



# INTERNAL AUDIT DIVISION

## REPORT 2017/027

---

Audit of contracts management and administration in the United Nations Mission in Liberia

The Mission needed to strengthen controls to ensure effective management and administration of contracts

26 April 2017

Assignment No. AP2016/626/03

# **Audit of contracts management and administration in the United Nations Mission in Liberia**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over contracts management and administration in the United Nations Mission in Liberia (UNMIL). The audit covered the period from 1 January 2015 to 31 December 2016 and included: (i) vendor performance management; (ii) payments to vendors; (iii) monitoring of contracts usage and expiration; (iv) amendment, extension and termination of contracts; and (v) staff capacity.

The Mission managed contracts within their not-to-exceed amounts, made appropriate payments to vendors after delivery of goods and services, and terminated contracts in accordance with agreed terms and conditions. However, for effective management and administration of contracts, UNMIL needed to strengthen controls relating to vendor performance evaluations, tracking vendor delivery timelines and invoking remedies for delayed deliveries, obtaining performance bonds within the required timeframes, paying vendors timely, and ensuring staff undertake mandatory Umoja courses.

OIOS made five recommendations. To address issues identified in the audit, UNMIL needed to:

- Develop and implement procedures to ensure that the Procurement Section follows up on the regular evaluation of vendors' performance and does not extend or increase the value of contracts without satisfactory vendor performance evaluation reports on file;
- Establish an effective mechanism to track delivery timelines and record the impact of delays on its operations to enable the Mission to apply liquidated damages to delayed deliveries, where applicable;
- Put in place a follow-up mechanism to ensure vendors provide the required performance bonds within the timeframes stipulated in their contracts where the need had been determined;
- Implement procedures to promptly resolve issues that arise during processing of payments to vendors in order to adhere to timelines stipulated in contracts; and
- Develop a tracking mechanism to ensure that staff attend mandatory Umoja courses related to contract management and administration.

UNMIL accepted the recommendations and has initiated the necessary action to implement them.

# CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1
III. OVERALL CONCLUSION	1-2
IV. AUDIT RESULTS	2-7
A. Monitoring and evaluation of vendors' performance	2-4
B. Payments to vendors	4-5
C. Amendment, extension and termination of contracts	5
D. Monitoring of contracts usage and validity	6
E. Staff capacity	6-7
V. ACKNOWLEDGEMENT	7
 ANNEX I      Status of audit recommendations	
 APPENDIX I   Management response	

# **Audit of contracts management and administration in the United Nations Mission in Liberia**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contracts management and administration in the United Nations Mission in Liberia (UNMIL).
2. During the fiscal year 2015/16, UNMIL incurred expenditure of \$9 million on contracts established by the Mission, and \$28 million on contracts established by the Procurement Division in the Department of Management (system contracts). The local contracts mainly related to provision of security, telephone and communication, office leasing, vehicle repair and maintenance, and passenger and aircraft ground handling services. The system contracts were for rations and logistics services.
3. Self-accounting units and the Contracts Unit in the UNMIL Procurement Section are responsible for the management and administration of local contracts. Contract management consists of ongoing monitoring and management of the vendor's performance and obligations under contracts for goods, services or works, including terms and conditions such as quality, timeliness, key performance indicators, pricing, payments and discounts. Contract administration comprises all actions undertaken by procurement personnel following the award of a contract, such as contract amendment or extension, contract termination and handling of security instruments.
4. Comments provided by UNMIL are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over contracts management and administration in the Mission.
6. This audit was included in the 2016 risk-based work plan of OIOS because of operational and financial risks related to ineffective contract management.
7. OIOS conducted the audit from November 2016 to February 2017. The audit covered the period from 1 January 2015 to 31 December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the management and administration of contracts in UNMIL, which included: (i) vendor performance management; (ii) payments to vendors; (iii) monitoring of contracts usage and expiration; (iv) amendment, extension and termination of contracts; and (v) staff capacity.
8. The audit methodology included: (a) interviews of key personnel, (b) review of relevant documentation, (c) analytical reviews of data, (d) sample testing.

## **III. OVERALL CONCLUSION**

9. The Mission managed contracts within their not-to-exceed (NTE) amounts, made appropriate payments to vendors after delivery of goods and services, and terminated contracts in accordance with agreed terms and conditions. However, for effective management and administration of contracts, UNMIL needed to strengthen controls relating to: (i) vendor performance evaluations; (ii) tracking vendor delivery timelines and invoking remedies for delayed deliveries; (iii) obtaining performance bonds within

the required timeframes; (iv) paying vendors timely; and (v) ensuring staff undertake mandatory Umoja courses.

## IV. AUDIT RESULTS

### A. Monitoring and evaluation of vendors' performance

#### Need for regular vendor performance evaluation

10. The UNMIL Procurement Section's standard operating procedures require self-accounting units to provide the Procurement Section with contractor performance reports at least 30 days before the end of each quarter. All performance reports are to be signed by the Chief Procurement Officer (CPO) before being placed in case files. The Procurement Manual requires that before issuing an amendment to extend or increase the value of a contract, the UNMIL Procurement Section should ensure that a satisfactory vendor performance report is on file.

11. Requisitioners did not evaluate vendors' performance evaluations regularly in accordance with the Mission's standard operating procedures. OIOS review of 10 out of 93 local contact files, with a total value of \$7 million out of \$10 million, and 12 out of 88 purchase order files from system contracts, with a total value of \$15 million out of \$28 million, indicated the following:

- a) On average, only one performance report was on file per year for each local contractor instead of the required four;
- b) Four out of the 13 performance reports reviewed from the 10 local contract files were not signed by the CPO; and
- c) Four out of the 12 purchase order files relating to systems contracts did not have a supplier performance report.

12. Contract amendments were not supported by satisfactory performance evaluations. OIOS reviewed 14 amendments made to seven contracts that extended or increased the value of the contracts. Six of these amendments did not have a vendor performance evaluation on file. Four contracts were extended and one contract for \$574,059 was increased by \$112,283 and subsequently by \$85,134 without any performance evaluations being completed.

13. UNMIL did not have effective mechanisms to ensure self-accounting units provided performance reports to the Procurement Section. There was no evidence that Procurement Section adequately followed up to ensure compliance.

14. The Procurement Section explained that the requirement for quarterly submission of vendor performance reports had been reconsidered and found to be excessive. Therefore, the Mission revised the existing procedures accordingly.

15. Non-evaluation of vendors' performance increases the risk of UNMIL: not identifying underperforming vendors in a timely manner hence delaying implementation of corrective actions; and continuing to engage contractors whose performance was substandard and being unable to realize best value for money in its procurement activities.

- (1) UNMIL should develop and implement procedures to ensure that the Procurement Section follows up on the regular evaluation of vendors' performance and does not extend or increase the value of contracts without satisfactory vendor performance evaluation reports on file.**

*UNMIL accepted recommendation 1 and stated that it revised its standard operating procedures in March 2017 and sent a memo to all self-accounting units in April 2017 that requires a contractor performance report prior to extension or increase in contract value. Based on the action taken by UNMIL, recommendation 1 has been closed.*

Need for effective mechanism to track delivery of goods

16. The Procurement Manual requires requisitioners to monitor vendors' timely fulfilment of contracted requirements, among other performance indicators. It also provides liquidated damages as one of the remedies through which a breach of the Organization's contractual rights, such as late deliveries, may be compensated.

17. A review of 29 purchase orders identified delays in delivery of goods in 5 of them; with an average delay of 50 days. Although the Procurement Section recorded the status of sourcing activities in a worksheet, it did not compute the duration of any delayed delivery or record of the reasons for delays and follow-up activities undertaken by the Section. It did not also record, in coordination with requisitioners, the impact of the delays on operations, which would be required to substantiate any claim for liquidated damages.

18. UNMIL attributed the delays to the need for the vendors to consolidate orders for delivery. Therefore, the Mission did not see the need to claim remedies from vendors.

19. Late deliveries negatively impact the ability of the Mission to support the implementation of mandated activities. In addition, an ineffective delivery tracking mechanism could result in the Mission not being able to claim liquidated damages from vendors. There was no evidence that the Mission claimed liquidated damages on any delayed delivery.

**(2) UNMIL should establish an effective mechanism to track delivery timelines and record the impact of delays on its operations to enable the Mission to apply liquidated damages to delayed deliveries, where applicable.**

*UNMIL accepted recommendation 2 and up-dated its tracking spreadsheet to calculate the number of days that may require liquidated damages to apply. Recommendation 2 remains open pending receipt of a tracking system that adequately captures deviations from actual delivery date in the purchase order, reasons for delays, and follow-up activities undertaken to enable the Mission to adequately calculate any potential liquidated damages.*

Performance bonds to be obtained as provided for in contracts

20. The UNMIL Procurement Section standard operating procedures require that to the extent possible, a performance bond in favour of UNMIL be obtained for awards of contracts to secure the vendor's performance of the contract. Performance bonds are to be furnished by the contractor within 10 days of the effective date of the contract.

21. OIOS review of 56 local contracts that were active as at 1 February 2017 indicated that 23 of them had performance bond clauses. However, UNMIL could not provide performance bonds for seven contracts with a total value of \$2.7 million. This was due to inadequate follow-up by the Procurement Section to ensure that vendors provided performance bonds as required in their contracts. The Procurement Section explained that performance bonds were not needed in all of the contracts where the Mission had included the requirement for a performance bond.

22. Including a requirement for a performance bond in a contract with a vendor when it is not needed increases the risk of the associated cost being passed on to the Mission through higher prices. On the other hand, non-collection of bonds from vendors when they are needed could result in inadequate remedies being available to the Mission in the event of a vendor's failure to perform its obligations under the contract.

**(3) UNMIL should put in place a follow-up mechanism to ensure vendors provide the required performance bonds within the timeframes stipulated in their contracts where the need had been determined.**

*UNMIL accepted recommendation 3 and stated that they have obtained two of the seven performance bonds that have been required per the contracts terms. The Mission assessed that bonds are not needed in four contracts and amended the contracts accordingly. In addition, the Mission stated that a system for tracking security instruments was developed. Based on the action taken by UNMIL, recommendation 3 has been closed.*

## **B. Payments to vendors**

### Vendors were paid after confirmation of delivery of goods and services

23. The Field Finance Procedure Guidelines require the Disbursements Unit to make payments against valid obligations only after verifying vendor invoices against a purchase order and receipt of goods and services. Under Umoja, the Disbursements Unit is required to conduct "three-way matching" of a vendor invoice, purchase order and service entry sheet confirming receipt of goods and services.

24. UNMIL paid vendors after confirmation of receipt of goods and services. A review of 12 payment transactions amounting to \$23 million indicated that the Disbursements Unit conducted three-way matching of purchase orders, invoices and goods/service received slips before paying vendors. However, OIOS noted one exception related to a partial delivery that resulted in a double payment of 18,000 Japanese Yen (equivalent of \$152) to a vendor on 30 June 2016. UNMIL resolved the matter with the vendors through a credit note.

25. OIOS concluded that UNMIL had adequate controls to ensure that vendors were paid correct amounts for goods and services delivered.

### Need for timely payment to vendors

26. According to the Finance and Budget Manual, UNMIL is expected to pay invoices within the timeframe specified in contracts and purchase orders. The standard payment terms for commercial vendors are 30 days from the date the Finance Section receives the invoice. Some contracts provided early payment discounts as an incentive for prompt settlement of invoices.

27. OIOS review of 10 local contracts and 12 purchase orders from system contracts included one contract that offered an early payment discount. The Mission took advantage of the discount terms and earned a 2 per cent discount on 34 invoices paid in 2016 amounting to \$225,279.

28. However, as at 31 December 2016, there were 24 invoices (amounting to \$944,670) out of 48 invoices (amounting to \$1,339,250) that had been outstanding for over 30 days. The invoices had been outstanding for an average of 104 days. This included an invoice of \$781,500 that had been outstanding

for over three years due to a dispute with a vendor. UNMIL management stated that the United Nations Headquarters was handling the issue.

29. The UNMIL Disbursement Unit attributed most delays in payments to processing errors. For example use of wrong banking details resulted in banks returning funds to UNMIL. Late payments to vendors amounts to non-adherence to the Organization's obligations and could lead to vendor dissatisfaction and delays in deliveries.

**(4) UNMIL should implement procedures to resolve issues that arise during processing of payments to vendors promptly in order to adhere to timelines stipulated in contracts.**

*UNMIL accepted recommendation 4 and stated that it has put in place a mechanism to comply with the timelines for payment processing stipulated in contracts. Recommendation 4 remains open pending receipt of evidence that the mechanism implemented by UNMIL has resulted in payments being made in a timely manner to obtain early payment discounts and/or paid in accordance with the contract terms.*

### **C. Amendment, extension and termination of contracts**

Contracts amendments were submitted to the relevant committees on contracts for review

30. The Procurement Manual requires contract amendments to be submitted to the Headquarters Committee on Contracts (HCC)/Local Committee on Contracts (LCC), in accordance with their respective delegations of authority.

31. OIOS sampled 6 out of 12 contracts that were amended by amounts above the CPO's delegated authority of \$150,000 during the audit period. All six, with total maximum contract value of \$3 million, were reviewed by LCC and recommended for approval. One of them exceeded the LCC's delegated authority of \$1 million and was submitted to HCC for further review as required.

32. OIOS concluded that UNMIL had implemented adequate controls to ensure that contract amendments were submitted and reviewed by HCC/LCC, in accordance with the assigned delegation of authority.

Contracts were terminated in compliance with their terms and conditions

33. UNMIL's commercial contracts and lease agreements typically require that a notice period of not less than 30 days be given in the event that either party intends to terminate the agreement before completion of the contract period.

34. During the period between January 2015 and December 2016, nine lease agreements were terminated. A review of the termination notices issued to the vendors evidenced that sufficient notice as prescribed in each contract's exit clause was given. The terminated contracts related to leases that were no longer required as the Mission closed the field offices. OIOS concluded that UNMIL terminated contracts in accordance with terms and conditions agreed upon with vendors.

## D. Monitoring of contracts usage and validity

### There were adequate controls to ensure that contracts were within maximum limit amounts

35. UNMIL's contracts with various vendors stipulate the NTE amounts, which are the maximum value of goods or services that may be acquired under such contracts.

36. OIOS reviewed the total amount of purchase orders raised and compared it with the contracts' NTE amounts for a sample of 10 out of 93 local contracts. The purchase orders raised did not exceed the NTE amounts for all the 10 contracts reviewed as the Procurement Section monitored the use of NTEs through Umoja. OIOS concluded that controls for monitoring contracts' NTE usage and validity were adequate and effective.

## E. Staff capacity

### Staff complied with United Nations financial disclosure requirements

37. United Nations Financial Disclosure Policy requires all staff involved in the procurement process to make financial disclosures and disclose any conflicts of interests to the Ethics Office.

38. OIOS reviewed UNMIL's 2016 financial disclosure participants list from the Office of the Director of Mission Support and confirmed that all Procurement Section staff complied with the financial disclosure requirements in the period under review.

### Need for staff to undertake mandatory Umoja courses

39. Procurement staff are required to undertake mandatory procurement-specific courses to be able to carry out their roles efficiently and effectively. The courses are Best Value for Money, Ethics in Procurement, Fundamentals of Procurement, Overview Procurement Manual, Acquisition Planning, Contractual Issues in Purchasing, and Contract Management. A review of a mandatory training courses tracker indicated that all staff had undertaken the mandatory courses.

40. The introduction of Umoja has brought about a new way of working. In order for staff to become proficient in carrying out their transactional roles in Umoja, including those related to contract management and administration, Umoja academy developed mandatory role-specific courses.

41. There was no Mission-wide mechanism for tracking the completion of Umoja mandatory courses by UNMIL staff. While the Mission had intended that only staff who had undergone the training would be granted access to the system, there was no assurance that all the staff with defined roles had undertaken the requisite training. For example, there was no evidence that staff with "buyer roles" in the Procurement Section had completed all requisite Umoja courses.

42. Non-completion of necessary courses by staff could result in processing errors and under-utilization of the Umoja system. This could lead to inefficiencies and ineffectiveness in carrying out contract management and administrative tasks.

**(5) UNMIL should develop a tracking mechanism to ensure that staff undertake mandatory Umoja courses related to contract management and administration.**

*UNMIL accepted recommendation 5 and stated that in order to map users to Umoja roles,*

*Geospatial, Information Technology and Telecommunications Services (GITTS) Section requires training certificates which are attached to requests. Recommendation 5 remains open pending development of a mission-wide tracking mechanism for mandatory Umoja courses including those related to contract management and administration.*

## **V. ACKNOWLEDGEMENT**

43. OIOS wishes to express its appreciation to the management and staff of UNMIL 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 contracts management and administration in the United Nations Mission in Liberia

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNMIL should develop and implement procedures to ensure that the Procurement Section follows up on the regular evaluation of vendors' performance and does not extend or increase the value of contracts without satisfactory vendor performance evaluation reports on file.	Important	C	Action completed.	Implemented
2	UNMIL should establish an effective mechanism to track delivery timelines and record the impact of delays on its operations to enable the Mission to apply liquidated damages to delayed deliveries, where applicable.	Important	O	Submission of a tracking system that adequately captures deviations from actual delivery date in the purchase order, reasons for delays, and follow-up activities undertaken to enable the Mission to adequately calculate any potential liquidated damages	30 June 2017
3	UNMIL should put in place a follow-up mechanism to ensure vendors provide the required performance bonds within the timeframes stipulated in their contracts where the need had been determined.	Important	C	Action completed.	Implemented
4	UNMIL should implement procedures to resolve issues that arise during processing of payments to vendors promptly in order to adhere to timelines stipulated in contracts.	Important	O	Submission of evidence that the mechanism implemented by the Mission has resulted in payments being made in a timely manner to obtain early payment discounts and/or paid in accordance with the contract terms.	30 June 2017
5	UNMIL should develop a tracking mechanism to ensure that staff undertake mandatory Umoja courses, including those related to contract management and administration.	Important	O	Submission of a mission-wide tracking mechanism for mandatory Umoja courses including those related to contract management and administration.	30 June 2017

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

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNMIL in response to recommendations.

# **APPENDIX I**

## **Management Response**

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>Accepted? (Yes/No)</b>	<b>Title of responsible individual</b>	<b>Implementation date</b>	<b>Client comments</b>
1	UNMIL should develop and implement procedures to ensure that the Procurement Section follows up on the regular evaluation of vendors' performance and does not extend or increase the value of contracts without satisfactory vendor performance evaluation reports on file.	Important	Yes	Chief Procurement Officer (CPO)	Implemented	<p>The Procurement Section Standard Operating Procedure (SOP) was revised on 21 March 2017 to reflect the requirement for submission of contractor performance reports on an annual (rather than quarterly) basis before contract expiry as well as prior to any increase in contract value. The SOP was further updated to require the responsible Procurement Unit Chief to sign off on the performance reports and eliminating the requirement for the signature of the Chief Procurement Officer except when the vendor has recurring performance issues.</p> <p>On 4 April 2017, the CPO issued an inter-office memorandum to all Self-Accounting Unit chiefs to remind of the requirement for completed vendor performance reports prior to contract extension. A copy of the inter-office memorandum was provided to OIOS.</p>
2	UNMIL should establish an effective mechanism to track delivery timelines and record the impact of delays on its operations to enable the Mission to apply liquidated damages to delayed deliveries,	Important	Yes	CPO	Implemented	UNMIL has updated its Expediting Worksheet to monitor deliveries and as well as to calculate the number of days that may require liquidated damages application. A copy of the

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

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	where applicable.					Worksheet was provided to OIOS.
3	UNMIL should put in place a follow-up mechanism to ensure vendors provide the required performance bonds within the timeframes stipulated in their contracts where the need had been determined.	Important	Yes	CPO	Implemented	<p>UNMIL has implemented a tracking system to monitor contracts with security instruments incorporated. UNMIL asks OIOS to note that the performance bond issue has been resolved with six of the seven contracts noted by OIOS in paragraph 21. A list including the seven contracts was provided to OIOS.</p> <p>The seventh contract is with the Liberia Airport Authority as a sole source provider. The contract has been in place since July 2014. UNMIL has made several attempts to obtain the performance bond. Due to the nature of the requirement and necessity of services, UNMIL has continued to utilize the services without the performance bond.</p>
4	UNMIL should implement procedures to resolve issues that arise during processing of payments to vendors promptly in order to adhere to timelines stipulated in contracts	Important	Yes	CPO	Implemented	<p>UNMIL has put in place a mechanism to comply with the timelines for payment processing stipulated in contracts:</p> <ol style="list-style-type: none"> <li>a. UNMIL reviews the “goods received and inventory received” account on a weekly basis.</li> <li>b. UNMIL prepares open accounts payable items and the ageing report on a weekly basis.</li> <li>c. UNMIL updates the tracking sheet for invoices and documents on a daily basis to avoid delays in payment processing and follows</li> </ol>

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>up with SAUs and vendors on required information.</p> <p>d. UNMIL has implemented robust communication procedures with SAUs and vendors so that required information is received promptly.</p>
5	UNMIL should develop a tracking mechanism to ensure that staff undertake mandatory Umoja courses related to contract management and administration	Important	Yes	GITTS	Implemented	In order to map users to Umoja roles, GITTS requires training certificates which are attached to the mapping requests.