



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Procurement management at the United Nations Office at Geneva

6 June 2008

Assignment No. AE2007/311/05

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. Sergei Ordzhonikidze, Director-General
A: United Nations Office at Geneva

DATE: 6 June 2008

REFERENCE: IAD: 08-01385

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AE2007/311/05 – Audit of Procurement Management at the United Nations**
OBJET: **Office at Geneva**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 10 and 11 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Your response indicated that you did not accept recommendation 7. In OIOS' opinion however, this recommendation seeks to address a significant risk area. We are therefore reiterating it and request that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1, 9 and 13) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Aminata Djermakoye, Director of Administration, UNOG
Mr. Anatoli Kondrachov, Chief, Central Services Support Section, UNOG
Ms. Caroline Lepeu, Chief, Purchase and Transport Section, UNOG
Ms. Boi-lan Lemoine, Head, Procurement and Contracts Unit, UNOG
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Anders Hjertstrand, Chief, Geneva Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

CONTACT INFORMATION

DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

CHIEF, GENEVA AUDIT SERVICE:

Anders Hjerstrand: Tel +41.22.917.2731, Fax: +41.22.917.0011,
e-mail: ahjerstrand@unog.ch

EXECUTIVE SUMMARY

Procurement management at the United Nations Office at Geneva

OIOS conducted an audit of procurement management at the United Nations Office at Geneva (UNOG). The overall objective of the audit was to assess the adequacy of arrangements for managing UNOG procurement activities. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Procurement and Contracts Unit, a sub-unit in the Central Support Services (CSS), within the Division of Administration of UNOG provides procurement and contracting services to UNOG offices and departments, as well as eight other United Nations entities based in Geneva.

OIOS found weaknesses in the areas of procurement planning, vendor database management and certain contract award functions, which needed to be addressed by ensuring better compliance with the provisions of the United Nations Procurement Manual. In addition, procurement management, structure and human resources functions need to be strengthened.

The main audit findings were:

- Procurement planning and consolidation was limited by requisitioning offices' non-submission of the required annual procurement plans and by the absence of contract register at PCU. This resulted in the significant level of low value procurement of less than \$2,500, which accounted for over 58 percent of the purchase orders issued in 2006-2007, yet representing only 4 percent of the total value of purchase orders during this period, a practice that was not cost-efficient.
- There were no statistics to measure timeliness of procurement processes and no basis for assessing the appropriate staffing level due to lack of guidelines of benchmarks for workload criteria from the Procurement Service, United Nations Headquarters.
- PCU's performance of both requisitioning and procurement functions and placing invoice processing functions under the Central Support Services, which has responsibility for PCU, did not ensure full segregation of duties and was not in line with United Nations practices.
- Low vendor response rate to invitations to bid was attributable to inadequate vendor database maintained by a staff working on it on a part-time basis.
- There was need for additional guidelines for technical evaluation of bids for procurement cases using the best value principle especially for major procurement cases.
- The 2001 contract with the insurance broker did not have provisions for broker's fee and periodic performance review to ensure that the Organization's needs were served in a cost-effective manner.

OIOS makes a number of recommendations which propose that UNOG:

- Sets up standard procedures and fixes responsibilities and timeframes, as agreed with requisitioning offices, to ensure timely submission of annual procurement plans;
- Maintains a contract register to be used as a basis for contracts monitoring and planning procurement needs;
- Uses blanket purchase orders, whereby requisitioners could order low value procurement directly from vendors, to enhance efficiency in the procurement process;
- Establishes relevant performance indicators and mechanism to monitor timeliness and efficiency of procurement processes, and in consultation with the Procurement Service, United Nations Headquarters, develops performance benchmarks for identifying appropriate staffing level and workload distribution;
- Transfers certain requisitioning and contract management functions of PCU to an independent unit, and the invoice processing functions to the Financial Resources Management Service, in line with current best practices in the United Nations, to enhance internal controls;
- Amends procedures to improve maintenance and control of the vendor database and assign appropriate staff resources;
- Prepares guidelines on the preparation and documentation of technical evaluation factors and criteria in using the best value principle; and
- Submits to the Committee on Contracts, the justification for the continuous use of the same insurance broker, and includes the amount of broker's fee and periodic performance review in the written contract with the insurance broker.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement management at the United Nations Office at Geneva (UNOG). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The Procurement and Contracts Unit (PCU) is a sub-unit in the Central Support Services (CSS), within the Division of Administration. The Chief of the Procurement and Transport Section (PTS) is a P-5 and oversees the Procurement and Contracts Unit (PCU) and two other sub-units, the Transport and Travel Unit and the Property Management unit. PCU is headed by a P-4 and has four professional staff and 22 General Service (GS) staff.
3. PCU provides procurement and contracting services to UNOG offices and departments as well as eight other United Nations entities based in Geneva. In addition, PCU acts as the secretariat of the Common Procurement Activities Group (CPAG) for UNOG and specialized agencies of the United Nations system in Geneva.
4. From 2005 to mid-2007, PCU issued approximately 10,000 purchase orders valued at approximately \$127 million. Figure 1 shows the trend in volume of activities in the last five years.

Figure 1: Purchase orders issued during 2003 to 2007



5. Comments made by UNOG are shown in *italics*.

II. AUDIT OBJECTIVES

6. The overall objective of the audit was to assess the adequacy of the arrangements for managing UNOG procurement activities. This included:
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- (a) Evaluating the adequacy and effectiveness of internal controls;
 - (b) Assessing compliance with the United Nations Procurement Manual, Financial Regulations and Rules and relevant Administrative and/or Office Instructions;
 - (c) Assessing the effectiveness and efficiency of operations; and
 - (d) Determining the reliability and integrity of data in the information technology (IT) systems.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on procurement activities from 2005 to mid 2007 and involved interviewing PCU staff, requisitioners and members of the Committee on Contracts. The audit also analyzed data using a data extraction and analysis software, and reviewed relevant records. The audit took into account the issues raised by the Board of Auditors in their management letter of February 2006. The audit did not include the following:

- (a) Review of contract management functions carried out by the requisitioning offices;
- (b) Review of the administration and operations of the CPAG (Common Procurement Activities Group of United Nations member agencies in Geneva). However Procurement cases undertaken by CPAG were included in the sample of cases reviewed;
- (c) Review of bid opening procedures, which was the subject of a previous separate audit (AH/2006/513/11); and
- (d) Receipt and inspection which had been reviewed as part of the recent audit of property management (AE2006/311/02).

8. In the course of the audit, both the Chief of PTS and the Head of PCU separated from UNOG. The two posts were vacant until mid-December 2007 when the new Chief of PTS was recruited. As a result, the audit was temporarily suspended for several weeks. Some delays in the receipt of information were also experienced when the audit was resumed. OIOS appreciates the support received from the Officer-in-Charge, PCU in November and December 2007, despite the heavy workload due to staff shortages.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Planning and monitoring

Need for additional guidelines on procurement planning

9. The UN Procurement Manual, Section 8.1.4 requires that requisitioning offices and PCU meet annually to set up procurement plans for the forthcoming

period. It further requires the requisitioning office to provide any revisions to the plans at no more than three month intervals.

10. Not all requisitioning offices submitted their plans for 2006-2007 to PCU. A review of the plan submitted by one of the requisitioners showed that the submitted plan was not complete. It did not include purchase of IT equipment or furniture, yet total purchase orders for IT equipment exceeded \$425,000 during 2006 and purchase of furniture amounted to approximately \$300,000 during 2006-2007.

11. PCU sends out annual reminders to requisitioners via memos from the Director of Administration, and occasional reminders in the course of the year. However, the memos alone have not been effective. PCU has not explored other options such as review of historical statistics and spending patterns to determine recurring needs, and benefit from setting up system contracts or blanket purchase orders.

12. The main consequence of the requisitioners' failure to provide their procurement plans is the significant level of low value procurement. Approximately 58 percent of the purchase orders issued during 2005 to 2007 were less than \$2,500. Failure to receive timely plans from requisitioners limited PCU's ability to consolidate requirements and to determine the need for system contracts and yearly blanket purchase orders for recurring needs. Consolidating the requirements would likely achieve more competitive prices and improve efficiency as it would help PCU to make better use of its time and resources by avoiding repeated procurement actions for similar needs.

Recommendations 1 and 2

(1) The UNOG Division of Administration should consult with all organizations and offices using its procurement service to set up agreed standard procedures for procurement planning, including responsibilities and time frames.

(2) The UNOG Procurement and Contracts Unit, in consultation with the requisitioners should where appropriate explore the use of historical records to forecast future needs in order to determine the possibility of system contracts or blanket purchase orders for recurring needs.

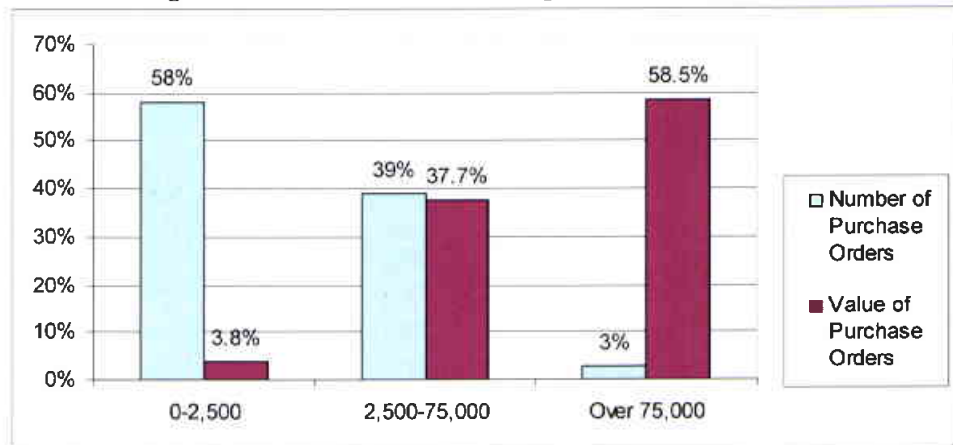
13. *The UNOG Division of Administration accepted recommendation 1 and stated that it will continue to send reminders to the departments while explaining that it's in their interest to complete their procurement plan which will allow the PCU to provide timely service.* Recommendation 1 remains open pending receipt of results of the Division of Administration's consultation with the requisitioning offices regarding the development of standard procedures for procurement planning, that should include agreed time frames for receipt of plans.

14. The UNOG Procurement and Contracts Unit accepted recommendation 2 and stated that the use of historical data to determine procurement needs may allow PCU to plan requirements in advance even without plans from the departments. However historical data is not always a good basis for all goods and services, in particular in changing markets like IT. Recommendation 2 remains open pending receipt of details of strategies adopted on the use of historical records to forecast future needs.

Administration of low value procurement

15. UNOG has a significant number of low value procurement, mainly attributed to inadequate planning. As shown in Figure 2, purchase orders below \$2,500 accounted for over 50 percent of the total quantity of purchase orders in the period 2005 to May 2007, but only about 4 percent of the total value of the purchase orders. Therefore, a significant amount of PCU staff resources were spent dealing with the low value procurement.

Figure 2: Number and value of purchase orders issued



16. Being aware of the problem, the Chief, Central Support Services informed OIOS that the new Chief of PTS, who joined the Section in December 2007, had been given the task of addressing the issue to come up with viable solutions on how best to improve efficiency over low value procurement.

17. OIOS reviewed vendor accounts with several low value purchase orders to determine the adequacy of arrangements in place to handle and process low value purchase orders and to identify any immediate steps to improve efficiency while a long term solution is being sought. The findings are discussed in the next three paragraphs.

18. In over 50 percent of the thirteen vendor accounts reviewed, the purchase orders issued were against established contracts. The rest appeared to be one-off purchases where the full procurement process was undertaken. There is a need to explore the possibility of using the provisions of paragraph 13.3 of the Procurement Manual for established contracts, as well as putting in place a system for requisitioners to order repetitive orders of low value, directly from vendors.

19. OIOS' review showed that requisitions from one office were received and processed by different buyers. There was no mechanism in place, such as a focal point, to monitor and consolidate the requisitions for similar products or service categories. Consequently, different purchase orders are raised in some cases even on consecutive days for the same need and the same contract. This arrangement also made it difficult to identify cases where requisitioners might have split requisitions in order to circumvent the \$30,000 threshold for use of formal solicitation or the \$200,000 threshold for submission of cases to the Committee on Contracts.

20. Contracts relating to one vendor were being recorded in the same account in the procurement system (Reality), even though they may be different and unrelated. Consequently, purchase orders relating to one contract were dispersed in the records, thus making contract monitoring inefficient and time consuming especially for long-term contracts. Furthermore, reference to the related contract or bidding document was in most cases not indicated in the Reality records. Therefore, case files had to be reviewed to determine the related contract for a given purchase order.

Recommendations 3 to 5

The UNOG Procurement and Contracts Unit should:

(3) Review the system of allocating requisitions to staff members and consider assigning staff members requisitions by product and service category, for effective monitoring of the requisitions;

(4) Ensure that buyers indicate the bidding document reference in Reality records for each of the purchase orders to assist in monitoring the amounts spent under each contract; and

(5) Review and determine blanket purchase orders where requisitioners could order directly from vendors.

21. *The UNOG Procurement and Contracts Unit accepted recommendation 3. Recommendation 3 remains open pending receipt of details of the new system for allocating requisitions to staff members.*

22. *The UNOG Procurement and Contracts Unit accepted recommendation 4 and stated that the field "RFP/ITB and PV" in Reality will be used in a more consistent manner. Recommendation 4 remains open pending receipt of instructions issued to staff regarding the need to indicate the bidding document references when entering information in Reality.*

23. *The UNOG Procurement and Contracts Unit accepted recommendation 5 and stated that it is currently reviewing with different departments their needs for certain products and services that have been repeatedly ordered in the past*

and are of low value. The purpose is to put in place blanket purchase orders for annual requirements. Recommendation 5 remains open pending receipt of results of the consultation with requisitioning departments and offices and conclusions reached regarding the setting up of blanket purchase orders and determination of purchase orders where requisitioners could order directly from vendors.

Monitoring and reporting

24. PCU had arrangements in place to report and monitor various workload statistics such as requisitions received, purchase orders issued, Committee on Contracts reports, bids issued, vendors invited, vendors registered in IMIS, etc. In addition, PCU monitored performance through feedback from the client survey, weekly meetings with buyers and clients, and the Requisition Tracking Report.

25. However, there were no statistics and reports to enable management to monitor the timeliness and efficiency of the procurement process and how well the procurement process was planned. PCU was therefore not reporting and monitoring one of the two main performance targets indicated in the budget submissions, i.e. “reduction in procurement processing time.” This also affected how the appraisal of performance for individual staff members was done, as further discussed later in this report.

26. The monitoring mechanism could be further strengthened by collecting statistics on procurement processing times and other forms of exception reporting such as the level of low value procurement and number of ex post facto cases. A previous OIOS audit of the Procurement Service at United Nations Headquarters (AH2005/513/04) found that Procurement Service had developed an exception reporting mechanism for various types of activities. PCU could benefit from consulting the Procurement Service to share best practices.

Recommendation 6

(6) The UNOG Procurement and Contracts Unit should review its performance indicators in consultation with the Procurement Service at United Nations Headquarters, in order to establish the best performance indicators that could be reported regularly, to enable management to compare performance against targets and monitor the efficiency of the procurement process.

27. *The UNOG Procurement and Contracts Unit accepted recommendation 6 and stated that an ongoing consultation with Procurement Service in New York on performance indicators will continue. However the complexity of services procured is difficult to be taken into account in statistics. PTS may consider statistics on time elapsed between receipt of requisitions and launch of procurement process. Furthermore, on-line administration of procurement planning for RFP will be a way to monitor procurement processing time.* Recommendation 6 remains open pending receipt of the details of the performance indicators selected for regular monitoring against pre-determined

targets, after completion of the review and consultation with Procurement Service in New York.

B. Structure and human resources

Transfer of invoice processing to Financial Resources Management Service

28. The Invoice Processing Unit (IPU) receives invoices directly from vendors and is responsible for forwarding the invoices to certifying officers for certification, matching the invoices to the receipt and inspection reports and verifying the prices with the purchase orders or contracts. IPU then forwards the invoices and the related supporting documentation to the Financial Resources Management Service (FRMS) for processing in IMIS, approval for payment and disbursement.

29. In 2007, the Invoice Processing Unit was transferred from PCU and is currently a sub-unit under the Administrative Unit of CSS. CSS indicated that the rationale of having IPU within the Service is to enhance operational effectiveness. This arrangement is different from the structure at UN Headquarters and the recent restructuring in peacekeeping operations and other offices such as the United Nations Office in Nairobi (UNON) where the invoice processing functions have been transferred to Finance Section.¹

30. In order to fully segregate related duties and be in line with the current best practices in the United Nations, the invoice processing unit should be transferred to FRMS so that it is completely independent from the procurement process.

Recommendation 7

(7) The UNOG Division of Administration should review the current structure and transfer the invoice processing unit to the Financial Resources Management Service to further strengthen controls over invoice processing.

31. *The Division of Administration did not accept recommendation 7 stating that IPU functions do not represent processing of invoices but rather verification and validation of invoices received. They believe that the current organizational structure whereby the IPU is part of the Administrative Unit of CSS which is separate and independent from PCU of the same Service already ensures a good segregation of duties and internal control. CSS does not therefore see the added value in respect of segregation of functions that would result from further moving this unit to FRMS.*

32. OIOS notes the Division of Administration's comments, but would like to point out that there is still some risk in having the two Units under one Section. Further, it would be more efficient if the entire invoice processing functions are carried out within one section. Since invoice processing is a

¹ GA report ref A/60/846/Add 5

finance-related function, FRMS is a more appropriate section. Transferring IPU to FRMS would also be consistent with the structure in other United Nations offices such as New York, Nairobi and peacekeeping operations which could be useful in the planned implementation of the enterprise resource planning (ERP) system. OIOS suggests that UNOG discuss the issue with representatives from both CSS and FRMS and if necessary consult the Procurement Service in New York. Recommendation 7 remains open pending receipt of information on results of the additional consultation and justifications for the conclusions reached regarding the need to transfer IPU to FRMS.

Requisitioning and contract management functions carried out by PCU

33. The requisitioning and procurement functions should be segregated in order to avoid possible conflict of interest. This was not the case in relation to procurement for insurance, photocopier and faxes. PCU is responsible for requisitioning and contract management of these three categories of items.

34. For the procurement of all risk insurance and terrorism insurance amounting to approximately \$800,000 annually, the same PCU staff members were involved in preparing requisitions and specifications, soliciting, evaluation of the bids as well as administering the contract. PCU is aware of this conflict of interest and has raised the issue with the UNOG Director of Administration.

Recommendation 8

(8) The UNOG Division of Administration should re-allocate the requisitioning and contract management functions for insurance, photocopier and faxes to another independent unit to strengthen controls over these functions which are currently carried out by the Procurement and Contracts Unit.

35. *The UNOG Division of Administration accepted recommendation 8 and stated that in order to segregate the requisitioning and procurement functions the contract management function for insurance should be handled by FRMS as it is at headquarters in New York and the contract management of photocopiers and faxes should be handled by the Information and Communication Technology Service.* Recommendation 8 remains open pending confirmation that the Director of Administration has approved the re-allocation of the requisitioning and contract management for insurance, photocopier and faxes to another independent unit.

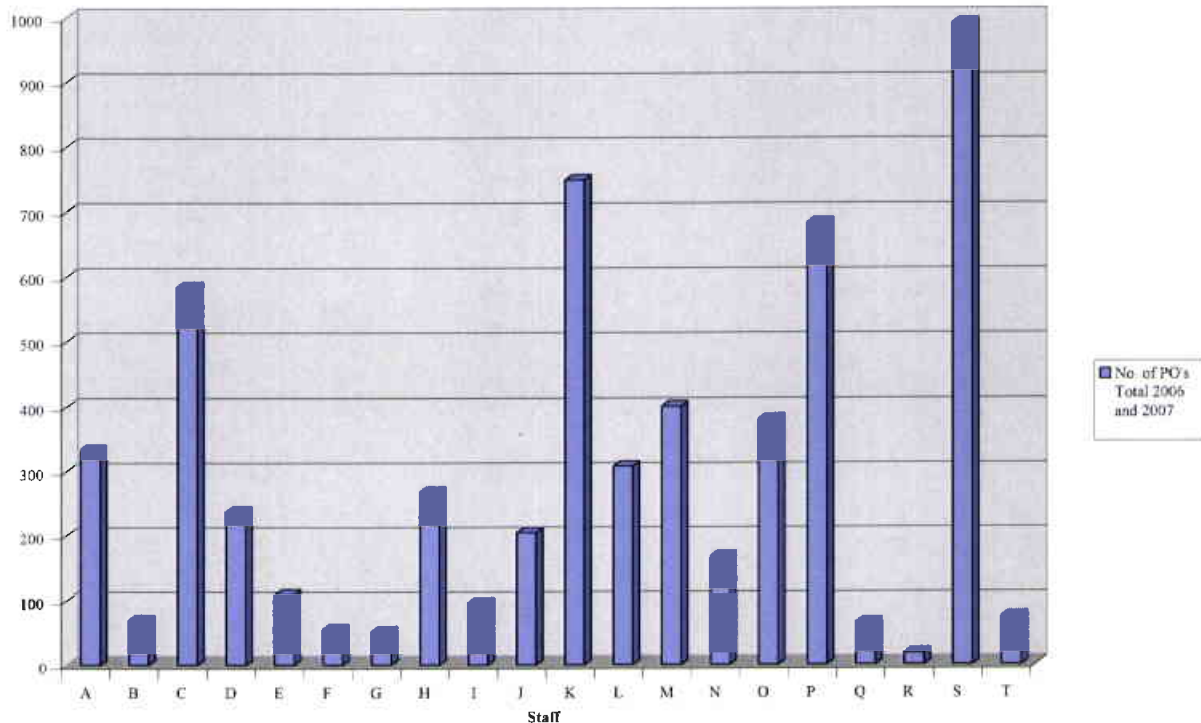
Staffing level

36. PCU had not established criteria or workload indicators for assessing the staff requirements. Procurement Service at Headquarters has also not developed any guidelines and benchmarks on staffing levels that could be used by Offices Away from Headquarters. The PCU budget submission in the last two bienniums provided justifications for additional staff requirements, but no justification or criteria for the overall staffing level. It is therefore unclear whether the current

staffing level was adequate for PCU to effectively deliver its mandate. PCU, for example, indicated that it did not have sufficient staffing resources to fully comply with the vendor database maintenance functions.

37. There were significant variations in the workload distribution per staff as shown in Figure 3. In OIOS' opinion, the differences in workload distribution may not be fully accounted for by the differences in the nature of the purchase orders.

Figure 3: Distribution of total 2006 and 2007 purchase orders per Buyer



38. A previous OIOS audit of procurement activities at Headquarters (AH2005/513/04) recommended that the Procurement Service should establish staffing benchmarks based on cycle times, complexity of contracts and some other indicators to identify staffing levels. It would therefore be useful for PCU to consult with Procurement Service to determine if they have developed or are in the process of developing benchmarks that it could use to assess its staffing level.

39. The recommendations made earlier in this report to address the problem of significant levels of low value procurement and to transfer requisitioning functions out of PCU, if implemented, would help in reducing the workload of PCU. Statistics on procurement processing times would also provide useful information in assessing the staffing levels.

Recommendation 9

(9) The UNOG Procurement and Contracts Unit should consult with the Procurement Service at UN Headquarters and develop staff performance benchmarks to use in work distribution and assessment of the adequacy of its staffing levels.

40. *The UNOG Procurement and Contracts Unit accepted recommendation 9 and stated that PCU already has a large number of statistical reports on activities with different criteria. Staffing benchmarks based on complexity of contracts and other time indicators could not be identified yet. However, consultation with Procurement Service in New York on performance indicators will continue.* Recommendation 9 remains open pending receipt of the outcome of the consultations with Procurement Service in New York and details of the staff performance benchmarks selected.

Performance appraisals

41. The goals established for staff in their performance appraisals were general and did not include specific indicators of achievement. In some cases, the success criteria were not included. There was no link with the workload statistics reported in the quarterly reports and with the performance indicators included in the budget documents. Staff also rarely provided a self appraisal of the activities undertaken. These issues are linked to inadequate performance indicators discussed earlier in this report.

42. Specific training needs and goals were also not reflected in the performance appraisals, and PCU had no record of training undertaken. Further, the Chief CSS explained that PCU had not received sufficient funds for training. OIOS recognizes the funding constraints and is pleased to note that recently the Chief of Procurement Service at UN Headquarters visited UNOG and had meetings with PCU staff. Such use of internal United Nations resources and other training programmes offered by the Human Resources Management Service could be explored further and incorporated in individual training plans.

Recommendations 10 and 11

The UNOG Procurement and Contracts Unit should:

(10) Establish performance indicators to monitor staff performance against established targets and encourage staff to prepare self appraisals; and

(11) Establish a training plan, including training that can be undertaken using internal resources and incorporate individual training plans in the performance appraisals

43. *The UNOG Procurement and Contracts Unit accepted recommendation 10 and stated that identification of relevant indicators to be included in*

individual performance appraisals will continue. Staff members will be encouraged to do their self appraisal at the end of the reporting period ending 31 March 2009. OIOS discussed the issue further with the Chief PTS who confirmed that for the new performance evaluation cycle beginning 1 April 2008, the unit was in the process of identifying indicators to include as goals in the individual staff appraisals. Based on the action taken, recommendation 10 has been closed.

44. *The UNOG Procurement and Contracts Unit accepted recommendation 11 and stated that the training budget has been reduced to 13 percent of the previous biennium therefore no specific procurement training can be programmed. Staff members will be encouraged to take advantage of the existing training programmes offered by the Staff Development and Learning Section. Internal training by Procurement Service New York can not be undertaken as the cost of travel would also have to be covered by PCU training budget. OIOS discussed the issue further with the Chief PTS who also confirmed that a training plan for 2008 has been prepared. Based on the action taken, recommendation 11 has been closed.*

C. Vendor database maintenance

Non-compliance with the United Nations Procurement Manual

45. OIOS reviewed 71 vendor registration files to determine compliance with Section 7 of the UN Procurement Manual on vendor database maintenance. The following areas of weakness and non-compliance with the Procurement Manual were noted:

- a) The vendor registration files did not contain the minimum information required for registration as outlined in Section 7.5 of the Procurement Manual, i.e.: copy of certificate of incorporation; financial statements; general information about the firm's products and services; and references from three clients. OIOS was therefore not able to access whether the vendor registration process was done in accordance with the relevant provision of the Procurement Manual.
- b) Purchases amounting to \$1.1 million were awarded to vendors who had not been approved for inclusion in the vendor database.
- c) The vendor list included duplicate names and each of the duplicates was in active status.
- d) There was no mechanism to identify vendors who did not respond to invitations. Forty five percent of the 71 vendors reviewed were not conducting business with PCU, although Section 9.3.8 of the Procurement Manual requires that vendors who have not responded to the last three invitations should be deleted from the roster.
- e) UNOG did not use the Global Market Place effectively as the staff did not have individual access and there is no mechanism for UNOG to use the

Procurement Service database since the two databases are not integrated. Section 7.1 (2) of the Procurement Manual requires that Offices Away from Headquarters in addition to their own vendor database should use the Procurement Service's database and the UN Global Market Place. CSS indicated that individual access to the Global Marketplace has now been obtained.

- f) Vendor Performance evaluations were not prepared on a regular basis as required by Section 7.11 of the Procurement Manual. PCU regularly reminded requisitioners of the need to prepare performance evaluations. However the requisitioners did not generally comply.

46. The weaknesses noted in the maintenance of the vendor database were attributed to the fact that the Vendor Database Officer was only working on a part time basis on the administration and maintenance of the vendor database, as he also performed other buying functions. The Head of PCU also raised concerns about the classification of the vendor registration post as a General Service post, as some of the functions such as the evaluation of vendors' competence and financial stability may require a higher level of qualification and experience. The budget submissions made by PCU did not however include a request for additional staffing resources for the Vendor Database Officer.

47. Vendor selection is a key stage of the procurement process that largely determines the effectiveness of the competition for the various procurement actions. The weaknesses noted above affect the effectiveness of the vendor database as a source of identification of vendors. A review of a sample of 25 cases found that the vendor response rate was low, at approximately 20 percent, and that over 50 percent of the vendors who were invited did not acknowledge receipt of the bids.

Recommendations 12 and 13

The UNOG Procurement and Contracts Unit should:

(12) Maintain records of vendors who do not respond to bids with a mechanism to identify and report vendors who have not responded to more than three invitations to bid; and

(13) Amend its procedures for maintenance and control of the vendor database and seek the approval of UNOG senior management to assign the level of staff resources required to adequately maintain the database.

48. *The UNOG Procurement and Contracts Unit accepted recommendation 12 and stated that it will try to find a mechanism to identify in Reality the vendors that have not replied to three invitations to bid in order to allow the Vendor Review Committee to periodically review the list of these vendors. Recommendation 12 remains open pending receipt of details of procedures established for identifying vendors who do not respond to bids.*

49. *The UNOG Procurement and Contracts Unit accepted recommendation 13 and stated that in view of current staffing, it is not in a position to have one person dedicated only to administration of the vendor database. However, emphasis will be put in cleaning of the database and regular update of the clean database. Recommendation 13 remains open pending receipt of details of work done to clean the database as well as confirmation that senior management has been provided with details of additional staffing resources if any, required to maintain the vendor database in accordance with the Procurement Manual.*

D. Award and administration of contracts

Low vendor response rate

50. OIOS' review of 25 cases showed that the vendor response rate was low at approximately 20 percent and that over 50 percent of the vendors did not acknowledge receipt of the bids. The Chairman of the Committee on Contracts (COC) also informed OIOS that COC raised this concern regularly and PCU had always attributed the low response to market limitations or vendors not willing to deal with the UN.

51. The low vendor response rate also means that in some cases there has been no "real competition". The table below shows the bidding results for the four largest contracts in the sample reviewed:

Item	Value in Million USD	No. Invited	No of bids received
Interpretation system	2.2	16	3
Construction of Mail Building	5.9	25	5
Paper	3.4	27	3
Mobile Phone	6.2	11	1

52. The low response rates indicate a need to review the effectiveness of the vendors' database as already discussed in Section C above, and the methods used to find suitable suppliers. As considerable work is involved in preparing and issuing the solicitation documents, such low rates of response do not make the process cost efficient.

53. PCU explained that the low response rate could be attributed to lack of interest by vendors in dealing with the UN, first because the contract values are not always large and secondly because of the lengthy UN procurement process. PCU added that the vendors complained that putting together a bid submission usually would take a lot of time and there would be no guarantee of winning the contract.

54. Inadequate market research may be one of the contributing factors for the low response rates. The inadequacy of the market research may be attributed to the problems with planning as discussed above, which limit PCU's ability to initiate market research early. In the 25 cases reviewed, the expression of interest identified very few vendors. However, notices of upcoming procurement actions are placed in the UNOG procurement website. PCU should consider expanding this to local or international newspapers, especially for major projects over a certain threshold, to improve its chances of more responses.

55. The audit reviewed and analyzed in detail the bid submissions for 11 procurement cases that involved over 200 invited vendors undertaken during 2005 to 2007. The findings are summarized below:

a) In four cases, at least five of the vendors were registered under commodity codes that were different from the commodity codes of the goods or services that were being procured. This shows the need to confirm whether the vendors selected from the database produce goods or provide the services being procured, before they are included in the list of invited vendors. PCU could, thus, avoid sending bid documents to vendors who may not be in the business for the items being procured.

b) Fifty-seven percent of the vendors were registered in 2005 and 2006 mostly in the same year the bidding process was done. There is a risk that vendors in the database may not have been considered since PCU did not comply with Section 9.3.9 of the Procurement Manual that requires the Procurement Officer to certify that the list of invitees represents all vendors registered for the required deliverable and that any short listing is approved by the Head of PCU. Certification by the Procurement Officer would enhance transparency of the vendor selection process and PCU's compliance with the Procurement Manual in its selection of vendors.

56. Over 70 percent of the vendors have had no business with UNOG since they were registered. PCU needs to identify vendors who have not responded to at least three bids and determine the reasons for non-response and whether the vendors are still interested in doing business with UNOG. Sending invitations to such vendors may be a waste of resources.

Recommendations 14 to 16

The UNOG Procurement and Contracts Unit should:

(14) Develop a standard procedure that requires Procurement Officers to verify the accuracy of the commodity codes and where necessary, confirm that vendors identified from the database are in the business for the required deliverables;

(15) Inform Procurement Officers to comply with Section 9.3.9 of the Procurement Manual requiring certification by the Procurement Officer that the list of invitees represents all

vendors registered for the required deliverables or if the invitees were short listed, that the criteria for short listing is documented and approved by an appropriate official; and

(16) Establish conditions for publishing expressions of interests for major projects in local or international newspapers in order to expand UNOG's source of information for possible bidders.

57. *The UNOG Procurement and Contracts Unit accepted recommendation 14 and stated that the ERP implementation team has identified that the Vendor Database and the UN commodity codes require a global policy and strategy that will be implemented worldwide. PCU will consult with the Procurement Service in New York on this issue. Recommendation 14 remains open pending receipt of the results of the consultation with New York and details of new procedures developed to help in ensuring that accuracy of the commodity codes is verified.*

58. *The UNOG Procurement and Contracts Unit accepted recommendation 15. Recommendation 15 remains opened pending receipt of instructions issued to staff regarding compliance with Section 9.3.9 of the Procurement Manual.*

59. *The UNOG Procurement and Contracts Unit accepted recommendation 16 and stated that it will establish conditions on publication of expressions of interest in newspapers keeping in mind that these publications are expensive and that no budget is allocated for these purposes. Recommendation 16 remains open pending receipt of instructions issued to staff on conditions for publication of expression of interests in newspapers.*

Evaluation of vendors

60. The evaluation criteria for vendors were established prior to the issuance of bids and were included in the bid documents. However, there was no evidence in the files that the scores for each criterion and the weights attached to the technical and commercial evaluations were determined before the bids were issued.

61. The Head of PCU explained that the criteria including the scores were always determined at the latest before the bids were opened, but might not have been clearly documented.

Recommendation 17

(17) The UNOG Procurement and Contracts Unit should ensure that a file note signed and dated by the evaluation committee members and showing the pre-determined evaluation criteria, including the weights, scores and minimum scores, are prepared and filed in the case file.

62. *The UNOG Procurement and Contracts Unit accepted recommendation 17 and stated that it will continue the effort to document all steps of the*

procurement process in the files and in particular the pre-determined evaluation criteria. However in certain cases, members of the evaluation committee may not be physically present therefore electronic mails will be accepted instead. Recommendation 17 remains open pending receipt of documentation from UNOG showing that pre-determined evaluation criteria are being properly documented.

Application of best value for money principles

63. A review of four cases where the best value for money principle was applied showed that there was need for additional guidelines to requisitioners on the technical evaluation process including the establishment of evaluation factors and criteria.

64. For example, in a \$5.9 million contract for the construction of a building for mail and diplomatic pouch, as pointed out by the COC, the technical evaluation could have been more transparent and objective. The technical evaluation was based on four main factors that carried equal weight, and therefore, the level of importance of each factor was not considered. No minimum score was established and though each of the four factors was assessed based on a review of various sub-factors, the basis for awarding points was not clear. The rating system used where a score of 0 to 3 was awarded for each main factor, was also limiting given that this was a big construction project. This caused the evaluation committee to award fraction points in some cases, which COC questioned for not having been documented in the evaluation criteria.

65. In order to further help the requisitioners in their technical evaluation of the bids, the evaluation committee members for each major procurement action could be provided with a document that outlines the guidelines for preparing technical evaluations. This would be useful since some members of the technical evaluation committees may not have attended the training or read the Procurement Manual before.

Recommendation 18

(18) The UNOG Procurement and Contracts Unit should prepare a paper outlining and explaining the guidelines on preparation and documentation of the criteria for technical evaluation to be used by evaluation committee members in applying best value principles.

66. *The UNOG Procurement and Contracts Unit accepted recommendation 18 and stated that the principle of Best Value for Money (BVM) is still new and the requisitioners will continue to receive guidance on improving documentation on evaluation criteria and process. Training on the principle of BVM is ongoing. Special emphasis will be put on the guidance of Building and Engineering Section (BES) for the technical evaluations as they are the major requisitioner. Recommendation 18 remains open pending receipt of a document, prepared for requisitioners, that provides additional and simplified explanations of the best*

value for money principles, including guidelines on preparation and documentation of technical evaluations.

Use of an insurance broker

67. The contract with the insurance broker was signed in 2001. It does not indicate how the broker is to be remunerated and the amount of fees the broker is to be paid. PCU explained that the broker fee is 15 percent of the premium and that this amount is included in the premium paid to the insurance company. PCU requested the broker to confirm the total amount paid to them in 2007. The broker confirmed in writing that in 2007 it was paid \$106,310. This works out to approximately 14 percent of the annual premium which is in line with the information provided by PCU.

68. The Insurance Unit at the UN Headquarters in New York informed OIOS that the use of a broker is recommended but is not mandatory. The broker's fee is normally included in the premiums paid to the insurance company. The fees normally range between 8 and 20 percent and can be negotiated. The fees depend on various factors such as the nature of the contract, the anticipated amount of work to be performed by the broker, and the level of insurance premiums, among others.

69. OIOS was concerned that for UNOG, the brokerage fees are not documented or included in the agreement with the broker. The bids submitted by the insurance companies for both "all risk" and terrorism insurance did not also show the amount payable to the broker as a separate amount. Therefore, there is no documentary evidence that the premiums reflected in the bid submissions by all insurance companies included the brokerage fees at 15 percent.

70. Furthermore, the contract is now six years old and has not been reviewed to ensure that the amounts paid to the broker are commensurate with the work performed. Performance evaluations to confirm that UNOG is satisfied with the services offered by the broker have also not been done.

71. OIOS is of the view that to enhance transparency, the insurance contract should be treated like a normal procurement case and be subjected to periodic reviews. If competitive bidding is considered not appropriate, justifications for exception to bidding should be documented and presented to the Committee on Contracts for review.

Recommendations 19 to 21

The UNOG Procurement and Contracts Unit should:

(19) Periodically submit the justification for the continuous use of the same insurance broker, including the mode and rate of remuneration, for review by the Committee on Contracts;

(20) Prepare yearly performance evaluations for the services provided by the insurance broker; and

(21) Request the insurance company to confirm the amount of brokerage fees that is included in the annual premiums to enhance transparency and provide an audit trail of the fees paid to the insurance broker

72. *The UNOG Procurement and Contracts Unit accepted recommendation 19 and stated that upon take-over of insurance contract management by FRMS, PCU will consult with FRMS on strategy to adopt. Recommendation 19 remains open pending receipt of details of the steps taken to ensure periodic submission of justification for the use of same insurance broker, to the Committee on Contracts.*

73. *The UNOG Procurement and Contracts Unit accepted recommendation 20 and stated that performance evaluation will be done by FRMS, the requisitioner, as for all other contracts. Recommendation 20 remains open pending receipt of a copy of the first performance evaluation of the insurance broker prepared by PCU or FRMS.*

74. *The UNOG Procurement and Contracts Unit accepted recommendation 21 and stated that PCU reports on an annual basis to the Insurance and Disbursement Service of Accounts Division, Office of Programme Planning, Budget and Accounts in New York. Recommendation 21 remains open pending receipt of the insurance company's confirmation of the brokerage fees included in its 2007 and 2008 annual premiums and reconciliation of the fees to the information reported to Insurance and Disbursement Service in New York.*

Use of written contracts

75. According to the Procurement Manual, written contracts shall be used when the terms and conditions are complicated or require detailed written elaboration to ensure proper understanding between the UN and the contractor. Section 9.4.2(2c) also states that a Request for Proposal (RFP) shall normally result in the issuance of a contract and not a purchase order.

76. In seven procurement cases reviewed, OIOS was of the opinion that a written contract rather than a purchase order would have been a more appropriate contractual document because they were large, long term contracts and included several supporting documents. It would be clearer and easier to monitor and manage the contract if all the information was summarized in a written contract clearly showing the duration and the total value of the contract. When a written contract is in place, purchase orders may not need to be raised for each purchase especially for system contracts. The provisions of Section 13.3 of the Procurement Manual to allow departments and offices to order directly from selected vendors could also be used.

77. PCU explained that written contracts take time to prepare and need to be done by experienced staff normally at the Professional level. Time and staff

constraints have limited PCU from using written contracts in some cases where it would be more appropriate.

Recommendation 22

(22) The UNOG Procurement and Contracts Unit should use written contracts as the contractual instrument where the contracts are of a long term nature and require detailed explanations. The estimated time for preparing written contracts should be factored into the procurement case planning.

78. *The UNOG Procurement and Contracts Unit accepted recommendation 22 and stated that purchase orders are often established instead of a written contract due to the time constraint and limited legal knowledge within PCU. However the goal of PCU is to establish more contracts for the complex contractual relations. This will be possible only with the adequate training for procurement staff.* Recommendation 22 remains open pending receipt of plans put in place to train staff regarding preparation of written contracts and guidelines issued to staff on the criteria to use in determining cases where written contracts should be established.

Lack of contracts register

79. Section 11.13 of the Procurement Manual requires that a register of written contracts is maintained and the contracts assigned numbers. The contracts register is a vital tool to assist in monitoring the value of the contracts and is a useful planning tool that could further assist the PCU in planning for contracts renewals.

80. PCU does not maintain a contracts register and indicated that it used to maintain a spread sheet where all active contracts were summarized. PCU therefore has no records of the contracts currently in place and consequently does not effectively monitor all the contracts. OIOS found one case from a sample of 25, where the contract was extended to allow time for the bidding process for the new contract to be finalized.

81. Details of each contract can be extracted from the Reality procurement system. However, this is a manual and time consuming exercise and is made more difficult because some of the buyers do not record the contract or bid reference numbers in Reality.

82. The Reality procurement system does not have a contracts module that could assist in recording and managing contracts. An OIOS review of procurement at the UN Headquarters in New York (AH2005/513/04) indicated that Procurement Service maintains a contract register and has a reporting system that automatically informs the buyers when 75 per cent expenditure against the not-to-exceed threshold is achieved. PCU should consider consulting Procurement Service to share this best practice.

83. In an effort to create a contracts register, the Officer-in-Charge of PCU recently wrote to all requisitioners requesting them to provide PCU with details of their contracts. The response rate has been very low which could imply that the requisitioning offices could also not be maintaining proper records of the contracts. There is need for PCU to have a record of all the contracts in place including the name of the official from the requisitioning office that is responsible for monitoring the contracts.

Recommendation 23

(23) The UNOG Procurement and Contracts Unit should establish a contract register that should include details of all current contracts and the office and name of the official responsible for monitoring the contracts.

84. *The UNOG Procurement and Contracts Unit accepted recommendation 23 and stated that PCU will review contract filing and establish a complete list of contracts. Recommendation 23 remains open pending confirmation that a contract register has been established.*

Exception to bidding

85. Justification for exception to bidding for cases presented to the COC were generally well documented and reviewed as part of the COC review.

86. However, for cases below COC threshold, a review of 60 cases found 17 cases where the reasons for exceptions were not documented. OIOS had to review the case files to establish the reasons for not undertaking competitive bidding. Paragraph 9.5.1 of the Procurement Manual requires that the Procurement Officer should place a written record in the case file of the facts used to base the contract award.

87. After reviewing the case files, OIOS was satisfied with the explanations. However, in one case, a long term contract for another agency was being used as the basis for exception to bidding, yet this contract had expired. Three purchase orders totalling approximately \$23,000 were issued during the period 2005-2007. In OIOS' opinion, this reflects the need for a mechanism for management to monitor cases where competitive bidding is not undertaken.

Recommendation 24

(24) The UNOG Procurement and Contracts Unit should establish a monitoring system for cases below the Committee on Contracts threshold to ensure that all justifications for exceptions for bidding are documented.

88. *The UNOG Procurement and Contracts Unit accepted recommendation 24 and stated that PCU will continue to mentor the requisitioners so as to improve documentation provided to explain exceptions for bidding. Recommendation 24 remains open pending receipt of details of the monitoring*

mechanism put in place to monitor that justification for exception to bidding for cases not presented to COC are documented and filed.

V. ACKNOWLEDGEMENT

89. We wish to express our appreciation to the Management and staff of the UNOG Procurement and Contracts Unit for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Receipt of results of the Division of Administration's consultation with the requisitioning offices regarding the development of standard procedures for procurement planning that should include agreed time frames for receipt of plans.	2009
2	O	Receipt of details of strategies adopted on the use of historical records to forecast future needs.	2009
3	O	Receipt of details of the new system for allocating requisitions to staff members.	Not provided
4	O	Receipt of instructions issued to staff regarding the need to indicate the bidding document references when entering information in Reality.	2008
5	O	Results of the consultation with requisitioning departments and offices and conclusions reached regarding the setting up of blanket purchase orders and determination of purchase orders where requisitioners could order directly from vendors.	2009
6	O	Receipt of the details of the performance indicators that will have been selected for regular monitoring against pre-determined targets, after completion of the review and consultations with Procurement Service in New York.	Not provided
7	O	Receipt of information on results of the additional consultation and justifications for the conclusions reached regarding the need to transfer the Invoice Processing Unit to the Financial Resources Management Service.	Not provided
8	O	Confirmation that the Director of Administration has approved the re-allocation of the requisitioning and contract management for insurance, photocopier and faxes to another independent unit.	2008
9	O	Receipt of the outcome of the on-going consultations with Procurement Service in New York and details of the staff performance benchmarks selected.	Not provided
10	C	Action completed	Implemented
11	C	Action completed	Implemented
12	O	Receipt of details of procedures established for identifying vendors who do not respond to bids.	2009/2010
13	O	Receipt of details of work done to clean the database as well as confirmation that senior management has been provided with details of additional staffing resources if any, required to maintain the vendor database in accordance to the Procurement Manual.	2009/2010
14	O	Receipt of the results of the consultation with New York and details of new procedures developed to help in ensuring that accuracy of the commodity codes is verified.	Not provided
15	O	Receipt of instructions issued to staff regarding compliance with section 9.3.9 of the Procurement Manual.	Not provided
16	O	Receipt of instructions issued to staff on conditions for publication of expression of interests in newspapers.	2008
17	O	Receipt of documentation from UNOG showing that pre-determined evaluation criteria are being properly documented.	Not provided
18	O	Receipt of a document, prepared for requisitioners, that provides additional and simplified explanations of the best value for money principles, including guidelines on preparation and documentation of technical	Not provided

Recom. no.	C/O¹	Actions needed to close recommendation	Implementation date²
		evaluations.	
19	O	Receipt of details of the strategy that will be set up to ensure periodic submission of justification for the use of same insurance broker to the Committee on Contracts.	2008
20	O	Receipt of a copy of the first performance evaluation of the insurance broker prepared by either PCU or FRMS.	2009
21	O	Receipt of the insurance company's confirmation of the brokerage fees included in its 2007 and 2008 annual premiums and reconciliation of the fees to the information reported to Insurance and Disbursement Service in New York.	Not provided
22	O	Receipt of plans put in place to train staff regarding preparation of written contracts and guidelines issued to staff on the criteria to use in determining cases where written contracts should be established.	Not provided
23	O	Confirmation that a contract register has been established.	2008
24	O	Receipt of details of the monitoring mechanism put in place to monitor that justifications for exception to bidding for cases not presented to the Committee on Contracts are documented and filed.	Not provided

1. C = closed, O = open

2. Date provided by UNOG in response to recommendations.