Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2026/024

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

While the Procurement Division had taken steps to strengthen some controls over the administration of performance securities, additional measures were required

19 August 2026
Assignment No. AH2025-619-02

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division. The objective of the audit was to assess the adequacy and effectiveness of controls over establishing and maintaining performance security instruments for freight forwarding contracts. The audit covered the period from 1 January 2023 to 31 March 2025 and included a review of the adequacy, administration, safekeeping and enforcement of performance securities.

Between 1 January 2023 and 31 March 2025, the Procurement Division established freight forwarding commercial contracts totalling $223.8 million, of which $217.6 million was for transportation services involving the movement of goods and materials cargo, while the remaining $6.2 million was for other types of freight forwarding requirements, including courier services, storage/warehousing and consultancy services with movement and transportation specialists.

The Procurement Division took steps to strengthen controls over the administration of performance securities for freight forwarding contracts. These included reinforcing the use of performance security instruments approved by the Office of Legal Affairs and procedures to verify the validity of performance securities submitted by vendors. In addition, plans were underway to transition from paper-based security instruments to those transmitted electronically to the Organization via the SWIFT messaging system, which should address risks related to the authenticity of security instruments.

However, there were a few remaining gaps in the management of the securities as some instruments expired prior to fulfilment of the vendors' contractual obligations. The values of performance securities were also not always adjusted, or risks reassessed to align with amendments to the value or duration of underlying contracts. Performance securities were also not kept safely, and the release to vendors was not adequately tracked and documented.

OIOS made three recommendations. To address issues identified in the audit, the Department of Operational Support (DOS) needed to:

- Issue guidance to procurement officials on documenting instances where a contract amendment results in a change in contractual performance risks and whether such change warrants a review of the value of the performance security.

- Implement measures to ensure performance securities are kept safely.

- Issue guidance on timelines for the return of performance securities after vendors fulfill their contractual obligations and confirmation that no outstanding matters, such as claims, remain unresolved.

DOS accepted the recommendations, implemented one and initiated action to implement the remaining two. Actions required to close the recommendations are indicated in Annex 1.

CONTENTS

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division.

2. The United Nations utilizes freight forwarding services for the movement of goods, materials and equipment to support its operations worldwide. Between 1 January 2023 and 31 March 2025, the Procurement Division in the Office of Supply Chain Management (OSCM) within the Department of Operational Services (DOS) established freight forwarding commercial contracts with a total not-to-exceed amount of $223.8 million, of which $217.6 million (97 per cent) was for transportation services involving the movement of goods and materials cargo, while the remaining $6.2 million (3 per cent) was for other types of freight forwarding requirements, including courier services, storage/warehousing and consultancy services with movement and transportation specialists. Over the same period, the Procurement Division issued 810 freight forwarding commercial purchase orders (POs) totalling $232 million, comprising POs drawn against system and entity-specific contracts established during the current audit period and prior years, and stand-alone POs.[1]

3. In accordance with the procurement manual, the Procurement Division may request freight forwarding service providers/vendors to provide performance securities to mitigate the risk of vendor non-performance and breach of contractual obligations. The value of the performance security depends on the nature, risk and magnitude of the services or goods provided under the contract.

4. Dedicated teams in the Procurement Division in New York and Entebbe, Uganda are responsible for procuring freight forwarding services for the Secretariat. The New York Freight Forwarding and Logistics Team is responsible for strategic and global freight forwarding services, which includes transportation of contingent-owned equipment (COE) and United Nations-owned equipment under commercial contracts and letters of assist, and other Headquarters' transportation requirements. The Sourcing Support and Freight Forwarding Unit in Entebbe, supports the provision of freight forwarding services within the region.

5. The Freight Forwarding and Logistics Team in New York comprises eight staff led by a procurement officer/team leader at the P4 level, reporting to the Chief Aviation Transportation and Logistics Section at the P5 level. The Sourcing Support and Freight Forwarding Unit in Entebbe comprises seven staff led by a procurement officer at the P4 level, reporting to the Chief, Global Procurement Support Section at the P5 level.

6. The Procurement Division utilizes Umoja to conduct and manage various aspects of the procurement process, and a Contract Performance Reporting Tool in Umoja is used by the Movement Control Section within the Logistics Division to record, monitor, and report on the performance of contractors, including those providing freight forwarding services. The Procurement Division also uses Microsoft Excel to track performance securities.

7. Comments provided by DOS are incorporated in italics.

[1] A PO that is issued as a contractual document, without a separate overarching contract

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy and effectiveness of controls over establishing and maintaining performance security instruments for freight forwarding contracts.

9. This audit was included in the 2025 risk-based work plan of OIOS following an advisory report issued by the Investigations Division of OIOS on 29 November 2024, which highlighted control gaps in the management of performance security instruments for freight forwarding contracts.

10. OIOS conducted this audit from May to October 2025. The audit covered the period from 1 January 2023 to 31 March 2025 and reviewed the adequacy, administration, safekeeping and enforcement of performance securities. The audit also reviewed the implementation status of recommendations in the OIOS Investigations Division advisory report.

11. The audit methodology included: (a) interviews with key staff in OSCM and the Office of Legal Affairs (OLA); (b) review of relevant documentation including source selection plans (SSP), solicitation documents, contracts and performance securities; and (c) review of 70 sampled contracts and POs totalling $267.4 million for compliance with established performance security requirements. To ensure comprehensive coverage of the audit population, OIOS used a stratified sampling approach to select the sampled contracts and POs based on key characteristics, including the value and number of contracts awarded to vendors.

12. To assess the reliability of procurement-related data in Umoja, OIOS in collaboration with the Enabling and Outreach Service (EOS) in OSCM extracted data from Umoja using key parameters to ensure the completeness of the population of freight forwarding contracts and POs. OIOS reviewed the data and related documentation and consulted with staff of the Procurement Division and EOS to address data-related issues. Based on the review, OIOS determined that the data was sufficiently reliable for the purpose of the audit.

13. The audit was conducted in accordance with the Global Internal Audit Standards.

III. AUDIT RESULTS

A. Adequacy of performance security instruments

Steps were taken to ensure performance securities were issued in the prescribed format

14. To ensure adequate financial and legal protection for the Organization, relevant provisions for performance security should be included in contracts with vendors, whenever necessary. The procurement manual stipulates that performance securities provided by vendors should be in the form of an unconditional and irrecoverable on-demand bank guarantee. Further guidance provided by OLA underscores that the only two types of securities acceptable to the Organization are an independent bank guarantee (first demand guarantee) or a standby letter of credit.

15. Forty-nine of the 70 sampled contracts and POs (70 per cent) reviewed by OIOS included a requirement for the vendor to provide a security instrument. The requirement for a performance security instrument was waived for the remaining 21 cases, with justifications such as the need for quick turnaround transportation service, monopolies, or small one-time purchases, all documented in the SSPs. For the remaining 49 cases, performance securities were received only in 39 cases and 1 contract was subsequently cancelled. All 39 performance securities received by the Organization were in the form of the first demand

guarantee, but there were inconsistencies in 8 cases that exposed the Organization to financial risks. Specifically:

(a) A required clause on the privileges and immunities of the United Nations was omitted in two cases.

(b) In one case, the performance security was not signed by the issuing entity.

(c) In two cases, arbitration rules and locations were restricted to the United States and Denmark, which OLA noted was unacceptable from a legal perspective.

(d) The validity periods were missing in two cases.

(e) In one case, the performance security included a clause allowing transferability, which contradicts the requirement for guarantees to be non-transferable, irrevocable, and unconditional.

16. Although the Procurement Division indicated that the relevant contracts have been successfully concluded, such inconsistencies could have resulted in the Organization's acceptance of unenforceable securities or limit its protection in the event of breach of contractual obligations.

17. OIOS noted that, effective January 2025, the Procurement Division Director issued an email directive to all procurement officers to comply with the OLA-approved format for performance securities, and an Excel monitoring worksheet was developed to track compliance. Furthermore, effective January 2026 the Division adopted a model contract for short-term surface transportation requirements which was developed in consultation with OLA and included required clauses on performance securities.

<u>Inappropriate use of a standing performance security was addressed</u>

18. In accordance with the procurement manual, OLA approval should be sought prior to accepting any performance security that differs from their approved format.

19. In 2015, due to the high volume of short-term transportation services POs that were awarded to one vendor, the Procurement Division accepted a standing performance security (SPS) from the vendor in the amount of $650,000. The Procurement Division explained that the SPS was intended to secure the contractor's performance under multiple contracts/POs, and the amount was determined based on the historical volume and value of contracts awarded. However, the use of a single instrument for several contracts was contrary to the requirements of the procurement manual and the OLA-approved format for performance security. Also, the Procurement Division had not sought the opinion of OLA prior to accepting the SPS and only did so while developing a framework and procedures to regulate their use and values. OLA highlighted several deficiencies with the SPS and recommended that the Procurement Division request an appropriate form of performance security from the vendor that was legally acceptable to the United Nations.

20. OIOS noted that the use of SPS had exposed the Secretariat to the potential for significant losses in the event of the vendor defaulting. Over the period from January 2023 to March 2025, the vendor was awarded 32 contracts totaling $21.4 million and there were times during their validity when the $650,000 security instrument did not provide adequate coverage for the Organization. On 25 April 2025, the Procurement Division cancelled and returned the SPS provided by the vendor. The Division also requested and received separate performance securities for ongoing contracts, which OIOS noted complied with the OLA-approved format.

B. Administration of performance securities

Need for guidance on assessing risks related to contract amendments

21. The procurement manual requires the value of performance securities to reflect the nature and magnitude of the goods or services procured. The performance security should also reflect the assessed risk and subsequent loss to the United Nations should the contractor fail to fully perform under the contract.

22. The value of security instruments was not always adjusted when contract values (NTE amounts) were amended, as noted by OIOS in five cases. For example, in one instance, although the contract NTE was increased by 198 per cent, from $189,700 to $565,910, the value of the performance security instrument was maintained at the original value of $18,970. Conversely, there was an instance where the contract NTE amount was reduced from $1.7 million to $652,548 (62 per cent) with no commensurate change in the value of the security instrument.

23. OIOS noted that the procurement manual does not specially address the need for an assessment of risks following contract revisions. While the impact on risk due to changes in NTE amounts may depend on the unexpired portion of the contract, more detailed guidance is needed on how the value of performance securities may need to be adjusted in response to amendments to contract values.

(1) OSCM should issue guidance to procurement officials on documenting instances where a contract amendment results in a change in contractual performance risk and whether such change warrants a review of the value of the performance security.

OSCM accepted recommendation 1 and stated that the relevant guidance would be issued.

Delayed and non-submission of performance securities by vendors

24. In accordance with agreed contract terms, vendors are required to submit performance securities within a specified period after the contract is signed. For the cases reviewed by OIOS, this ranged from 5 to 30 days. However, the performance securities were not provided in nine cases and discussions with the Procurement Division and review of relevant documentation indicated the following:

(a) Five cases were related to the urgent drawdown of a peacekeeping mission amid a deteriorating security situation. The Procurement Division explained that in some instances, due to the security situation and limitations in the local financial system, vendors that could guarantee safe passage of items may be unable to provide performance securities that meet the Organization’s requirements.

(b) Two cases related to movements with quick turnaround transportation requirements, where it was not feasible for the vendor to provide performance security prior to execution of the contract.

(c) The remaining two cases were related to global freight forwarding systems contracts that were never utilized, and the Procurement Division explained that it was considered prudent to request the vendors to provide the securities only if/when it was certain that the vendor would be tasked with cargo movement. OIOS confirmed that these contracts were not utilized before they expired and therefore posed no financial or operational risks to the Organization.

25. OIOS also noted that in 22 other cases, performance securities were submitted late by vendors, with delays ranging from 3 to 520 days and this was partly due to inadequate tracking of the status of securities, including their receipt.

26. The Procurement Division stated that each procurement officer was responsible for administering the performance securities under their respective contracts and the Office of the Director provided guidance and tools for uniform and consistent monitoring of securities. Subsequent to the audit, the Procurement Division took action to enhance its tracking mechanism (see paragraph 38).

Verification of the authenticity of performance securities was being enhanced

27. To mitigate the risk of fraudulent or invalid performance securities, an effective process should be in place to independently verify the authenticity of security instruments submitted by vendors, including verification of the identity and creditworthiness of the financial institution issuing the security instrument.

28. Prior to January 2025, the Procurement Division did not have effective procedures to verify the authenticity of performance security instruments, and the identity and accreditation of financial institutions, and this exposed the United Nations to financial losses. Discussions with procurement staff indicated that verification of security instruments was being done by each procurement officer based on established practice but there were no documented procedures. In 35 of the 39 cases where security instruments were submitted by vendors, there was no documented evidence of any verification by procurement officers. For the four cases with an indication of verification, three were done through email correspondence with the financial institution and the fourth case was verified based on a performance security checklist introduced in January 2025.

29. In January 2025, an email from the Office of the Director encouraged all chief procurement officers in the Secretariat to introduce verification procedures for performance securities and issuing financial institutions. Procurement officers were advised to research financial institutions and their rating scores using publicly available sources and consider performing additional checks for high value securities. This was reinforced in December 2025, when Assistant Secretary-General OSCM reminded all heads of administration of Secretariat entities of the guidance and shared updated instructions for verification and management of performance securities as well as a checklist. OIOS review of an Excel tracker developed by the Procurement Division showed evidence that the new verification procedures were being applied by procurement officers in the Division effective February 2025.

30. OIOS also noted that the Procurement Division in coordination with the United Nations Treasury was exploring options to transition from the receipt of paper-based performance securities to electronic transfers from financial institutions via SWIFT messages to mitigate the risk of fraudulent securities. Five contracts with performance guarantees were identified as pilot cases to test the SWIFT transmission and this was still in progress at the time of the audit. As of April 2026, draft standard operating procedures on processing and maintaining performance guarantees including guidance on handling performance securities received via SWIFT messages and in paper form were under review by the Controller's Office.

C. Safekeeping and release of securities

Need to enhance safekeeping of security instruments

31. The procurement manual requires performance securities to be securely stored with the same protections as would typically be required for instruments with a monetary value. Accordingly, they should be submitted to the Tender Opening Committee in EOS, which should, in turn, hand them over to Treasury for custody and safekeeping. OIOS observed the following:

(a) Safekeeping measures in Entebbe

32. In Entebbe, all performance securities submitted by vendors were forwarded by the Chief, Global Procurement Support Section to the Manager Cashier Services Line's Office based in Entebbe for safekeeping, accompanied by a memorandum signed by the Section Chief. Performance securities were adequately stored and secured in a safe room in the Cashier's Office.

(b) Safekeeping measures in New York

33. In New York, contrary to the procurement manual, performance securities were maintained by EOS and not Treasury, and EOS explained that this was because Treasury had indicated that it did not have the capacity to secure the performance securities. However, there was no documentation of this. Upon receipt of performance securities from case officers, EOS recorded key details in an Excel worksheet, while the Procurement Division relied on safekeeping forms maintained in individual case files, as evidence of handover to EOS.

34. Out of the 39 cases with performance securities received by the Procurement Division, OIOS could not trace 12 of them to the EOS tracking worksheet and there was no safekeeping handover form in the procurement case files. The Procurement Division explained that:

i. Seven instruments were not handed over to EOS because of imminent expiration of the instruments. As a result, they were kept in the Procurement Division's resource room. Similarly, two other securities were maintained in the resource room due to the vendors' late submission of the securities close to the expiration dates of the contracts; and

ii. In three cases, the Procurement Division only received soft copies of the securities from the vendor despite several follow-ups with the vendor.

35. OIOS noted seven additional cases listed on the EOS tracking worksheet for which there were no corresponding safekeeping handover form in the procurement case files. Furthermore, safekeeping measures by EOS were inadequate.

36. The above issues demonstrate inadequate control over the handling of security instruments. There was no monitoring by the Procurement Division to ensure all securities were handed over by procurement officers to EOS, in accordance with the current requirements. There was also no periodic reconciliation by the Division of records maintained by EOS with securities received from vendors to identify and address discrepancies. As a result, discrepancies were not timely identified for corrective action, and this exposed the Organization to financial losses and reputational and legal risks in the event of misplaced or altered securities.

(2) OSCM should implement measures to ensure performance securities are kept safely, with access limited to authorized staff members.

OSCM accepted and implemented recommendation 2.

Measure was taken to enhance the tracking of coverage period of performance securities

37. OIOS noted gaps in the coverage period of performance securities. For instance, in three out of five cases where contracts were extended, the performance securities were not renewed in a timely manner, resulting in coverage gaps of approximately two to five months. In four other cases, the security instruments expired on or before the contract end dates. Considering that the OLA-approved forms of performance securities and the model contract require that securities be valid from the date of signing a contract to at

least 60 days after the end of the contract to allow sufficient time for the Organization to call on the security, if needed, coverage gaps ranged from 60 to 291 days as shown in table 1.

Table 1: **Gaps in coverage period of performance securities**

End date of performance security	Contract completion date	Gap in coverage (Days)[2]	Contract Value $
14 March 2024	14 March 24	60	4,124,000
28 February 2025	16 May 25	137	1,896,588
13 February 2024	6 June 24	174	100,000
13 February 2024	1 October 24	291	98,174

38. The above coverage gaps were due to the absence of an adequate tracking mechanism to ensure performance securities were amended in line with changes in the underlying contracts. Subsequent to the audit, the Procurement Division implemented a centralized tracker that: (a) provides visibility on receipt, custody and return of securities; and (b) captures key information on the administration of securities including associated contract expiration dates.

Need to strengthen controls over the release of performance securities to vendors

39. Performance securities should be released to vendors after certification by the requisitioner/final user of the vendor's fulfillment of its performance obligations under the contract. However, there was no indication of the timeframe for securities to be returned to vendors.

40. OIOS noted nine instances where both the contract completion/certification of vendor's fulfilment dates had passed, but the securities had not been returned as of the audit date, with delays ranging from 60 to 245 days. In eight other cases, where the performance securities had been returned to the vendors, this took an average of 165 days after the completion of the contract. There was also no evidence in the case files to confirm whether and when performance securities were subsequently returned to vendors. This increased the risk of premature or erroneous release of securities.

41. Discussions with procurement officers and review of correspondence between the Procurement Division and Treasury indicated that the above gaps would be addressed with the introduction of the SWIFT-based system.

(3) OSCM should issue guidance on timelines for the return of performance securities after vendors fulfill their contractual obligations and confirmation that no outstanding matters, such as claims, remain unresolved. The guidance should include a requirement for the return of performance securities to be adequately recorded in the case files.

OSCM accepted recommendation 3 and stated that the relevant guidance would be issued.

[2] Gap in coverage includes the 60 days minimum time performance securities should be in place after the expiry of the contract

D. Enforcement

There were challenges in enforcing performance securities

42. In the event of a vendor's non-performance and breach of contractual obligations, the Organization may call upon the performance security as a source of compensation for damages incurred.

43. Discussions with the Procurement Division indicated that although there had been cases of breaches of contractual obligations by freight forwarding vendors, there have been no instances when performance securities were called upon for various reasons. OIOS noted two instances of breach of contractual obligations during the audit period.

(a) In the first instance, a vendor was contracted to transport COE from Mopti, Mali to Dakar, Senegal, no later than 15 December 2023, in support of the closure of the United Nations Multidimensional Integrated Stabilization Mission in Mali. However, despite several follow-ups by the Procurement Division, the vendor did not fulfil its contractual obligations. The Division did not enforce the performance security, which expired on 15 March 2025 because the vendor was in possession of COE valued at $2.4 million, which substantially exceeded the security instrument value of $241,852. Of note, the performance of the same vendor had been assessed as poor by a peacekeeping mission in May 2022 due to unacceptable performance, with a recommendation that the vendor be not considered for future strategic movements. However, there was no documented evidence of how the risks related to the use of this vendor were duly considered by the Procurement Division prior to awarding a new contract in September 2023 and in determining the value of the performance security. The Procurement Division explained that past poor performance alone does not automatically preclude a vendor from being engaged under future commercial contracts. OIOS noted that the vendor was subsequently suspended by the Vendor Review Committee.

(b) The second instance involved a contract for the transportation of COE from Pakistan to the Central African Republic, which was awarded to another vendor in August 2024. The performance report prepared by the receiving mission noted significant delivery delays and damages to the COE estimated at around $1.5 million due to the poor condition of the vendor's trucks, which led to constant breakdowns and accidents. The performance security valued at $180,798 was not called upon because the vendor was also in possession of highly sensitive equipment that was worth far more than the value of the security.

44. The Procurement Division explained that the process of enforcing performance securities in the category of freight forwarding was challenging in instances where a vendor was in possession of United Nations property that was worth more than the value of the security. The Procurement Division had sought advice from OLA on possible options to resolve issues related to both cases, and this was ongoing at the time of the audit.

E. Follow-up on prior recommendations from OIOS Investigations Division

45. The Investigations Division of OIOS issued eight recommendations to the Procurement Division on 29 November 2024, as part of an advisory engagement on the financial and legal protection of the Organization's interest regarding procurement of freight forwarding and third-party logistics services. The recommendations included the need to: adopt the United Nations model contract for freight forwarding services; standardize solicitation and contract documents to include relevant performance security clause;

develop and adopt a legal framework, policies and procedures for SPS; and update the procurement manual to reflect terms and conditions for the use of SPS and/or insurance policies/certificates.

46. Five of the recommendations were still in progress at the time of the audit. The recommendations relating to the adoption of the model contract for freight forwarding services and the need for standardized solicitation and contract documents were implemented, while the recommendation relating to the use of SPS was no longer relevant as the process had been discontinued.

IV. ACKNOWLEDGEMENT

47. OIOS wishes to express its appreciation to the management and staff of DOS for the assistance and cooperation extended to the auditors during this assignment.

Internal Audit Division
Office of Internal Oversight Services

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

Rec. no.	Recommendation	Critical[3]/ Important[4]	C/ O[5]	Actions needed to close recommendation	Implementation date[6]
1	OSCM should issue guidance to procurement officials on documenting instances where a contract amendment results in a change in contractual performance securities risk and on recording whether such change warrants a review of the value of the performance security.	Important	O	Issuance of guidance on documenting changes in contractual performance securities risk due to contract amendments, and appropriate action needed.	30 June 2027
2	OSCM should implement measures to ensure performance securities are kept safely, with access limited to authorized staff members.	Important	C	Action taken.	Implemented
3	OSCM should issue guidance on timelines for the return of performance securities after vendors fulfill their contractual obligations and confirmation that no outstanding matters, such as claims, remain unresolved. The guidance should include a requirement for the return of performance securities to be adequately recorded in the case files.	Important	O	Issuance of guidance on timelines for the return of performance securities to vendors.	30 June 2027

[3] Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.
[4] Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.
[5] Please note the value C denotes closed recommendations whereas O refers to open recommendations.
[6] Date provided by DOS in response to recommendations.

APPENDIX I

Management Response

United Nations | Nations Unies

INTEROFFICE MEMORANDUM | MEMORANDUM INTERNE

TO: A: Mr. Byung-Kun Min, Director
Internal Audit Division
Office of Internal Oversight Services

DATE: 6 August 2026

REFERENCE: DOS-2026-01942

CLASSIFICATION: Confidential

THROUGH: S/C DE:

FROM: DE: Atul Khare, Under-Secretary-General
for Operational Support

SUBJECT: OBJET: **Draft report on an audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division (Assignment No. AH2025-619-02)**

1. Thank you for the opportunity to comment on the subject draft report. Please find attached comments by DOS on the recommendations in Appendix I.

2. We appreciate the cooperation and collaboration with the Office of Internal Oversight Services and stand ready to provide any additional clarification that may be required.

CC: Fatoumata Ndiaye
AnneMarie van den Berg

Management Response

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Responsible individual	Target date	Client comments
1	OSCM should ~~include in the procurement manual, a~~ **issue** guidance ~~for~~ **to** procurement ~~officers~~ **officials** ~~to formally assess and~~ **on** document**ing** ~~changes in risks that may arise following~~ **instances where a contract** amendments ~~to contract values and expiration dates, and, where relevant, to document their determination on whether to update~~ **results in a change in contractual** performance securities ~~coverage~~ **risk and on recording whether such change warrants a review of the performance security value**.	Important	Yes, if revised, as requested	Director, PD	30 June 2027	In practice, most contract amendments relate to extensions that are already foreseen at the time of contract signature and do not inherently increase contractual performance risk. Even amendments involving increases in the NTE value do not automatically lead to higher risk, particularly where a substantial portion of the contract value has already been expended. Accordingly, linking performance security coverage directly to changes in contract value is not always meaningful or risk based. Based on this, instances in which an amendment would trigger a material change in performance risk are expected to be relatively limited. These may include, for example, significant changes in contract scope, the introduction of new deliverables or technical requirements, material increases in contract value that alter the exposure profile, changes in contractor performance, or amendments affecting critical timelines or dependencies. Considering the above, and absent evidence that the lack of such guidance has caused issues with performance securities, PD considers that the recommendation should focus on providing targeted guidance for documenting when a contract amendment results in a material change in performance risk and whether it warrants a review of the performance security value, with appropriate justification. Such guidance does not necessarily need to be implemented through an amendment to the Procurement Manual. PD would appreciate the opportunity to determine the most appropriate mechanism for issuing this guidance following internal discussions. This guidance could be issued alongside that developed in response to recommendation (4).

[1] Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.
[2] Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Management Response

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Responsible individual	Target date	Client comments
						Action plan PD will issue targeted guidance to procurement officials to document instances where contract amendments result in a material change in performance risk and, in such cases, to record whether a review of the performance security value is warranted. The guidance will include examples of contract amendments that could represent a change in contractual risk.
2	OSCM should implement measures to ensure performance securities are kept safely, with access limited to authorized staff members.	Important	N/A	N/A	N/A	The recommendation has been implemented. The performance securities are kept in a locked cabinet, which has been placed in the room that is the workplace for staff members of the Vendor Registration and Outreach Team in EOS. The cabinet is only accessible via a key that has been solely issued to the authorized tender opening officials. Nobody else is allowed or able to gain access to the cabinet. While a separate room solely dedicated to the storage of securities is not a feasible option due to space restrictions in the flexible work environment, the actual securities cannot be accessed by anyone else than the authorized officials with a key.
3	OSCM should enhance its tracking mechanism for performance securities by implementing a formal centralized solution that: (a) improves visibility of the receipt, custody and release of securities to vendors; and (b) captures key information on the administration of securities including associated contract expiration dates.	Important	No	N/A	N/A	PD has already rolled out a centralized performance security tracker. As discussed with OIOS, PD remains at OIOS's disposal to convene a meeting to present the tracker, which captures elements (a) and (b).

Management Response

Audit of compliance with performance security requirements for freight forwarding contracts by the Procurement Division

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Responsible individual	Target date	Client comments
4	OSCM should issue guidance on **timelines for** the return~~/release~~ of performance securities after vendors fulfill their contractual obligations and ~~all~~ **no** outstanding matters ~~have been~~**, such as claims, remain un**resolved~~, and ensure t~~**. T**he **guidance should include a requirement for the** release ~~is subject to documented approval of relevant managers and~~ **of performance securities to be** adequate**ly** ~~evidence is maintained~~ **recorded** in the case file~~s~~.	Important	Yes, if revised, as requested	Director, PD	30 June 2027	As discussed in February 2026, introducing a requirement for managerial approval for the release of performance securities would add an additional layer of administrative burden that is not commensurate with the expected benefits of the recommendation. Since the recommendation is intended to ensure timely release of performance securities to contractors, adding an extra layer of managerial approval would be counterproductive. OIOS noted that PD/GPPS Entebbe uses a letter issued to the contractor alongside the release of performance security. However, while this letter is signed by the Section Chief, its purpose is not to constitute formal approval for the release of the performance security, but rather to serve as a communication accompanying the release. Considering the above, PD maintains that the release of performance securities should continue to be performed without the need for formal managerial approval, as it falls within the contract administration responsibilities delegated to procurement officials. <u>Action plan</u> PD will develop and issue guidance outlining expected timelines for the return or release of performance securities once vendors have fulfilled their contractual obligations and all outstanding matters, including claims, have been resolved. The guidance will require procurement officials to ensure that the release is appropriately recorded in the case file.