



INTERNAL AUDIT DIVISION

REPORT 2014/154

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Overall results relating to contract management and vendor performance monitoring were initially assessed as partially satisfactory. Implementation of six important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

29 December 2014
Assignment No. AR2014/167/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-8
Performance monitoring indicators and mechanisms	3-8
IV. ACKNOWLEDGEMENT	8
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees (UNHCR).
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 Management and Contracting Service (PMCS) in the Division of Emergency, Security and Supply (DESS) is responsible for global oversight of contract management and vendor performance monitoring at UNHCR. PMCS is managed by a Head of Service and has 21 staff divided into four teams dealing with: a) Field procurement; b) Goods; c) Services; and d) Quality assurance. The terms of reference for PMCS include: the identification of suppliers and sources of goods and services; international procurement of goods and services; product and supplier evaluation; establishment of frame agreements for goods and services; provision of guidance to the field and headquarters on procurement procedures; and order monitoring and administration.
4. Procurement in UNHCR aggregated to \$900 million in 2013. UNHCR field offices undertook 57 per cent of the total value of procurement, with the headquarters procuring the remaining 43 per cent.
5. Comments provided by the UNHCR Division of Emergency, Security and Supply are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding **effective contract management and vendor performance monitoring in UNHCR**.
7. The audit was included in the 2014 risk-based internal audit work plan for UNHCR due to the risk of losses or inefficient use of resources associated with weaknesses in contract management and vendor performance monitoring given that procurement involves significant expenditures and is vulnerable to fraud.
8. The key control tested for the audit was performance monitoring indicators and mechanisms. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that metrics are: (a) established and appropriate to enable UNHCR to monitor and measure the performance of contractors; (b) prepared in compliance with rules and are properly reported on; and (c) used to manage contracts appropriately.
9. The key control was assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from April to September 2014. The audit covered the period from 1 January 2012 to 31 March 2014. The UNHCR offices covered in the audit included the headquarters office in Budapest, Hungary, as well as the Representation offices in Kenya, Ethiopia, Chad, Pakistan, Lebanon and Jordan.

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

III. AUDIT RESULTS

12. The UNHCR governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding **effective contract management and vendor performance monitoring in UNHCR**. OIOS made six recommendations to address the issues identified in the audit.

13. Performance monitoring indicators and mechanisms were partially satisfactory because: a) the UNHCR Manual needed to be reviewed and updated to incorporate more detailed guidelines on contract management and to clarify the roles and responsibilities of PMCS and the requesting unit in contract management to ensure effective monitoring of contracts; b) a comprehensive assessment and analysis of contract management risks needed to be undertaken and mitigation measures identified; c) contract files needed to be maintained more effectively and a database was needed to facilitate the contract monitoring process; d) vendor review committees needed to be set up in all UNHCR offices and they needed to work in line with their terms of reference; e) clear guidelines were required to ensure that the hiring of contractors for construction services was supported by written contracts; and f) the liquidated damages clause needed to be consistently included in contracts.

14. The initial overall rating is based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as the implementation of six important recommendations remains in progress.

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 contract management and vendor performance monitoring in UNHCR	Performance monitoring indicators and mechanisms	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

¹ A rating of “partially satisfactory” means that important (but not critical or pervasive) deficiencies exist 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.

Performance monitoring indicators and mechanisms

Need to review and update guidelines on contract management

15. The procurement and management of contracts within UNHCR is governed by Chapter 8 of the UNHCR Manual. For procurement rules to be effective, they need to be updated from time to time, given the ever-changing environment in which procurement is undertaken. Besides, roles and responsibilities of managers need to be clear with regard to the monitoring of deliveries from the vendor against contract specifications.

16. The August 2013 revision of the procurement rules in Chapter 8 of the UNHCR Manual did not include any updates to the guidelines and procedures for effective contract management. The relevant sections of Chapter 8 predominantly dealt with contract planning and formulation and did not include detailed guidelines on contract administration, contract file management, dispute resolution and closure of contracts, among other fundamental contract management procedures. Chapter 8 also contained a clause that gave PMCS the responsibility to monitor contract deliverables but, at the same time, it also stated that the requesting unit was responsible for monitoring deliverables. As a result, PMCS did not designate any of its staff to monitor the delivery of two contracts with a total combined value of \$6.2 million: (i) implementation of refugee registration and case management software (proGres V4) valued at \$4.1 million; and (ii) consultancy and managed services and training for the implementation of International Public Sector Accounting Standards valued at \$2.1 million. In the latter case, the payments made to the vendor were not accompanied by the required progress reports as stipulated in the contract. Both of these contracts experienced delays in execution attributable to lack of clarity on who would monitor contract implementation. PMCS pointed out the ambiguity in the wording of the above-mentioned clause, which it took to mean that the requesting unit, and not PMCS, was responsible for monitoring deliverables.

17. The above shortcomings were due to insufficient management attention to the update of contract management procedures and guidelines. Consequently, the UNHCR Manual was not providing adequate guidance to headquarters and field offices on contract management issues.

<p>(1) The Division of Emergency, Security and Supply should: a) review Chapter 8 of the UNHCR Manual and incorporate detailed guidelines on contract management; and b) revise the procedures in Chapter 8 of the UNHCR Manual to clarify the roles and responsibilities for contract management, especially between the Procurement Management and Contracting Service and the requesting unit, to ensure that contract deliverables are monitored and payments made are linked to deliverables.</p>

18. *DESS accepted recommendation 1 and stated that it was in the process of reviewing and enhancing the parts of Chapter 8 relating to contract management. This would take into consideration the results of the ongoing review of the supply chain organization by an external service provider, which would be available in the first quarter of 2015. As the update of Chapter 8 was a complex task, DESS intended to establish a project plan with milestones and a time table by the end of 2014. In order to provide additional guidance on contract management in the short run, DESS planned to establish a section with frequently asked questions on the intranet by the end of first quarter of 2015. Recommendation 1 remains open pending completion of the review and update of Chapter 8 relating to contract management.*

A comprehensive assessment and analysis of contract management risks needed to be undertaken and mitigation measures identified

19. The UNHCR Strategic Framework for the Prevention of Fraud and Corruption provides that managers are expected to put in place appropriate controls to prevent and address fraud and corruption risks. To achieve this, UNHCR managers responsible for procurement are required to complete a fraud and corruption risk assessment template to guide the process of risk assessment.

20. Whilst the Compliance and Risk Management Unit within DESS had done a risk assessment in 2013, the only contract management risk was identified in the following terms: “If the contracts are not comprehensively managed and maintained in a central database then key dates and action required might be overlooked resulting in financial losses or weakening UNHCR’s legal positions”. This risk assessment did not identify several other potential risks in contract management, such as those related to vendor performance monitoring, vendor relationship management, dispute resolution, fraud and corruption, and contract close-out.

21. The above shortcoming happened because PMCS had not undertaken a detailed fraud and corruption risk assessment and put in place adequate measures to mitigate risks in all important areas of contract management. In the absence of a more elaborate and structured risk assessment process, PMCS was not in the position to manage contract management risks effectively.

<p>(2) The Division of Emergency, Security and Supply should: (a) undertake a comprehensive risk assessment to identify and assess contract management risks; and (b) identify appropriate risk mitigation measures.</p>

22. *DESS accepted recommendation 2 and stated that it would update its existing risk register based on a risk workshop with PMCS and the Supply Management and Logistics Service scheduled for the first quarter of 2015. In addition, DESS planned to conduct a separate workshop focusing on mitigating measures regarding the procurement related fraud and corruption risks identified. Recommendation 2 remains open pending completion of the process of identification of risks in contract management and assessment of appropriate mitigation measures.*

Contract files needed to be maintained more effectively and a database was needed to facilitate the contract monitoring process

23. The United Nations Procurement Manual requires that an information technology-based contract management and reporting system should be used to alert staff and requisitioners of key dates such as contract extension and validity of surety documents. This manual further stipulates the need for maintaining contract files that should contain documents relating to pre-solicitation, solicitation, vendor responses, award and post-award phases of the contract.

24. The following weaknesses were identified in the OIOS review of contract filing and contract data management procedures in UNHCR headquarters and field offices:

- UNHCR offices did not maintain comprehensive and complete contract files. For example, at the UNHCR headquarters office in Budapest, files were not always kept in order after the closure of the contract, and the price schedule of the \$2.1 million contract for the delivery of consultancy and managed services and training for the implementation of International Public Sector Accounting Standards could not be found on file. In the UNHCR Representation in Chad, correspondence was missing for the file for the rental of the N’Djamena office and also for the contract for the construction of an airstrip at Haraze. In the UNHCR Representation in Ethiopia,

files did not contain all the relevant contract management information as required. Bid tabulation details were kept separately from the actual contracts, such that for the purposes of this audit, a special arrangement had to be made by the office to extract all relevant documentation for each contract reviewed.

- UNHCR offices at headquarters and in field locations did not maintain an information technology-based contract management and reporting database in which key information on contracts would have been recorded.

25. The lack of compliance with the minimum filing procedures was due to the absence of mechanisms to monitor compliance. As a result, a good records trail, critical to prevent confusion in the management of contracts due to the dynamic nature of the procurement function and the mobility of procurement staff, was missing. The lack of an information technology-based contract management and reporting database meant that PMCS did not have data on contracts at the global level, specifying contracts held by each office, and their value and duration.

(3) The Division of Emergency, Security and Supply should: (a) establish appropriate monitoring mechanisms to ensure compliance with minimum filing requirements for contract files; and (b) create a database for contract management in which key information on contracts is recorded.

26. *DESS accepted recommendation 3 and stated that it would specify the filing requirements for contract files as part of the update of Chapter 8 of the UNHCR Manual. Apart from this, a contract management and reporting database would be established in order to facilitate the management and monitoring of contracts. Recommendation 3 remains open pending specification of the filing requirements in Chapter 8 and creation of a contract management and reporting database to facilitate contract management and monitoring.*

Vendor Review Committees needed to be set up in all offices and to work in line with their terms of reference

27. The UNHCR vendor registration process requires that a Vendor Review Committee should be set up in all UNHCR offices. The committee is required to review and make recommendations to the respective approving authority on the annual update of the existing vendor database. The committee, in close cooperation with the local UNHCR supply team, is also required to establish vendor evaluation criteria and provide advice about vendors who commit or are involved in unethical activities. Further, it is empowered to change the status of vendors who have not been selected for a purchase order, or invited but not participated in any tender, during the past three years to “inactive”.

28. A review at the UNHCR headquarters office in Budapest and the selected field offices showed that whereas in Budapest and Kenya the Committees had been established, they did not exist in Chad and Ethiopia. Offices in the countries reviewed were well aware of the need to establish vendor review committees but did not consistently comply with UNHCR requirements. Where vendor review committees existed, they did not consistently function as intended. For example, in Budapest and in Kenya, they did not ensure that the vendor registration database was updated, as required by their terms of reference, and did not assess vendor performance. Instead, they focused primarily on approving the addition of vendors to the database.

29. OIOS also observed that:

- In May 2014, there were 37,945 dormant vendors in MSRP. These vendors had last done business with UNHCR before 31 December 2010. Some of them had not had any transaction with UNHCR since 2005. The status of all these vendors was shown as active, and the Vendor Review Committee at UNHCR headquarters had not yet overseen efforts to clean the database.
- The performance of vendors, even where significant contract values were involved, was not consistently evaluated. For example, in Budapest, performance was not evaluated of the vendors for the contract for \$4.1 million for the implementation of the proGres V4 and the contract for \$2.1 million for the delivery of consultancy and managed services and training for the implementation of International Public Sector Accounting Standards. In Ethiopia, the performance of a vendor hired for \$93,000 to construct a school block at Awbarre Camp was not evaluated, and the vendor was not removed from the list of vendors despite failure to perform the contract in full. In Chad, only the performance of one vendor was evaluated in a period of two years, despite the office having contracts with more than 50 vendors during that period.

30. The above-mentioned deficiencies were associated with insufficient oversight over the establishment and functioning of the vendor review committees by DESS, and lack of trained vendor review committee members. As a result, UNHCR offices risked transacting with dormant vendors or with vendors whose performance capacity may not have been properly evaluated and could have deteriorated over time.

(4) The Division of Emergency, Security and Supply should: (a) monitor the functioning of vendor review committees; and (b) train vendor review committee members in effectively carrying out their assigned roles, including the evaluation of the performance of vendors.

31. *DESS accepted recommendation 4 and stated that it would request additional resources for the procurement function. If approved, this would allow PMCS to monitor the effective functioning of vendor review committees based on random reviews of selected operations. Besides, PMCS would provide training to vendor review committees and individuals when requested. Recommendation 4 remains open pending receipt of evidence of strengthened monitoring of the vendor review committees in the field and the conduct of training for committee members.*

Clear guidelines were needed to ensure that the hiring of contractors for construction services is supported by written contracts

32. The United Nations Procurement Manual requires all procurement actions over the monetary value of specific threshold(s) to be in writing. The minimum threshold for written contracts is set at \$4,000.

33. To facilitate the contract formulation process, UNHCR Legal Advisory Service, in coordination with PMCS, had put in place a model contract for use in construction and civil works. However, UNHCR field offices did not consistently establish written contracts for construction projects. While written contracts were in place in Lebanon and Jordan, no written contracts were used in 2013 in the Dadaab Sub Office in the UNHCR Representation in Kenya. In this Office, none of the five construction contracts selected for a detailed review by OIOS, with a total value of \$2 million, were supported by written contracts. As a result, the Sub Office:

- struggled to address the issue of poor performance, delayed completion, and poor quality workmanship of one contractor engaged to construct nine studio houses for \$412,344, since the purchase order did not stipulate detailed contractual specifications;

- hired a vendor using only a purchase order for \$818,325. However, because the numbers of housing units were not clearly agreed upon in a written contract, disputes arose on contract deliverables which had not been resolved at the time of the audit.

34. Written contracts were not consistently used for construction projects due to the absence of a UNHCR-wide mechanism to ensure compliance with the requirements of the United Nations Procurement Manual. UNHCR therefore risked being exposed to litigation and disputes with vendors. Given that construction contracts were among the top ten most procured services in UNHCR in 2013, and the complex nature of such contracts, it was essential that the UNHCR interests were protected by legally binding written contracts.

(5) The Division of Emergency, Security and Supply should establish a mechanism to ensure compliance with Chapter 13 of the United Nations Procurement Manual which requires that written construction contracts are established before the work is commenced, with clearly defined deliverables to protect the interests of UNHCR and to avoid disputes.

35. *DESS accepted recommendation 5 and stated that it would shortly finalise a comprehensive manual on the acquisition of premises which would also cover construction projects. The manual would set out procedures to be followed for the acquisition of premises which would depend on whether a premise is leased, constructed or refurbished. Apart from this, the manual would require that construction contracts are established in writing and contain clearly defined deliverables. Recommendation 5 remains open pending revision of the guidelines requiring that all construction contracts are established in writing with clearly defined deliverables.*

The liquidated damages clause needed to be consistently included in contracts and used whenever there were breaches

36. The UNHCR standard conditions for contracts, which are aligned with the general conditions of United Nations contracts, require the inclusion of standard clauses, *inter alia*, on performance securities, warranties, guarantees and liquidated damages. These clauses ensure that UNHCR has a range of options available to it in the event of improper performance by a contractor or vendor.

37. The UNHCR offices in the field were not consistent in including the liquidated damages clauses during contract formulation. In Ethiopia, two of the four contracts reviewed had a clause for liquidated damages of 10 per cent of the contract value in the event of failure to perform. However, the remaining two did not have this clause. In one contract that lacked such a clause, the UNHCR Representation could not charge liquidated damages following a ten-month delay by a contractor. In Pakistan, OIOS reviewed five purchase orders for non-food items with a combined value of over \$4 million. They were made under two local frame agreements. Of the five, three had no penalty clauses. The other two included a clause stating: “late delivery, or dispatch outside the agreed schedule, shall be subject, without notice to an assessment of liquidated damages equivalent to 0.1 percent per day of the total value of the purchase order.”

38. In addition, Representations did not consistently implement liquidated damages clauses even after including them in their contracts. In Ethiopia, the contract for \$93,662 to build classroom blocks at Awbarre Camp had a clause that 10 per cent of the contract price would be deducted as liquidated damages in the event of failure to perform. The contractor did not finish the work, but the 10 per cent for liquidated damages was not deducted. In Pakistan, despite a 15-day delay by the vendor to supply the goods as agreed, the Representation did not exercise its right to levy penalties as stipulated in the liquidated damages clause. Had the Representation exercised its right, it would have paid \$12,140 less.

39. By not consistently including penalty clauses and enforcing them, the Representations suffered financial losses. In addition, the lack of penalties meant that the offices made no distinction between performing and non-performing vendors increasing the likelihood of delays. The main cause of these shortcomings was the reluctance of the Representations to levy contractually available penalties upon suppliers who had failed to deliver. They considered good supplier relationships to be more important. However, where penalty clauses were included in contracts and purchase orders and clearly brought to the attention of the supplier, it should have been possible to maintain good supplier relations while still adhering to contractual terms.

(6) The Division of Emergency, Security and Supply should set up a mechanism to monitor and enforce the requirement for field offices to consistently include penalty clauses for late delivery and other aspects of non-performance in their agreements with suppliers and to enforce these clauses where applicable.

40. *DESS partially accepted recommendation 6 and stated that it would liaise with the UNHCR Legal Affairs Service on whether penalty clauses should be incorporated into the general terms and conditions of contracts to address instances of late delivery and other cases of contractual non-performance. DESS highlighted that this might take some time as it also intended to harmonise the general terms and conditions with other United Nations organisations. But while DESS agreed with the importance of monitoring to ensure that the penalty clauses were enforced in field offices, it concluded, after careful consideration, that it would not be feasible for PMCS to assume this responsibility in the short-term considering the current organisational set up. Based on the current set up, the responsibility for procurement in the field was with the country operations while PMCS issued policies and instructions and provided guidance. In addition, PMCS did not have the resources to monitor contracts in the field nor the required access to relevant information. Since PMCS is responsible for order monitoring, contract administration and provision of guidance to the field and headquarters on procurement procedures, OIOS reiterates its recommendation that DESS should set up a mechanism for monitoring and enforcing the use of penalty clauses in the field to address late delivery and other aspects of contractual non-performance.*

IV. ACKNOWLEDGEMENT

41. OIOS wishes to express its appreciation to the Management and staff of the UNHCR Division of Emergency, Security and Supply 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 contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The Division of Emergency, Security and Supply should: a) review Chapter 8 of the UNHCR Manual and incorporate detailed guidelines on contract management; and b) revise the procedures in Chapter 8 of the UNHCR Manual to clarify the roles and responsibilities for contract management, especially between the Procurement Management and Contracting Service and the requesting unit, to ensure that contract deliverables are monitored and payments made are linked to deliverables.	Important	O	Submission to OIOS of the updated Chapter 8 relating to contract management.	30 September 2015
2	The Division of Emergency, Security and Supply should: (a) undertake a comprehensive risk assessment to identify and assess contract management risks; and (b) identify appropriate risk mitigation measures.	Important	O	Submission to OIOS of evidence of completion of the process of identification of risks in contract management and assessment of appropriate mitigation measures.	31 March 2015
3	The Division of Emergency, Security and Supply should: (a) establish appropriate monitoring mechanisms to ensure compliance with minimum filing requirements for contract files; and (b) create a database for contract management in which key information on contracts is recorded.	Important	O	Submission to OIOS of evidence that the filing requirements in Chapter 8 have been specified and a contract management and reporting database has been created to facilitate contract management and monitoring.	30 September 2015
4	The Division of Emergency, Security and Supply should: (a) monitor the functioning of vendor review committees; and (b) train vendor review committee members in effectively carrying out their assigned roles, including the evaluation of the	Important	O	Submission to OIOS of evidence of strengthened monitoring of the vendor review committees in the field and the conduct of training for committee members.	30 September 2015

² 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.

³ 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.

⁴ C = closed, O = open

⁵ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	performance of vendors.				
5	The Division of Emergency, Security and Supply should establish a mechanism to ensure compliance with Chapter 13 of the United Nations Procurement Manual which requires that written construction contracts are established before the work is commenced, with clearly defined deliverables to protect the interests of UNHCR and to avoid disputes.	Important	O	Submission to OIOS of the revised guidelines requiring that all construction contracts are established in writing with clearly defined deliverables.	31 March 2015
6	The Division of Emergency, Security and Supply should set up a mechanism to monitor and enforce the requirement for field offices to consistently include penalty clauses for late delivery and other aspects of non-performance in their agreements with suppliers and to enforce these clauses where applicable.	Important	O	Submission to OIOS of evidence of the mechanism established for monitoring and enforcing the use of penalty clauses in the field to address late delivery and other aspects of contractual non-performance.	31 December 2015

APPENDIX I

Management Response

MANAGEMENT RESPONSE

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Division of Emergency, Security and Supply should: a) review Chapter 8 of the UNHCR Manual and incorporate detailed guidelines on contract management; and b) revise the procedures in Chapter 8 of the UNHCR Manual to clarify the roles and responsibilities for contract management, especially between the Procurement Management and Contracting Service and the requesting unit, to ensure that contract deliverables are monitored and payments made are linked to deliverables.	Important	Yes	Head of Procurement Management and Contracting Service (PMCS)	30 Sept. 2015	DESS is in the process of reviewing and enhancing the parts of chapter 8 relating to contract management. This will take into consideration the results of the current review of the supply chain organization by an external service provider, which will be available in the first quarter of 2015. As the update of Chapter 8 is a complex task, DESS will establish a project plan with milestones and a time table by the end of 2014. In order to provide additional guidance on contract management in the short run DESS will establish a section with frequently asked questions on the intranet by the end of first quarter 2015.
2	The Division of Emergency, Security and Supply should: (a) undertake a comprehensive risk assessment to identify and assess contract management risks; and (b) identify appropriate risk mitigation measures.	Important	Yes	Head of PMCS	31 March 2015	DESS has performed a risk assessment in 2012 covering the whole Supply Management Service (SMS), which included the procurement function at that time, and a fraud and corruption risk assessment in 2013. These exercises identified one and five risks relating

⁶ 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.

⁷ 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 contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						to contract management, respectively. DESS will update the risk register based on a risk workshop with PMCS and Supply Management and Logistics Service (SMLS) scheduled for the first quarter 2015. In addition, it will conduct a separate workshop focusing on mitigating measures regarding the procurement related fraud and corruption risks identified.
3	The Division of Emergency, Security and Supply should: (a) establish appropriate monitoring mechanisms to ensure compliance with minimum filing requirements for contract files; and (b) create a database for contract management in which key information on contracts is recorded.	Important	Yes	Head of PMCS	30 Sept. 2015	DESS will specify the filing requirements for contract files as part of the update of the Chapter 8 of the UNHCR Manual. In addition, a contract management and reporting database will be established in order to facilitate the management and monitoring of contracts.
4	The Division of Emergency, Security and Supply should: (a) monitor the functioning of vendor review committees; and (b) train vendor review committee members in effectively carrying out their assigned roles, including the evaluation of the performance of vendors.	Important	Yes	Head of PMCS	30 Sept. 2015	DESS is currently requesting additional resources for the procurement function which, if approved, would allow PMCS to monitor the effective functioning of vendor review committees (VRC) based on random reviews of selected operations. In addition, PMCS is planning to provide training to members of VRCs in the country operations and individual guidance where requested.

MANAGEMENT RESPONSE

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
5	The Division of Emergency, Security and Supply should establish a mechanism to ensure compliance with Chapter 13 of the United Nations Procurement Manual which requires that written construction contracts are established before the work is commenced, with clearly defined deliverables to protect the interests of UNHCR and to avoid disputes.	Important	Yes	Head of Infrastructure Management Unit (IMU)	31 March 2015	DESS is about to finalize a comprehensive manual on the acquisition of premises which also covers construction projects. This manual will set out procedures to be followed for the acquisition of premises which will depend on whether a premise is leased, constructed or refurbished. It will inter alia require that construction contracts are established in writing and contain clearly defined deliverables.
6	The Division of Emergency, Security and Supply should set up a mechanism to monitor and enforce the requirement for field offices to consistently include penalty clauses for late delivery and other aspects of non-performance in their agreements with suppliers and to enforce these clauses where applicable.	Important	Not feasible in the short-term	Head of PMCS	N/A	<p>This recommendation consists of two elements: a) Inclusion of penalty clauses in the general terms and conditions (GTC) of supplier contracts, b) Monitoring whether penalty clauses are included in the contracts established by field offices and if these clauses are enforced.</p> <p>Concerning part a) of the recommendation DESS will liaise with Legal Affairs Service (LAS) as to whether, and if yes, how penalty clauses should be incorporated into the GTC of contracts to address instances of late delivery and other cases of contractual non-performance. This might take some time as it is also intended to harmonize the GTC between the UN organizations.</p>

MANAGEMENT RESPONSE

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>While DESS agrees with the importance of part b) we have after careful consideration come to the conclusion that it is not feasible for PMCS to assume this responsibility in the short-term considering the current organizational set up. Based on the current set up the responsibility for procurement in the field is with the country operations while PMCS issues policies and instructions and provides guidance. In addition, PMCS does not have the resources to monitor contracts in the field nor the required access to relevant information.</p> <p>However, this might change in the long term. Currently, an external service provider is performing an evaluation of UNHCR's end-to-end supply chain organization which has a focus on the organizational set-up and strategic direction. Based on the recommendations from this review organizational changes of the supply chain organization, including the procurement function, might be envisaged which might include an enhanced monitoring of supply activities in the field.</p> <p>We would, therefore, suggest waiting</p>

MANAGEMENT RESPONSE

Audit of contract management and vendor performance monitoring in the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>for the recommendations resulting from the supply chain review with respect to the organization of the supply chain between operations and headquarters before deciding about the approach.</p> <p>In the short term DESS will arrange procurement training for the country operations and provide guidance (such as FAQ on the intranet) to sensitize the operations for the importance of including penalty clauses in their contracts.</p>