



INTERNAL AUDIT DIVISION

REPORT 2014/021

**Audit of the procurement,
administration and management of
freight forwarding contracts by the
Department of Management in support
of peacekeeping operations**

**Overall results relating to the effective
procurement, administration and
management of freight forwarding contracts
by the Department of Management in support
of peacekeeping operations were
satisfactory**

FINAL OVERALL RATING: SATISFACTORY

17 April 2014

Assignment No. AP2013/615/05

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AUDIT REPORT

Audit of the procurement, administration and management of freight forwarding contracts by the Department of Management in support of peacekeeping operations

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the procurement, administration and management of freight forwarding contracts by the Department of Management (DM) in support of peacekeeping operations.
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 Procurement Division of DM procured freight forwarding services through: (a) purchase orders established following requests for quotation and invitations to bid; (b) purchase orders against four system contracts; (c) other contracts established following requests for proposal; and (d) letters of assist. The Procurement Division established the systems contracts (three in September 2006 and one in October 2011) for optional use by the Secretariat to procure low-value freight services ranging from \$4,000 to \$40,000.
4. From 1 January 2011 to 30 June 2013, the Procurement Division issued 1,831 purchase orders valued at \$141.2 million, entered into 46 contracts valued at \$137 million and established 31 letters of assist valued at \$36 million for freight forwarding services. The Procurement Division conducted the procurement processes and established the related contracts in response to requisitions established by the Department of Field Support (DFS) and field missions.

II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of the DM governance, risk management and control processes in providing reasonable assurance regarding the **effective procurement, administration and management of freight forwarding contracts by DM**.
6. This audit was included in the 2013 audit plan because of the financial and operational risks related to the procurement, administration and management of freight forwarding services and contracts.
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as one that provides reasonable assurance that policies and procedures: (a) exist to guide the procurement, administration and management of freight forwarding contracts; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial information.
8. The key control was assessed for the control objectives shown in Table 2.
9. OIOS conducted this audit from June to December 2013. The audit covered the period from 1 January 2011 to 30 June 2013. For freight forwarding services procured from 1 January 2011 to 30 June

2013, the audit reviewed the case files in respect of: (a) 35 purchase orders valued at \$14.4 million out of 1,831 purchase orders valued at \$141.2 million; (b) five contracts valued at \$51.0 million out of a total of 46 contracts valued at \$137.0 million; and (c) five letters of assist valued at \$17.6 million out of a total of 31 letters of assist valued at \$36 million.

10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls 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

11. The DM governance, risk management and control processes examined were assessed as **satisfactory** in providing reasonable assurance regarding the **effective procurement, administration and management of freight forwarding contracts by DM**. The procurement of freight forwarding services by the Procurement Division complied with the key provisions of the Procurement Manual including source selection planning, preparation and issuance of solicitation documents, evaluation of bids and award of contracts. Also, supplier invoices were duly certified and approved prior to payment.

12. The overall rating was based on the assessment of key control presented in Table 1 below.

Table 1: Assessment of 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 |
| Effective procurement, administration and management of freight forwarding contracts by DM | Regulatory framework | Satisfactory | Satisfactory | Satisfactory | Satisfactory |
| FINAL OVERALL RATING: SATISFACTORY | | | | | |

Regulatory framework

Source selection planning, preparation and issuance of solicitation documents, evaluation of bids and award of contract complied with the Procurement Manual

13. The Procurement Manual required source selection planning, preparation and issuance of solicitation documents, control and evaluation of bids against criteria established in the solicitation documents, and the award of contracts to vendors with the best technical and lowest financial proposals in response to the relevant solicitation documents.

14. A review of 35 purchase orders, 5 contracts and 5 letters of assist indicated that the Procurement Division complied with the key provisions of the Procurement Manual. Based on the audit tests conducted, OIOS concluded that adequate procedures were in place and working as intended.

Documentation of source selection planning was updated to include rationale for not requesting security instruments

15. The Procurement Manual provided that decisions on whether security instruments were needed for certain solicitations or contracts required a careful assessment of facts and circumstances of the procurement, especially an assessment of the ramifications that may result if the concerned vendors failed to comply with their obligations. Any decision to not require security instruments was subject to the approval of the Director of the Procurement Division.

16. A review of 20 purchase orders and 5 contracts indicated that required performance bonds were in place, except for two purchase orders valued at \$4.4 million. For these two purchase orders, the Procurement Division did not document the results of their risk assessment to support the decision that a performance bond was not required, nor was there documentation of the required approval by the Director of the Procurement Division of such decision. This was because it was not mandatory for procurement officers to maintain evidence of the relevant risk assessments. To address this, the Procurement Division introduced a requirement for the documentation of source selection planning to include the rationale for not including the requirement for performance bonds based on the Division's assessment of risk, and this document would be provided to the Director of the Procurement Division for approval. OIOS was satisfied with the action taken to ensure that decisions and the bases for such decisions were adequately documented.

Vendors' invoices were duly certified and approved prior to payment

17. The United Nations Financial Regulations and Rules required that, prior to payment of invoices, receipt of goods and services were certified by designated officials and thereafter approved by the authorized officials. A review of invoices paid for freight forwarding vendors including troop-contributing countries in respect of 35 purchase orders and 5 letters of assist indicated that the required procedures were in place and working as intended.

IV. ACKNOWLEDGEMENT

18. OIOS wishes to express its appreciation to the Management and staff of the Departments of Management and Field Support for the assistance and cooperation extended to the auditors during this assignment.

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

APPENDIX I

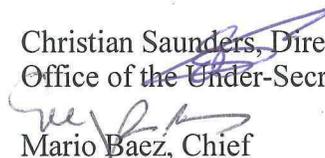
Management Response



TO: Ms. Eleanor T. Burns, Director
A: Internal Audit Division, OIOS

DATE: 4 April 2014

THROUGH: Christian Saunders, Director
S/C DE: Office of the Under-Secretary-General for Management

FROM:  Mario Baez, Chief
DE: Policy and Oversight Coordination Service
Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on an audit of the procurement, administration and management of freight forwarding contracts by the Department of Management in support of peacekeeping operations (Assignment No. AP2013/615/05)**
OBJET:

1. The Department of Management acknowledges receipt of your memorandum dated 19 March 2014 on the above subject draft report and has noted the overall satisfactory rating for the audit.

2. Thank you.

Logged - # 14-00917
4 April 2014