



INTERNAL AUDIT DIVISION

REPORT 2019/004

**Audit of contract management at the
United Nations Office at Nairobi, the
United Nations Environment
Programme and the United Nations
Human Settlements Programme**

**Contract management processes and
controls needed to be strengthened**

**1 February 2019
Assignment No. AA2017/210/03**

Audit of contract management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of contract management at the United Nations Office at Nairobi (UNON), the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over contract management at UNON, UNEP and UN-Habitat. The audit covered the period from 1 June 2015 to 31 December 2017 and included a review of the contract management process, performance management, and contract administration.

The audit showed that contract management processes and controls needed to be strengthened in some areas. OIOS made seven recommendations. To address the issues identified in the audit:

UNON, UNEP and UN-Habitat needed to:

- Assess the training needs of contract management staff and develop a training plan accordingly to upgrade/update their skills;
- Develop and implement key performance indicators and performance assessment plans for monitoring and evaluating vendor performance; and
- Strengthen acquisition planning and contract monitoring to minimize the number of contract amendments.

In addition, UNON needed to:

- Ensure that performance security instruments are kept up to date and used in accordance with established procedures; and establish a mechanism to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors;
- Review and update all data in Umoja relating to contracts to ensure their accuracy and completeness; and establish the minimum contract documentation that should be uploaded in Umoja to ensure efficient and effective contract management;
- Ensure that contracts are closed in accordance with established procedures to safeguard the interests of the Organization; and
- Verify the lists of contractor staff passes returned to security against security access records before certifying invoices for payment; and review the list of contractor staff passes returned in 2017 and 2018 against security access records and recover any overpayments.

UNON, UNEP and UN-Habitat accepted the recommendations and have initiated action to implement them.

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Audit of contract management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contract management at the United Nations Office at Nairobi (UNON), the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat).
2. UNON's Procurement Section is responsible for providing essential services in the acquisition of goods, services and/or works for UNON as well as UNEP and UN-Habitat offices in Nairobi. Requisitioning and procurement activities constitute the pre-award phase whereas contract administration and management comprise the post-award phase of the procurement life cycle.
3. The United Nations Procurement Manual 2013 defines contract management as the ongoing monitoring and management of the vendor's performance regarding the goods or services to be provided as per the contract, as well as all other terms and conditions of the contract. It includes managing the relationship with the vendor, providing feedback to the vendor regarding its performance, as well as dispute resolution, if necessary. The Procurement Manual defines contract administration as all actions undertaken by the procurement staff after the award of a contract relating to the administrative aspects of the contract such as: contract amendment, contract closure, record retention, maintenance of the contract file, and handling of security instruments.
4. According to the Procurement Manual, contract management activities are a shared responsibility between the contract management staff assigned to a dedicated project, the requisitioner and end-user. The requisitioner and/or end-user ensures that adequate vendor performance evaluation is conducted and reported in a timely manner to document future decisions on the contract and vendor. The Procurement Section, in cooperation with the Office of Legal Affairs (OLA) as appropriate, acts on behalf of the Organization to resolve any contractual disputes.
5. Table 1 shows the total number and value of procurement contracts for the period 2015 to 2017.

Table 1: Overview of contracts from Umoja procured through UNON for the period 2015 to 2017

Organization	Number of contracts	Value¹ in \$
UNON	184	82,177,502
UNEP	61	15,880,504
UN-Habitat	44	39,263,648
Total	289	137,321,654

6. Comments provided by UNON, UNEP and UN-Habitat are incorporated in italics.

¹ Values for UNEP and UN-Habitat exclude goods and services amounting to \$31.7 million and \$38.7 million, respectively, procured between 1 June 2015 and 31 December 2017 through the United Nations Development Programme and the United Nations Office for Project Services.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over contract management at UNON, UNEP and UN-Habitat.
8. This audit was included in the 2018 risk-based work plan of OIOS due to the risk that potential weaknesses in contract management could have an adverse impact on the operations of UNON, UNEP and UN-Habitat.
9. The audit covered the period 1 June 2015 to 31 December 2017 and included a review of the contract management process, managing performance, and contract administration. The audit was conducted in Nairobi from February to July 2018.
10. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) judgmental sample testing.
11. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Contract management process

Need to provide training to staff in contract management

12. The Procurement Manual provides important supply chain policy and procedures including those relating to contract management. While most parts of the Manual remained relevant and up-to-date, some procedural aspects needed alignment to Umoja. The latest revision (version 7) to the Manual was made in July 2013 prior to implementation of Umoja in 2015. To address gaps in guidance, Umoja job aids for the supply chain were established by the Procurement Division. However, the job aids did not address all the workflows in contract management. For example, there were no job aids to guide the tracking of expenditure and Not-To-Exceed (NTE) amounts, vendor performance evaluation, remedies, contract administration, contract amendment, and contract closure. UNON needs to consider such gaps when assessing the training needs of contract management staff.
13. Further, with the exception of UNEP whose buyers had completed courses in contract management, there was no evidence that UNON and UN-Habitat staff had undergone any training in contract management. The lack of adequate training may have an adverse impact on the efficiency and effectiveness of contract management.

(1) UNON, in consultation with UNEP and UN-Habitat, should assess the training needs of contract management staff and develop a training plan accordingly to upgrade/update their skills.

UNON accepted recommendation 1 and stated that it agrees that all contract management staff in UNON, UNEP and UN-Habitat need to complete the training on contract management. Recommendation 1 remains open pending receipt of UNON's assessment of training needs for contract management staff and the related training plans.

B. Managing performance

Need to implement performance assessment plans for managing vendor performance

14. The Procurement Handbook states that the Organization should review the performance assessment plans with the supplier so that both parties know the basis on which performance will be assessed. For contracts that exceed \$200,000 in value, or long-term contracts of two or more years in duration, the Handbook requires performance reports at least once a year. The Handbook emphasizes the importance of carefully documenting contract performance because it constitutes proof of performance and evidence in the event of disputes. Further, according to Chapter 15.3 of the Procurement Manual, the recipient and/or end-user of the goods, services or works shall evaluate the vendor's performance in accordance with the several factors related to quality, timeliness, and compliance with contractual terms and conditions, amongst others.

15. OIOS reviewed a sample of 37 contracts at UNON, UNEP and UN-Habitat valued at \$92.2 million (out of total contract value of \$137.3 million or 67 per cent of all contracts) between 1 June 2015 and 31 December 2017 to ascertain how they were managed. There was no evidence of performance assessment planning in the contracts to set out the basis upon which performance would be assessed. Other weaknesses identified included the following:

(a) Of the 37 contracts reviewed, only 2 had documented evidence of progressive performance monitoring during the contract period. Thirty-four of these contracts were valued at over \$200,000 and one was a long-term contract of over three years. The Procurement Handbook required that performance reports be prepared for these 35 contracts at least once a year, but this was not done. The only performance reports available were those prepared at the end of the contract period to facilitate contract extension, since this was a requirement for all amendments. Without continuous performance monitoring of contracts, vendors' performance of the contract terms and conditions could not be assured.

(b) Only 8 out of 37 contracts reviewed had key performance indicators (KPIs) of which only five were specific, measurable, accurate, relevant and time-bound (SMART). Specifically, only 5 out of 23 UNON contracts had KPIs for performance, and 4 of these contracts had SMART indicators. In UN-Habitat, only one out of the seven contracts had KPIs, but they were not SMART. For UNEP, two out of seven contracts had KPIs but only one contract had SMART indicators. In the absence of SMART indicators, the performance of contracts cannot be properly measured and monitored. OIOS noted that contracts signed from February 2017 included KPIs.

(c) The frequency of performance evaluations ranged between two and six months in 11 out of 37 sampled contracts. For 11 other contracts, the provisions merely stated that the organization "reserved the right to review and inspect to the extent practical at all reasonable places". Failure to specify the frequency of performance evaluations and conduct them accordingly may result in ineffective performance monitoring and lack of accountability.

(d) The catering contract for the main cafeteria requires that for all items/portions served, the contractor shall make nutrition facts available to include, but not limited to, number of calories, fat content, carbohydrates and percentages of sodium and fibre similar to the local requirements. There was no evidence that the contractor complied with this provision in the contract. Similarly, there was no evidence that UNON had followed up with the contractor to ensure compliance.

(e) The roles and responsibilities for performance management between requisitioners and end-users was not clearly documented in the contract document. Staff, therefore, could not be held accountable for inadequacies in contract management.

(f) There were instances where contractors did not fully comply with the requirements of UNON's "fair pack" policy which relates to creating an appropriate working environment for contractor staff in accordance with local laws.

16. The above weaknesses were attributed to lack of performance assessment plans for each contract which should form the basis for vendor performance assessment against contractual provisions. Thus, there was limited performance monitoring during the life of the contracts; performance assessments were made at the end of the contract period to facilitate contract extension.

(2) UNON, UNEP and UN-Habitat should develop and implement key performance indicators and performance assessment plans for monitoring and evaluating vendor performance.

UNON accepted recommendation 2 and stated that although an official performance evaluation report is prepared at the end of the contractual period (as per the Procurement Manual), UNON agrees that input provided could be more comprehensive, rather than being treated as a check-list. UNON Procurement will request substantive offices to prepare more comprehensive evaluations for future reports. With regard to progressive performance evaluation during the period of the contract, individual contract managers within each substantive office of UNON, UNEP and UN-Habitat conduct ongoing performance evaluation, but this process is not uniform. UNON will therefore remind all substantive offices that ongoing progressive performance evaluation is required through regular meetings with vendors, and there should be a record of this to include vendor performance assessment against contractual provisions. Recommendation 2 remains open pending receipt of evidence from UNON, UNEP and UN-Habitat of implementation of KPIs in vendor contracts, performance assessment plans, and ongoing performance evaluation of vendor performance during the life-cycle of contracts.

Management of performance security instruments and application of remedies needed to be strengthened

(i) Performance security instruments

17. According to the Procurement Manual (Chapter 9.34), the purpose of security instruments is to provide the United Nations with security against expenses and losses that result from failure by a vendor to perform its obligations under the contract. They are intended to ensure that funding is available to compensate the United Nations for such failure. Any decision to waive the required security is subject to the approval of the Director, Procurement Division (PD) or the Chief Procurement Officer (CPO), as applicable. Any such decision, including the reasons therefore, must be recorded in writing and disclosed in submissions to the Local Committee on Contracts and/or the Headquarters Committee on Contracts.

18. OIOS' review of the management of security instruments relating to the 37 sampled contracts identified the following weaknesses:

(a) For 33 out of the 37 contracts (89 per cent), performance bonds were obtained as required. For the remaining four contracts, there was no evidence that the decision not to obtain the required security instruments was approved by the Director, PD or the CPO.

(b) UNON's Procurement Section maintained a list of performance bonds but it was not up-to-date. Only 11 out of the 33 sampled contracts for which performance bonds had been obtained were on the

Procurement Section's list. Further, of the 11 performance bonds on the list, only four had been extended to cover the revised contract validity dates. Generally, there was no evidence that the validity of the performance bonds was extended to cover the contract extension periods as required. Without valid performance bonds, the Organization is at risk in case of vendor non-performance or non-compliance with contractual provisions.

(c) In the case of UN-Habitat's piping contract in Somalia, there was evidence of significant non-performance by the contractor, but the security performance provided had not been invoked even though the project had come to a standstill five times. UNON stated that at this point, enforcing the performance security was not in the best interest of the Organization to remedy the breach.

(ii) Remedies

19. According to the Procurement Handbook, a contract remedy is a means of relief that either party can pursue to compensate for the other party's non-performance or non-compliance with a contract's terms and conditions. The remedies must be specified in the terms and conditions of the contract. It also categorizes remedies from simple to more stringent including: reasonable price reductions for minor deficiencies; use of warranties; notice of rejection of nonconforming goods (especially for civil works); liquidated damages (compensation based on estimate of actual loss for delays and other non-compliance under the contract); performance security (financial instruments issued by a bank or financial institution); set-offs in service or work contracts (setting off costs for non-performance or delays); and termination of the contract.

20. Each contract specified the remedies to apply, with most contracts providing for liquidated damages and performance securities for non-performance. Out of the 37 contracts reviewed, remedy (set-off in service) was applied only for the contract for computer maintenance services and support. Contract managers stated that there was no mechanism to translate reports of non-performance into remedies. While the Handbook is clear on the remedies, it provides limited guidance on who decides what remedies to apply, and how to apply them. Best practice on contract management recommends the use of a team comprising a legal adviser, representatives of the Procurement Section and requisitioners to make this decision.

21. The above weaknesses were attributed to inadequate guidance on management of performance security and absence of an effective mechanism for application of remedies, which could expose the Organization to risks in the event of non-performance of contractual obligations by contractors.

(3) UNON should: (i) ensure that performance security instruments are kept up to date and used in accordance with established procedures; and (ii) establish a mechanism to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors.

UNON accepted recommendation 3 and stated that UNON Procurement will ensure extension of performance bonds are done in accordance with established procedures. All new contracts since 2016 include the requirement for performance bonds. Of the selected contracts identified by OIOS as not having performance bonds, these were in three categories namely: (a) income generation contracts; (b) third party contracts; and (c) 'piggy-back' of another United Nations entity contract. Although the Procurement Manual does allow the responsible procurement official to decide whether to waive or not waive performance bonds in some of the above contracts (such as income generating), UNON Procurement agrees that any decision to waive a performance bond must be clearly documented. UNON agrees that all ongoing and future contracts must either have performance bond conditions, or clearly documented reasons for any approved waivers. Recommendation 3 remains open pending receipt of evidence that: (a) performance bonds are being used in accordance with

established procedures, including their extension when contracts are extended and documenting reasons for any waivers; and (b) a mechanism has been established to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors.

Need to strengthen controls over contract amendments

22. Chapter 15.7 of the Procurement Manual states that contracts shall not be increased in value or extended as a means for unduly avoiding competitive solicitation for the requirement. They shall only be amended to reflect a development in the contractual arrangement, such as a change in prices or other material change in circumstances. According to the Manual, requisitioners are responsible for developing acquisition plans in cooperation with PD or other procurement office in a timely manner, generally not later than six months before the need for receipt of the goods, services or works. The Manual includes the following requirements to be confirmed by procurement officers prior to issuing any amendments: (a) that a satisfactory vendor performance report is on file; (b) performance security requirements have been duly updated; (c) comparative cost estimates or benchmarking has been undertaken; and (d) the contracts are not being increased or extended to avoid competitive bidding.

23. There was at least one amendment for each of the 26 out of the 37 contracts sampled for UNON, UNEP and UN-Habitat. Sixteen out of the 23 UNON contracts sampled had multiple amendments. Four of these were large service contracts ranging in value from \$1.8 million to \$4.4 million. These four contracts had between 8 and 18 amendments with over half of them being to allow time for the rebidding process to be completed. The rebids for these four large service contracts, which took between two and three years in each case, were attributed to inadequate acquisition planning. Two out of 23 UNON contracts were amended to add ad hoc activities of which one had three extensions for ad hoc catering services. Nine of the sampled contracts (particularly for UNEP and UN-Habitat) had amendments to extend the period for completion of works and the NTE values. This was attributed to inadequate performance monitoring which could have provided early indication of delays for remedial measures to be taken in a timely manner.

24. For the 37 contracts reviewed, the requirements for amendment were not always adhered to. Performance evaluations for each contract and updating the validity of performance bonds to reflect the extended contract periods were not systematically done with each contract extension. There was also no evidence of the required benchmarking to verify whether the prices were still competitive.

25. As a result, UNON was spending a significant amount of resources to process contract amendments. Furthermore, contract amendment requirements intended to secure value for money for the Organization, such as benchmarking were not complied with.

(4) UNON, UNEP and UN-Habitat should strengthen acquisition planning and contract monitoring to minimize the number of contract amendments.

UNON accepted recommendation 4 and stated that improved acquisition planning is required from all substantive offices of UNON, UNEP and UN-Habitat. This will also support resource planning and adherence to standard timelines for procurement exercises. UNON Procurement has already communicated to all relevant offices asking for a comprehensive acquisition plan for their 2019 requirements by end January 2019. Improved acquisition planning will reduce some time-based amendments by ensuring replacement of new contracts before expiry of existing contracts. Amendments will however continue as the approved mechanism for recording and approving changes to contracts, and do not all reflect inadequate planning. Recommendation 4 remains open pending receipt of evidence that a system has been established for timely acquisition planning and monitoring of contract expiration dates.

Procedures for dispute resolution were generally complied with

26. According to Chapter 15.5 of the Procurement Manual, contractual disputes can be addressed in three stages, with eventual escalation to OLA after internal consultation among the requisitioner, end-user, the concerned procurement office, and PD. Arbitration is the last recourse for dispute resolution and should only be pursued in consultation with OLA.

27. During the audit period, two contracts with disputes were escalated to OLA for advice. In one case, the former contractor providing services at the old cafeteria left unpaid dues amounting to \$16,565 when exiting in July 2017. So far 17 invoices totaling \$5,430 in unpaid services rendered by the contractor have been offset against this amount, leaving a balance of \$11,135. The contract did not provide for a performance bond to offset the amounts owed. In the second case, a dispute with the former contractor responsible for the United Nations Commissary was escalated to OLA who determined that UNON was liable to pay the contractor \$54,000 for contractor assets taken over by UNON. The UNON Procurement Section continues to engage with OLA to finalize these cases. OIOS concluded that the dispute resolution procedures were generally being complied with.

C. Contract administration

Need to update contract data and documentation in Umoja

28. The UNON Procurement Section uses Umoja to manage various aspects of the procurement and contract management processes. Upon contract approval and acceptance by the vendor, key contract details such as vendor information, contract validity period, and NTE values, among others, are input in Umoja by the procurement case officers for approval by the Chief Procurement Officer.

29. OIOS' review of the accuracy and completeness of the data in Umoja indicated the following errors and omissions that required data clean up and updating:

(a) In all 37 contracts reviewed, the 'notes and attachments' tab in Umoja did not contain any documentation. It was not clear what type of documentation should have been recorded, if any, as there were no guidelines to that effect.

(b) For the 109 contract amendments relating to the sampled 37 contracts, the applicable financial rules were not indicated to appropriately reflect the nature of the contract modification as stipulated in the new statement of award. UNON explained that these instances mainly occurred before most staff learned Umoja's functionalities.

(c) In 23 out of 37 sampled contracts, names of staff responsible for managing particular contracts (contract owners) were not updated; staff who left the Procurement Unit were still shown as contract owners for some contracts. There is an existing Umoja job aid on how to change contract owners in the system, but it was apparently not utilized.

(d) OIOS' review of 40 cancelled contracts indicated that for 10 contracts, the procedures specified in the Umoja job aid were not fully complied with, to ensure that the cancelled contracts were removed from the system. The procedure required that the reference number of the cancelled contract be changed to 'do not use', and an email notification be sent to the procurement team indicating the contract number that has been cancelled.

(e) For 6 out of 37 sampled contracts the functionality in Umoja requiring a brief description of the contract had not been completed, making it difficult to analyze the nature of goods or services provided.

30. UNON Procurement Section had not systematically updated the data in Umoja to ensure completeness and accuracy when changes occurred to contracts and responsible staff. UNON stated that it maintained complete hardcopy records of procurement files consistent with existing guidelines. However, not all contract management focal points may have easy access to hardcopy records kept in the UNON Procurement Section.

(5) UNON should: (i) review and update all data in Umoja relating to contracts to ensure their accuracy and completeness; and (ii) establish the minimum contract documentation that should be uploaded in Umoja to ensure efficient and effective contract management.

UNON accepted recommendation 5 and stated it will seek guidance from PD in New York on minimum contract documentation that should be uploaded in Umoja. UNON will implement the recommendation based on such guidance. Recommendation 5 remains open pending receipt of evidence: (a) that UNON has reviewed and updated all data in Umoja relating to contracts; and (b) of the result of UNON's consultation with PD regarding the minimum contract documentation for upload in Umoja.

Need to ensure contract closure in accordance with established procedures

31. The Procurement Handbook stipulates that the contract closure process should ensure that all contractual obligations have been met, and that residual obligations such as warranties, guarantees and after-sales service and support are clearly defined in terms of responsibility, liability, procedures and time frames. The Handbook details key steps that should be followed for contract closure. As a good practice, the requisitioner and the procurement officer may be expected to complete a lessons-learned report as this allows the Organization to gather and use information to improve chances of success of future procurement actions.

32. OIOS reviewed 13 expired contracts and noted that stipulated contract closure procedures were not always followed. There was also no evidence that lessons learned were documented for future procurement, and that residual obligations such as warranties, guarantees and after-sales service and support were defined in terms of responsibility, liability, procedures and time frames. UNON needs to ensure compliance with these procedures to fully protect the interests of the Organization.

(6) UNON should ensure that contracts are closed in accordance with established procedures to safeguard the interests of the Organization.

UNON accepted recommendation 6 and stated that it will be guided by the established procedure on contract closure and will implement the recommendation. Recommendation 6 remains open pending receipt of evidence that controls have been strengthened to ensure that contracts are closed in accordance with established procedures.

Need to strengthen review of supporting documents before payment to contractors

33. According to the contract signed between UNON and the contractor for custodial services, invoices shall be submitted to the United Nations together with attendance sheets of all staff which shall be the basis for payment. Payments shall be made to the contractor 30 days from receipt of the invoice and supporting documentation and certification by the United Nations that the services invoiced have been provided. Similarly, for the gardening contractor, the quality of service as specified in the contract performance should

be assessed on a monthly basis against various KPIs and the daily attendance records. The signed attendance sheets should be submitted daily and 100 per cent attendance is expected as per the resource requirements indicated in the contract. Billing is based on the price schedule in the contract.

34. OIOS compared the 2017-2018 signed monthly attendance lists for the custodial services contractor with security access records and noted that the contractor had surrendered to UNON the grounds passes used by its former staff. However, 13 former contractor staff appeared on the signed attendance lists for up to three months after their date of last entry to the UNON complex. Further, the signatures in the attendance lists for the 13 former contractor staff differed from the signatures submitted prior to surrendering grounds passes. Similarly, OIOS' review of the 2017-2018 signed monthly attendance lists for the gardening contractor showed that 8 out of 10 former contractor staff continued to appear on attendance lists up to four months from the last day of entry to the UNON complex. Consequently, UNON was paying contractors based on inflated employee figures, resulting in overpayment.

35. The above anomalies went unchecked due to weaknesses in the contract management process. UNON's Facilities Management and Transportation Section, as contract manager, was not systematically verifying the lists of contractor staff passes returned to security against the last date of access for those electronic passes to validate the accuracy of the signed attendance lists. UNON needed to establish the full extent of such overpayments and recover them from the contractors.

(7) UNON should: (i) verify the validity of signed attendance lists submitted by contractors against security access records before certifying invoices for payment; and (ii) review the attendance records of contractor personnel for 2017 and 2018 against security access records for recovery of overpayments.

UNON accepted recommendation 7. Recommendation 7 remains open pending receipt of evidence that: (a) the validity of signed attendance lists submitted by contractors are being verified against security access records before certifying invoices for payment; and (b) the attendance records of contractor personnel whose grounds passes were returned in 2017 and 2018 have been reviewed and overpayments have been recovered as appropriate.

IV. ACKNOWLEDGEMENT

36. OIOS wishes to express its appreciation to the management and staff of UNON, UNEP and UN-Habitat 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 contract management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNON, in consultation with UNEP and UN-Habitat, should assess the training needs of contract management staff and develop a training plan accordingly to upgrade/update their skills.	Important	O	Receipt of UNON's assessment of training needs for contract management staff and the related training plans.	31 December 2019
2	UNON, UNEP and UN-Habitat should develop and implement key performance indicators and performance assessment plans for monitoring and evaluating vendor performance.	Important	O	Receipt of evidence from UNON, UNEP and UN-Habitat of implementation of KPIs in vendor contracts, performance assessment plans, and ongoing performance evaluation of vendor performance during the life-cycle of contracts.	30 September 2019
3	UNON should: (i) ensure that performance security instruments are kept up to date and used in accordance with established procedures; and (ii) establish a mechanism to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors.	Important	O	Receipt of evidence that: (a) performance bonds are being used in accordance with established procedures, including their extension when contracts are extended and documenting reasons for any waivers; and (b) a mechanism has been established to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors.	(i) 30 April 2019 (ii) 31 October 2019
4	UNON, UNEP and UN-Habitat should strengthen acquisition planning and contract monitoring to minimize the number of contract amendments.	Important	O	Receipt of evidence that a system has been established for timely acquisition planning and monitoring of contract expiration dates.	30 September 2019
5	UNON should: (i) review and update all data in Umoja relating to contracts to ensure their accuracy and completeness; and (ii) establish the minimum contract documentation that should be uploaded in Umoja to ensure efficient and effective contract management.	Important	O	Receipt of evidence that UNON has: (a) reviewed and updated all data in Umoja relating to contracts; and (b) consulted with PD regarding the minimum contract documentation to be uploaded in Umoja.	30 September 2019

² 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.

³ 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.

⁴ C = closed, O = open

⁵ Date provided by UNON, UNEP and UN-Habitat in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of contract management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical²/ Important³	C/ O⁴	Actions needed to close recommendation	Implementation date⁵
6	UNON should ensure that contracts are closed in accordance with established procedures to safeguard the interests of the Organization.	Important	O	Receipt of evidence that controls have been strengthened to ensure that contracts are closed in accordance with established procedures.	30 September 2019
7	UNON should: (i) verify the validity of signed attendance lists submitted by contractors against security access records before certifying invoices for payment; and (ii) review the attendance records of contractor personnel for 2017 and 2018 against security access records for recovery of overpayments.	Important	O	Receipt of evidence that: (a) the validity of signed attendance lists submitted by contractors are being verified against security access records before certifying invoices for payment; and (b) the attendance records of contractor personnel whose grounds passes were returned in 2017 and 2018 have been reviewed and overpayments have been recovered as appropriate.	31 December 2019

APPENDIX I

Management Response

MANAGEMENT RESPONSE

Audit of contract management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNON, in consultation with UNEP and UN-Habitat, should assess the training needs of contract management staff and develop a training plan accordingly to upgrade/update their skills.	Important	Yes	Contract Management staff in UNON, UNEP and UN-Habitat	December 2019	UNON accepts the recommendation and agrees that all contract management staff in UNON, UNEP and UN-Habitat need to complete the training on contract management.
2	UNON, UNEP and UN-Habitat should develop and implement key performance indicators and performance assessment plans for monitoring and evaluating vendor performance.	Important	Yes	Contract Management staff in UNON, UNEP and UN-Habitat	September 2019	Although an official performance evaluation report is prepared at the end of the contractual period (as per the procurement manual), UNON agrees that input provided could be more comprehensive, rather than being treated as a check-list. UNON Procurement will request substantive offices to prepare more comprehensive evaluations for future reports. With regard to progressive performance evaluation during the period of the contract, individual contract managers within each substantive office of UNON, UNEP and UN-Habitat conduct ongoing performance evaluation, but this process is not uniform. UNON will therefore remind all substantive offices that ongoing progressive performance evaluation is required through regular meetings with vendors, and there should be a record

⁶ 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.

⁷ 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 ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						of this to include vendor performance assessment against contractual provisions.
3	UNON should: (i) ensure that performance security instruments are kept up to date and used in accordance with established procedures; and (ii) establish a mechanism to facilitate the application of appropriate remedies for non-performance of contractual obligations by contractors.	Important	Yes	(i) Procurement Section staff (ii) Contract Management staff	(i) April 2019 (ii) October 2019	UNON accepts the recommendation. UNON Procurement will ensure extension of performance bonds are done in accordance with established procedures. With regard to performance bonds, all new contracts since 2016 include this requirement. Of the selected contracts identified by OIOS as not having performance bonds, these were in three categories namely (a) income generation e.g. catering & fuel, (b) third party e.g. a computer vendor, (c) 'piggy-back' of another UN entity contract. Although the Procurement Manual does allow the responsible procurement official to decide whether to waive or not waive performance bonds in some of the above contracts (e.g. income generating), UNON Procurement agrees that any decision to waive a performance bond must be clearly documented. UNON agrees that all ongoing and future contracts must either have performance bond conditions, or clearly documented reasons for any approved waivers.
4	UNON, UNEP and UN-Habitat should strengthen acquisition planning and contract monitoring to minimize the number of contract amendments.	Important	Yes	Contract Management staff in UNON, UNEP and UN-Habitat	September 2019	UNON accepts that improved acquisition planning is required from all substantive offices of UNON, UNEP and UN-Habitat. This will also support resource planning and adherence to standard timelines for procurement exercises. UNON

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						<p>Procurement has already communicated to all relevant offices asking for a comprehensive acquisition plan for their 2019 requirements by end January 2019. Improved acquisition planning will reduce some time-based amendments, by ensuring replacement of new contracts before expiry of existing contracts.</p> <p>Amendments will however continue as the approved mechanism for recording and approving changes to contracts, and do not all reflect inadequate planning.</p>
5	UNON should: (i) review and update all data in Umoja relating to contracts to ensure their accuracy and completeness; and (ii) establish the minimum contract documentation that should be uploaded in Umoja to ensure efficient and effective contract management.	Important	Yes	Procurement Section	September 2019	UNON will seek guidance from Procurement Division in New York on minimum contract documentation that should be uploaded in Umoja. UNON will implement the recommendation based on such guidance.
6	UNON should ensure that contracts are closed in accordance with established procedures to safeguard the interests of the Organization.	Important	Yes	Procurement Section	September 2019	UNON will be guided by the established procedure on contract closure and implement the recommendation.
7	UNON should: (i) verify the validity of signed attendance lists submitted by contractors against security access records before certifying invoices for payment; and (ii) review the attendance records of contractor personnel for 2017 and 2018 against security access records for recovery of overpayments.	Important	Yes	Contract Management staff in UNON, UNEP and UN-Habitat	December 2019	UNON accepts the recommendation.