



INTERNAL AUDIT DIVISION

REPORT 2016/045

Audit of contracts management in the African Union-United Nations Hybrid Operation in Darfur

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

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

13 May 2016
Assignment No. AP2015/634/07

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AUDIT REPORT

Audit of contracts management in the African Union-United Nations Hybrid Operation in Darfur

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contracts management in the African Union-United Nations Hybrid Operation in Darfur (UNAMID).
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 Contracts Management Section is responsible for managing long-term and complex contracts considered as critical to Mission's operations. The contracts management function in UNAMID involves: (a) reviewing statements of works and contracts, explaining key contractual terms and key performance indicators to contractors at the beginning of the contracts; and (b) convening contractors' performance review meetings, addressing non-performance by contractors, making sure that contractual disputes are resolved, and maintaining contracts' records. During the period 1 July 2013 to 30 June 2015, the Contracts Management Section managed 25 locally established contracts including those related to third party logistics support, airport handling, construction of helipads and airports, well drilling, with a total not-to-exceed value of \$85 million.
4. The Contracts Management Section also shared management responsibilities with the Fuel and Rations Units with respect to two headquarters-established contracts for the provision of fuel and rations, respectively with a total not-to-exceed amount of \$605 million. Self-accounting units such as Aviation, Supply, Communications and Information Technology Sections are responsible for managing four other headquarters-established contracts related to air transport, photocopying, communications and information technology support, and travel services with a not-to-exceed amount of \$107million.
5. Comments provided by UNAMID are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNAMID governance, risk management and control processes in providing reasonable assurance regarding the **effective management of contracts in UNAMID**.
7. The audit was included in the 2015 risk-based work plan of OIOS because of the operational and financial risks related to contracts management in UNAMID.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide management of contracts in UNAMID; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from December 2015 to February 2016. The audit covered the period from 1 July 2013 to 30 June 2015. The audit focused on a sample of 20 contracts (16 of 25 locally established and 4 of 6 headquarters-established contracts).

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 and analytical reviews, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The UNAMID governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of contracts in UNAMID**. OIOS made two recommendations to address the issues identified. UNAMID regularly convened performance review meetings with contractors, prepared the required performance evaluation reports and maintained all required contracts management records. However, UNAMID needed to: (a) obtain all required performance bonds and insurance certificates for the duration of all contracts that required such bonds and insurance and implement effective follow-up procedures to ensure that all contractors met these requirements in the future; and (b) implement effective invoice processing procedures to take advantage of prompt payment discounts.

13. The initial overall rating was based on the assessment of key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of one important recommendation 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 management of contracts in UNAMID	Regulatory framework	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.

Regulatory framework

There were adequate controls related to the management of contractors' performance

14. The UNAMID standard operating procedures on contract compliance and performance management require contracts management staff, in liaison with self-accounting units, to monitor, evaluate and manage contractors' performance against key performance indicators agreed with the contractors as follows: (a) convene performance review meetings with respect to complex, long-term contracts (locally established and headquarters-established) considered as critical to the Mission's operations; (b) prepare and submit related quarterly performance evaluation to the Logistics Support Division of the Department of Field Support (DFS); and (c) prepare and submit semi-annually performance evaluation reports for locally established contracts to the UNAMID Procurement Section and headquarters-established contracts to the Procurement Division at the United Nations Headquarters.

15. A review of the files for 20 (16 of 25 locally established and 4 of 6 headquarters-established) contracts implemented during the period 1 July 2013 to 30 June 2015 and minutes of contractors' performance review meetings indicated that UNAMID had adequately monitored, evaluated and managed contractors' performance against key performance indicators agreed with contractors by: (a) convening all the required 210 performance review meetings in line with agreed meeting schedules with 18 contractors at the inception of the contracts; (b) promptly preparing and submitting all the required 117 quarterly performance evaluation reports to DFS for 15 contracts; (c) promptly preparing and submitting all the required 48 semi-annual performance evaluation reports for 16 locally established contracts to the UNAMID Procurement Section; and (d) promptly preparing and submitting all the required 16 semi-annual performance evaluation reports for 4 headquarters-established contracts to the Procurement Division.

16. OIOS concluded that UNAMID had implemented adequate controls related to the monitoring and management of its contractors' performance.

There was a need to consistently obtain the required performance bonds and insurance certificates

17. The United Nations General Conditions of Contracts and the terms of contracts between UNAMID and contractors require UNAMID to obtain and maintain valid performance bonds and appropriate insurance from certain contractors to protect the United Nations against risk of loss related to implementation of contracts. UNAMID was responsible for obtaining performance bonds and insurance certificates for two headquarters-established contracts (fuel and rations) and the Procurement Division at Headquarters was responsible for obtaining the performance bonds and insurance certificates for the other contracts, i.e., for the provision of air transport, photocopying, communication and information technology support and travel services.

18. A review of the files for 18 (16 of 25 locally-established and 2 of 6 headquarters-established) contracts that required bonds and insurance indicated that UNAMID had obtained the required bonds for 17 contracts but did not obtain and maintain the required performance bond of \$15,750 for one contract. UNAMID also did not: (a) obtain and maintain valid insurance certificates for 7 of 14 contracts for which UNAMID required insurance; (b) have evidence of insurance for 5 of the 7 contracts for an average of 13 months; and (c) have evidence of obtaining the required insurance certificates for the other 2 contracts.

19. The above resulted because UNAMID had not implemented effective follow-up procedures to obtain the required bonds and insurance certificates from contractors. As a result, the Organization was not adequately protected against risk of loss related to non-implementation of contracts. In the absence of

the required bond and insurance certificate, UNAMID deducted \$270,749 representing the costs of damage/loss from the invoices of third-party logistics contractors. However, there was a risk that this method of recovery may not always be sufficient to cover a damage/loss from the amount of outstanding invoices.

(1) UNAMID should obtain all required performance bonds and insurance certificates for the duration of all contracts that required such bonds and insurance and implement effective follow-up procedures to ensure that all contractors meet these requirements in the future.

UNAMID accepted recommendation 1 and stated that the Chief Procurement Officer had issued guidelines dated 3 November 2015 to procurement staff to ensure consistent compliance with the requirements for valid performance bonds and insurance certificates. UNAMID also stated that contractors with expired performance bonds and/or insurance certificates were being contacted to rectify the situation. Recommendation 1 remains open pending receipt of evidence that UNAMID has obtained the performance bonds and insurance certificates for all contracts for which such instruments are required.

Monitoring mechanisms for payment processing needed strengthening

20. The terms of the contracts between UNAMID and eight major contractors require the Mission to take advantage of prompt payment discounts. The United Nations Procurement Manual also requires UNAMID to pay for goods or services within 30 days of the contractor's satisfactory completion of their contractual obligations.

21. A review of payment records for all six locally established and two headquarters-established contracts that provided for prompt payment discounts indicated that UNAMID did not pay the contractors within the timelines specified in the contracts. For instance, UNAMID delayed paying two contractors for invoices totaling \$1.1 million by 90 to 120 days. Although UNAMID had procedures for tracking invoices from receipt by self-accounting units to the processing of payment by the Finance Section, these procedures were not always implemented. As a result, UNAMID did not take advantage of prompt payment discount of \$896,922 between 1 July 2013 and 30 June 2015 and delays in paying one of the construction contractors resulted in the contractor halting the works due to cash flow problems and sought compensation from UNAMID.

(2) UNAMID should implement effective invoice processing procedures to take advantage of prompt payment discounts.

UNAMID accepted recommendation 2 and stated that effective 1 April 2016, the Chief Finance Officer introduced a new payment processing arrangement where vendor payments with prompt payment discounts are now being made by Regional Support Centre in Entebbe. UNAMID further stated that self-accounting units with prompt payment discounts are now working within the contractual time frames. Based on the action taken by UNAMID, recommendation 2 has been closed.

The required contracts management records were maintained

22. The UNAMID standard operating procedures on contract implementation and management, and the Department of Peacekeeping Operation/DFS Policy on contract management require UNAMID to maintain records of contract management activities including but not limited to: original signed contracts; contract amendments; minutes of performance review meetings; performance evaluation reports; correspondence dealing with contractual matters/disputes; close-out documents and invoices. The records

are needed as proof of contractor performance, to keep track of changes, prove claims and as evidence in case of litigation and audits.

23. A review of the files for 20 of 31 contracts indicated that UNAMID had maintained all required documents including: original signed contracts and related amendments, contractors' performance review meeting minutes, performance evaluation reports, contract completion certificates, internal correspondences dealing with contractual matters.

24. OIOS concluded that UNAMID implemented adequate controls over the maintenance of the required contracts management records.

IV. ACKNOWLEDGEMENT

25. OIOS wishes to express its appreciation to the management and staff of UNAMID 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 contracts management in the African Union-United Nations Hybrid Operation in Darfur

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNAMID should obtain all required performance bonds and insurance certificates for the duration of all contracts that required such bonds and insurance and implement effective follow-up procedures to ensure that all contractors meet these requirements in the future.	Important	O	Evidence that UNAMID has obtained the performance bonds and insurance certificates for all contracts for which such instruments are required.	30 July 2016
2	UNAMID should implement effective invoice processing procedures to take advantage of prompt payment discounts.	Important	C	Action taken	Implemented

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 UNAMID in response to recommendations.

APPENDIX I

Management Response

AFRICAN UNION

الاتحاد الأفريقي



UNAMID



UNITED NATIONS

الأمم المتحدة

African Union – United Nations Hybrid Operation in Darfur

Office of the Joint Special Representative

04 May 2016

To: Mr. Bolton Tarleh Nyema, Chief
Peacekeeping Audit Service
Internal Audit Division, OIOS

From: Martin Ihoeghian Uhomoibhi
Joint Special Representative and Joint Chief Mediator
UNAMID

Subject: Draft report on an audit of contracts management in the African Union-United Nations Hybrid Operation in Darfur (Assignment No. AP2015/634/07)

1. With reference to your memorandum of 21 April 2016, on the captioned-subject matter, please find attached UNAMID's response (Appendix I) to the draft report for your consideration.
2. All related portfolio of evidence have been submitted to the office of the Chief Resident Auditor for verification.
3. I further confirm on the factual accuracy of the report.

Thank you.

cc: Mr. Wolfgang Weiszegger, Director a.i., Mission Support Division, UNAMID
Mr. Senanu Tsikata, Officer-in-Charge, Contracts Management Section, UNAMID
Ms. Eleanor T. Burns, Director, Internal Audit Division, OIOS
Mr. Velayutham Gopal, Audit Focal Point, UNAMID
Mr. Edward Zormelo, OIC, UNAMID Resident Audit Office, Internal Audit Division, OIOS
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

Management Response

Audit of contracts management in the African Union-United Nations Hybrid Operation in Darfur

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNAMID should obtain all required performance bonds and insurance certificates for the duration of all contracts that required such bonds and insurance and implement effective follow-up procedures to ensure that all contractors meet these requirements in the future.	Important	Yes	Procurement Section and Contract Management Unit	30 July 2016	UNAMID Procurement has in place guidelines dated 03 November 2015 to guide all buyers involved. With this clear guidelines issued to all involved, non-receipt/renewal of performance bond and insurance certificates would be adequately addressed. Contractors with expired performance bonds and or insurance certificates are being contacted to rectify the situation. The process is ongoing and expects full compliance by the contractors by 30 July 2016.
2	UNAMID should implement effective invoice processing procedures to take advantage of prompt payment discounts.	Important	Yes	Self-Accounting Units (SAUs) and Vendors Service Line, RSCE, Entebbe, Uganda	31 March 2016	There is an effective invoice processing procedure in place and whenever there is a provision of prompt payment discounts, the time frame is respected. Since 01 April 2016, the new payment processing arrangement has been implemented and vendor payments and prompt payment discounts (PPD) now transferred to RSCE. Self-Accounting Units with contracts with PPD incentives work within the required time frame. The mission considers this requirement fully addressed and requests the closure of this recommendation.

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.