aggregating procurement demands for better economies of scale. | Important | Yes | Director, PD | Second quarter of 2021 | DOS' comments are reflected in the report. |
| 7 | OSCM should review the continuous award of contracts to the same vendors for extended periods (in the absence of limiting market conditions such as product standardization) and analyze and address factors that may impede effective bidding by other vendors to improve international competition. | Important | Yes | Director, PD | Second quarter of 2020 | DOS will conduct an analysis of goods and services for which standardization and other limiting market factors do not exist and take appropriate action. |
| 8 | OSCM should review the timing of the assessment of the appropriateness of vendor registration levels to streamline the contract award phase of the procurement process. | Important | Yes | Director PD & Chief, Enabling and Outreach Service | Second quarter of 2020 | DOS will carry out an assessment of the vendor registration levels and take action to streamline its procurement processes. |
| 9 | OSCM should, in consultation with the High-Level Committee on Management's Procurement Network, explore possibilities to: (a) establish a reporting mechanism on the extent of use of collaborative contracts by constituent United Nations organizations to realize | Important | Yes | Chief, Enabling and Outreach Service | Second quarter of 2021 | The Administration concurs, in principle, with the recommendation and will address it with the members of the High-Level Committee on Management - Procurement Network to obtain relevant information and buy-in from the other United Nations organizations. |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[21]/ Important [22] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | applicable volume discounts; and (b) use a web-based e-commerce solution for direct placing of orders across the United Nations System. | | | | | Collaboration with these United Nations entities across the range of supply chain solutions is one of the key strategic objectives of the Office of Supply Chain Management. The successful implementation of the recommendation, is therefore, subject to cooperation from the United Nations entities. |
| 10 | OSCM should develop an action plan to operationalize implementation of an e-tendering system throughout the Secretariat. | Important | Yes | Director, PD & Chief, Umoja Coordination Service | First quarter of 2021 | DOS' comments are reflected in the report. |
| 12 | OSCM should establish a comprehensive approach to systematically record the information pertaining to its key performance indicators to accurately monitor procurement lead time and measure and manage performance. | Important | Yes | Chief, Enabling and Outreach Service | First quarter of 2021 | DOS' comments are reflected in the report. |
| 13 | OSCM should establish a mechanism to monitor the impact of business seminars and intensify efforts through outreach activities to diversify the vendor base. | Important | Yes | Chief, Enabling and Outreach Service | Fourth quarter of 2020 | DOS will monitor the outcome of business seminars and develop appropriate outreach programs. |
| 14 | OSCM should, in consultation with DMSPC: (a) implement a fraud risk management programme to identify, analyze and manage procurement fraud risks; (b) conduct a systematic fraud risk assessment of the procurement function; and (c) maintain a log of suspected and detected fraud cases in order to analyze fraud schemes and design appropriate mitigating measures. | Critical | Yes | Director, PD | First quarter of 2021 | DOS' comments are reflected in the report. |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[21]/ Important[22] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| **DMSPC** | | | | | | |
| 11 | BTA should, in coordination with the Procurement Division, expand the areas identified for procurement monitoring to include other potential irregularities and implement data analytics to identify and establish accountability for unjustified and/or recurrent use of standalone purchase orders, exceptions to formal methods of solicitation, and procurement awards on an ex-post facto or partial ex-facto basis. | Important | | | | |
| 15 | DMSPC should, in consultation with DOS: (a) fully implement the bid protest system beyond the pilot phase and expand its scope to include solicitations issued by all procurement offices in the Secretariat; (b) review and revise the terms of reference of the Award Review Board and clarify the role of its secretariat; and (c) update the list of independent panel of experts through a transparent and well-documented selection procedure. | Important | | | | |
| 16 | DMSPC should explore the options of segregating the holder of the position of Chair of the Headquarters Committee on Contracts from that of the Registrar of the Award Review Board to avoid potential conflict of interest. | Important | | | | |
| 17 | DMSPC should implement procedures to maintain adequate records on the activities of the Award Review Board and | Important | | | | |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[21]/ Important[22] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | its secretariat to ensure completeness of records. | | | | | |

# United Nations ⊕ Nations Unies

TO: Ms. Muriette Lawrence-Hume, Chief
A: New York Audit Service, Internal Audit Division
Office of Internal Oversight Services

DATE: 9 October 2019

THROUGH: Olga de la Piedra, Director          *O de la Piedra*
S/C DE: Office of the Under-Secretary-General
Department of Management Strategy, Policy and Compliance

FROM: Mario Baez, Chief, Accountability Service
DE: Business Transformation and Accountability Division
Department of Management Strategy, Policy and Compliance

SUBJECT: **Draft report on an audit of the strategic management of the procurement function**
OBJET: **in the United Nations Secretariat (AH2018/513/01)**

1.    We refer to your memorandum dated 6 September 2019 regarding the above-mentioned draft report and provide you with the comments from the Department of Management Strategy, Policy and Compliance (DMSPC) in the attached Appendix I.

2.    Thank you for giving us the opportunity to provide comments on the draft audit report.

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| **OSCM, DOS** | | | | | | |
| 1 | OSCM should, in consultation with DMSPC, conduct comprehensive analyses of the current categorization of strategic goods and services to assess its impact on operations of field missions and other offices and as a basis for diversifying procurement responsibilities to procurement hubs. | Important | | | | |
| 2 | OSCM should refine the strategic goods and services matrix and reinforce it with additional guidelines to avoid confusion and misinterpretation by various offices and field missions. | Important | | | | |
| 3 | DOS should, in consultation with DMSPC, collect baseline data and analyze the workload of procurement offices across the Secretariat after the implementation of management reform and propose a realignment of resources as may be needed. | Important | | | | |
| 5 | OSCM should establish procedures to systematically record outcomes of market research to optimize strategic sourcing decisions under the newly adopted category management approach. | Important | | | | |

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[23] 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.

[24] 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.

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| 6 | OSCM should analyze and prepare an action plan to address: (a) low utilization rates of systems contracts; (b) methodology for determining the not-to-exceed amount; and (c) methodology for aggregating procurement demands for better economies of scale. | Important | | | | |
| 7 | OSCM should review the continuous award of contracts to the same vendors for extended periods (in the absence of limiting market conditions such as product standardization) and analyze and address factors that may impede effective bidding by other vendors to improve international competition. | Important | | | | |
| 8 | OSCM should review the timing of the assessment of the appropriateness of vendor registration levels to ensure that the results do not adversely impact the procurement process. | Important | | | | |
| 9 | OSCM should, in consultation with the High-Level Committee on Management's Procurement Network, explore possibilities to: (a) establish a reporting mechanism on the extent of use of collaborative contracts by constituent United Nations organizations to realize applicable volume discounts; and (b) use a web-based e-commerce solution for direct placing of orders across the United Nations System. | Important | | | | |

## Management Response

### Audit of the strategic management of the procurement function in the United Nations Secretariat

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| 10 | OSCM should develop an action plan to operationalize implementation of an e-tendering system throughout the Secretariat. | Important | | | | |
| 12 | OSCM should establish a comprehensive approach to systematically record the information pertaining to its key performance indicators to accurately monitor procurement lead time and measure and manage performance. | Important | | | | |
| 13 | OSCM should establish a mechanism to monitor the impact of business seminars and intensify efforts to increase business opportunities with the United Nations from vendors in countries that are not categorized as high income. | Important | | | | |
| 14 | OSCM should, in consultation with DMSPC: (a) implement a fraud risk management programme to identify, analyze and manage procurement fraud risks; (b) conduct a systematic fraud risk assessment of the procurement function; and (c) maintain a log of suspected and detected fraud cases in order to analyze fraud schemes and design appropriate mitigating measures. | Critical | | | | DMSPC fully supports this recommendation and will provide ERM policy guidance and support to OSCM as needed. |
| **DMSPC** | | | | | | |
| 4 | DMSPC should, in consultation with DOS, establish a monitoring mechanism over the completion of | Important | No, unless revised as explained in the comments. | | | As agreed with DOS, the recommendation should be addressed to DOS as the owner of |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | mandatory training by procurement staff in the Secretariat. | | | | | the Procurement Training Campus (PTC) online training platform and as per their responsibility to undertake the first line of monitoring role. The Business Transformation` and Accountability Division (BTA) of DMSPC will perform the second line of global monitoring as per its function. It needs to be clarified that the first line of monitoring is the role of each entity (not only DOS). It needs be noted that some entities have enhanced delegation to allow non-procurement staff to conduct procurement related activities. Such staff are also required to fulfil the mandatory training requirements as recently decided by Under-Secretary-General's of DOS and DMSPC. These entities would also need access to PTC to monitor the completion of their staff's mandatory training requirements.

This recommendation should therefore read as: "DOS should, in consultation with DMSPC, establish a monitoring mechanism over the completion of mandatory procurement training in the |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | | | | | | Secretariat, to support self-monitoring by entities that exercise the delegation of authority in procurement as well as for global monitoring by BTA". |
| 11 | BTA should, in coordination with the Procurement Division, expand the areas identified for procurement monitoring to include other potential irregularities and implement data analytics to identify and establish accountability for unjustified and/or recurrent use of standalone purchase orders, exceptions to formal methods of solicitation, and procurement awards on an ex-post facto or partial ex-facto basis. | Important | Yes | Director, BTA/DMSPC | 31-Dec-20 | BTA, in coordination with Procurement Division, intends to prepare the action plan requested by OIOS to close the recommendation during 2020. |
| 15 | DMSPC should, in consultation with DOS: (a) fully implement the bid protest system beyond the pilot phase and expand its scope to include solicitations issued by all procurement offices in the Secretariat; (b) review and revise the terms of reference of the Award Review Board and clarify the role of its secretariat; and (c) update the list of independent panel of experts through a transparent and well-documented selection procedure. | Important | Yes | Change Manager, OUSG/DMSPC | 30 June 2020 | a) The expansion of the Award Review Board's (ARB) scope to all procurement offices in the Secretariat is subject to the training of procurement staff and requisitioners on conducting debriefs with the unsuccessful bidders. DMSPC will liaise with DOS on the resource requirements for such training and a feasible training schedule. (b) DMSPC will review the current terms of references of the ARB, including the role of its secretariat, and revise them as appropriate. |

**Management Response**

**Audit of the strategic management of the procurement function in the United Nations Secretariat**

| Rec. no. | Recommendation | Critical[23]/ Important[24] | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|---|---|---|---|---|---|---|
| | | | | | | (c) DMSPC will review the current list of experts and update it as appropriate, ensuring transparency of the selection process. |
| 16 | DMSPC should explore the options of segregating the holder of the position of Chair of the Headquarters Committee on Contracts from that of the Registrar of the Award Review Board to avoid potential conflict of interest. | Important | Yes | Change Manager, OUSG/DMSPC | 30 June 2020 | DMSPC will explore the options for separating the roles of the Chair of the Headquarters Committee on Contracts from that of the Registrar of the Award Review Board. |
| 17 | DMSPC should implement procedures to maintain adequate records on the activities of the Award Review Board and its secretariat to ensure completeness of records. | Important | Yes | Change Manager, OUSG/DMSPC | 30 June 2020 | DMSPC will review the current record keeping procedures and revise them with aim to achieve optimal record keeping. |