



INTERNAL AUDIT DIVISION

REPORT 2014/010

Audit of contract administration at the United Nations Office at Geneva

Overall results relating to administration of contracts at the United Nations Office at Geneva were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

25 March 2014

Assignment No. AE2013/311/03

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AUDIT REPORT

Audit of contract administration at the United Nations Office at Geneva

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contract administration at 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. The UNOG Procurement and Contracts Unit (PCU) provided purchasing and contracting services to 11 offices and departments (hereinafter referred to as “client organizations”) in Geneva. It formed part of the Purchase and Transportation Section (PTS), which was one of two sections under the UNOG Central Support Services (CSS). PCU was comprised of four sub-units, namely: Construction and Building related Procurement Sub-Unit; General Procurement Sub-Unit; Information and Communication Technology Procurement Sub-Unit; and Vendor Registration and Follow-up Sub-Unit. PCU also served as the Secretariat of the Common Procurement Activities Group for UNOG and specialized agencies of the United Nations system in Geneva. PCU was headed by a Chief at the P-4 level reporting to a P-5 level Chief of PTS and was supported by four staff at the P-3 level, two staff at the P-2 level and 14 staff at the General Service level. The budget for PCU for the biennium 2012-2013 was \$7.9 million. There were 229 active contracts with a total value of over \$390 million as at 1 January 2012.
4. According to the United Nations Procurement Manual, the administration of contracts comprised activities related to all actions undertaken by procurement personnel following the award of a contract that were related to the administrative aspects of the contract. These included: preparation and signing of the contract; contract amendment or extension; contract closure; record retention and maintenance of the contract file; and handling of security instruments (e.g. performance bond).
5. Comments provided by UNOG are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. 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 administration of contracts at UNOG**.
7. The audit was included in the 2013 internal audit work plan for UNOG because of the risk that control deficiencies in contract administration identified in previous OIOS audits could be systemic and the risk of ambiguity in the role and responsibilities of UNOG PCU in terms of the administration of contracts on behalf of its client organizations.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as a control that provides reasonable assurance that policies and procedures: (i) exist to guide UNOG in its contract administration related responsibilities; (ii) are implemented consistently; and (iii) 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 this audit from June to December 2013. The audit covered the period from 1 January 2012 to 30 June 2013.
11. 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

12. The UNOG governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective administration of contracts at UNOG**. OIOS made four recommendations to address issues identified in the audit.
13. Regulatory framework was assessed as partially satisfactory because the United Nations General Conditions of Contract were not systematically signed by vendors, UNOG did not request appropriate performance security instruments from its vendors, information in the UNOG contract administration database was unreliable, and the procurement case files were incomplete.
14. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of four important recommendations 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 administration of contracts at UNOG | Regulatory framework | Partially satisfactory | Partially satisfactory | Partially satisfactory | Partially satisfactory |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

Regulatory framework

Action was being taken to prevent re-occurrence of purchases made without an appropriate and valid contract

15. OIOS reviewed 42 procurement case files, that were open during the period of the scope of the audit, relating to procurement actions completed between 2006 and 2013. Four (or ten per cent) of the 42 procurement cases, with an aggregated value of nearly \$5 million, had purchase orders (POs) that were issued without valid United Nations contracts. In all the four cases, given the nature and value of the

contracts and the solicitation method used, OIOS was of the opinion that formal contracts should have been the appropriate contractual instrument to be put in place, in line with the provisions of the United Nations Procurement Manual. The POs also made clear reference to underlying contracts that, however, did not exist. In addition, 24 (or 63 per cent) of the other 38 contracts reviewed were signed after their effective dates. The 24 contracts were signed an average of 12 months after their effective dates and only four of them were signed with delays of less than three months. There was only one contract out of the 24, which clearly specified that the effective date of the contract started five months earlier than when it was signed. In none of the other 23 cases was there any reason on record as to why the contracts were signed late. In addition, out of the 24 cases, only three did not have any actual purchases executed before the signing of the contracts. For the remaining 21 cases, procurement continued by means of POs before the contracts were formally in place. The combined total value of POs issued for these 21 procurement cases was over \$7.7 million. This was in contravention of the “Advance Notice of Award” that UNOG submitted to winning bidders, which stated that “no legal obligation exists until the contract is finalized and signed by both parties”.

16. PCU indicated that it was fully aware of these shortcomings, which it associated primarily with insufficient management oversight and control and lack of staff training on contract writing. Therefore, it had recently introduced additional control mechanisms to address the underlying control weaknesses. These included: training PCU staff to understand the difference between POs and written contracts, as well as the circumstances that justify the use of one or the other type of contractual instrument; standardization of the use of Notes for the File to explain deviations from established processes; preparation and issuance of contract templates, including in French, to facilitate the work of buyers; onsite coaching to staff on contract writing and quality control of contracts by an experienced Procurement Officer; development of a tracking system for better monitoring and oversight of the procurement cycle, including the issuance of contracts; and weekly reports to Chief, PCU on POs issued without an assigned contract. Regarding the four cases without a valid United Nations contract, PCU had already identified the related control breakdowns, based on its own review, and initiated or completed remedial actions on all the cases by the time of completion of the audit. As UNOG had taken appropriate action to address the control deficiencies identified and to prevent future re-occurrence of purchases made without an appropriate and valid contract, no recommendation was made.

The United Nations General Conditions of Contract were not systematically signed by vendors

17. The United Nations General Conditions of Contract (UNGCC) were an integral component of any procurement contract and outlined the key legal and operational terms and conditions, including the responsibilities of the parties, indemnities, insurances and liabilities, proprietary rights, arrangements for tax exemptions, audits and investigations and other important issues related to the contract. The UNGCC were normally included as an annex to the invitation for bids and participating vendors were required to accept and sign them before they could be awarded any contract, as per the Procurement Manual. However, out of the 38 files reviewed with signed contracts on file, there were two contract files where there were no signed copies of the UNGCC on file and no evidence to suggest that the vendors accepted and signed the UNGCC. In addition to these two cases, there was also no evidence that the vendors signed the UNGCC for the four procurement cases discussed above for which there were no signed contracts on file. This non-compliance with the Procurement Manual posed a risk to the ability of UNOG to hold the vendors liable to its terms and conditions, should a conflicting and legal situation arise regarding these specific procurement activities.

| |
|---|
| <p>(1) UNOG should ensure that all vendors accept and sign the United Nations General Conditions of Contract before entering into any contract with the vendors, in accordance with the United Nations Procurement Manual.</p> |
|---|

UNOG accepted recommendation 1 and stated that the upgrade of its Procure+ system and the Electronic Bid Module templates would include a mandatory requirement that an executed General Conditions of Contract form be part of the solicitation documentation. Recommendation 1 remains open pending receipt of evidence of the measures taken to ensure that all vendors accept and sign the UNGCC before entering into a contractual relationship with UNOG.

Action was being taken to ensure that systems contracts would not be issued for durations longer than allowed by the Procurement Manual

18. According to the Procurement Manual, systems contracts should be signed for an initial period of three years and not be extended for more than two consecutive terms of one year each. Out of the 42 procurement case files reviewed by OIOS, there were 14 systems contracts (or 33 per cent) that had an initial duration of over three years, including 11 contracts that had a duration of five years or longer. There was no note for the file or any other reference to explain why the requirements of the Procurement Manual were not complied with. In one specific example, the UNOG Committee on Contracts recommended to the Director of UNOG Division of Administration to award the systems contract for a maximum period of five years, renewable on an annual basis at the sole option of UNOG, to a vendor for the provision of printing paper. However, the contract was awarded for the entire five-year period at the outset, without the provision of an initial duration of three years followed by annual renewals. Issuing systems contracts for durations longer than allowed without proper justification could prevent UNOG from availing the benefit of favourable market conditions and obtaining the best value for money. According to the Procurement Manual, systems contracts should normally be subject to competitive bidding, at a minimum, every five years.

19. Whilst the audit was still ongoing, PCU amended the Source Selection Plan template to ensure that explanations for the duration of the contracts, if different from the guidelines provided in the Procurement Manual, would in future be detailed within the Source Selection Plan. Further, at training sessions held for the procurement staff in late 2013 and early 2014, emphasis was placed on both the implementation of the Procurement Manual guidelines and the appropriate provision of supporting documentation for any variations from the Procurement Manual, but with special emphasis stressed with respect to contract durations. As action was being taken by UNOG to address the control deficiencies identified in the audit regarding the duration of systems contracts, no recommendation was made.

Appropriate performance security instruments were not always requested from vendors

20. Thirty (or 71 per cent) of the 42 procurement cases reviewed did not have any performance security requested or documentation explaining why the performance security was not duly considered, as required by the Procurement Manual. The reasons for not including performance security in the contracts were also not stated in any of the submissions to the UNOG Committee on Contracts. The aggregated value of these contracts was estimated to be approximately \$70 million and they could have required up to seven million dollars worth of performance security bonds in favour of the United Nations (using the standard rate of ten per cent recommended by the Procurement Manual). Therefore, the potential impact of this non-compliance with the Procurement Manual could have been a significant financial loss for the United Nations if any of the vendors had failed to comply with its contractual obligations.

21. The lack of provisions for appropriate performance security instruments was due to the fact that UNOG historically had not referred to performance bonds in its bidding documents. Therefore, UNOG was of the view that it could also not realistically contact vendors retroactively to ask them to comply with rules that were not specified at the onset of the procurement procedure. UNOG further stated that it had recognised that there could be financial risks involved because the requirements of the Procurement Manual had not been followed. However, it had made a determination that even if resources were

available to review all existing procurement contracts under its purview to reassess whether performance security issues could be put in place to reduce these risks, it was not commercially feasible to obtain performance bonds from the current contractors.

(2) UNOG should ensure that its bidding documents are in accordance with the United Nations Procurement Manual concerning performance security requirements.

UNOG accepted recommendation 2 and stated that the upgrade of Procure+ and the Electronic Bid Module templates would include the update concerning performance security requirements. The Source Selection Plan had already been updated with the inclusion of mandatory fields requiring commentary related to performance security requirements. The above was further being supported by training in the use of performance security requirements. Recommendation 2 remains open pending receipt of evidence that the UNOG bidding documents are in accordance with the Procurement Manual concerning performance security requirements.

Weaknesses in monitoring of contract expenditures resulted in lack of reliability of the reported not-to-exceed amounts

22. In order to ensure that the not-to-exceed (NTE) ceilings were respected, in accordance with the provisions of the Procurement Manual, all the purchases that were covered by a contract needed to be monitored in an accurate and timely manner. PCU had developed an intranet application (the "Systems Contract Application") in late 2010 to centrally manage and monitor the amounts spent per contract. However, the Systems Contract Application was unreliable, because the entries had to be made manually. Therefore, it was supplemented by buyers maintaining separate contract administration tools for each procurement file, including independent NTE tracking spreadsheets for each contract, which were stored on the common drive shared among PCU staff. In addition, a general article included in UNOG contracts required that each PO should, at a minimum, make reference to the contract under which the purchases were covered, indicating the quantities of goods ordered, time of delivery, destination and method of shipment. However, this requirement was not strictly followed at UNOG and POs could be issued without making reference to the relevant contracts. Therefore, even if purchases were covered under a specific contract, the amount spent could go unaccounted for in the calculation of the overall NTE amount for that contract.

23. The total amounts spent per contract reported through the Systems Contract Application were updated automatically through a link with the procurement system called Reality. However, the Systems Contract Application only counted those POs that made reference to contract numbers. For the 33 procurement contracts reviewed for which comparative information was available, the total NTE ceiling amount was estimated to be over \$57.5 million and, as of 22 October 2013, the Systems Contract Application reported a combined total expenditure of \$18.6 million. A report generated from the Reality system showed that total expenditure for all of these 33 contracts as of 22 October 2013 was about \$19 million, which was close to what was reported on the Systems Contract Application. However, another report generated from the Reality system showed that the net value of all POs issued to all vendors combined for these 33 contracts was nearly \$29 million for the period from the respective contract start date to 22 October 2013. Although the estimated difference of \$10 million between the reported expenditures and the actual amount awarded to the vendors could, to some extent, be explained by PCU, the current mechanisms to monitor contract expenditure were considered to be weak and the information reported for the NTE ceiling was not considered reliable. UNOG acknowledged that the Systems Contract Application had only partially achieved the management objective of automating and streamlining contract administration and that it did, in some cases, provide misleading or incomplete information.

(3) UNOG should develop a new contract administration database to strengthen the monitoring of contract expenditures and improve the reliability of the not-to-exceed amounts.

UNOG accepted recommendation 3 and stated that PCU intended to implement the 'CATS' contract administration database developed by the United Nations Headquarters Procurement Division to replace its legacy Systems Contract Application. Recommendation 3 remains open pending receipt of an action plan for the implementation of a new contract administration database at UNOG to strengthen the monitoring of contract expenditures, particularly in view of the manual nature of data entry into the system currently relied upon for reporting on NTE amounts.

The existing contract administration database contained some inaccurate information

24. Out of the 38 procurement cases reviewed with signed contracts on file, 14 contracts (or 37 per cent) had erroneous entries in the Systems Contract Application. Information regarding the other four contracts reviewed by OIOS could not be compared to signed contracts since there were none as explained earlier in this report. There were a total of 16 erroneous entries found on the Systems Contract Application of which nine were related to contract dates, three were related to the NTE amount, three were related to contract number or vendor name, and one was related to a typo in the contract title. Although there was an informal review process in place, OIOS concluded that it was not adequate to ensure the accuracy of contract information in the system. There was no workflow monitoring mechanism to see who entered, reviewed or approved which information. Although PCU staff and supervisors relied upon Reality for procurement reporting, the Systems Contract Application was used as a monitoring tool for contract administration (e.g. for contract renewals). Inaccurate information on the application could therefore result in the ineffective monitoring of procurement contracts and cause incorrect information to be provided to requisitioners. UNOG agreed that since the application heavily relied on manual data entry it needed to be completely overhauled. As the underlying cause of the control weakness was the design of the Systems Contract Application discussed in the previous section, and which should be addressed by recommendation 3 of this report, no further recommendation was made.

Procurement case files were incomplete

25. The procurement case files reviewed were incomplete. Out of the 42 procurement cases reviewed, five did not include the annexes of the contract, seven did not include the Committee on Contracts meeting minutes, four did not include the relevant technical evaluations and five did not include the notice of award or regret letters, as required by the Procurement Manual. In addition, as discussed earlier in this report, there were four case files that did not include a signed contract and two case files that did not include the UNGCC accepted and signed by the vendor.

26. In addition, key events that happened to some contracts were not recorded through supporting documents. For example, in the case of one contract, the submission from the vendor did not pass the technical evaluation. The then Deputy Chief of PTS duly sent a regret letter to the vendor on 9 February 2012. However, a contract was awarded to the same vendor for the same services in April 2012 with the contract validity from 1 January 2012 to 31 December 2013 and a total value of over \$100,000. There was no supporting documentation on file to indicate why the vendor was awarded the contract despite it failing the technical evaluation. In another example, one member of the two-member technical evaluation committee disclosed, after the contract was awarded to a vendor, that she did not take part in the technical evaluation, which resulted in the evaluation being conducted by only one person. Subsequently, the Head of the requisitioning office in his communication to PCU dated 15 June 2011 requested PCU advice on the matter, given that he was not in a position to vouch for the integrity of the outcome of the technical evaluation process. The then Deputy Chief of PTS replied to the Head of the requisitioning office on 6

July 2011, stating that the contract awarded remained valid, unless it was declared invalid by the requisitioning office. On 26 July 2011, the Head of the requisitioning office responded that, given the circumstances, it appeared that the request for proposal was null and void and therefore not valid. He also requested further advice from UNOG on how to proceed with the matter. However, there was no evidence on file whether any subsequent remedial action was initiated by PCU. The total value of this contract was nearly \$200,000 over an initial three-year period ending on 31 December 2013.

(4) UNOG should establish procedures to monitor compliance with the United Nations Procurement Manual requirements regarding the administration and maintenance of procurement case files.

UNOG accepted recommendation 4 and stated that checklists had already been implemented for files, and monitoring procedures would further be implemented. File maintenance review responsibilities had also been allocated to the Follow-up Sub-Unit which would ensure that files submitted for closure have the relevant checklist completed and signed. Recommendation 4 remains open pending receipt of documentary evidence that monitoring controls are consistently applied to ensure that procurement case files are complete and in compliance with the requirements of the Procurement Manual.

Action was being taken to strengthen compliance with the requirements for vendor performance evaluations

27. Two (or 5 per cent) of the 42 contract files reviewed did not include any vendor performance evaluation report even though key events such as contract closure or amendments took place for these two contracts. Although it was the responsibility of the requisitioner and/or end user to complete vendor performance evaluations in a timely manner, the Procurement Manual clearly stated that “it is the responsibility of the procurement staff to do their utmost in monitoring contract files and contract execution activities”. Therefore, procurement staff should have ensured that the requisitioners completed the vendor performance evaluations prior to undertaking any actions regarding issuing contract amendments or closures or should have prepared a note for the file when the requisitioners failed to comply with this requirement in spite of the procurement staff’s request to do so. The inadequate vendor performance evaluations increased the risk of awarding contracts to vendors with a history of nonperformance or poor performance. In December 2013, UNOG organized formal training on “Contract Management Administration” for all buyers. In addition, informal information sessions for staff were being implemented through regular PCU meetings. As remedial action had been initiated to strengthen the vendor performance evaluation mechanisms by raising awareness among procurement staff of the requirements regarding the completion of vendor performance evaluations, no recommendation was made.

IV. ACKNOWLEDGEMENT

28. 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
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of contract administration at the United Nations Office at Geneva

| Recom. no. | Recommendation | Critical ¹ / Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|---|---|----------------------|--|----------------------------------|
| 1 | UNOG should ensure that all vendors accept and sign the United Nations General Conditions of Contract before entering into any contract with the vendors, in accordance with the United Nations Procurement Manual. | Important | O | Submission to OIOS of evidence of the measures taken to ensure that all vendors accept and sign the UNGCC before entering into a contractual relationship with UNOG. | 31 July 2014 |
| 2 | UNOG should ensure that its bidding documents are in accordance with the United Nations Procurement Manual concerning performance security requirements. | Important | O | Submission to OIOS of evidence that the UNOG bidding documents are in accordance with the Procurement Manual concerning performance security requirements. | 31 July 2014 |
| 3 | UNOG should develop a new contract administration database to strengthen the monitoring of contract expenditures and improve the reliability of the not-to-exceed amounts. | Important | O | Submission to OIOS of an action plan for the implementation of a new contract administration database at UNOG. | 31 July 2014 |
| 4 | UNOG should establish procedures to monitor compliance with the United Nations Procurement Manual requirements regarding the administration and maintenance of procurement case files. | Important | O | Submission to OIOS of documentary evidence that monitoring controls are consistently applied to ensure that procurement case files are complete and in compliance with the requirements of the Procurement Manual. | 31 July 2014 |

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.

³ C = closed, O = open

⁴ Date provided by UNOG in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of contract administration at 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 ensure that all vendors accept and sign the United Nations General Conditions of Contract before entering into any contract with the vendors, in accordance with the United Nations Procurement Manual. | Important | Yes | Chief, PTS/CSS | July 2014 | The upgrade of Procure+ and the Electronic Bid Module templates will include a mandatory requirement that an executed General Conditions of Contract form be part of the solicitation documentation. |
| 2 | UNOG should ensure that its bidding documents are in accordance with the United Nations Procurement Manual concerning performance security requirements. | Important | Yes | Chief, PTS/CSS | July 2014 | The upgrade of Procure+ and the Electronic Bid Module templates will include the update concerning performance security requirements. The Source Selection Plan has already been updated with the inclusion of mandatory fields requiring commentary related to performance security requirements. The above is further being supported by training in the use of performance security requirements. |
| 3 | UNOG should develop a new contract administration database to strengthen the monitoring of contract expenditures and improve the reliability of the not-to-exceed amounts. | Important | Yes | Chief, PTS/CSS | July 2014 | PCU intends to implement the UN/HQ Procurement Division developed 'CATS' contract administration database to replace its legacy systems contract application. |
| 4 | UNOG should establish procedures to monitor compliance with the United Nations Procurement Manual requirements regarding the administration and maintenance of the procurement case | Important | Yes | Chief, PTS/CSS | July 2014 | Checklists have already been implemented for files, and monitoring procedures will further be implemented, such as controls in meetings, E-PAS files and |

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 contract administration at the United Nations Office at Geneva

| Rec. no. | Recommendation | Critical ¹ / Important ² | Accepted? (Yes/No) | Title of responsible individual | Implementation date | Client comments |
|----------|----------------|---|-----------------------|---------------------------------------|------------------------|---|
| | files. | | | | | maintenance work plan goals for buyers. File maintenance review responsibilities have also been allocated to the Follow-up Sub-unit which will ensure that files submitted for closure have the relevant checklist completed and signed. |