



## INTERNAL AUDIT DIVISION

### REPORT 2017/089

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Audit of outsourced services in the  
United Nations Support Office in  
Somalia

There is a need to review the outsourcing  
strategy in light of changes in the Office's  
operating environment

12 September 2017  
Assignment No. AP2016/638/01

# **Audit of outsourced services in the United Nations Support Office in Somalia**

## **EXECUTIVE SUMMARY**

OIOS conducted an audit of outsourced services in the United Nations Support Office in Somalia (UNSOS). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over outsourced services in UNSOS. The audit covered the period from 1 July 2014 to 31 March 2017 and included a review of the application of outsourcing policy and strategies, and the framework for monitoring, regulating and reporting outsourced activities.

Outsourcing enabled UNSOS and the United Nations Assistance Mission in Somalia (UNSOM) to deploy personnel to high risk areas in Somalia where United Nations staff members could not be deployed to perform essential services. Also, through outsourcing, UNSOS expeditiously met some requirements of its clients in quickly changing circumstances and in some cases achieved cost savings. However, UNSOS had not: (a) reviewed its outsourcing strategy and existing outsourcing arrangements, and documented justification to outsource activities and services; and (b) effectively monitored the performance of contractors.

OIOS made two recommendations. To address issues identified in the audit, UNSOS needed to:

- Review its outsourcing strategy and existing outsourcing arrangements for continued validity of the factors that gave rise to the outsourcing; and prepare a business case to justify the need to outsource activities and services; and
- Implement procedures to ensure that the contracts management function is operational and effective.

UNSOS accepted the recommendations and has initiated action to implement them.

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# Audit of outsourced services in the United Nations Support Office in Somalia

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of outsourced services in the United Nations Support Office in Somalia (UNSOS).

2. United Nations Security Council resolution 2245 (2015) mandates UNSOS to provide critical support to the African Union Mission in Somalia (AMISOM), United Nations Assistance Mission in Somalia (UNSOM) and the Somali federal security institutions in support of their respective mandates. General Assembly resolution 59/289 (2005) and ST/IC/2005/30 require the use of outsourcing: (a) only for non-core activities, such as medical, training, maintenance and cleaning, and not for core activities, such as protection of civilians, child protection and human rights; and (b) to expeditiously acquire technical skills not available within the organization and not needed on a long-term basis to achieve cost savings. Due to the security situation in Somalia and in keeping with the June 2013 UNSOM concept of operations to maintain a light footprint in Somalia, UNSOS outsourced and contracted third parties to perform some of its support functions. These included: (a) non-core services such as transportation services, customs clearance, camp maintenance, waste management, accommodation, construction services, medical services, aeromedical evacuations, vehicle and equipment maintenance services, and aviation services; and (b) professional manpower to perform some core functions and activities of: rule of law; disarmament, demobilization and reintegration; gender specialists; Political Affairs and Mediation Group; and protection of women.

3. For the period 1 July 2014 to 31 March 2017, UNSOS had outsourced services through 117 active local contracts and 7 memorandums of understanding with United Nations agencies with actual expenditure of \$434 million as shown in Table 1.

Table 1  
**Major outsourced services and expenditure (in \$ million)  
for the period from July 2014 to 31 March 2017**

<i>Service category/description</i>	<i>Expenditure</i>
Communication, information and technology services	226
Sea, land and air transportation of goods and related customs services	81
Construction activities	41
Camp management services	32
Accommodation services	15
Medical services	12
Professional skilled manpower in high risk areas	12
Others	15
<b>Total</b>	<b>434</b>

4. The Procurement Section is responsible for the local procurement of outsourced services, and jointly with the requisitioning sections (end users), for managing the respective contract. The Procurement Section is headed by a staff at the P-5 level who reports to the UNSOS Director through the Chief of Supply Chain Management Services. As of 31 March 2017, the Section had 26 approved posts made up of 16 international staff, 4 national professional officers and 6 national general service staff.

5. Comments provided by UNSOS are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over outsourced services in UNSOS.

7. This audit was included in the 2016 risk-based work plan of OIOS due to the financial and operational risks related to the outsourcing of activities and services in UNSOS.

8. OIOS conducted this audit from December 2016 to May 2017. The audit covered the period from 1 July 2014 to 31 March 2017. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the management of outsourced services in UNSOS, which included application of outsourcing policy and strategies, and the framework for monitoring, regulating and reporting on outsourced activities.

9. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) testing of 31 local contracts and all 7 memorandums of understanding for outsourced common services with actual expenditure totaling \$82 million.

## **III. OVERALL CONCLUSION**

10. Outsourcing enabled UNSOS and UNSOM to deploy personnel to high risk areas in Somalia where United Nations staff members could not be deployed to perform essential services. Also, through outsourcing, UNSOS expeditiously met some requirements of its clients in quickly changing circumstances and achieved cost savings in some cases. However, there was a need to: (a) review its outsourcing strategy and existing outsourcing arrangements, and document justification to outsource activities and services; and (b) improve the administration and monitoring of contracts for outsourced activities and services.

## **IV. AUDIT RESULTS**

### **A. Outsourcing strategy**

#### Need to review the outsourcing strategy

11. General Assembly resolution 59/289 and ST/IC/2005/30 require UNSOS to use outsourcing only for non-core activities and not for core activities, and to outsource services only to: (a) acquire technical skills not available within the organization; (b) achieve cost savings; (c) be more effective, efficient or expeditious; and (d) provide a service not needed on a long-term basis. As part of the procurement process, UNSOS is required to prepare a business case to justify the need for outsourcing.

12. A review of the outsourced services indicated that UNSOS: (a) achieved cost savings in some cases by only ordering and paying for services and/or related goods as and when needed or on short-term basis, including obtaining labour on short-term basis, thereby minimizing any redundancies that may arise from using more permanent personnel, especially during times when such staff are not utilized; and (b) outsourced mainly non-core, support-type activities. Some core services in one contract were outsourced after due authorization from the Under-Secretary-General for Department of Field Support and the Assistant Secretary-General, Office of Central Support Services.

13. UNSOS had entered into a contract for the provision of 83 personnel, out of which, 25 were assigned to perform some core activities related to the mandate of UNSOM including: rule of law; disarmament, demobilization and reintegration; gender specialists; political affairs; and women protection functions and services. The contract to hire personnel to perform core activities was signed only after due authorization was obtained. In this case, OIOS concluded that outsourcing enabled UNSOS and UNSOM to deploy personnel to high risk areas that would otherwise not be possible.

14. In 10 of the 31 contracts reviewed, UNSOS achieved cost savings by only ordering and paying for services and/or related goods as and when needed or on short-term basis. These included the contracts for the provision of personnel and medical services. The labour contract provided staff when needed or on short-term basis. The contract for the provision of medical services, had a fixed monthly cost as the only practical basis for ensuring availability of such services and resources in the area of operation. OIOS concluded that this arrangement provided more flexibility over staffing resources that would otherwise not easily be replaced when staff were on leave or rest and recuperation and saved cost.

15. However, UNSOS had not reassessed its outsourcing activities in light of improved security situation in areas where United Nations staff could not be deployed previously, which necessitated the outsourcing. At the same time, the light footprint deployment objective for Somalia should be reassessed. Prior to 2009, UNSOS restricted its presence in Somalia to a small team to coordinate all support requirements from AMISOM and to manage, oversee and verify quality of works or services provided by third party contractors. From 2009 to date, the Security Council authorized increases in deployment of AMISOM troops from 8,000 to 22,000, staff from 269 to 574, budgeted expenditure from \$225 million to \$459 million. Such increases required UNSOS and UNSOM to increase their deployment and presence in Somalia. UNSOS, in collaboration with AMISOM, had strengthened security and protection of camps to accommodate more United Nations personnel in Somalia, thereby mitigating some security risks that necessitated some of the outsourced functions and services in Somalia. Through the efforts of the United Nations and partners, the security situation continues to improve by the day.

16. There was no justification on file for the outsourcing of services in 29 contracts with expenditure totaling \$66 million out of the 31 local contracts sampled, and there was no written recommendation made to the Head of Office for the outsourcing. Only 2 of the 31 sampled contracts had justification on file and pre-bid analysis.

17. UNSOS did not review its outsourcing strategy and did not prepare a business case to outsource some functions and services mainly because: (a) most of the decisions were based on security considerations at the time; and (b) it did not consider the contracting of any of its services or activities to third parties as outsourcing as UNSOS and UNSOM were established with the objective of maintaining a light footprint in Somalia with few permanent staff and to rely more on third-party service providers. Additionally, it considered the framework in place to be outdated and not applicable to the field environment in which UNSOS and UNSOM currently operate.

18. In the absence of periodic review of the outsourcing strategy, there was a risk that new circumstances, opportunities and risks were not being considered in outsourcing activities and services to third parties.

**(1) UNSOS should: (a) review its outsourcing strategy and existing outsourcing arrangements for continued validity of the factors that gave rise to the outsourcing; and (b) prepare a business case to justify the need to outsource activities and services.**

*UNSOS accepted recommendation 1 and stated that, as it was not possible to arrive at a common definition for the provisions and implementation of “outsourcing” in peace support operations, it*

*was seeking further guidance from the Department of Field Support (DFS) on the definitions and application of the policy on outsourcing in peace support operations and would take necessary action upon receipt of clarification. Recommendation 1 remains open pending receipt of a copy of the clarification from DFS and evidence of action taken by UNSOS in accordance with the clarification provided.*

## **B. Administration and monitoring of contracts for outsourced activities**

### Administration and monitoring of contracts for outsourced activities and services needed improvement

19. The United Nations Procurement Manual requires UNSOS: (a) to continuously monitor and manage vendors' performance through regular performance evaluations and performance review meetings; and (b) to prepare performance evaluation reports based on delivery of service at the end of the contract.

20. For 5 of the 31 contracts reviewed, there was no evidence that UNSOS conducted performance monitoring meetings and effective oversight of contractors' performance. There were no records of any performance review meetings held or performance evaluations in the contract files. There were also no records on file pertaining to the evaluation of performance for any of the seven memorandums of understanding for common services such as cleaning and facilities maintenance, labour services, medical services and project management services.

21. The above situation occurred because UNSOS did not have mechanisms to ensure that self-accounting units performed their monitoring and oversight tasks. Also, UNSOS had no mission-specific guidelines or procedures to govern outsourced activities and services. During fiscal year 2015/16 when UNSOS was reorganizing and re-aligning its structure to implement the organization-wide Global Field Support Strategy, the Contracts Management Unit was dissolved. The new structure, which was completed in June 2016, did not clearly provide for nor designate roles and responsibilities, including reporting requirements of the contract management function. At the time of the audit, UNSOS had not delegated, communicated or established the required structures to monitor contractor performance. Ineffective management of contracts and memorandums of understanding could result in undetected poor performance of vendors, abuses, ineffectiveness and inefficiencies.

### **(2) UNSOS should implement procedures to ensure that the contracts management function is operational and effective.**

*UNSOS accepted recommendation 2 and stated that the contracts management function was now streamlined within the Supply Chain Management and Service Delivery pillars. Standard operating procedures were being prepared for contracts management functions in both pillars. Recommendation 2 remains open pending receipt of a copy of the standard operating procedures for contracts management under the new structure and evidence of their implementation.*

## **V. ACKNOWLEDGEMENT**

22. OIOS wishes to express its appreciation to the management and staff of UNSOS 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 outsourced services in the United Nations Support Office in Somalia

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNSOS should: (a) review its outsourcing strategy and existing outsourcing arrangements for continued validity of the factors that gave rise to the outsourcing; and (b) prepare a business case to justify the need to outsource activities and services.	Important	O	Receipt of a copy of the clarification from DFS and evidence of action taken by UNSOS in accordance with the clarification provided.	31 December 2017
2	UNSOS should implement procedures to ensure that the contracts management function is operational and effective.	Important	O	Receipt of a copy of the standard operating procedures for contracts management under the new structure and evidence of their implementation.	30 September 2017

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNSOS in response to recommendations.



# **APPENDIX I**

## **Management Response**



## Interoffice Memorandum

**To:** Mr. Arnold Valdez, Officer-in-Charge  
Peacekeeping Audit Service  
Internal Audit Division, OIOS

**Ref:** UNSOS/0917/M.028

**From:** Hubert Price, ASG  
Head of UNSOS

A handwritten signature in blue ink, appearing to read "H. Price", is written over the printed name of Hubert Price.

**Date:** 7 September 2017

**Subject:** Re: Draft report on an Audit of outsourced Services in UNSOS (Assignment No. AP2016/638/01)

1. Further to your memorandum of 24 August 2017, Ref. IAD: 17-638-22, please find attached the UNSOS response to the subject Draft Audit Report.
2. We thank you for your continued support to the work of UNSOS.

Best regards.

cc: Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS  
Mr. James Suglo, Chief Resident Auditor, Internal Audit Division, OIOS  
Mr. Amadu Kamara, Director, UNSOS  
Mr. Harjit Dhindsa, Deputy Director, UNSOS  
Mr. Clark Toes, Chief Service Delivery, UNSOS  
Mr. Herbert Pechek, Chief, Supply Chain Management Service, UNSOS  
Ms. Helen Dodd, Chief Procurement Officer, UNSOS  
Mr. Dolapo Kuteyi, Senior Administrative Officer, UNSOS  
Ms. Rosalie Piezas, Risk Management & Compliance Officer, UNSOS

**Audit of outsourced services in the United Nations Support Office in Somalia (UNSOS)  
Management Comments**

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNSOS should: (a) review its outsourcing strategy and existing outsourcing arrangements for continued validity of the factors that gave rise to the outsourcing; and (b) prepare a business case to justify the need to outsource activities and services.	Important	Yes	(Office of the Director)		<p>Management notes the recommendation, and as indicated in the UNSOS response to the detailed results of this audit, UNSOS management faced significant challenges in responding to the findings and observations of this audit exercise, as it was not possible to arrive at a common definition for the provisions and implementation of 'outsourcing' in peace support operations.</p> <p>Consequently, UNSOS management is seeking further guidance from the Department of Field Support on the definitions and application of the policy on outsourcing in peacekeeping in peace support operations, and will take necessary action upon receipt of clarification from UNHQ in this respect.</p>
2	UNSOS should implement procedures to ensure that the contracts management function is operational and effective.	Important	Yes	Chief Supply Chain Management Service	30 September 2017	<p>Management acknowledges the recommendation, and seeks to advise the auditors that the contracts management functions are now streamlined into Supply Chain Management and Service Delivery Pillars.</p> <p>Standard Operating Procedures (SOP) are under preparation for the contract management functions in both Supply Chain Management and Service Delivery pillars.</p>

<sup>1</sup> 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.

<sup>2</sup> 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.