



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2016/176

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Controls over procurement and contract management activities needed to be improved to be fully effective

20 December 2016

Assignment No. AN2016/740/01

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over procurement and contract management activities in the Economic and Social Commission for Asia and the Pacific (ESCAP). The audit covered the period from 1 January 2014 to 30 June 2016 and reviewed: (i) governance and oversight of the procurement function; (ii) management of procurement activities; (iii) vendor management; (iv) vendor payments; and (v) contract management.

Acquisition and source selection planning as well as technical and commercial evaluations of bids processes were adequate. However, other controls over procurement and contract management activities needed to be improved, including in the areas of: appropriateness of insurance coverage; functioning of the Tender Opening Committee (TOC); membership of the Local Committee on Contracts (LCC); timely payment of invoices; and ensuring contracts for outsourced services include key performance indicators.

OIOS made seven recommendations. To address issues identified in the audit, ESCAP needed to:

- Advertise requests for expressions of interest for a four-week period to increase participation of bidders;
- Review and document the needs and best business practices regarding additional insurance coverage that ESCAP can apply;
- Require the TOC to sign bid abstract sheets and bid documents and appropriately record the disposal of unopened financial proposals of technically disqualified vendors;
- Expand LCC membership to include programme officers;
- Train LCC members;
- Pay invoices in a timely manner to take advantage of early payment discounts; and
- Include key performance indicators in contracts for outsourced services and evaluate contractors' performance against them.

ESCAP accepted the recommendations and has initiated action to implement them.

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1
III. OVERALL CONCLUSION	2
IV. AUDIT RESULTS	2-10
A. Procurement management	2-8
B. Contract management	8-10
V. ACKNOWLEDGEMENT	10
 ANNEX I Status of audit recommendations	
 APPENDIX I Management response	

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management activities in the Economic and Social Commission for Asia and the Pacific (ESCAP).
2. ESCAP is the regional development arm of the United Nations for the Asia-Pacific region. ESCAP was established to support its Member States by providing sound strategic analysis, policy options and capacity development to address key development challenges and implement innovative solutions for region-wide economic prosperity, social progress, environmental sustainability and resilience to external shocks.
3. The Division of Administration is responsible for providing administrative support to ESCAP's programme of work. Within the Division of Administration, the Procurement Unit purchased goods and services for ESCAP operations. The Unit had 12 posts, of which nine were funded from the regular budget and the remaining three were funded from extrabudgetary resources. Requisitioners/end-users of contracts were responsible for their management
4. ESCAP has delegation of authority from the Assistant Secretary-General, Office of Central Support Services (OCSS) to carry out procurement activities, and, in this capacity, also provides procurement services to its regional institutes and sub-regional offices, as well as other United Nations agencies. As of June 2016, there were 1,418 purchase orders for the 2014-2015 biennium totaling about \$22.6 million and \$3.8 million pertaining to the period from 1 January to 30 June 2016.
5. Comments provided by ESCAP are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over procurement and contract management activities in ESCAP.
7. The audit was included in the 2016 risk-based work plan of OIOS due to the risks that: (i) procurement activities may not be managed efficiently and effectively; and (ii) management of contracts may not be planned, executed and monitored in effective manner.
8. OIOS conducted this audit in August and September 2016. The audit covered the period from 1 January 2014 to 30 June 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the procurement and contract management activities, which included: (i) governance and oversight; (ii) management of procurement activities; (iii) vendor management; (iv) vendor payments; and (v) contract management.
9. The audit methodology included: (a) interviews of key personnel, (b) reviews of relevant documentation, (c) analytical reviews of data, and (d) review of the governance structure and contract awards, performance monitoring and reporting, and payment processes.

III. OVERALL CONCLUSION

10. Acquisition and source selection planning as well as technical and commercial evaluations of bids processes were adequate. However, other controls over procurement and contract management activities needed to be improved. In particular, ESCAP needed to: (i) advertise expressions of interest for a four-week period to increase participation of bidders; (ii) review and document the needs and best business practices regarding additional insurance coverage that ESCAP can apply; (iii) require the Tender Opening Committee (TOC) to sign bid abstract sheets and bid documents and appropriately record the disposal of unopened financial proposals of technically disqualified vendors; (iv) expand membership of the Local Committee on Contracts (LCC) to include programme officers; (v) ensure all LCC members are adequately trained; (vi) pay invoices in a timely manner to take advantage of early payment discounts; and (vii) include key performance indicators (KPIs) in contracts for outsourced services and evaluate contractors' performance against them.

IV. AUDIT RESULTS

A. Procurement management

Acquisition plan was prepared annually

11. The Procurement Manual requires requisitioners to develop acquisition plans in cooperation with the procurement function in a timely manner, generally not later than six months before the need for receipt of the goods, services or works.

12. The Procurement Division provided guidance to prepare ESCAP acquisition plan for the upcoming year. The Division of Administration subsequently requested all requisitioners to provide their respective lists of goods and services over \$40,000 to be procured. The lists were sent to the ESCAP Procurement Unit, which aggregated them into a final annual acquisition plan for ESCAP.

13. The audit reviewed acquisition plans for 2014, 2015 and 2016 and noted that major procurement items were generally included in the plans except for the acquisition of a fire sprinkler system costing \$1.2 million. OIOS also noted that numerous items in the 2015 acquisition plan were missing the required delivery period. However, the 2016 acquisition plan was properly completed and included the required delivery period.

14. Inadequate acquisition planning could delay operations and lead to ineffective use of ESCAP financial resources. This could also negatively affect management's decision making process related to procurement activities. As ESCAP prepared its 2016 acquisition plan in compliance with the provisions of the Procurement Manual, OIOS did not make any recommendation on this issue.

Source selection planning and technical and commercial evaluation processes were adequate

15. The Procurement Manual requires development of source selection plans to describe critical components of the acquisition process and provide justification for sourcing and procurement decisions to achieve best value for money. It also requires technical and evaluation committees to assess the ability of potential vendors to meet stated minimum requirements and determine the relative merits of competing bids and proposals.

16. OIOS reviewed a sample of 29 contracts (total contract value of \$7.2 million) out of 77 (total contract value of \$10.2 million) awarded during 2014-2015. For 22 of the contracts, source selection

plans were prepared and approved by the Director of Administration. The source selection plan included a definition of the requirement, sourcing/identification of potential vendors and the solicitation process. The process covered the solicitation document type, basis of award, contractual terms, procurement activity schedule, evaluation committees and evaluation process. Technical evaluations of the proposals and commercial evaluations of financial offers received were duly completed and submitted to the Procurement Unit.

17. The remaining seven contracts did not require a source selection plan because three were piggy back contracts from other United Nations agencies, three were done through a request for quotation due to the low contract value and one was derived from a previous master contract, which had a source selection plan. The solicitation documents were adequately prepared for all contracts. OIOS concluded that the source selection planning and technical and commercial evaluation of bids processes were adequate.

Bidder participation needed to be increased to ensure effective competition

18. According to the Procurement Manual, requesting expressions of interest (EOI) provides opportunity to potential bidders to express their interest in participating in a bidding process. Notices are required to be posted for two to four weeks and the results are used in determining recipients of solicitation documents. The goal is to establish a pool of interested vendors who meet or exceed the performance criteria so that competitive prices would be obtained.

19. ESCAP published requests for EOI on its website and on the websites of the United Nations Global Marketplace and Procurement Division. These EOIs generally required vendors to respond within two weeks and on average only three potential bidders responded. As a result, ESCAP used other techniques in developing the list of invitees and on average, invited 25 bidders per solicitation.

20. For 20 of the 29 contracts OIOS reviewed (excluding three piggy back contracts and six contracts of proprietary items), ESCAP received only an average of three bids per solicitation. ESCAP explained that although they had invited large numbers of bidders, only a few responded due to language constraints to respond to solicitations in English.

21. However, while approving the award of contract no. SC-0029/14 for the provision of protocol, visa and transportation outsourced support services on 23 September 2014, the Procurement Division expressed concern regarding the limited two-week period given by ESCAP to respond to EOIs. They were of the view that this was inadequate to attract interested vendors to the solicitation process and requested ESCAP to provide a minimum response period of four weeks. Nevertheless, ESCAP generally continued to provide less than four weeks for EOI submissions.

22. OIOS acknowledges that ESCAP recently undertook a vendor outreach initiative. The Director, Procurement Division also visited ESCAP in June 2016, had meetings with host country officials and held business seminars, obtaining assurance that the host country would encourage more vendors to register in the United Nations Global Marketplace. However, the lack of sufficient time provided for responses to EOIs could limit vendors from participating in the bidding process. Consequently, there was no assurance that ESCAP was getting the best value for money from its solicitation exercises.

(1) ESCAP should amend its solicitation procedures and advertise requests for expressions of interest for a four-week period to increase participation of bidders, and only reduce the advertisement period as an exception.

ESCAP accepted recommendation 1 and stated that ESCAP was undertaking outreach initiatives to

broaden the vendor base in the region. Recommendation 1 remains open pending receipt of evidence of actions taken to increase participation of bidders in solicitation exercises.

Additional insurance requirements were limiting the competitive procurement process

23. The request for proposal includes an annex “United Nations General Conditions of Contract-Contracts for the provision of Services”, which forms an integral part of the contract. Article 6 of this details the vendor’s responsibility relating to “Insurance and Liability” and requires the contractor to maintain insurance against: (i) all risks in respect of all property and plant used; (ii) worker compensation; and (iii) liability to cover all claims. As per the model contract for services, the Risk Management Unit (RMU) in the Office of Programme Planning Budget and Accounts (OPPBA) may advise on additional insurance requirements for particular contracts.

24. ESCAP solicitation documents started requiring additional insurance coverage in late 2014. These included insurance for professional liability, cyber risk and general liability, as well as financial institution bond. In some cases, the insured amounts requested were far in excess of the contract value. Table 1 shows details of additional insurance requirements in contracts reviewed by OIOS.

Table 1: Examples of amount and type of additional insurances required in selected contracts

Contract Number	Nature of contract	Contract value Thai Baht (THB)	Professional Liability Insurance	Financial Institution Bond	Cyber risk insurance	General Liability Insurance
SC-0009/15	Travel management services	8,887,573	THB 32 million	THB 1 million	THB 32 million	THB 32 million
SC-0034/14	IT outsourced services	11,337,840	THB 150 million)	-	THB 150 million	THB 150 million
SC0041/14	Maintenance of elevators & escalators	4,112,000	-	-	-	THB 155 million
C0021/14	Installation of fire sprinkler system	39,087,315 (\$1,223,390)	\$5 million	\$ 5 million (fidelity)		\$10 million;
4700006293	Maintenance of building automation system	4,652,750 (\$132,935)	\$5 million			\$15 million
SC0038/14	Maintenance AVA website	South Korean Won 2,6400,000 (\$24,044)	\$5 million	\$5 million	\$5 million	\$5million
4700007497	Projection system	4,100,000 (\$ 117,142)	\$300,000 (or THB 10 Million)	-	-	\$300,000 (or THB 10 Million)
4700007252	Provision of construction-related consultancy services	\$1,447,519	\$5 million (reduced to \$1.4 million by amendment	-	-	\$5 million (reduced to \$1.4 million by amendment)
4700007528	Replacement of AHU (Air conditioning)	2,983,000 (\$ 85,228)	\$350,000	-	-	\$350,000

25. The additional insurance requirements were generally incorporated in the draft contract template (often without stating the amount), as part of the package of solicitation documents. After the contract

was awarded, the vendor was notified of the required insured amount, which some vendors did not agree to leading to protracted negotiations with the successful vendor(s).

26. The above occurred because there was no guidance on how to determine the level of coverage required that was commensurate with the value and nature of contracts. ESCAP explained that the insurance provisions and required amounts were included in solicitation documents in consultation with RMU. However, the Procurement Unit had raised concerns about the state of the insurance market in the region and that set limits were not realistic for some Asian and Pacific countries. In response RMU advised ESCAP to take a business decision and determine the prevailing market condition.

27. In the absence of formal guidance on requiring and determining the level of additional insurance, there was a risk of ESCAP being charged higher prices as insurance is a cost item that is built in the price quoted by the vendor. Additional insurance requirements could also adversely affect the participation of bidders who are not in a position to provide such insurance coverage. They also delayed contract awards.

(2) ESCAP should, in consultation with OPPBA, conduct a review and document the needs and best business practices regarding additional insurance coverage that it can apply when necessary.

ESCAP accepted recommendation 2 and stated that it would seek clarification from OPPBA and OCSS on the level of insurance coverage to obtain for different contracts. Recommendation 2 remains open pending receipt of the results of the review on the additional insurance needs suited for ESCAP, and appropriate guidance in that regard from OPPBA and OCSS.

TOC needed to maintain proper records

28. On 23 September 2013, the Division of Administration issued a memorandum establishing a TOC and defining its terms of reference (TOR). The purpose of the TOC is to ensure that tenders are received, handled and opened according to the instructions provided in the solicitation document and that transparency and confidentiality was maintained.

29. The TOC was duly constituted and had a chairperson with five to seven members and a designated bid opening official. Its membership was revised five times during the audit period.

30. The TOR stated that the envelope and all pages of each tender shall be initialed by TOC members attending the opening. OIOS review of 29 contracts showed that the TOC was not consistent in signing all pages of bids as required by its TOR as the Committee members, in many cases, signed only the first and last pages.

31. The TOR also stated that financial proposals shall be kept by the bid opening official intact and unopened pending completion of the technical evaluation. After the completion of the technical evaluation, the TOC will be convened to open the financial proposal. However, the new Bid Opening Official who was appointed on 10 June 2016 was not aware of this requirement and released them to the Procurement Unit prior to completion of the technical evaluation. The previous Bid Opening Official (period 4 August 2014 to 10 June 2016) explained that unopened financial proposals were shredded after 120 days unless the vendor requested it to be returned. However, there was no record of their shredding or return to vendors for record and future reference.

32. According to the TOR, after the tender opening process the bid opening official shall deliver the submissions, together with the Solicitation Abstract to the Procurement Unit and file a copy of the

Solicitation Abstract Sheet in the submission opening case file in a locked drawer. The audit team interviewed the current and past Bid Opening Officials and confirmed that they did not keep copies of bid extracts with their signatures for future reference. Moreover, there was no proper handover process between outgoing and incoming Bid Opening Officials reflecting an inadequate transfer of knowledge of the appropriate process. Insufficient documentation of the TOC process could affect transparency and confidentiality in the bid handling process. During the audit, the Division of Administration conducted a re-training session for all TOC members on 24 August 2016 to ensure immediate compliance with the audit observation.

(3) ESCAP should require the Tender Opening Committee to: (i) sign bid abstract sheets and bid documents as required in its terms of reference; and (ii) appropriately record the disposal of unopened financial proposals of technically disqualified vendors.

ESCAP accepted recommendation 3 and stated that it had briefed TOC members and concerned officials on their roles and responsibilities and was reviewing their TOR to ensure they are up-to-date. Recommendation 3 remains open pending receipt of the updated TOR.

LCC membership needed expansion and more training

33. According to the delegation of authority from the Assistant Secretary-General, OCSS (ASG/OCSS) to the Director of Administration, LCC shall be composed of a finance officer, a legal officer, two programme officers and a secretary or members with comparable responsibilities. The administrative instruction on review committees on contracts (ST/AI/2011/8) states that it is mandatory for LCC members to undergo general and specific training courses provided by the secretariat of the Headquarters Committee on Contracts.

34. There were 48 LCC meetings during the period under audit, of which 17 were virtual meetings. The total amount recommended for approval by the Director of Administration was \$16.8 million. OIOS reviewed 27 LCC meeting minutes and interviewed three LCC members and noted that: (i) LCC meetings were scheduled on a weekly basis; (ii) the LCC secretary submitted the cases (presentation and other documents) to the Chair a week before the meeting; (iii) the Chair reviewed the cases and shared the case documentation with other LCC members three days before the meeting to provide their questions/comments; (iv) these comments were shared with the Procurement Unit; and (v) it took eight days on average from the meeting date to the approval of the minutes.

35. The LCC comprised five members from the Division of Administration and one member from the Strategy and Programme Management Division. This membership composition was not in keeping with the delegation of authority from ASG/OCSS as only one programme officer was in the LCC. Two current members were from large requisitioning sections under the Division of Administration. Consequently, they needed to recuse themselves from meetings when a case related to their section was being deliberated on, in order to avoid conflict of interest. This sometimes made it difficult to form a quorum especially when some members were on official travel or on leave. Additionally, while the average tenure of LCC members was 30 months, two members had served for 69 months. In June 2016, the Director of Administration sent e-mails to ESCAP and other United Nations agencies to request for nomination of new LCC members but the response rate was very low.

36. There was no training provided to new LCC members during the period under audit. The last training courses in ESCAP were in September 2012 covering the basic and advanced courses for LCC members. One member had not received any training necessary to serve in the LCC, while three had only completed the basic training course. OIOS was informed that a planned training course was cancelled due

to a substantial cut in the Upgrading of Substantive Skills budget centrally managed by the Office of Human Resources Management (OHRM). The cancellation of the training has made it even more difficult to increase the current membership pool.

37. The inadequate composition of the LCC and training of its members could affect the integrity and effectiveness of the review process. This could also negatively impact on ESCAP reputation within the market.

(4) ESCAP should expand the membership of the Local Committee on Contracts to include programme officers as required by the delegation of procurement authority granted to the Chief, Division of Administration.

ESCAP accepted recommendation 4 and stated that it announced a new LCC composition on 10 October 2016, which included six programme officers amongst the twelve members. Recommendation 4 remains open pending receipt of a copy of the announcement on the new LCC composition.

(5) ESCAP should, in consultation with OHRM, provide funding to ensure all members of the Local Committee on Contracts are adequately trained.

ESCAP accepted recommendation 5 and stated that it would consult with OHRM to allocate sufficient funding from the centralized budget to allow the training to take place. Recommendation 5 remains open pending receipt of evidence that LCC members have been trained.

Vacant Chief Procurement Officer post needed to be filled expeditiously

38. The Secretary-General, in his report on the overview of human resources management reform: towards a global, dynamic and adaptable workforce (A/67/324), indicated that the recruitment process to replace retiring staff members could start 12 months prior to the retirement of the incumbent.

39. During the fieldwork in August 2016, OIOS noted that the Chief Procurement Officer (CPO) post at the P-4 level had been vacant since May 2013.

40. The recruitment process against the post of the retiring CPO started in September 2012 as the effective date of retirement was 30 April 2013. Job openings were posted in September 2012 and August 2013 but did not yield an accepted offer. In the meantime, OHRM granted an exceptional approval to temporarily appoint a P-2 Procurement Officer on special post allowance from 1 May 2013 to 22 November 2014 to manage the Procurement Unit. He was followed by another temporary staff who managed the Unit until 31 December 2015. Another attempt to fill the position in October 2015 was also unsuccessful. The Division of Administration updated the job description in line with the global service delivery model and reissued the job opening in May 2016. Concurrently, a four month temporary job opening was posted in May 2016 pending the selection of a qualified candidate. The selection process was in progress at the time of the audit.

41. The lack of continuity and loss of institutional knowledge in the CPO post could lead to loss of financial resources as the incumbent oversees and manages the staff that handle all procurement activities. In addition, the frequent rotation of different temporary managers could negatively impact the efficiency and effectiveness of the Procurement Unit and adversely affect staff morale in the Unit. Since the Director, Division of Administration described the efforts made to fill this vacancy which is under recruitment, OIOS did not make a recommendation on this issue at this time.

Procurement staff completed mandatory training courses and submitted financial disclosures timely

42. The delegation of authority from ASG/OCSS to the Director of Administration requires that all procurement staff complete the mandatory procurement training courses and encourages all other persons involved in the acquisition process to complete the courses. The Procurement Manual states that financial disclosures must be filed by all procurement officers.

43. OIOS noted that only 2 out of the 11 Procurement Unit staff had completed all the mandatory training courses. However, before the end of the fieldwork, the remaining Procurement Unit staff also completed the mandatory training courses. Furthermore, in 2014, in addition to individual online training courses, a certification training course from the Chartered Institute of Procurement and Supply was provided to all ESCAP Procurement Unit buyers. The training course was completed in the first half of 2015 and introductory certificates in public procurement were granted to the respective staff. In 2015, the focus was mainly on Umoja deployment thus the Umoja training plan was an integral part of the Procurement Unit's individual training plans. Accordingly, training documents were created and maintained by ESCAP Training team.

44. Secondly, the office of the Director of the Division of Administration monitored the submission of financial disclosures to the Ethics Office. OIOS noted that all financial disclosure forms were submitted in a timely manner. OIOS concluded that all procurement staff had completed mandatory training courses and submitted financial disclosures timely.

B. Contract management

Need for timely payment of invoices to take advantage of early payment discounts

45. The United Nations Financial Regulations and Rules provide guidelines for the certification and approval process regarding the utilization of resources and their related expenditures. Contracts with vendors generally indicate payment within 30 days from the receipt of invoice.

46. OIOS selected 60 purchase orders totaling \$711,125 to assess whether they were properly certified, approved and paid in a timely manner. Sixteen purchase order transactions totaling \$373,225 were processed in the old Integrated Management Information System (IMIS) and the remaining through Umoja. There were 34 paid invoices related to the IMIS processed purchase orders. They were all approved by the appropriate approving officers. However, 12 out of 34 invoices were paid 15 days after their due dates on average.

47. The sample included four contracts totaling \$1.9 million that had an early payment discount provision of 0.5 per cent to 0.8 per cent when payments were made within 7 to 15 days of invoice receipt. The requisitioners stated that they reviewed and certified all invoices without giving regard to the early payment discount and thus did not inform the Financial Resources Management Section of the potential saving through the discount. Consequently, cost savings of \$13,460 were missed in early payment discounts during the contract period.

48. The Finance Section explained that delays in payments were related to technical issues with Umoja; however, delays observed predated Umoja implementation. Late invoice payments could deny ESCAP the opportunity to take advantage of early payment discounts and lead to service interruptions and delays in receiving goods and services, which could affect its operations.

(6) ESCAP should establish procedures to: (i) ensure that invoices are paid in a timely manner; and (ii) take advantage of early payment discounts, where applicable.

ESCAP accepted recommendation 6 and stated that it had already put in place procedures to ensure invoices were processed in a timely manner in Umoja. It would work with the Umoja team to ascertain how early payment discount provisions could be captured in the system. Recommendation 6 remains open pending receipt of procedures to ensure that invoices are paid in a timely manner and early payment discount provisions are captured in Umoja.

Contract review meetings were held periodically

49. The ESCAP 2013 standard operating procedures on contracts management establishes and defines the roles and responsibilities relating to the management of contracts and provides relevant guidance to requisitioners and other staff. The requisitioner is required to hold performance review meetings periodically to manage the contract effectively.

50. In general, requisitioners for contracts for goods and services held weekly or monthly contract review meetings with their vendors to discuss progress and related issues. Formal contract review meetings with contractors were held twice a year. These meetings were attended by the vendors and requisitioners, as well as the Chief of the Central Support Services Section (CSSS) and a Procurement Unit staff. Minutes of the meetings were prepared and signed by the requisitioner and the Chief, CSSS indicating the discussions held in various areas of contractor performance and other related issues. Follow-up action points were identified and the responsible party and timeline was assigned. Therefore, OIOS concluded that adequate periodical contract review meetings were held.

Need to evaluate performance on outsourced service contracts against KPIs

51. The Source Selection Plan defined KPIs for outsourced services contracts. It requires requisitioners to ensure effective management of contracts through regular monitoring of contractors' performance in compliance with the statement of work and within the established KPIs. Vendor Performance Reports shall be submitted by the requisitioner to the Procurement Unit on an annual basis.

52. Vendor performance was evaluated on an annual basis. However, ESCAP used only a generic form of contractor performance evaluation in the Procurement Manual, which did not include any KPIs. The requisitioning office also did not evaluate contractors' performance based on KPIs. For example, the request for proposal of the travel contract C0009/15 listed 21 KPIs relating to qualitative indicators such as timeliness, accuracy, clarity, fairness, accessibility, responsiveness, competence and client satisfaction. However, no vendor performance evaluation was conducted using these KPIs. Therefore, whether the vendor delivered outsourced services efficiently and timely, and maintained the expected level of service remained unevaluated.

53. OIOS noted that generally, KPIs were not included in the main contract document of outsourced services (e.g. SC0020/15 - Building management; C0009/15 - Travel; SC0021/15 - Mail Operation; SC0019/15 and SC0034/14 - IT outsourced services). In some cases, it was detailed in the request for proposal. ESCAP may not be able to enforce compliance with KPIs if they are not included in the contracts.

(7) ESCAP should implement procedures to include key performance indicators in contracts for outsourced services and evaluate contractors' performance against them.

ESCAP accepted recommendation 7 and stated that it would include KPIs in new contracts and evaluate contractors as stipulated in the contracts. Recommendation 7 remains open pending receipt of examples of contracts incorporating KPIs and related contractor performance evaluations.

Delegation of financial authority needed to be strengthened

54. The administrative instruction on delegation of authority under the Financial Regulations and Rules of the United Nations (ST/AI/2016/7) states that the Assistant Secretary-General, Controller may delegate authority and responsibility to implement the Financial Regulations and Rules to other officials, as appropriate.

55. Accordingly, the Assistant Secretary-General, Controller delegated financial authority to the Chief, Division of Administration via a memorandum dated 25 April 2016. The authority was granted based on the staff member's role and function rather than on a personal basis as had been the practice in the past. Therefore, the Chief was not required to sign any instrument to signify that s/he had accepted the delegation and would be personally accountable for the actions in the performance of the delegated authority. The absence of formal acceptance of the delegated authority or the delegation of financial authority through an administrative issuance could impede the Organization from enforcing accountability in the event of any malfeasance.

56. Given that the issue relates to a Secretariat-wide policy and OIOS has already raised this issue to the Department of Management, OIOS did not make a recommendation in this report.

V. ACKNOWLEDGEMENT

57. OIOS wishes to express its appreciation to the management and staff of ESCAP 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 procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	ESCAP should amend its solicitation procedures and advertise requests for expressions of interest for a four-week period to increase participation of bidders, and only reduce the advertisement period as an exception.	Important	O	Submission of evidence of actions taken to increase participation of bidders in solicitation exercises.	31 December 2017
2	ESCAP should, in consultation with OPPBA, conduct a review and document the needs and best business practices regarding additional insurance coverage that it can apply when necessary.	Important	O	Submission of the results of the review on the additional insurance needs suited for ESCAP, and appropriate guidance in that regard from OPPBA and OCSS.	31 December 2017
3	ESCAP should require the Tender Opening Committee to: (i) sign bid abstract sheets and bid documents as required in its terms of reference; and (ii) appropriately record the disposal of unopened financial proposals of technically disqualified vendors.	Important	O	Submission of the updated TOR of the TOC.	30 June 2017
4	ESCAP should expand the membership of the Local Committee on Contracts to include programme officers as required by the delegation of procurement authority granted to the Chief, Division of Administration.	Important	O	Submission of a copy of the announcement on the new LCC composition.	30 June 2017
5	ESCAP should, in consultation with OHRM, provide funding to ensure all members of the Local Committee on Contracts are adequately trained.	Important	O	Submission of evidence that LCC members have been trained	31 December 2017
6	ESCAP should establish procedures to: (i) ensure that invoices are paid in a timely manner; and (ii) take advantage of early payment discounts, where	Important	O	Submission of procedures to ensure that invoices are paid in a timely manner and early payment discount provisions are captured in Umoja.	31 December 2017

¹ 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.

² 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.

³ C = closed, O = open

⁴ Date provided by ESCAP in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	applicable.				
7	ESCAP should implement procedures to include key performance indicators in contracts for outsourced services and evaluate contractors' performance against them.	Important	O	Submission of examples of contracts incorporating KPIs and related contractor performance evaluations.	31 December 2017

APPENDIX I

Management Response

Management Response

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ESCAP should amend its solicitation procedures and advertise requests for expressions of interest for a four-week period to increase participation of bidders, and only reduce the advertisement period as an exception.	Important	Yes	Director of Administration	31 December 2017	While noting that the UN Procurement Manual provides a request for expression of interest notice shall be posted for a period ranging from two to four weeks, ESCAP agrees with OIOS that a four-week period posting could potentially increase participation of bidders. As noted in paragraph 22, ESCAP is undertaking outreach initiatives to broaden the vendor base in the region.
2	ESCAP should, in consultation with OPPBA, conduct a review and document the needs and best business practices regarding additional insurance coverage that it can apply when necessary.	Important	Yes	Director of Administration in consultation with OPPBA	31 December 2017	While ESCAP agrees that further clarity is needed in the level of insurance coverage for different contracts, the Office of Programme Planning Budget and Accounts and the Office of Central Support Services are the ones who provide the guidance to the UN Secretariat. ESCAP is seeking clarification from these two offices on how to proceed.
3	ESCAP should require the Tender Opening Committee to: (i) sign bid abstract sheets and bid documents as required in its terms of reference; and (ii) appropriately record the disposal of unopened financial proposals of	Important	Yes	Director of Administration	30 June 2017	ESCAP has implemented regular briefings to the Tender Opening Committee members and officials of their roles and responsibilities. ESCAP is also reviewing the terms of reference to ensure they are revised

⁵ 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.

⁶ 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.

Management Response

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	technically disqualified vendors.					where appropriate.
4	ESCAP should expand the membership of the Local Committee on Contracts to include programme officers as required by the delegation of procurement authority granted to the Chief, Division of Administration.	Important	Yes	Director of Administration	30 June 2017	ESCAP has already taken action to expand the membership of the Local Committee on Contract. A new composition was announced on 10 October 2016. The new composition includes six programme officers amongst the twelve members.
5	ESCAP should, in consultation with OHRM, provide funding to ensure all members of the Local Committee on Contracts are adequately trained.	Important	Yes	Director of Administration in consultation with OHRM	31 December 2017	ESCAP agrees the importance of having members of the Local Committee on Contracts to be adequately trained. This is especially relevant when the membership is expanded to include new members as suggested in recommendation number 4. ESCAP will consult OHRM to allocate sufficient funding from the centralized budget to allow the training to take place.
6	ESCAP should establish procedures to: (i) ensure that invoices are paid in a timely manner; and (ii) take advantage of early payment discounts, where applicable.	Important	Yes	Director of Administration	31 December 2017	In relation to (i), ESCAP agrees with this recommendation on IMIS data and has already put in place Umoja procedures to ensure invoices are processed in a timely manner. In relation to (ii), ESCAP agrees with this recommendation and will work with the Umoja team to ascertain how early payment discount provisions can be captured in the system.
7	ESCAP should implement procedures to include key performance indicators in contracts for outsourced services and	Important	Yes	Director of Administration	31 December 2017	ESCAP commits to improving the contracting modality for outsource services to include key performance

Management Response

Audit of procurement and contract management in the Economic and Social Commission for Asia and the Pacific

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	evaluate contractors' performance against them.					indicators as the current contracts expire. ESCAP will include in the evaluation of contractors key performance indicators as stipulated in the contracts.