



INTERNAL AUDIT DIVISION

REPORT 2017/023

Audit of procurement and contract management at the International Trade Centre

Controls relating to procurement planning, assessment of risks, documentation of the procurement process and evaluation of vendors' performance needed to be strengthened

13 April 2017
Assignment No. AE2016/350/02

Audit of procurement and contract management at the International Trade Centre

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 at the International Trade Centre (ITC). The audit covered the period from January 2014 to September 2016 and included a review of the structure and delegation of authority for conducting procurement activities, acquisition planning, solicitation and selection of vendors, and contract management.

ITC had established an appropriate framework for conducting procurement activities and was generally complying with the Procurement Manual's requirements for solicitation, receipt and evaluation of bids. However, controls relating to procurement planning, assessment of risks, documentation of the procurement process and evaluation of vendors needed to be strengthened.

OIOS made four recommendations. To address issues identified in the audit, ITC needed to:

- Prepare project-related annual procurement plans and update them on a regular basis as required by the Procurement Manual;
- Consistently assess and document risks related to individual procurement actions and incorporate mitigating measures in the procurement process and contracts, as appropriate;
- Ensure that a clear and complete audit trail is maintained for procurement actions carried out using Requests for Quotations; and
- Establish mechanisms to ensure that performance evaluations are prepared regularly as required by the Procurement Manual and using the forms recommended in the Manual.

ITC accepted the recommendations and has already implemented two of them.

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Audit of procurement and contract management at the International Trade Centre

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement and contract management at the International Trade Centre (ITC).
2. ITC had unlimited delegation of authority from the Assistant Secretary-General, Office of Central Support Services to carry out procurement activities for its operations. The ITC Procurement Services is responsible for the procurement of goods and services based on requisitions raised by end users. It was headed by a P-3 official supported by three full-time procurement assistants and two procurement assistants working on a part-time basis.
3. During the period 1 January 2014 to 30 September 2016, ITC procured goods and services valued at \$26.2 million. As of 30 September 2016, ITC had 70 active contracts with a total value of \$48.7 million.
4. Comments provided by ITC are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. 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 at ITC.
6. This audit was included in the 2016 risk-based work plan of OIOS due to the operational and financial risks related to procurement of goods and services and management of contracts.
7. OIOS conducted this audit from October 2016 to January 2017. The audit covered the period from January 2014 to September 2016. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in procurement and contract management, which included: (i) the structure and delegation of authority; (ii) acquisition planning; (iii) solicitation and selection of vendors; and (iv) contract management.
8. The audit methodology included: (a) interviews of key personnel, (b) review of relevant documentation, (c) analytical review of data, and (d) sample tests of transactions.

III. OVERALL CONCLUSION

9. ITC had established an appropriate framework for conducting procurement activities and was generally complying with the Procurement Manual's requirements for solicitation, receipt and evaluation of bids. However, there was a need to strengthen procurement planning to avoid rushed procurement actions which could affect the effectiveness of the procurement process. There was also a need to ensure that risks were consistently assessed as required by the Procurement Manual and that a clear and complete audit trail is maintained for procurement actions done through informal solicitation method, i.e., Requests for Quotations (RFQ). In addition, controls relating to evaluation of vendors' performance needed to be strengthened.

IV. AUDIT RESULTS

A. Structure and delegation of authority

ITC had established an appropriate framework for conducting procurement activities

10. ITC regularly reviewed the Procurement Services' structure and adapted it to its operational needs. Procurement Services staff had undertaken the required training and the authority delegated to them was clearly documented in memos from the Director, Division of Programme Support. ITC had also set up a Committee on Contracts (COC) comprising of staff from different Divisions and documented its Terms of Reference (TOR) in an administrative instruction. All Procurement Services staff and members of the COC filed Financial Disclosure Declarations as required by the Procurement Manual. Further, ITC had established a Bid Opening Committee and documented its TOR.

Need to indicate aggregate contract values had been addressed

11. During the period 2015-2016, a total of 14 procurement cases were presented to the COC for review. These presentations covered all important aspects of the procurement cases in adequate detail and minutes of meetings were prepared describing the deliberations and decisions made. However, 10 other procurement cases that had aggregate contract values above the threshold for COC review (\$75,000) were not submitted to the COC. This was because in determining whether the threshold for submitting cases to the COC had been met, ITC considered the annual value of the contracts and not the aggregate contract value. This was contrary to the Procurement Manual which requires the threshold for submitting cases to COC to be determined based on aggregate contract values including optional extension periods.

12. Submitting cases to the COC provides additional oversight and assurance that the process is followed and value for money is optimized. For example, one of the 10 contracts that were not submitted to the COC with an aggregate value of \$204,260 had deficiencies which may have been identified and addressed if the case had been reviewed by the COC. The deficiencies included the fact that the decision to sole source was not appropriately justified and the details of how the contract value was computed were not clearly documented. Two other cases not submitted to the COC were also sole sourced and a COC review would have provided additional vetting on whether the sole sourcing was justified. ITC indicated that the practice to use annual value of contracts in determining whether the procurement case met the threshold for COC review was established at a time when most of the procurement activities were routine recurring contracts such as contracts for supplies, licenses and cleaning. Over the last couple of years, the level of project-related procurement has increased and therefore ITC agreed that this practice needed to be reviewed. After the audit, ITC updated the TOR of the COC to state that aggregate contract values should be used in determining whether the \$75,000 threshold for submitting cases to the COC had been met. In view of the corrective action taken, OIOS did not make a recommendation in this regard.

B. Acquisition planning

Need to strengthen procurement planning

13. Procurement Manual Chapter 8.1.4 requires requisitioners and procurement offices to communicate, and, to the extent feasible, meet on an annual basis to set up spending plans, including acquisition plans, for the forthcoming budgetary period(s). Requisitioners are required to provide any proposed revisions to the plans at no more than six month intervals.

14. ITC had established a system of tracking contract end dates to facilitate timely initiation of procurement actions before the contracts came to an end. This facilitated the planning for procurement actions of recurring needs (including facilities maintenance services, utilities, travel services, office supplies, and software and data licenses). Expenses under established system or long-term contracts amounted to approximately 58 per cent of the total spending over the last three years.

15. However, for project-related procurement, Divisions did not consistently prepare annual procurement plans or meet with the Procurement Services to discuss their needs. Preparing annual procurement plans and regularly updating them as recommended in the Procurement Manual would help reduce the risk of rushed procurement actions which could affect the effectiveness of the procurement process. From the sample of procurement cases reviewed, OIOS noted the following deficiencies and risks attributed to inadequate planning and consequently rushed procurement actions:

- Risk of inadequate market research in identifying potential vendors particularly for procurement actions undertaken outside of Europe. The potential to consult with the United Nations Development Programme (UNDP) which is likely to have more knowledge of the local market conditions is limited in cases of rushed procurement actions. Twelve of the 57 procurement cases reviewed were conducted in countries outside of Europe but UNDP was not consulted.
- Increased risk of using sole source, which could expose ITC to uncompetitive practices resulting in uneconomical contracts. Eight out of a sample of 25 contracts reviewed that were sole sourced had no Expression of Interest posted, which would have helped determine whether there were other vendors that could have supplied the goods or services sole sourced. The Procurement Services' ability to post Expressions of Interest is limited if the procurement action is rushed.
- Increased risk of amendments to TOR or level of requirements after the procurement process has been initiated or contracts signed. For example, in one case involving procurement of hotel accommodation, the number of rooms needed was increased during the procurement process. In another case the requisitioner was not aware that ITC was responsible for paying for the bill, which led to ex post facto payments. OIOS attributed these deficiencies to inadequate planning.
- Risk of delays in renewing contracts. In one case (the translation contract) there were delays in initiating and finalizing the procurement action from the end of the contract in 2014 to 2016 (over 1.5 years). This led to the use of RFQs for one whole year (total of 15 contracts of approximately \$91,000) which was inefficient and possibly uneconomical.
- Risk of ex post facto cases. There were six ex post facto cases during the period 2014 to 2015 which could be attributed to deficiencies in planning.

(1) ITC should establish mandatory requirements and monitoring mechanisms to ensure that requisitioners prepare project related annual procurement plans and update them on a regular basis as required by the Procurement Manual.

ITC accepted recommendation 1 and stated that it used the procurement plan outlined in the Procurement Manual and on 31 March 2017 requested requisitioners from the technical divisions to submit and update their plans by 24 April 2017. Upon receipt of the information, Procurement Services will update a simple planning database to assess the upcoming work and the appropriate method of procurement. It will update this table with the inputs from the technical divisions every six months. Procurement Services intends to send the same request in September 2017 and thereafter every six months. Based on the action taken by ITC, recommendation 1 has been closed.

C. Solicitation and selection of vendors

Solicitation, receipt and evaluation of bids were generally in accordance with the Procurement Manual

16. OIOS reviewed a sample of 57 procurement cases and noted that TOR were clearly documented and incorporated in the solicitation documents. Evaluation criteria and weights were established in advance and the evaluations were done in accordance with the established criteria. For procurement actions undertaken using Requests for Proposals (RFP), the financial proposals were opened after the technical evaluations were completed, as required by the Procurement Manual. The number of vendors invited was generally in accordance with the numbers recommended in the Procurement Manual. From the sample of 57 cases reviewed, only six cases did not have the required number and in most cases the shortfall was not significant (one or two less than recommended numbers). Bid opening procedures were also established in line with the Procurement Manual guidelines and complied with. Further, after the audit, ITC established mechanisms for requisitioners to certify that they have no conflict of interest with vendors they have proposed to be included in the sourcing list as required by the Procurement Manual.

Need to assess risks consistently and identify mitigating measures

17. Section 11.4 of the Procurement Manual describes the Source Selection Plan (SSP) as an internal and collective document, under the leadership of the procurement officer, that identifies critical components of the acquisition process and provides justification for sourcing and procurement decisions to achieve the Best Value for Money principle. The elements expected to be included in the SSP include the evaluation team, evaluation criteria, and weight and risk factors that should be assessed during the evaluation. ITC prepared SSPs for procurement actions where formal solicitation methods were used. The evaluation teams and evaluation criteria were reflected in the SSP as required. However, in seven of the cases reviewed, risks were not assessed and documented in the SSP. Failure to assess risks could lead to mitigating measures not being considered and incorporated in the procurement process and contracts, as appropriate.

(2) ITC should consistently assess and document risks related to individual procurement actions and incorporate mitigating measures in the procurement process and contracts as appropriate.

ITC accepted recommendation 2 and stated that it will improve this aspect of procurement by capturing the appropriate risks and mitigation measures more systematically in the sourcing plan and in the planning database. It will define a risk matrix aligned to the ITC risk appetite statement that is currently being defined. The matrix will help Procurement Services define the appropriate mitigation measures. Recommendation 2 remains open pending receipt of evidence that risks are being consistently assessed and documented in SSPs.

Need to improve filing system and audit trail for procurement actions involving RFQs

18. Section 3.2.4 of the Procurement Manual states that a clear audit trail shall be maintained for each procurement case. An audit trail as defined in the Procurement Manual is clear and concise documentation in a suitable format, normally a written log, describing the actions and decisions taken throughout the handling of a case, thereby enabling a reviewer of the case to establish that it has been handled in accordance with the applicable regulations, rules and procedures.

19. ITC used an Offer Procedural Control Form (OPC) to summarize the details of vendors invited to bid, the bids received, and the rationale for selecting the winning bid. However, there were some gaps in the records maintained to support the information in the OPC. In 6 of the 31 RFQs reviewed, the amounts in the OPC did not reconcile with the vendor proposals on file and there was no documented explanation for the difference. Also, in six cases, there was no clear evidence that the RFQs had been sent to the vendors. This was because RFQs were sent through staffs' personal emails and were not systematically printed and filed. OIOS is of the view that it would be beneficial to establish a practice of copying all emails sent to vendors to a generic email address to enhance transparency and provide the required evidence without the need for staff to print and file copies of individual emails.

20. In addition, there was need to improve the documenting of reasons for not inviting the recommended minimum number of vendors to bid. In six cases reviewed, the number of vendors invited to bid was lower than the number recommended in the Procurement Manual but reasons were documented in only one case. Maintaining a clearly documented audit trail is necessary to ensure transparency and accountability in procurement.

(3) ITC should ensure that a clear and complete audit trail is maintained for procurement actions carried out using Requests for Quotations.

ITC accepted recommendation 3 and stated that Procurement Services has simplified its filing methodology and given clearer guidelines for filing and sharing of relevant information for informal bidding. Staff were briefed on the requirements on 31 March 2017. Based on the action taken by ITC, recommendation 3 has been closed.

D. Contract management

Need to conduct performance evaluations

21. Sections 15.2 and 15.3 of the Procurement Manual outline the requirements for vendor performance evaluations including: (i) the need to develop performance criteria and include them in solicitation documents and contracts; and (ii) the type of vendor performance reports that need to be prepared. In 5 of the 24 procurement cases above \$40,000 that were reviewed on sample basis, performance measurement criteria were not included in the contracts. Failure to establish clear performance measures could affect the evaluation of the vendors' performance and ITC's ability to enforce remedial actions in cases of poor performance. Performance evaluations were also not prepared using the forms prescribed in the Procurement Manual. For contracts relating to cleaning, catering, travel, and building services, satisfaction surveys were conducted on a regular basis. However, evaluations were not formally documented as required. For project-related contracts, no formal evaluations were done. Formal performance evaluations are necessary to ensure that any deficiencies in performance are identified and addressed, and are considered in case of contract renewal.

(4) ITC should establish mechanisms to ensure that performance evaluations are prepared regularly as required by the Procurement Manual, using the forms recommended in the Manual.

ITC accepted recommendation 4 and stated that it is planning to use the forms recommended in the Manual systematically to formalize the performance evaluation of vendors on a regular basis for any contract above \$40,000. Procurement Services is currently working on adjusting the forms and writing clear instructions to procurement staff on when and how to use them. The instructions to staff will be ready by the end of June 2017. Recommendation 4 remains open pending receipt of evidence

that appropriate instructions have been issued to requisitioners on the Procurement Manual's requirements regarding performance evaluation of vendors.

V. ACKNOWLEDGEMENT

22. OIOS wishes to express its appreciation to the management and staff of ITC 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 at the International Trade Centre

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	ITC should establish mandatory requirements and monitoring mechanisms to ensure that requisitioners prepare project related annual procurement plans and update them on a regular basis as required by the Procurement Manual.	Important	C	Action completed.	Implemented
2	ITC should consistently assess and document risks related to individual procurement actions and incorporate mitigating measures in the procurement process and contracts as appropriate.	Important	O	Receipt of evidence that risks are being consistently assessed and documented in the Source Selection Plans.	30 September 2017
3	ITC should ensure that a clear and complete audit trail is maintained for procurement actions carried out using Requests for Quotations.	Important	C	Action completed.	Implemented
4	ITC should establish mechanisms to ensure that performance evaluations are prepared regularly as required by the Procurement Manual, using the forms recommended in the Manual.	Important	O	Receipt of evidence that appropriate instructions have been issued to requisitioners on Procurement Manual requirements on performance evaluation of vendors.	30 June 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 ITC in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of procurement and contract management at the International Trade Centre

Rec. no.	Recommendation	Critical/ ¹ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ITC should establish mandatory requirements and monitoring mechanisms to ensure that requisitioners prepare project related annual procurement plans and update them on a regular basis as required by the Procurement Manual.	Important	Yes	Head, Procurement Services Chief, Central Support Services	31 March 2017	ITC used the procurement plan outlined in the procurement manual and requested on 31 March 2017 requisitioners from the technical division to submit and update their plans by 24 April 2017. Upon receipt of the information, PS will update a simple planning database to assess the upcoming work and the appropriate method of procurement. It will update this table with the inputs from the technical division every six months. PS intends to send the same request in September 2017 and thereafter every six months (see attached request and planning tracking sheet)
2	ITC should consistently assess and document risks related to individual procurement actions and incorporate mitigating measures in the procurement process and contracts as appropriate.	Important	Yes	Head, Procurement Services Chief, Central Support Services	September 2017	ITC will improve this aspect of the procurement by capturing the appropriate risks and mitigation measures more systematically in the sourcing plan and in the planning database. It will define a risk matrix aligned to the ITC risk appetite statement that is currently being defined. The matrix will help procurement define the appropriate mitigation measures.
3	ITC should ensure that a clear and complete audit trail is maintained for procurement actions carried out using Requests for Quotations.	Important	Yes	Head, Procurement Services Chief, Central Support Services	31 March 2017	ITC procurement service has simplified its filling methodology and given clearer guidelines for filling and sharing of relevant information for informal bidding. Staffs were briefed on the requirements on 31 March 2017 (see attached guidelines).
4	ITC should establish mechanisms to ensure that performance evaluations are prepared regularly as required by the Procurement Manual and using the forms recommended in the Manual.	Important	Yes	Head, Procurement Services Chief, Central Support Services	June 2017	ITC is planning to use the forms recommended in the Manual and will systematically use them to formalize the performance evaluation of vendors on a regular basis for any contract above 40'000 US\$. Procurement service is currently working on adjusting the forms and writing clear instructions to procurement staff on when and how to use them. The instructions to staff will be ready by the end of June 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.

S-T. by