



INTERNAL AUDIT DIVISION

REPORT 2015/097

Audit of the management of common contracts in the United Nations Office at Geneva

Overall results relating to the effective management of common contracts were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

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AUDIT REPORT

Audit of the management of common contracts in the United Nations Office at Geneva

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of common contracts in the United Nations Office at Geneva (UNOG).
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. Contract management is an important function that comprises ongoing monitoring and management of the contractor's performance and obligations under the contract, including terms and conditions relating to quality, time-lines, performance indicators, price, payments and discounts. It includes managing the relationship with the contractor, evaluating performance, and dealing with dispute resolution, if any. The purpose of contract management is to ensure that all parties fully meet their contractual obligations and deliver the expected outputs.
4. The United Nations Procurement Manual prescribes the requirements and guidelines for procurement and contract management that United Nations departments and offices are required to comply with. In addition, the United Nations Procurement Practitioner Handbook provides guidelines on procurement and contract management. The Handbook was prepared by the Inter-Agency Procurement Working Group and is a descriptive synopsis of good practices within the United Nations system.
5. According to the United Nations Procurement Manual, contract management activities are a shared responsibility among contract management staff, the requisitioner and the end-user. Issues related to interpretation of contract provisions are referred to the procurement office that issued the contract. The Procurement and Contracts Unit (PCU) at UNOG is part of the Purchase and Transportation Section and provides purchasing and contracting services to 11 United Nations offices and departments at Geneva. PCU was headed by a staff at the P-4 level and supported by six P-3, two P-2 and 13 General Service staff.
6. UNOG had 241 ongoing contracts as at 28 February 2015 with a total value of approximately \$374 million of which 46 (19 percent) with a total value of \$133 million were identified as common contracts (contracts which involved the provision of services to more than one department or office at UNOG or organizations administered by UNOG).
7. Comments provided by UNOG are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of UNOG governance, risk management and control processes in providing reasonable assurance regarding the **effective management of common contracts by UNOG**.

9. The audit was included in the OIOS 2014 internal audit work plan for UNOG due to the risk that potential weaknesses in the management of common contracts could adversely affect the operations of the Geneva-based organizations that received the contractual services.

10. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures; (i) exist to guide the activities of UNOG in contract management; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

11. The key control was assessed for the control objectives shown in Table 2.

12. OIOS conducted this audit from March to June 2015. The audit covered the period from 1 January 2013 to 28 February 2015 and included a review of contract management activities for a sample of 15 out of the 46 common contracts with a total value of \$51.9 million. Details of the contracts sampled are summarized in Table 1 below.

Table 1: Details of contracts sampled for review

Lead Service or Section	Good and services contracted	No. of Contracts	Value in \$ million
Central Support Service (CSS)	International and express courier service; international courier service; diplomatic pouch service; paper supply; fax rental services; carpentry services; and painting services.	7	15.3
Information and Communications Technology Service (ICTS)	Multi-functional printing services; office computers and related accessories; laptop computers and related goods and services; mobile phone services; fixed voice telecommunications services.	5	22.6
Others	Very Small Aperture Terminal (VSAT) services; maintenance of the public address system; translation services	3	14.0
Total		15	51.9

13. 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

14. The UNOG governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of common contracts by UNOG**. OIOS made four recommendations to address issues identified in the audit.

15. Regulatory framework was assessed as partially satisfactory because there was a need to strengthen the arrangements for briefing, informing and training contract managers of their roles and responsibilities. There was also a need to strengthen the evaluation of vendors to ensure all offices using

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.

the common contracts are consulted, the right vendor performance rating forms are used and the performance evaluations are done at the frequency prescribed in the Procurement Manual. With regard to invoice processing, there was a need to ensure that any variations from approved contract rates or works are appropriately processed and approved before payments are made.

16. The initial overall rating was based on the assessment of the key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations remains in progress.

Table 2: 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 management of common contracts	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

A. Structure, roles and responsibilities

Need to strengthen the arrangements for briefing, informing and training Contract Managers about their roles and responsibilities

17. The Procurement Manual (Chapter 15.1) provides guidance on contract management. The United Nations Procurement Practitioner Handbook Chapter 3.10 provides additional guidelines on activities to be undertaken as part of contract management. The Handbook recommends that Procurement Officers ensure that there is a shared understanding regarding distribution of responsibilities, and systems and procedures in place to monitor and control contract performance. Further, the United Nations had rolled out online training modules on the procurement process which included some aspects of contract management.

18. For the 15 common contracts reviewed, there were seven contract managers. These managers were not briefed or issued with formal communications designating and documenting their roles and responsibilities as recommended in the Practitioner Handbook. Six contract managers had not undergone any training and were unaware of the policies and procedures on contract management. Instead, they relied mostly on hand-overs from previous contract managers and liaised directly with PCU for guidance when needed. PCU indicated that it took a lot of their time to explain procedures to contract managers, requisitioners and end-users.

19. UNOG had included some information on contract management in the Standard Operating Procedures (SOP) on “written contracts” and “procedures for printing and distributing”. The UNOG intranet also provided some information on contract management. However, these sources of information were fragmented and did not fully and clearly address contract management responsibilities and

procedures. They did not provide contract managers with the essential understanding of their roles and responsibilities in contract management.

20. Based on the above, OIOS concluded that the arrangements for training, informing and briefing the contract managers about their roles and responsibilities were inadequate. This affected the efficiency and effectiveness of contract management. Deficiencies identified in the audit and discussed later on in the report (including weaknesses in evaluating the vendors' performance and processing of invoices) were attributed to contract managers not being fully aware of their roles and responsibilities, and procedures and systems for managing the contracts.

(1) UNOG should strengthen the way it informs, briefs and trains contract managers by: (i) consolidating all guidance for contract management into a short, user-friendly document; (ii) summarizing answers to all frequently asked questions on an easily accessible webpage; and (iii) establishing requirements for Heads of requisitioning offices to formally assign responsibility for management of common contracts by for example establishing appropriate goals for use in the staff members' performance evaluations.

UNOG accepted recommendation 1 and stated that it will issue a memorandum to Heads of requisitioning offices stating the main principles of contract management and directing Heads of requisitioning offices to formally assign contract management responsibilities and to monitor performance in staff performance evaluations. A "frequently asked questions" webpage will also be published. Recommendation 1 remains open pending receipt of evidence that additional guidelines and instructions covering all important aspects of contract management functions and responsibilities have been disseminated to Heads of requisitioning offices.

B. Vendor performance evaluations

Need to consult all requisitioners when completing vendor performance evaluations

21. According to the Procurement Manual, the requisitioner and/or end-user should ensure that vendor performance evaluations are conducted as required. Common contracts have several users and therefore all requisitioners should be consulted when evaluating a vendor's performance. For example, for contracts for provision of mobile services, fax machines and photocopies there is a need to consult all end users to check if they experienced any problems in the delivery of the services that should be considered when evaluating the performance of the concerned vendors.

22. However, none of the contract managers liaised with other requisitioners and/or end-users in order to get complete information on the performance of vendors. Clarifying guidelines on contract management as recommended earlier in the report will help ensure that requirements such as the need to consult other end users are clearly communicated to departments and offices that manage contracts. Heads of the requisitioning offices however need to establish mechanisms (such as review or reporting requirements) to oversee compliance with the established requirements.

(2) UNOG should introduce a mechanism to ensure that contract managers consult all end users when completing vendor performance evaluations for common contracts.

UNOG accepted recommendation 2 and stated that the need for Heads of requisitioning offices to put in place mechanisms to ensure that their designated contract managers consult all end users when completing vendor performance evaluations will be incorporated into the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1 above. Recommendation 2 remains open pending receipt of evidence that Heads of requisitioning offices

have been informed of the need to put in place mechanisms to ensure that contract managers consult all end users when completing vendor performance evaluations.

Need to ensure that performance evaluations are carried out using the correct forms and at the frequency prescribed in the Procurement Manual

23. According to the Procurement Manual, procurement officers and requisitioners must ensure that a vendor performance evaluation with a satisfactory result is on file before processing any amendment (including any extension) to an existing contract. Contractor performance report forms should be used for contracts that exceed \$200,000 or long-term contracts of two or more years in duration where performance reports are required once a year. All 15 common contracts reviewed exceeded \$200,000 and were long-term contracts of two or more years where performance reports were required once a year.

24. However, only two out of the 15 contracts were evaluated yearly as required. The remaining 13 contracts were evaluated once before the contract expiry date while the contract for fax machines was extended twice without any performance evaluation being done. In one case where the performance evaluation was prepared, the contract manager used the Supplier Performance report instead of the Contract Performance report. As a result, key information about the adherence to the scope of work, quality of work and material, and compliance with security/access requirements required in the Contract Performance report was not assessed.

25. Regular performance evaluations can help both the organization and contractors to identify more efficient procedures in performing the contract and lead to improved performance. For example, in one of the two contracts where performance evaluations were prepared as required, the contract manager questioned the quality of the services which led to an improvement in service delivery by the vendor. Strengthening the way contract managers are briefed and informed about their roles and responsibilities as recommended earlier in the report will help to ensure that the contract managers are well informed of what is required. Further, there was a need for Heads of the requisitioning offices to ensure compliance with the established practices for vendor performance evaluations.

(3) UNOG should advise the Heads of the requisitioning offices to ensure that performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual.

UNOG accepted recommendation 3 and stated that a requirement that Heads of requisitioning offices ensure that performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual will be incorporated into the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1 and 2 above. Recommendation 3 remains open pending receipt of evidence that Heads of requisitioning offices have been clearly informed that they are responsible for ensuring that vendor performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual.

C. Invoice processing

Need to ensure that variations from approved contracts are appropriately reviewed and approved before payments are processed

26. OIOS examined 45 invoices from the 15 different vendors to ensure that the rates used were in accordance to contractual terms. Two exceptions were noted. The first exception related to a quotation for 155,976 Euros from the contractor for painting services. The quotation received included two line

items of works totalling 40,434 Swiss Francs (CHF) that had not been included in the contract. In the invoice, the description of the two items was changed to incorrectly correspond to works that were in the contract instead of the actual work done. The invoice was therefore incorrect both in terms of description of work done and the unit prices, and should not have been approved for payment. The correct approach for dealing with the two items of works that were not reflected in the contract should have been to either initiate a new procurement exercise or to amend the existing contract.

27. The second case related to 15 invoices totalling CHF 2,898 for removal of copiers, which had not been clearly addressed in the contract. The vendor indicated that one move per machine was for the whole contract duration, and not "per year" as had been interpreted by UNOG. Based on the UNOG meeting with the vendor on 11 March 2014, it was agreed that the vendor would send a new proposal for the fixed price and the contract would be amended accordingly. However, as at June 2015, the proposal had not been received and the contract had not been amended but the 15 invoices had been settled.

28. Although the exceptions noted related to only two out of 45 invoices, both exceptions related to deviations from the original contract and showed that there was a need to strengthen the guidance given to requisitioners as well as certifying officers on how to deal with goods or services not addressed in the approved contract.

(4) UNOG should revise its guidelines on contract management to include: (i) the approach for dealing with goods or services not addressed in existing contracts; and (ii) the need for certifying officers to ensure that any deviations from approved contracts are appropriately reviewed and approved before payments are certified.

UNOG accepted recommendation 4 and stated that it will ensure requisitioners know how to deal with goods and services not addressed in existing contracts and the need for certifying officers to ensure that invoices are consistent with the approved contracts by incorporating guidance on these matters in the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1, 2 and 3 above. Recommendation 4 remains open pending receipt of evidence that UNOG has strengthened guidance on how requisitioners should deal with goods or services not addressed in existing contracts, and the need for certifying officers to ensure that any deviations from approved contracts are appropriately reviewed and approved before payment.

There were ongoing efforts to improve timeliness in certifying and paying invoices

29. As stated in the Procurement Manual, the Organization has the obligation to make payments to suppliers on a timely basis. OIOS reviewed a sample of 118 invoices to determine whether they were paid in a timely manner. In 10 per cent of the cases, the invoices were paid late ranging from two to six months. Six invoices were paid late due to delays by requisitioners in inspecting the invoices. Delays for the others were due to late receipt of invoices in three cases and lack of a purchase order which had to be prepared post facto in the last case. A review of all outstanding invoices as at February 2015 showed that delays by requisitioners in reviewing invoices was a systemic issue since 263 of the 558 outstanding invoices (47 per cent) were overdue and 67 per cent of the overdue invoices were due to delays by requisitioners in reviewing the invoices.

30. Following up on late payments is time consuming for all parties involved and can lead to services being stopped and could affect the reputation of the United Nations. For example, delays in payments led to one vendor suspending supplies three times in the last two years while another vendor suspended supplies to the one office that did not pay its invoices on time. Another vendor wrote to the United Nations requesting for meetings regarding outstanding invoices as they indicated that they at times forwarded the invoice up to six times. In its correspondence the vendor pointed out that it was obvious

that processes and procedures were not efficient enough to enable them to receive timely payments for goods.

31. The Payments Unit had appropriate mechanisms in place to track and monitor delays in certifying of invoices and informing the offices concerned on a monthly basis. To further minimize delays, there was a need to strengthen the accountability of staff responsible for inspecting and certifying the invoices. UNOG indicated that from August 2015, it plans to start escalating specific cases of repeated delays to the senior management of the office in question and consider requesting withdrawal of certifying officer authority if particular individuals are identified as the cause of unjustified delays to the certification process. As there is a defined action plan to strengthen the accountability of certifying officers in case of significant delays in certifying invoices, OIOS did not make a recommendation.

IV. ACKNOWLEDGEMENT

32. OIOS wishes to express its appreciation to the Management and staff of UNOG for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Acting Head, Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of common contracts in the United Nations Office at Geneva

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNOG should strengthen the way it informs, briefs and trains contract managers by: (i) consolidating all guidance for contract management into a short, user-friendly document; (ii) summarizing answers to all frequently asked questions on an easily accessible webpage; and (iii) establishing requirements for Heads of requisitioning offices to formally assign responsibility for management of common contracts by for example establishing appropriate goals for use in the staff members' performance evaluations.	Important	O	Receipt of evidence that additional guidelines and instructions covering all important aspects of contract management functions and responsibilities have been disseminated to Heads of requisitioning offices.	31 March 2016
2	UNOG should introduce a mechanism to ensure that contract managers consult all end users when completing vendor performance evaluations for common contracts.	Important	O	Receipt of evidence that Heads of requisitioning offices have been informed of the need to put in place mechanisms to ensure that contract managers consult all end users when completing vendor performance evaluations.	31 March 2016
3	UNOG should advise the Heads of the requisitioning offices to ensure that performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual.	Important	O	Receipt of evidence that Heads of requisitioning offices have been clearly informed that they are responsible for putting in place mechanisms to ensure that vendor performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual.	31 March 2016
4	UNOG should revise its guidelines on contract management to include: (i) the approach for dealing with goods or services not addressed in existing	Important	O	Receipt of evidence that UNOG has strengthened guidance on how requisitioners should deal with goods or services not addressed	31 March 2016

² Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³ Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNOG in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of common contracts in the United Nations Office at Geneva

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	contracts; and (ii) the need for certifying officers to ensure that any deviations from approved contracts are appropriately reviewed and approved before payments are certified.			in existing contracts and the need for certifying officers to ensure that invoices are consistent with the approved contracts.	

APPENDIX I

Management Response

Management Response

Audit of the management of common contracts in the United Nations Office at Geneva

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOG should strengthen the way it informs, briefs and trains contract managers by: (i) consolidating all guidance for contract management into a short, user-friendly document; (ii) summarizing answers to all frequently asked questions on an easily accessible webpage; and (iii) establishing requirements for Heads of requisitioning offices to formally assign responsibility for management of common contracts by for example establishing appropriate goals for use in the staff members' performance evaluations.	Important	Yes	i. Chief, PTS ii. Chief, PTS iii. Heads of Requisitioning Offices	March 2016	In his memorandum of 3 September 2015, the ASG for O/CSS notes that consistent with the Secretariat's adherence to the principal of segregation of duties, the Procurement Division (PD) does not have functional responsibility for contract management. As such, UNOG's initial comments as recorded in paragraph 22 that the matter will be referred to PD requesting definitive policy determination and implementation strategies is withdrawn. UNOG will issue a memorandum to Heads of requisitioning offices stating main principles of contract management and directing Heads of requisitioning offices to formally assign contract management responsibilities and to monitor performance in staff performance evaluations. A FAQ webpage will also be published.
2	UNOG should introduce a mechanism to ensure that contract managers consult all end users when completing vendor	Important	Yes	Heads of Requisitioning Offices	March 2016	The need for Heads of requisitioning offices to put in place mechanisms to ensure that their designated contract

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.

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Management Response

Audit of the management of common contracts in the United Nations Office at Geneva

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	performance evaluations for common contracts					managers consult all end users when completing vendor performance evaluations will be incorporated into the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1 above.
3	UNOG should advise the Heads of the requisitioning offices to ensure that performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual.	Important	Yes	Heads of Requisitioning Offices	March 2016	A requirement that Heads of requisitioning offices ensure that performance evaluations are prepared using the correct forms and at the frequency prescribed in the Procurement Manual will be incorporated into the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1 and 2 above.
4	UNOG should revise its guidelines on contract management to include: (i) the approach for dealing with goods or services not addressed in existing contracts; and (ii) the need for certifying officers to ensure that any deviations from approved contracts are appropriately reviewed and approved before payments are certified.	Important	YES	Chief, PTS	March 2016	UNOG will ensure requisitioners know how to deal with goods and services not addressed in existing contracts and the need for certifying officers to ensure that invoices are consistent with the approved contracts by incorporating guidance on these matters in the memorandum on contract management that will be issued by UNOG pursuant to recommendation 1, 2 and 3 above.