



## INTERNAL AUDIT DIVISION

### REPORT 2014/083

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Audit of procurement and contract management in the Economic Commission for Africa

Overall results relating to efficient and effective procurement and management of contracts in the Economic Commission for Africa were initially assessed as unsatisfactory. Implementation of one critical and three important recommendations remains in progress.

**FINAL OVERALL RATING: UNSATISFACTORY**

2 September 2014  
Assignment No. AN2013/710/01

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# AUDIT REPORT

## Audit of procurement and contract management in the Economic Commission for Africa

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management in the Economic Commission for Africa (ECA).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The Division of Administration (DoA) in ECA provided programme support to nine substantive divisions and was responsible for procurement services. Within the DoA, the Supply Chain Management Section (SCMS) performed procurement services. With the reporting line to the Director of Administration, the Chief at the P-5 level led SCMS and also performed the Chief Procurement Officer role. The Chief of SCMS was responsible for overall planning, development, administration, management and delivery of all activities of the Section. Two professionals at the P-4 and P-2 levels and ten local administrative staff assisted the Chief of SCMS in the discharge of his responsibilities.
4. In the biennium 2012-2013, the ECA overall regular budget appropriations for procurement activities totaled \$27.1 million, or 17.3 per cent of its \$156.2 million biennial programme budget for the period. There were no procurement activities funded from the extrabudgetary resources. Table 1 summarizes the ECA 2012-2013 procurement plan.

**Table 1: ECA Procurement Plan for the Biennium 2012-2013 (in United States dollars)**

<b>ECA procurement</b>	<b>Total</b>
Goods	12,803,157
Services	13,271,282
Goods/services	978,600
<b>Total</b>	<b>27,053,039</b>

Source: ECA

5. Comments provided by ECA are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of ECA governance, risk management and control processes in providing reasonable assurance regarding **efficient and effective procurement and management of contracts in ECA**.
7. The audit was included in the 2013 OIOS risk-based work plan due to the operational and financial risks relating to procurement and management of contracts.

8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide procurement and contract management activities; (ii) are implemented effectively; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key control was assessed for the control objectives shown in Table 2.

10. OIOS conducted this audit from 23 September 2013 to 29 January 2014. The audit covered the period from 1 January 2012 to 31 December 2013. OIOS reviewed procurement activities of 12 contracts, including seven major construction contracts valued at \$23.5 million.

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

### III. AUDIT RESULTS

12. The ECA governance, risk management, and control processes examined were **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding **efficient and effective procurement and management of contracts in ECA**. OIOS made five recommendations to address issues identified in the audit. The overall results of the audit showed that, although ECA had instituted controls in procuring and managing contracts, some of the controls relating to managing major construction contracts were weak. In particular, governance and oversight mechanisms for construction contracts lacked clarity on the roles and responsibilities of key stakeholders with regard to planning, design and delivery, and management of the projects. As a result, there were substantial delays in actual execution and completion of contracts. Estimated cost overruns as of 31 December 2013, for four of the seven major construction contracts reviewed, totaled \$582,179. ECA needed to establish a distinct contracts management function as the monitoring of execution of contracts was weak.

13. In the area of procurement of services, there was a need to improve timeliness of procuring essential services such as cleaning and janitorial services to ensure that vendors provided these services against valid contracts. Based on the organizational restructuring of the Division of Administration, adequate segregation of duties between the procurement and requisitioning functions was in place.

14. The initial overall rating was based on the assessment of the key control presented in Table 2 below. The final overall rating is **unsatisfactory** as implementation of one critical and three important recommendations remains in progress.

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<sup>1</sup> A rating of “**unsatisfactory**” means that one or more critical and/or pervasive important deficiencies exist 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.

**Table 2: Assessment of the key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficient and effective procurement and management of contracts in ECA	Regulatory framework	Unsatisfactory	Partially satisfactory	Unsatisfactory	Unsatisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

### **Regulatory framework**

Weak controls over the management of major construction contracts led to delays and cost overruns

15. The United Nations Procurement Manual required strategic planning, contracts management and fiscal accountability as essential components of managing major construction contracts in order to obtain best value for money.

16. As of 31 December 2013, ECA had 21 ongoing major construction contracts totaling \$28.5 million. OIOS reviewed the status of 12 of these contracts to assess how well they were managed and whether they were delivered on schedule and within budget. In general, standard contracts management controls were either weak or non-existent as described in paragraph 18 below, resulting in poor contract performance and costly delays in ECA. A summary of the seven largest construction contracts, valued at \$23.5 million, representing 82 per cent of the total construction contracts portfolio, together with their status as at 31 December 2013, is provided in Table 3.

**Table 3: Performance status of the largest construction contracts as at 31 December 2013**

No	Construction contracts	Original Substantial Completion Date	Actual Completion Date or Contract Status as at 31 December 2013	Costs (in United States dollars)		
				Approved Budget	Estimated Contract Costs as at 31 December 2013	Estimated Cost Overruns as at 31 December 2013
1	New Office Facility and ancillary projects	28 Feb. 2012 (for building only)	Delayed	15,333,244	12,400,000	n/a
2	PACT II Project	11 July 2013	Delayed	4,727,280	4,727,280	-
3	Extension of North Car Park	30 May 2013	Delayed	2,500,000*	2,442,453	n/a
4	Extension of generator house & 910 KVA generator set	Aug. 2012	March 2013 (completed with delays)	298,000	308,420	<b>10,420</b>
5	Façade Renovation – Old ECA Office Building	15 Nov. 2011	7 January 2012 (completed with delays)	78,000	84,366	<b>6,366</b>
6	United Nations Conference Center Kitchen Renovation	28 Feb. 2014 (for Phase I only)	In-progress	142,000	449,413	<b>307,413</b>
7	Weather Proofing – United Nations Conference Center	23 Sept. 2012	5 January 2013 (completed with delays)	470,000	727,980	<b>257,980</b>
<b>Net Total</b>				<b>23,548,524</b>	<b>21,139,912</b>	<b>582,179</b>

Source: ECA      \*Excluding 10 per cent contingency reserve

17. The Facilities Management Section (FMS) in ECA was the main requisitioning office for six of the seven construction contracts, while the Safety and Security Section was the requisitioning office of the PACT II project. FMS had co-planned the new office facility contract in conjunction with the Overseas Property Management Unit and the Assistant Secretary-General for Central Support Services at United Nations Headquarters. However, FMS had been the main stakeholder responsible for managing all aspects of planning, designing, technical evaluation of the solicited bids, and overall execution of construction contracts. The other ECA internal stakeholders, such as the procurement and finance officials, safety and security staff, and ECA senior staff in administration, as well as the contracts' external stakeholders comprising the contractor, subcontractors, consultants, and civil works government-approving authorities had not adequately been involved in the planning, management, and decision-making processes to effectively manage the risks that impeded delivery of contracts. As a result, there were substantial delays in actual execution and completion of construction contracts. Estimated cost overruns related to the contract delays totaled \$582,179 as of 31 December 2013, for four of the seven contracts analyzed in Table 3. Although the North Car Park Extension contract was delayed more than seven months, ECA reported that it would realize an estimated “cost-savings” of \$57,547 from the original contract due to renegotiation of the scope of the contract with the contractor. However, in OIOS opinion, a reduced scope in the project would not equate to “cost-savings”.

18. Key factors associated with delays and cost overruns in the construction contracts were as follows:

- Except for the new office facility contract, which had established a formal steering committee and full-time contract management team, ECA did not establish a proper contract management structure comprising all key stakeholders for the construction contracts. Therefore, roles and responsibilities were not assigned to all stakeholders for each contract to ensure proper accountability for governance and oversight of the entire contract lifecycle from the conceptualization, planning, designing and procurement stages to the construction and delivery stages.
- ECA had no system in place to assess the risks related to planning and executing construction contracts, resulting in an inadequate risk management strategy with appropriate mitigating controls to execute contracts on time and within budget to maximize best value for money.
- As the main requisitioner of the construction contracts, FMS did not effectively manage and oversee the projects with a properly qualified project management team. Responsibility for project management was vested in the Chief of FMS whose job description called for a civil engineer at the P-5 level with at least ten years of experience to oversee and manage the Section and its related activities. However, the P-5 post was moved to the Office of the DoA in 2008. An Officer-in-Charge (OIC) at the P-4 level, and afterwards an OIC at the P-3 level from within FMS, temporarily carried out the Chief of FMS functions from 2008 to February 2012. The P-3-level OIC was replaced by another temporary OIC (with an electrical engineering background) at the P-4 level from February 2012 until the recruitment process for a new Chief of FMS at the P-5 level was completed in October 2013. The high turnover in the senior-level post of the Chief of FMS from 2008 to 2013, combined with the appointment of temporary, less qualified P-4 and P-3 OICs to carry out the Chief's functions, significantly disadvantaged the FMS internal leadership capacity with inadequate civil engineering expertise and experience necessary for effective planning, design, oversight, supervision, and implementation of the large-scale construction contracts ongoing in ECA.
- There was general lack of proper monitoring and oversight of the construction contracts by ECA senior management. According to the DoA, with the exception of the new office facility project, when requested for updates on the other contracts, the responsible FMS contract managers did not adequately report on the delays/deviations and other issues related to the construction contracts to the ECA senior administration in the weekly section chiefs meetings.
- Contract managers charged with the day-to-day supervision of the contracts had not been adequately trained with the requisite expertise to manage large-scale construction contracts.

**(1) ECA should establish a management framework for construction contracts involving all key stakeholders and assign them clear roles and responsibilities to efficiently and effectively manage contracts, including developing a risk management plan that identifies risks and related actions to mitigate them and ensures accountability for the completion of the construction contracts to avoid recurrence of cost overruns and delays.**

*ECA accepted recommendation 1 and stated that a holistic management framework for construction projects would be developed and established. In the meantime, project specific governance and management structures were developed for bigger capital projects. Recommendation 1 remains*

open pending receipt of a copy of the management framework developed to manage construction contracts.

**(2) ECA should establish a policy to ensure that contract managers have the required background, experience and training in the management of construction contracts.**

*ECA accepted recommendation 2 and stated that steps were taken to initiate the process through the assessment of relevant competencies during the recruitment process of vacant positions in FMS. Recommendation 2 remains open pending receipt of evidence of the policy established to ensure that contract managers have the required background, experience and training to manage construction contracts.*

The Economic Commission for Africa needed to establish a distinct contracts management function

19. The United Nations Procurement Manual required compliance to obligations agreed to by each of the parties in executed contracts. Therefore, a distinct contracts management function was essential to monitor, on a regular basis, compliance by the parties of their legal obligations provided by the contracts in order to mitigate any potential liability arising from breach of the contractual terms.

20. As of 30 September 2013, ECA had 78 ongoing contracts under management with a total value of \$21.3 million. These included a mix of service contracts, construction contracts, maintenance contracts, various lease agreements and other contracts. Despite the large number of contracts under management and the various risks associated with contract execution, a contracts management function had not been established. As a result, two contracts had expired but services were still being rendered without a valid contract as of 30 September 2013, and five had exceeded the contractual period and amended *ex-post-facto*.

21. Requisitioners were expected to monitor contract performance and deadlines. However, although monitoring of the contract period was a fairly simple function, contractual terms related to construction contracts were far more complex and challenging. For example, in the construction contracts, certain provisions were subject to interpretation, such as liabilities for change orders, warranties, and calculation of liquidated damages, etc., which required legal advice and specialized knowledge to interpret the legal obligations of each of the parties. In addition, requisitioners had limited staffing capacity to assign the contracts management function to monitor the long-term contractual obligations internally on an ongoing basis, therefore, staff members assigned with these responsibilities had to assume them in addition to their regular duties. Consequently, there was no monitoring of reporting on compliance by the parties with the agreed terms of contracts. As a result, there were significant delays and cost overruns in the execution of seven construction contracts, as summarized in Table 3 above.

**(3) ECA should establish a distinct contracts management function, independent of the procurement function, and designate a contracts manager to monitor expiration of contracts and to ensure: (i) compliance with legal obligations of the contracting parties for ECA-awarded contracts; and (ii) reporting on the timely fulfillment of such obligations by all parties to the contract agreements.**

*ECA accepted recommendation 3 and provided evidence that the Director of Administration had requested the creation of the Contracts Management Officer position in the Office of the Director, Division of Administration based on newly approved organizational structure and functions. Based on the action taken by ECA, recommendation 3 has been closed.*



The Economic Commission for Africa did not have a valid contract for essential cleaning and janitorial services

22. United Nations Financial Rules required that a financial commitment of the Organization be based on, *inter alia*, a formal contract, agreement, purchase order, or other form of undertaking, or on a liability recognized by the United Nations. An ECA contract for cleaning and janitorial services for \$108,000 was awarded to a local vendor on 1 April 2010 with an expiring date of 31 March 2011 under terms of a “one-plus-two” contractual arrangement, which initially contracted the vendor for one year with the option of extending the contract for two additional years. On this basis, the contract was extended to 31 March 2012 and 31 March 2013, respectively, upon expiration of each of the subsequent one-year terms. In July 2012, FMS, the responsible requisitioner, made a request to the Procurement Unit within SCMS to begin the procurement process for a cleaning company in anticipation of the expiring three-year term limit for the existing vendor. Five bidders responded to the request for proposal issued by the Procurement Unit and their bids were forwarded to FMS to conduct the completed technical evaluations in March 2013. However, according to the Chief Procurement Officer, FMS never submitted the technical evaluations for further procurement action; therefore, final selection of a vendor was not completed.

23. To avoid service disruption, FMS arranged for the existing contract be extended to the incumbent service provider for an additional four months from 31 March to 31 July 2013. However, the contract was not renewed further after the extension expired at the end of July 2013 and the service provider continued to provide cleaning services without a valid contract up to the time of the end of the field work of the audit. The failure of FMS to submit the technical evaluation of bids for the cleaning and janitorial services precluded the procurement process from concluding a new contract award on time. As a result, these essential services had to be continued from the existing vendor under an expired contract.

**(4) ECA should establish a mechanism to ensure that requisitioning offices provide timely inputs to the procurement process to ensure that a valid contract is established at all times for essential cleaning and janitorial services in order to avoid any disruption in these services.**

*ECA accepted recommendation 4 and stated that the mechanism was under development. Recommendation 4 remains open pending receipt of evidence that the mechanism to ensure requisitioning offices comply with the procurement requirements was developed.*

The Chairperson of the Local Committee on Contracts did not have a term limit

24. The administrative instruction on the review committees on contracts stated that except for the Chair and Deputy Chair of the the Headquarters Committee on Contracts, members shall serve the review committees for a maximum term of three years, renewable once, for a maximum of six years.

25. At the time of the audit, the LCC membership in ECA comprised a chairperson, deputy chairperson and six members. The members served the committee, on a rotational basis, in the discharge of its functions to examine and render advice on procurement cases in accordance with United Nations Financial Rules.

26. LCC members were initially appointed for three-year term limits, but could have their terms extended. In its LCC membership appointment memorandum, ECA appointed each member designating him or her as chairperson, deputy chairperson or member. The chairperson, however, did not have an assigned term limit and the LCC terms of reference were silent on how chairpersons should eventually be replaced. A review of the LCC composition confirmed that the Chairperson, appointed in 2009, was still

presiding over the committee as of the date of the audit in 2013. The Terms of Reference and Rules of Procedures of the LCC in the ECA Procurement Manual also did not stipulate term limits for the LCC chairperson. Consequently, there was no mechanism to enable a periodic review of the continued suitability of the Chairperson's assignment by ECA.

**(5) ECA should stipulate a mandatory term limit for the chairperson of the Local Committee on Contracts to enable periodic review of the continued suitability of the Chairperson's assignment.**

*ECA accepted recommendation 5 and stated that the recommendation was implemented. However, the evidence provided only referred to the nomination of staff members to serve on the LCC due to the ending three-year term limits of the current tenured members. It did not stipulate a mandatory term limit for the LCC Chairperson. Therefore, recommendation 5 remains open pending receipt of a copy of the revised LCC terms of reference with the mandatory term limit stipulation for the chairperson.*

Controls over the segregation of duties between the requisitioning and procurement functions were adequate

27. The United Nations Procurement Manual required the segregation of duties between requisitioning and procuring entities. In addition, adequate segregation of duties needed to be supported by the organization structure in order to achieve an effective system of checks and balances.

28. Based on its review of the various organizational arrangements during 2012-2013 for discharging procurement functions in ECA, OIOS noted that the former General Service Section oversaw both the Procurement Unit and the Travel Unit and had concurrent functional responsibility for both procurement/contracting and requisitioning functions for travel management services until April 2013. Although a subsequent reorganization of General Service Section established a separate Supply Chain Management Section, SCMS continued to oversee the Travel Unit since it was without a chief. According to ECA, this arrangement was temporary until a chief was appointed to the Travel Unit. ECA also stated that, in the interim, in addition to supervision from SCMS, an OIC in the Travel Unit had also been designated as part of the transitional arrangements. Based on the later organizational restructuring of the Division of Administration, which re-directed the reporting line of the Travel Unit from the Chief, SCMS directly to the Director of Administration, OIOS concluded that controls over the segregation of duties between the procurement and requisitioning functions were adequate.

#### **IV. ACKNOWLEDGEMENT**

29. OIOS wishes to express its appreciation to the Management and staff of the Economic Commission for Africa for the assistance and cooperation extended to the auditors during this assignment.

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

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of management of procurement and contract management in the  
Economic Commission for Africa**

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	ECA should establish a management framework for construction contracts involving all key stakeholders and assign them clear roles and responsibilities to efficiently and effectively manage contracts, including developing a risk management plan that identifies risks and related actions to mitigate them and ensures accountability for the completion of the construction contracts to avoid recurrence of cost overruns and delays	Critical	O	Receipt of a copy of the management framework developed to manage construction contracts.	31 March 2015
2	ECA should establish a policy to ensure that contract managers have the required background, experience and training in the management of construction contracts.	Important	O	Receipt of evidence of the policy established to ensure that contract managers have the required background, experience and training to manage construction contracts.	31 December 2014
3	ECA should establish a distinct contracts management function, independent of the procurement functions and designate a contracts manager to monitor expiration of contracts and to ensure: (i) compliance with legal obligations of the contracting parties for ECA-awarded contracts; and (ii) reporting on the timely fulfillment of such obligations by all parties to the contract agreements.	Important	C	Action completed.	Implemented
4	ECA should establish a mechanism to ensure that requisitioning offices provided timely input to the procurement process so that a valid contract is	Important	O	Receipt of evidence that the mechanism to ensure requisitioning offices comply with the procurement requirements was developed.	31 December 2014

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

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

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by ECA in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of management of procurement and contract management in the  
Economic Commission for Africa**

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
	established at all times for essential cleaning and janitorial services to avoid any disruption in these services.				
5	ECA should stipulate a mandatory term limit for the chairperson of the Local Committee on Contracts to enable periodic review of the continued suitability of the Chairperson's assignment.	Important	O	Receipt of a copy of the revised LCC terms of reference with the mandatory term limit stipulation for the chairperson.	

# **APPENDIX I**

## **Management Response**



ECONOMIC COMMISSION FOR AFRICA  
COMMISSION ECONOMIQUE POUR L'AFRIQUE

**INTEROFFICE MEMORANDUM — MEMORANDUM INTERIEUR**

**CONFIDENTIAL**

To: Muriette Lawrence-Hume, Officer-in-Charge  
New York Audit Service  
Internal Audit Division, OIOS

Date: 20 August 2014  
Ref: SPOQD/14/08/0090

From: Ingrid Cyimana, Director  
Strategic Planning and Operational Quality  
Division (SPOQD)

Subject: **Draft report on the audit of procurement and contract management in the Economic Commission for Africa (Assignment No. AN2013/710/01)**

This refers to the memorandum with reference IAD: 14-00553 from your office dated 1 August 2014 on the above mentioned subject.

We note that the date for response to the memorandum was 18 August 2014. Please accept our sincere apologies for the delay in transmitting the required information. For future purposes, we would kindly appreciate if related communications could be copied to the Director, SPOQD – Ms. Ingrid Cyimana.

Please find attached the response of the Management of the Economic Commission for Africa to the five recommendations in Appendix I of the draft report as required. Supporting evidence for the two recommendations that were implemented (recommendations 3 and 5) are also enclosed.

Thank you.

cc: Mr. Carlos Lopes, Executive Secretary, UNECA  
Mr. Abdalla Hamdok, Deputy Executive Secretary, UNECA  
Ms. Hazel Scott, Director, Division of Administration, UNECA  
Mr. Collen Kelapile, Chief of Staff, UNECA  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS  
Ms. Eskedar Nega, Chief of Evaluation Section, SPOQD, UNECA

## Management Response

### Audit of management of procurement and contract management in the Economic Commission for Africa

Rec. no.	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	Yes	Contracts Management Officer	31 March 2015	It is expected that the holistic management framework for construction projects will be developed and established after the arrival of the newly recruited Contract Management Officer. In the meantime, project specific governance and management structures were developed and established for bigger capital projects (such as NOF, upcoming Africa Hall renovation, and others).
2	Yes	Chief of Facilities Management Section	31 December 2014	We assume that recommendation refers to the project managers. The steps were taken to initiate the process through assessment of relevant competences during the recruitment process for vacant positions at GS, P3 and P4 level.
3	Yes	Director, Division of Administration		<b>Implemented.</b> Please refer to the attached evidence
4	Yes	Chief Procurement Officer	31 December 2014	The mechanism is under development
5	Yes	Chief SCMS		<b>Implemented.</b> Please refer to the attached evidence