



## INTERNAL AUDIT DIVISION

### REPORT 2014/060

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Audit of the management of procurement activities in the Economic Commission for Latin American and the Caribbean

Overall results relating to the effective management of procurement activities were initially assessed as partially satisfactory. Implementation of one important recommendation remains in progress.

FINAL OVERALL RATING:  
PARTIALLY SATISFACTORY

30 June 2014  
Assignment No. AN2013/730/01

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# AUDIT REPORT

## Audit of the management of procurement activities in the Economic Commission for Latin America and the Caribbean

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of procurement activities in the Economic Commission for Latin America and the Caribbean (ECLAC).
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. ECLAC is one of the five regional commissions of the United Nations. It was founded with the purpose of contributing to the economic development of Latin America and the Caribbean, coordinating actions directed towards this end, and reinforcing economic ties among countries and with other nations of the world as well as promoting the region's social development. The secretariat of ECLAC is headed by an Executive Secretary at the Under-Secretary-General level with headquarters in Santiago, Chile, and two sub-regional offices in Mexico City serving the Central American sub-region and in Trinidad and Tobago covering the Caribbean sub-region. In addition, ECLAC maintains country offices in Buenos Aires, Brasilia, Montevideo and Bogotá, as well as a liaison office in Washington, D.C.
4. The Procurement Unit in ECLAC was responsible for the procurement activities at headquarters in Santiago and the sub-regional and country offices. It operated with eight staff members and was headed by the Chief at the P-3 level who reported to the Director of the Division of Administration at the D-1 level. Procurement expenses incurred for the periods 2011, 2012 and the first six months of 2013 were \$15,024,032, \$6,101,247 and \$4,393,871 respectively.
5. Comments provided by ECLAC are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of ECLAC governance, risk management and control processes in providing reasonable assurance regarding the **effective management of procurement activities in the Commission**.
7. The audit was included in the 2013 OIOS risk-based work plan due to the operational and financial risks relating to the procurement process.
8. The key controls tested for the audit were: (a) delegation of authority; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Delegation of authority** - controls that provide reasonable assurance that authority for procurement functions has been delegated formally and in accordance with relevant regulations and rules. These controls also include periodic reporting and monitoring of the execution of delegated authority.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide procurement operations; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. OIOS conducted the audit from 16 September to 18 October 2013. The audit covered the period from January 2011 to 30 June 2013 and reviewed the following activities: (i) acquisition planning; (ii) delegation of authority; (iii) solicitation and evaluation process; (iv) vendor registration and management; (v) contract process and award; and (vi) contracts management. OIOS reviewed 16 procurement cases for contracts valued at \$5 million (20 per cent of total value of purchases) from requisitioning to vendor payments. Additionally, OIOS selected 97 files with procurement activities valued at \$9.8 million (40 per cent of total value of purchases), which included 35 suppliers, to review ECLAC's acquisition planning activities.

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 ECLAC governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **effective management of procurement activities in the Commission**. OIOS made 5 recommendations to address issues identified in the audit. For the selected procurement cases reviewed, the procurement activity complied with key provisions of the Procurement Manual including (a) source selection planning; (b) the use of proper types of solicitation for the procurement of goods and services; (c) submissions against the Requests for Proposals (RFPs) for technical and commercial evaluation; and (d) receipt of goods and services before payments were made. Additionally, the five procurement staff interviewed met the Procurement Manual's provisions for ethical standards in procurement. However, some control weaknesses were identified regarding: (a) exercise of delegated authority limits on procurement as there were cases of procurement actions approved by officials without appropriate delegation of authority; (b) annual acquisition plans as acquisition of goods and services were not consolidated in some instances since multiple purchases of the same goods from the same vendors were purchased within very short periods of time; (c) contracts management as vendor performance was not consistently evaluated; (d) issuance of contractual instruments to vendors as purchase orders did not include the United Nations general terms and conditions; and (e) oversight responsibility of the Local Committee on Contracts which needed to be strengthened.

12. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of one important recommendation remains in progress.

**Table 1: Assessment of key controls**

Business objective(s)	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of procurement activities in ECLAC	(a) Delegation of authority	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
<b>INITIAL RATING: PARTIALLY SATISFACTORY</b>					

### **A. Delegation of Authority**

Delegation of authority for contract administration were being strengthened

13. The delegation of procurement authority to officials of ECLAC was issued by the Under-Secretary-General for Management in accordance with United Nations financial rules. Individual procurement officials had delegation of authority ranging from \$4,000 to \$200,000 with the following levels of delegated authority for individual transactions:

- a. Santiago - \$200,000
- b. Mexico - \$50,000
- c. Port-of-Spain - \$25,000
- d. Buenos Aires, Bogota, and the liaison office in Washington DC - \$2,500 each

14. The 16 procurement cases reviewed by OIOS were generally processed within the delegated authority limits and those in excess of the limits were submitted to the appropriate committee on contracts for review and subsequent approval. However, the delegation of authority was not followed in the following cases:

- An Officer-in-Charge (OIC) for the Office of the Director of Administration signed four contracts. The Finance Officer was the designated OIC in the interim period pending appointment of a new Director of Administration. The OIC had no procurement authority delegated to him under the financial rules.
- On 18 January 2012, an Administrative Officer signed a purchase order for \$46,000 on behalf of the Officer-In-Charge of the Administration Section in the Port-of-Spain Country Office. The Administrative Officer had no procurement authority delegated to him and the purchase order amount of \$46,000 exceeded the \$25,000 delegation of authority limit for the Port-of-Spain Country Office.

**(1) The Director of Administration should ensure that: (i) only authorized officials with the appropriate procurement delegation of authority sign contracts and purchase orders as required under United Nations financial rules; and (ii) contracts signed by unauthorized individuals are promptly reviewed and reapproved by the authorized individuals with the required delegation of authority.**

*ECLAC accepted recommendation 1 and stated that the new Director of Administration was appointed, and has received the corresponding delegation of procurement authority on 23 May 2013. The new Director of Administration has reviewed and reapproved the contracts accordingly. An internal Note to File records actions completed. Based on the action taken by ECLAC, recommendation 1 has been closed.*

## **B. Regulatory framework**

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

15. The Procurement Manual required that goods and services be procured within specified timelines using the appropriate forms of procurement indicated in the Manual. The 16 procurement contracts reviewed complied with the procurement requirements with proper types of solicitation used in most instances and procurement case files contained source selection plans where appropriate. RFQs were sent in most instances to the required number of vendors, and technical and commercial evaluations were conducted for the RFPs within the established procedures.

16. Additionally, the Manual required that procurement staff be aware of updates and changes to the Manual and that they attend ethical training and restrictions placed on post-employment activities. The five procurement staff interviewed were: (a) aware of the changes in the updated Manual; (b) appropriately informed of these updates; (c) up to date in ethical training; and (d) aware of post-employment restrictions.

17. Based on the results of the audit tests, OIOS concluded that adequate procedures were in place and were generally working as intended.

### Inadequate consolidation of goods and services resulted in repeat purchases from the same vendor over a short period of time

18. The Procurement Manual required that acquisition planning be a cooperative process by which the requisitioner and the Procurement Unit devise a comprehensive plan for fulfilling the requisitioner's needs in a timely manner and for consolidating the plan to obtain goods and services at competitive pricing.

19. OIOS reviewed 97 procurement case files for contracts valued at \$9.8 million (40 per cent of total value of purchases), which included 35 suppliers. OIOS observed eight instances of repeat purchases of the same products from the same supplier at different prices. Some purchases were made within six days of each other and in one instance goods were purchased on the 15, 22 and 30 July 2013 from the same supplier.

### **(2) The Director of Administration should improve the procurement planning process by implementing a mechanism to ensure consolidated acquisition of goods and services.**

*ECLAC accepted recommendation 2 stating that the procurement annual plan will be requested from all requisitioning offices throughout the first week of October and consolidated during the first week of December in order to be submitted to UNHQ Procurement Division by the first week of January 2015. Recommendation 2 remains open pending receipt of the implementation of a procurement planning mechanism to ensure consolidated acquisition of goods and services.*

Requisitioners did not always conduct performance evaluation of vendors

20. The Procurement Manual required that the Procurement Unit, in cooperation with the requisitioner, ensure that adequate vendor performance evaluations were conducted and reported in a timely manner in order to properly assess the performance of vendors against contract obligations.

21. OIOS reviewed 16 procurement cases of which six cases included performance evaluations on vendors and the remaining 10 did not include such evaluations. The performance evaluations, however, were not kept in the six procurement case files reviewed but were maintained in the requisitioners' files. Additionally, in general, performance evaluations were limited to contract extensions. For major construction contracts, a detailed progress report was prepared and reviewed before payment was made to the vendor; however, the required interim performance evaluation for the vendor was not completed and was not placed in the procurement file for future procurement reference. At the date of the audit, the major construction contracts were still under warranty and so final performance evaluations were not completed. When vendor performance evaluations were not performed by the requisitioners on a timely basis, ECLAC was exposed to the risk of awarding contracts to poor performing vendors due to lack of information.

**(3) The Director of Administration should implement a system to consistently evaluate vendor performance and ensure that all vendor evaluations are retained in procurement case files.**

*ECLAC accepted recommendation 3 and stated that vendor performance reports are consistently prepared by requisitioners. These reports were maintained in separate files instead of maintaining them together in the procurement files. In implementing the audit recommendation, ECLAC is reorganizing its files to ensure that vendor performance reports are maintained in the respective procurement files. ECLAC distributed an internal procurement memorandum dated 18 June 2014 to all Procurement Unit staff implementing Standard Operating Procedures to ensure timely completion, distribution, receipt and archiving of vendors performance reports. Based on the action taken by ECLAC, recommendation 3 has been closed.*

Controls over segregation of duties relating to procurement staff serving in the Tender Opening Committee have improved

22. The Procurement Manual required compliance with the principle of segregation of responsibilities between requisitioning, finance and procurement functions within the overall acquisition process but at the same time emphasized the need for cooperation in exercising their distinct roles. It specified that the Procurement Officer should not be a member of the Tender Opening Committee and may, where appropriate, attend the Committee meeting as an observer.

23. However, there were instances of Procurement Unit staff serving on the Tender Opening Committee as a member and in all such instances RFP's were issued. This resulted in a lack of segregation of duties. The Procurement Unit was unaware that procurement staff should not be included in the Tender Opening Committee as per the Manual.

24. Since the audit, ECLAC has reconstituted the Tender Opening Committee in compliance with the Procurement Manual and has issued memorandum dated 14 March 2014 to this effect. Based on the action taken by ECLAC, OIOS concluded that controls over segregation of duties relating to procurement staff serving in the Tender Opening Committee have improved.

Standard United Nations terms and conditions were omitted from the purchase orders

25. The Procurement Manual provided that the terms and conditions on the front page of the purchase order, the general terms and conditions annexed to the purchase order, and any other related attachments or documents constituted the contract between the United Nations and the vendors and governed the parties' obligations.

26. For all 16 procurement case files reviewed, the Procurement Unit did not provide vendors with the appropriate annexes to the purchase order. Vendors were provided with the front page which outlined the product specification, number and pricing but were not given the general conditions which were the basis for the contract with the United Nations. Failure to provide the vendors with the general conditions of the contract could result in the United Nations being unable to fully enforce its contracts if the need arose.

**(4) The Procurement Unit should implement a monitoring mechanism to ensure that the general terms and conditions are included on all purchase orders sent to vendors.**

*ECLAC accepted recommendation 4 and stated that the practice in the Procurement Unit has been to include the General Terms and Conditions in the request for quotations and request for proposal sent to vendors. However, following the audit observation, the Director of Administration issued memorandum dated 18 June 2014 requesting the Procurement Unit to attach a copy of the United Nations general terms and conditions to all purchase orders issued to vendors and that a copy of the correspondence should be included in the contract file. Based on the action taken by ECLAC, recommendation 4 has been closed.*

The composition of the Local Committee on Contracts members has improved to conform to the Procurement Manual

27. In a memorandum dated 21 January 2013, the Director of Administration appointed eight members to the LCC. The Procurement Manual, however, stated that the LCC should comprise of four voting members with alternates. In the prior period, the LCC correctly consisted of four members and four alternates. The Director of Administration explained that a verbal directive from UNPD was received to appoint all eight members to the LCC without alternates as they had encountered problems in the past when persons, both members and alternates, were not in the duty station which led to difficulty in making a quorum for timely meetings. This exception, however, was not received in writing.

28. Since the audit, ECLAC has reorganized the Local Committee on Contracts in compliance with the Procurement Manual to designate four voting members and four alternates, and has issued a memorandum dated 21 April 2014 to the Chairman of the Headquarters Committee on Contracts to this effect. Based on the actions taken by ECLAC, OIOS concluded that the Local Committee on Contracts composition has improved to comply with the Procurement Manual.

The Local Committee on Contracts members needed to provide adequate oversight of the procurement process

29. The Procurement Manual required LCC members to provide adequate oversight in their advisory role in the procurement process. While the LCC was not required to provide advice on the adequacy or necessity of the requirements of the procurement, it had to ensure that the procurement process considered best value for money, fairness, integrity, transparency and international competition.



30. OIOS reviewed 16 procurement cases, of which five cases were presented to and approved by the LCC before being presented to the Headquarters Committee on Contracts (HCC). HCC, however, rejected two of the five cases citing discrepancies with the solicitation process in one case and failure to use an Expression of Interest to solicit new vendors during a rebidding process in the other case. After the rejection by the HCC, the ECLAC Executive Secretary intervened in both cases by providing further information and explanation, after which the HCC recommended negotiations with the vendor. The LCC did not adequately pose the necessary questions about the procurement process to (i) ensure best value for money by requesting a new Expression of Interest in accordance with the re-solicitation process; and (ii) conduct proper financial assessment of the vendors on a timely basis. OIOS concluded that this was caused by inadequate oversight by the LCC members in the procurement process.

**(5) The Director of Administration should ensure that instructions are provided to the Local Committee on Contracts to provide adequate oversight to the procurement process as required in the Manual.**

*ECLAC accepted recommendation 5 and stated that the Director of Administration issued a memorandum to the LCC members reminding them to provide adequate oversight to ensure that the procurement process complied with the United Nations Procurement Manual. Based on the action taken by ECLAC, recommendation 5 has been closed.*

#### **IV. ACKNOWLEDGEMENT**

31. OIOS wishes to express its appreciation to the Management and staff of ECLAC 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 the management of procurement activities in the Economic Commission for Latin America and the Caribbean

Recom. 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	The Director of Administration should ensure that: (i) only authorized officials with the appropriate procurement delegation of authority sign contracts and purchase orders as required under United Nations financial rules; and (ii) contracts signed by unauthorized individuals are promptly reviewed and reapproved by the authorized individuals with the required delegation of authority.	Important	C		Implemented 18 June 2014
2	The Director of Administration should improve the procurement planning process by implementing a mechanism to ensure consolidated acquisition of goods and services.	Important	O	Receipt of evidence of a procurement planning mechanism to ensure consolidated acquisition of goods and services.	1 <sup>st</sup> week October 1 <sup>st</sup> week of December 1 <sup>st</sup> week of January 2015
3	The Director of Administration should implement a system to consistently evaluate vendor performance and ensure that all vendor evaluations are retained in procurement case files.	Important	C		Implemented 18 June 2014
4	The Procurement Unit should implement a monitoring mechanism to ensure that the general terms and conditions are included on all purchase orders sent to vendors.	Important	C		Implemented 18 June 2014
5	The Director of Administration should ensure that instructions are provided to the Local Committee on Contracts to provide adequate oversight to the procurement process as required in the Manual.	Important	C		Implemented 18 June 2014

<sup>1</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>2</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>3</sup> C = closed, O = open

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

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of the management of procurement activities in the Economic Commission for Latin America and the Caribbean

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Director of Administration should ensure that: (i) only authorized officials with the appropriate procurement delegation of authority sign contracts and purchase orders as required under United Nations financial rules; and (ii) contracts signed by unauthorized individuals are promptly reviewed and reapproved by the authorized individuals with the required delegation of authority.	Important	YES	DOA & Chief Procurement Officer	18 June 2014	The Director of Administration has reviewed and reapproved the contracts accordingly. An internal Note to the File records actions completed.
2	The Director of Administration should improve the procurement planning process by implementing a mechanism to ensure consolidated acquisition of goods and services.	Important	YES	DOA	1 <sup>st</sup> week October 1 <sup>st</sup> week of December 1st week of January 2015	ECLAC procurement annual plan will be requested to all requisitioning offices throughout the first week of October and consolidated during the first week of December in order to be submitted to UNHQ Procurement Division by the first week of January 2015.
3	The Director of Administration should implement a system to consistently evaluate vendor performance and ensure that all vendor evaluations are retained in procurement case files.	Important	YES	Chief Procurement Officer	18 June 2014	a) Internal procurement memorandum stating Standard Operating Procedures in order to ensure timely distribution, receipt and archiving of vendors performance reports has been distributed to all Procurement Unit staff. b) Owing to technical issues, the United Nations General Conditions of Contracts (UNGCC) cannot be

<sup>5</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>6</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.

## Management Response

## Audit of the management of procurement activities in the Economic Commission for Latin America and the Caribbean

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						issued in electronic format as one document, together with the Purchase Order.
4	The Procurement Unit should implement a monitoring mechanism to ensure that the general terms and conditions are included on all purchase orders sent to vendors.	Important	YES	DOA	18 June 2014	Memo from the DOA requesting Procurement Unit to attach a copy of the UNGCC to all Purchase Orders issued to vendors. Copy of the correspondence should be included in the contract file.
5	The Director of Administration should ensure that instructions are provided to the Local Committee on Contracts to provide adequate oversight to the procurement process as required in the Manual.	Important	YES	DOA	18 June 2014	Memo from the DOA to the LCC members reminding them to provide adequate oversight and ensure that the procurement process is in accordance to the UN Procurement Manual.