



INTERNAL AUDIT DIVISION

REPORT 2015/078

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

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

31 July 2015
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CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-6
Regulatory framework	3-6
IV. ACKNOWLEDGEMENT	6
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

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

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 Vienna (UNOV).
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. According to the 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 UNOV Procurement Unit, which was one of the nine services under the UNOV General Support Section, was the responsible "procurement office" for contract management activities. It was headed by a Chief at the P-4 level and supported by two P-3 and five General Service staff members.
5. UNOV had 50 ongoing contracts as at 19 February 2015 with a total value of \$34 million. Eight contracts with a total value of \$10 million (29 percent of total contracts) were identified as "common contracts", which were defined as contracts that provided services to several client organizations based at the Vienna International Centre. These included contracts for the provision of: (i) network photocopier equipment; (ii) digital printing and scanning solutions; (iii) voice and data communication services (two contracts); (iv) recycled white photocopy paper services; (v) expedition of international bulk mail services; (vi) incoming and outgoing courier and diplomatic pouch services; and (vii) mobile voice and data communication services.
6. Comments provided by UNOV are incorporated in italics.

II. OBJECTIVE AND SCOPE

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

8. The audit was included in the 2015 internal audit work plan for UNOV due to the risk that potential weaknesses in the management of common contracts could adversely affect the operations of the Vienna-based organizations that received the contractual services.

9. 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 UNOV in the areas of contract management; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

10. The key control was assessed for the control objectives shown in Table 1.

11. OIOS conducted this audit from March to June 2015. The audit covered the period from 1 January 2014 to 31 March 2015.

12. 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

13. The UNOV 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 UNOV**. OIOS made four recommendations to address issues identified in the audit. Arrangements for monitoring of vendor performance against agreed performance measures were in place and operating satisfactorily. Invoices were appropriately certified and generally paid in a timely manner, and the mechanism for resolution of disputes was satisfactory. However, regulatory framework was assessed as partially satisfactory because UNOV needed to: (a) strengthen the arrangements for training, briefing and informing contract managers of their roles and responsibilities; (b) establish a mechanism to monitor and ensure that approved contract amounts are not exceeded; and (c) strengthen the process for evaluation of vendors to ensure that all end users are consulted, the correct vendor performance rating forms are used, and the performance rating forms are completed only after the end of the period being evaluated.

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

¹ A rating of “partially satisfactory” means that important (but not critical and/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.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of common contracts by UNOV	Regulatory framework	Partially satisfactory	Partially Satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

A. Structure, roles and responsibilities

Need to strengthen the arrangements for training, briefing and informing contract managers of their roles and responsibilities

15. The United Nations Procurement Manual and the Procurement Practitioner Handbook outline the guidance, structure and roles and responsibilities for contract management. To ensure effective and efficient management of contracts, contract managers need to be conversant with the guidelines and their roles and responsibilities. Further, the Procurement Practitioner Handbook (Section 3-91) states that procurement officers should ensure that there is a shared understanding regarding distribution of responsibilities and the systems and procedures in place to monitor and control contract performance.

16. UNOV had designated contract managers, who were responsible for day to day management of all common contracts. Contract managers were staff from the requisitioning offices including the General Support Section and the Information and Technology Section (ITS).

17. Although the Procurement Unit briefed contract managers about their roles and responsibilities after the contracts were signed, contract managers were not provided with documentation concerning their roles and responsibilities. The oral briefings alone were not effective in communicating the distribution of responsibilities as evidenced by the fact that some contract managers were not fully aware of their roles and responsibilities. Contract managers in ITS indicated that they performed their tasks as passed on to them by the previous task owner. They incorrectly assumed that their responsibility was only to ensure that the technical aspects of the contract were properly completed, while the Procurement Unit was responsible for administrative and management aspects of their contracts.

18. In addition, not all contract managers were aware of the existence of the Procurement Practitioner Handbook and most indicated that they had not read the Procurement Manual sections dealing with contract management. No training on contract management had been provided to the contract managers. Since the Procurement Manual and Practitioner Handbook provided broad guidelines on contract management at the policy level, contract managers would benefit from simpler briefing notes or guidelines on contract management that they could use effectively.

19. The lack of adequate training and guidance affected the effectiveness of contract management. Deficiencies identified in the audit and discussed later in the report (including weaknesses in performance

evaluation and monitoring of approved limits) could be attributed to contract managers not being fully aware of their roles, responsibilities and procedures for managing contracts.

(1) UNOV should prepare briefing notes and guidelines to enable contract managers to more effectively perform their roles and responsibilities relating to contract management.

UNOV accepted recommendation 1 and stated that the Procurement Unit will create briefing notes/guidelines to be used for briefing and training Contract managers on their roles and responsibilities. This document will include the appropriate references to the sections of the Procurement Practitioner Handbook and Procurement Manual dealing with contract management. Recommendation 1 remains open pending receipt of the briefing notes and guidelines issued to contract managers.

B. Contract monitoring

Need to establish a mechanism to monitor and ensure that approved contract amounts are not exceeded

20. As stated in the Procurement Manual (section 13.9.7), system contracts require effective monitoring and administrative support, primarily by the requisitioner, to ensure that selected vendors perform satisfactorily and in accordance with the terms and conditions of the contract, and that the not-to-exceed (NTE) amounts are not exceeded.

21. Contract managers did not regularly monitor the overall NTE amounts in four out of the eight common contracts reviewed. This was because no arrangements had been established to obtain data on contract usage from one of the organizations that was using the contracts. To address the gap, the Procurement Unit annually requested data on contract usage from all the end users and compared the total to the contracts' overall NTE amounts. As this was done only once a year, cases where NTE amounts were reached in the interim were not identified in a timely manner. For instance, a telecommunications common contract that was initially signed in 2012 was exceeded by \$187,204 (or seven per cent) of the NTE amount of \$2.7 million before the excess was detected and submitted to the Committee on Contracts for approval.

(2) UNOV should establish a mechanism to monitor and ensure that the NTE amounts are not exceeded.

UNOV accepted recommendation 2 and stated that currently, NTE amounts are monitored manually. The Procurement Unit will request data on contract usage from end users on a quarterly basis to ensure that NTE amounts are not exceeded. As the usage gets closer to the NTE amount, follow up will be done on a more frequent basis, e.g. monthly. However, from November 2015, when Umoja is deployed in UNOV, NTE amounts will be monitored systematically through the Umoja Supplier Relationship Management application. Recommendation 2 remains open pending receipt of evidence showing that NTE amounts are being monitored effectively.

C. Vendor performance evaluations

Need to ensure that all end users are consulted when completing vendor performance evaluations

22. According to the Procurement Manual, the requisitioner and/or end-user should ensure that an adequate vendor performance evaluation is conducted. Common contracts had several users and therefore it was essential to establish arrangements to involve all end users when evaluating the vendor's performance. However, there was no evidence that UNOV contacted the other end users when

completing vendor performance evaluations. Not contacting the other end users during performance evaluations could lead to failure to document instances of sub-standard performance.

(3) UNOV should introduce a mechanism to ensure that all end users are consulted when completing vendor performance evaluations for common contracts.

UNOV accepted recommendation 3 and stated that the automated vendor performance report will be adjusted to include a statement where the requisitioner certifies that s/he has consulted all relevant end users prior to submitting the report. The requisitioner will also be able to enter in the report, any comments received from the end users. Recommendation 3 remains open pending receipt of evidence showing that vendor performance evaluations for common contracts are being performed in consultation with all end users.

Need to use the correct evaluation forms and complete them at the end of the performance period

23. The Procurement Manual stated that there are five types of vendor performance rating forms depending on the type of service and value of the contract. 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, contract managers were to complete a contract or performance report rating form.

24. In four of the eight common contracts, the values of the contracts were over \$200,000 or their duration was two years or more, but the requisitioners did not use the correct performance report rating form. As a result, key information about the adherence to the scope of work, quality of work and material, and compliance with security/access requirements were not addressed in the performance rating form. Further, in three contracts, the 2015 vendor performance rating forms were completed and submitted to the Procurement Unit in advance, before completion of the period to which the evaluations pertained. This increased the risk that deficiencies in performance in the course of the year would not be reflected in the performance rating as required.

25. OIOS attributed these deficiencies to contract managers' lack of knowledge of the vendor evaluation requirements as already noted earlier in the report. The fact that requisitioners received an email notification to complete a rating form each time a requisition was raised also led to some requisitioners completing the rating forms in advance.

(4) UNOV should brief contract managers on: (i) the appropriate vendor performance rating forms that should be used in accordance with the Procurement Manual; and (ii) the need to ensure that performance rating forms are completed only after the end of the period being evaluated.

UNOV accepted recommendation 4 and stated that the Procurement Unit will include information on appropriate vendor forms to be used, in the briefing notes/guidelines referred to in our comments on the recommendation 1 above. Procurement Unit will send the performance rating forms out only after payment or expiration of contract. This can be reset electronically in the Procurement Tracking System. Recommendation 4 remains open pending receipt of evidence showing that appropriate guidance has been issued to contract managers on the use of performance rating forms.

D. Invoice processing and dispute resolution

Invoices were appropriately certified and generally paid in a timely manner

26. OIOS selected a sample of 49 invoices for the period under review to determine whether they were properly certified, approved and paid in a timely manner in accordance to the terms of the relevant contracts. In seven out of eight common contracts, invoices were certified and approved by the authorized certifying and approving officers. For the remaining contract, invoices had been certified by a staff member who did not have the delegated authority to perform the functions of a certifying officer. During the audit, UNOV took corrective action by assigning the responsibility for this contract to a duly authorized certifying officer.

27. For the 49 invoices reviewed, the average time between certification and approval was twelve days. Twenty seven of the 49 invoices were paid in a timely manner and twenty two were paid late. There were satisfactory explanations for the invoices paid late: nine invoices were delayed due to the time needed to resolve weight discrepancies with the vendor; UNOV had stopped payment on three invoices because the vendor had not provided the required performance bond; in two cases, late payment was due to the certification process occurring at Headquarters in New York; and in the remaining cases, payments were made a few days after the due date. No late fees were involved since UNOV had informed the vendors in advance. OIOS therefore concluded that there were adequate controls to ensure that invoices were paid in a timely manner as far as possible.

The dispute resolution mechanism and remedies were adequate

28. All the common contracts included a mandatory dispute resolution clause. OIOS identified four cases where the Procurement Unit enforced this clause. In the first case, there was an overbilling identified in the July 2014 invoice in the total amount of \$36,952. After investigation, UNOV took up the matter with the vendor and received a credit note in January 2015.

29. In another case, a vendor had consistently been overcharging UNOV for additional weight. UNOV noted the weight discrepancies between the invoices and its internal records and informed the vendor. UNOV General Support Section invited the vendor to observe its weighing process and scales and in turn General Support Section staff visited the vendor's facilities to observe the weighing process there. After several meetings, the dispute was resolved and the vendor issued credit notes for the relevant invoices. No subsequent weight discrepancies were noted.

30. In two other cases, the Procurement Unit enforced the contract terms by withholding payment on two vendors' invoices. The vendors had not provided the performance bond within the timeframe as stipulated in the contract. The vendors eventually provided the performance bonds and the invoices were paid. Based on the above, OIOS concluded that the mechanism to resolve disputes with vendors was adequate and operating satisfactorily.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

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

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNOV should prepare briefing notes and guidelines to enable contract managers to more effectively perform their roles and responsibilities relating to contract management.	Important	O	Receipt of the briefing notes and guidelines issued to contract managers.	31 October 2015
2	UNOV should establish a mechanism to monitor and ensure that the NTE amounts are not exceeded.	Important	O	Receipt of evidence showing that NTE amounts are being monitored effectively.	31 July 2015
3	UNOV should introduce a mechanism to ensure that all end users are consulted when completing vendor performance evaluations for common contracts.	Important	O	Receipt of evidence showing that vendor performance evaluations for common contracts are being performed in consultation with all end users.	31 December 2015
4	UNOV should brief contract managers on: (i) the appropriate vendor performance rating forms that should be used in accordance with the Procurement Manual; and (ii) the need to ensure that performance rating forms are completed only after the end of the period being evaluated.	Important	O	Receipt of evidence showing that appropriate guidance has been issued to contract managers on the use of performance rating forms.	31 October 2015

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNOV in response to recommendations.

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOV should prepare briefing notes and guidelines to enable contract managers to more effectively perform their roles and responsibilities relating to contract management.	Important	Yes	Chief, Procurement Unit	31 October 2015	The Procurement Unit (PU) will create briefing notes/guidelines to be used for briefing and training Contract Managers on their roles and responsibilities. This document will include the appropriate references to the sections of the Procurement Practitioner Handbook and Procurement Manual dealing with contract management.
2	UNOV should establish a mechanism to monitor and ensure that the NTE amounts are not exceeded.	Important	Yes	Chief, Procurement Unit	31 July 2015	Currently, NTE amounts are monitored manually. The Procurement Unit will request data on contract usage from end users on a quarterly basis to ensure that NTE amounts are not exceeded. As the usage gets closer to the NTE amount, follow up will be done on a more frequent basis, e.g. monthly. However, from November 2015, when Umoja is deployed in UNOV/UNODC, NTE amounts will be monitored systematically through the Umoja Supplier Relationship Management (SRM) application.
3	UNOV should introduce a mechanism to ensure that all end users are consulted when completing the vendor performance evaluation for common contracts.	Important	Yes	Chief, Procurement Unit	31 December 2015	The automated vendor performance report will be adjusted to include a statement where the requisitioner certifies that s/he has consulted all relevant end users prior to submitting the report. The requisitioner will also be able to enter in the report, any comments received from the end users.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	UNOV should brief contract managers on: (i) the appropriate vendor performance rating forms that should be used in accordance with the Procurement Manual; and (ii) the need to ensure that performance rating forms are completed only after the end of the period being evaluated.	Important	Yes	Chief, Procurement Unit	31 October 2015	The Procurement Unit will include information on appropriate vendor forms to be used, in the briefing notes/guidelines referred to in our comments on the recommendation 1 above. PU will send the performance rating forms out only after payment or expiration of contract. This can be reset electronically in the Procurement Tracking System.