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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Sergei Ordzhonikidze, Director-General

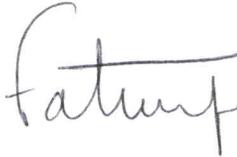
DATE: 15 September 2010

A: United Nations Office at Geneva

REFERENCE: IAD: 10- **00790**

FROM: Fatoumata Ndiaye, Director

DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AE2010/311/03 - Audit of vendor database management in UNOG**

OBJET:

Efforts are needed to ensure compliance with the provisions of the Procurement Manual in regard to provisionally registered vendors

1. I am pleased to present the report on the above-mentioned audit which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. In order for us to close the 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. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendation 1), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

EXECUTIVE SUMMARY

Audit of vendor database management in UNOG

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

The overall conclusion was that the Procurement and Contract Unit (PCU) of UNOG was not complying with the Procurement Manual requirements for handling provisionally registered vendors. PCU had not completed the vendor database clean up exercise started in 2009. As a result, about 88 per cent of the active vendors in the database were provisionally registered vendors, which affected the reliability of the database and exposed the Organization to the risk of dealing with vendors who had not been vetted. Planning for the final phase of the clean up exercise, which would help address the problem, was not adequate.

PCU accepted all the recommendations in the present report and has started consultations with the Procurement Division at United Nations Headquarters on how to address some of them. OIOS recommended that PCU should:

- Prepare and document the plan for the final phase of the vendor database clean up exercise including a review of the staffing requirements;
- Strengthen its arrangements for pursuing formal registration of new vendors and put in place procedures to comply with all the Procurement Manual requirements for handling provisional vendors;
- Amend job descriptions of the three posts used for vendor database activities as required by ST/AI/1998/9 on the “System for classification of posts”;
- Establish guidelines for the financial evaluation of new vendors; and
- In consultation with the Procurement Division, establish the full list of subsidiaries and affiliates of suspended vendors in cases where they are included in the suspension.

I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of vendor database management in the United Nations Office at Geneva (UNOG). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

5. The Procurement and Contract Unit (PCU) of UNOG is the unit responsible for managing the vendor database as part of its overall responsibility of providing procurement and contracting services to UNOG and eight other Geneva based United Nations organizations and agencies. PCU is headed by a P-4 who reports to the Chief of Purchase and Transport Section, Central Support Services, Division of Administration. The vendor registration and database management functions are carried out by three of the five General Service (GS) staff in the Vendor Registration and Follow up Sub Unit (VRSU) of PCU. An additional Professional (P) post to head VRSU was approved in 2010 and recruitment for the post was ongoing at the time of the audit.

6. Management of the vendor database is an important aspect of procurement because formal registration in the database is a pre-requisite for contract award. A reliable and accurate database of registered vendors is therefore necessary to optimize the efficiency and effectiveness of the procurement process. Section 7 of the United Nations Procurement Manual outlines the criteria and procedures for registration of vendors and management of the database. New vendor registration requirements and procedures, which were piloted by the Procurement Division (PD) at United Nations Headquarters, New York, were introduced in the new Procurement Manual issued in March 2010.

7. One of the PCU goals, as stipulated in its 2010 work plan, was to establish a reliable and useful vendor database. As at 30 April 2010, the vendor database had 4,909 active vendors as shown in Table 1 below.

Table 1: Details of vendors in database as at 30 April 2010

	Number	Percentage of total (%)
Vendors on provisional registration status: These are vendors who have been provisionally registered but have not been screened against the established registration criteria.	4,303	88
VAC 1 vendors: These are vendors who have been approved for issuance of contracts below \$10,000	99	2
VAC 2 vendors: These are vendors who have been approved for issuance of contracts above \$10,000	507	10
Total	4,909	100

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

II. AUDIT OBJECTIVES

9. The overall objective of the audit was to assess the adequacy of arrangements for managing the vendor database in accordance with United Nations Regulations and Rules.

III. AUDIT SCOPE AND METHODOLOGY

10. The audit covered registration of new vendors and management of the vendor database, and focused on activities in the period 1 January 2008 to June 2010.

11. The methodology included analytical analysis of data in the vendor database and the purchase order listings, interviews of PCU as well as PD staff, and review of information in the vendor database and procurement case files.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Reliability of the vendor database

Non-compliance with the Procurement Manual requirements for handling provisionally registered vendors affected the effectiveness of the database

12. According to the Procurement Manual, vendors identified through market research can be provisionally registered in the database to allow them to participate in the bidding process, but they should not be awarded any contracts before they are formally registered. Procurement staff are required to direct and encourage the vendors to register and if formal registration is not complete within 90 days, block or delete them from the database. Formal registration is important because the screening process undertakes the due process for vendor eligibility by confirming the vendors' existence, financial condition, corporate responsibility, accuracy of products or services and contact details, and their interest in doing business with UNOG.

13. PCU did not comply with the Procurement Manual provisions and as a result, most of the vendors in its database had not undergone the formal registration process. As at 30 April 2010, 88 per cent of the almost 5,000 active vendors in the database were provisionally registered vendors. Such a high proportion of provisionally registered vendors affected the reliability of the database and led to award of contracts to provisionally registered vendors. For example, in the period 2008-2009, 50 percent of the purchase orders were issued to provisionally registered vendors which, in addition to being a violation of the Procurement Manual, was an opportunity missed to enforce registration, and exposed the Organization to risks of dealing with vendors who have not been vetted.

14. The main reason for the current state of the database is that prior to 2008, due to staffing constraints, inadequate attention was paid to formal registration of vendors and management of the database in accordance to the Procurement Manual. PCU had made commendable efforts to clean up the database in the last two years and removed over 2,000 inactive provisional and duplicate vendor entries in the vendor database. However, the clean up exercise was not yet complete and at the time of the audit, the implementation of the new vendor registration criteria had not started and was running about two months late as compared to the plan.

15. To avoid further build up of provisional vendors, PCU needs to put in place procedures to fully comply with the Procurement Manual while the clean up exercise is going on. The arrangements for following up on the provisionally registered vendors need

to be strengthened to ensure that the vendors are adequately informed about the registration process before they are blocked/ deleted from the database after 90 days as required. This is because new vendors are registered provisionally in the database based on market research and are therefore normally not aware that they have been included in the database on a provisional basis. Since the bid document is the first form of communication with the vendor, there is need to provide clearer information about the registration process in the bid documents. There is also need to enforce the rule of not awarding contracts to the vendors unless they are formally registered; otherwise, there is a risk that vendors may not take the registration process seriously. Effective 1 January 2010, PCU stopped awarding contracts above \$200,000 to provisionally registered vendors. In OIOS' view, it is feasible to ensure formal registration of vendors who are awarded contracts below \$200,000 because the new registration requirements for this category of vendors are simple and the information and documents required can be submitted with the bid documents.

Recommendation 1

(1) The UNOG Procurement and Contract Unit should put in place procedures for handling provisionally registered vendors in compliance with the Procurement Manual.

16. *UNOG accepted recommendation 1 and stated that it had started consultations with PD on the practices at Headquarters. A procedure to implement immediately was sent to the buyers on 11 August 2010. This will be followed by the establishment of internal procedures (Lignes Directrices) after a short period of review. Recommendation 1 remains open pending receipt of procedures for handling provisional vendors that are in compliance with the Procurement Manual.*

Need for a documented plan for the final phase of the vendor database clean up exercise

17. Though PCU indicated that the Vendor Review Committee (VRC) had discussed the strategy and plan for cleaning the vendor database, the plan had not been documented and therefore, there was no evidence that the approach had been considered and approved. Timelines for implementing the new vendor registration requirements had been established, but details of what this would entail had also not been documented. Documenting the plan would assist in demonstrating that all ideas and important issues have been considered, and would facilitate management review and follow-up. It would also provide guidance to staff by ensuring there is common understanding of the approach, and provide clarity of roles and responsibilities. The plan should address staffing needs and adequate consideration should be given to whether temporary staffing is needed to ensure timely completion of the project.

Recommendation 2

(2) The UNOG Procurement and Contract Unit should document its plan for finalizing the vendor database clean up exercise.

18. *UNOG accepted recommendation 2 and stated that the plan of action for the clean up of the vendor database was established and approved in February 2010. The detailed plan will be finalized by 31 December 2010. Recommendation 2 remains open pending receipt of the detailed plan for finalizing the vendor database clean up exercise.*

B. Staffing

Need to update job descriptions

19. ST/AI/1998/9 on the “System for classification of posts” requires that when the duties and responsibilities of a post change substantially as a result of restructuring within an office, requests for classification or reclassification that include complete and up to date job descriptions should be made.

20. The functions of the three General Service posts allocated to vendor database activities had changed substantially since the posts were initially established over 10 years ago. However, the job descriptions had not been updated to reflect current responsibilities and submitted for classification or reclassification. Since UNPD has similar posts, PCU could consult with PD to determine the appropriate classification.

Recommendation 3

(3) The UNOG Procurement and Contract Unit should coordinate with the Procurement Division at Headquarters to revise the job descriptions of the three posts used for vendor database activities and request for classification or re-classification of the posts as appropriate.

21. *UNOG accepted recommendation 3 and stated that the job descriptions of the three posts with staff undertaking the majority of the vendor registration, vendor evaluation and vendor database management in addition to other responsibilities will be amended in coordination with PD. Recommendation 3 remains open pending receipt of revised job descriptions for the three posts used for vendor database activities and the request for classification or reclassification made to the UNOG Human Resources Management Service.*

C. Registration of vendors

Procedures for review and approval of new vendors were adequate

22. PCU had established adequate procedures to ensure that vendors submitted required information and documentation before approval. A standard form was used to document the vendor registration process and the form was reviewed and signed by members of the Vendor Review Committee as evidence of approval. The form included a checklist of the documents required which had to be completed and copies of the documents attached before approval. At the time of the audit, PCU was working towards implementing the new vendor registration requirements introduced in March 2010.

Need for guidelines on review of financial condition of new vendors

23. Section 7.7 of the Procurement Manual requires the Vendor Registration Officer to evaluate whether vendors applying for registration are in sound financial condition based on the financial information available. Effective 2010, this requirement is only for vendors expected to be awarded contracts above \$200,000. The Manual outlines concerns that

should be looked for such as negative net worth, bankruptcy proceedings, insolvency, receivership and any major litigation.

24. The vendor registration staff confirmed that they review the financial information to identify any concern on the vendors' financial stability. However, the review process and conclusion reached were not documented and therefore could not be verified. In two of the cases reviewed, the financial status of the vendors appeared to be weak, but there was no evidence that this was discussed and considered in the approval process.

25. The weaknesses are attributed to the fact that financial evaluation is a technical and broad area and the staff did not have finance background. Therefore, there is need for guidelines and training of VRSU staff on the review and documentation of the process to assist staff and improve efficiency. Since financial evaluation is also carried out during the bidding process, documenting the guidelines will help to determine the type and extent of review that should be carried out at the registration stage and at bid evaluation stage. PD had established some guidelines and tools for financial evaluation which PCU indicated it plans to adopt.

Recommendation 4

(4) The UNOG Procurement and Contract Unit should coordinate with the Procurement Division at Headquarters to establish guidelines and train staff of the Vendor Registration Sub Unit on the review and documentation of the financial evaluation process of new vendors.

26. *UNOG accepted recommendation 4 and stated that consultation with PD on the evaluation process using the new vendor evaluation criteria has started and PCU procedures will be established after a period of testing.* Recommendation 4 remains open pending receipt of new procedures or guidelines for financial evaluation of new vendors.

Need for additional checks where suspension includes subsidiaries and affiliates

27. Identifying and removing suspended vendors is important because using a suspended vendor could expose the Organization to reputational risks or risk of non performance depending on why the vendor was suspended. PCU checks to confirm that new vendors are not in PD's list of suspended vendors before they are registered, and regularly checks whether new suspended vendors are in its database. In the period 2008-2009, PCU suspended/blocked 16 vendors from its database who had been included in the list of suspended vendors prepared by PD.

28. However, in cases where vendors including their subsidiaries and affiliates were suspended, PD did not provide details of the affiliates and subsidiaries and it was also not evident that PCU had established who the subsidiaries and affiliates were. Since affiliates and subsidiaries can have names that are different from that of the suspended vendor, there is a risk that the checks carried out were not complete.

Recommendation 5

(5) The UNOG Procurement and Contract Unit should consult the Procurement Division at Headquarters to establish the full list of

subsidiaries and affiliates of a suspended vendor in cases where the suspension includes them.

29. *UNOG accepted recommendation 5 and stated that consultation with PD has started. Once PD provides the full list of subsidiaries and affiliates in cases where suspension includes subsidiaries and affiliates, PCU shall implement the suspension if the vendors are in the UNOG database. Recommendation 5 remains open pending receipt of evidence that the full list of subsidiaries and affiliates of suspended vendors has been established in cases where these entities are also included in the suspension.*

Need to document internal procedures and guidelines

30. PCU had not documented various controls and procedures on registration, maintenance and use of the vendor database that it had established in addition to those in the Procurement Manual. For example, PCU established a new control in May 2010 requiring procurement staff to recheck the accuracy of registration of vendors during the bidding process in order to address the risk of inaccurate data in the vendor database. Documenting such internal guidelines and procedures would help to capture all the established procedures and guidelines and thereby improve guidance to staff and ensure consistency in application. In addition, there may be need for exceptions to the Procurement Manual, such as the registration of real estate companies' procedures, which also need to be documented after appropriate approvals have been obtained.

Recommendation 6

(6) The UNOG Procurement and Contract Unit should document internal procedures and controls for management and use of the vendor database.

31. *UNOG accepted recommendation 6 and stated that consultation with PD has started on the practices at headquarters. This will be followed by the establishment of internal procedures (lignes directives) after a short period of testing. Recommendation 6 remains open pending receipt of documented procedures and controls for management and use of the vendor database that are not covered in the Procurement Manual.*

V. ACKNOWLEDGEMENT

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

cc: Ms. Caroline Lepeu, Chief, Purchase and Transport Section, UNOG
Mr. Anatoli Kondrachov, Officer-in-charge, Division of Administration, UNOG
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
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STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNOG Procurement and Contract Unit should put in place procedures for handling provisionally registered vendors in compliance with the Procurement Manual.	Compliance	High	O	Receipt of procedures for handling provisional vendors that are in compliance with the Procurement Manual.	31/12/2010
2	The UNOG Procurement and Contract Unit should document its plan for finalizing the vendor database clean up exercise.	Operational	Medium	O	Receipt of the detailed plan for finalizing the vendor database clean up exercise.	31/12/2010
3	The UNOG Procurement and Contract Unit should coordinate with the Procurement Division at Headquarters to revise the job descriptions of the three posts used for vendor database activities and request for classification or re-classification of the posts as appropriate.	Human Resources	Medium	O	Receipt of revised job descriptions for the three posts used for vendor database activities and the request for classification or reclassification made to the UNOG Human Resources Management Service.	30/06/2011
4	The UNOG Procurement and Contract Unit should coordinate with the Procurement Division at Headquarters to establish guidelines and train staff of the Vendor Registration Sub Unit on the review and documentation of the financial evaluation process of new vendors.	Operational	Medium	O	Receipt of new procedures or guidelines for financial evaluation of new vendors.	31/12/2011
5	The UNOG Procurement and Contract Unit should consult the Procurement Division at Headquarters to establish the full list of subsidiaries and affiliates of a suspended vendor in cases where the suspension includes them.	Operational	Medium	O	Receipt of evidence that the full list of subsidiaries and affiliates of suspended vendors has been established if the suspension includes them.	31/12/2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O¹	Actions needed to close recommendation	Implementation date²
6	The UNOG Procurement and Contract Unit should document internal procedures and controls for management and use of the vendor database.	Operational	Medium	O	Receipt of documented procedures and controls for management and use of the vendor database that are not covered in the Procurement Manual.	31/12/2011

1. C = closed, O = open
2. Date provided by UNOG response to recommendations.