



LE DIRECTEUR GÉNÉRAL

THE DIRECTOR-GENERAL

MEMORANDUM INTERIEUR

INTEROFFICE MEMORANDUM

To: Mr. Christopher F. Bagot
Chief
Geneva Audit Service
Internal Audit Division, OIOS *Tr.*

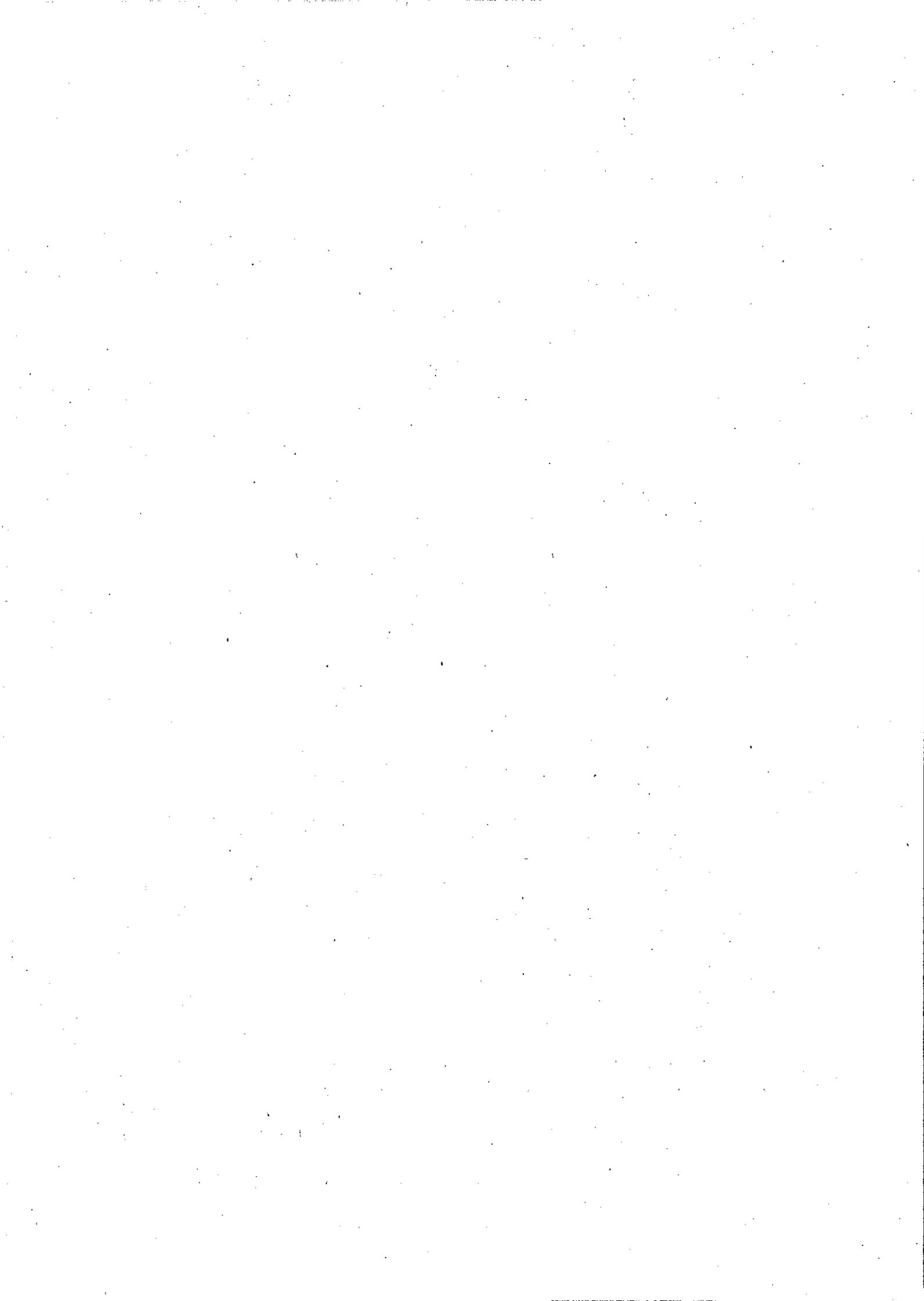
From: Kassym-Jomart Tokayev *Thonach*

Date: 25 July 2012

Subject: Assignment no. AE2011/311/04 – Audit of the UNOG contract for cleaning services

1. Reference is made to your memorandum dated 11 July 2012 on the above-mentioned subject.
2. As requested, please find attached UNOG's comments highlighted in blue for each recommendation, including the timetable for implementation, as well as the supporting documents on Source Selection Plan, List of invitees and comparative analysis prior to contract extension referring to recommendations no. 1 and 4.

cc: Mr. Clemens M. Adams, Director, Division of Administration, UNOG
Ms. Caroline Lepeu, Chief, Central Support Services, UNOG
Mr. Francesco Savarese, Chief, Buildings and Engineering Section, Central Support Services, UNOG
Ms. Jana Warming, Chief, Operations Support Unit, UNOG
Mr. Hugues Noumbissie, Special Assistant to the Director, Division of Administration, UNOG
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS



United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

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

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTÉRIÈRE

CONFIDENTIAL

TO: Mr. Kassym-Jomart Tokayev, Director-General

DATE: 11 July 2012

A: United Nations Office at Geneva (UNOG)

REFERENCE: IAD: 03712-12

FROM: Christopher F. Bagot, Chief

DE: Geneva Audit Service

Internal Audit Division, OIOS

SUBJECT: **Assignment no. AE2011/311/04 – Audit of the UNOG contract for cleaning services**

OBJET:

Overall results relating to acquisition and management of the contract for cleaning services were partially satisfactory; management has initiated necessary steps to address the identified issues

1. Attached please find the draft report on the above-mentioned audit. The draft report has taken into consideration the comments provided on the detailed audit results. We would appreciate receiving your comments by 25 July 2012.

2. Please provide an action plan with a target date and the title of the individual responsible for implementation of recommendations 1 to 4 as indicated in the attached form (Annex I). Unaccepted recommendations must be supported with appropriate rationale for acceptance of underlying risks. Unaccepted recommendations may be escalated as necessary up to the level of the Secretary-General for reconsideration.

3. In terms of General Assembly resolution 59/272, a Member State may request that the final audit report be made available. It is therefore important that we receive your comments prior to finalizing the report. Pursuant to General Assembly resolution 64/263, OIOS will include your response to this draft report as an appendix to the final report.

cc: Mr. Clemens M. Adams, Director, Division of Administration, UNOG

Ms. Caroline Lepeu, Chief, Central Support Services, UNOG

Mr. Francesco Savarese, Chief, Buildings and Engineering Section, Central Support Services, UNOG

Ms. Jana Warming, Chief, Operations Support Unit, Central Support Services, UNOG

Mr. Hugues Noumbissie, Special Assistant to the Director, Division of Administration, UNOG

Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-6
IV. ACKNOWLEDGEMENT	6
 ANNEX I Audit recommendations	

DRAFT

Audit of the UNOG contract for cleaning services

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Office at Geneva (UNOG) contract for cleaning services.
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. The contract for cleaning services is one of the largest contracts managed by UNOG. The present contract with Company A expires in 2013. Table 1 below indicates the historic information related to the contracts between UNOG and Company A since 2005.

Table 1: Contracts with Company A for cleaning services – period covering 2005-2013

Solicitation Number	Company	Contract Period	Contract Value		Remarks
			CHF'000	USD'000	
ITBS-100/ED	A	September 2005 to August 2008	10,757	8,692	bid
ITBS-100/ED	A	September 2008 to August 2010	7,465	6,868	extension
RFPS-149/ED	A	September 2010 to August 2013	10,837	10,426	bid
Total			29,059	25,986	

Source: provided by the Buildings Unit, UNOG

4. The Buildings Unit (BU), as part of the Buildings and Engineering Section of UNOG Central Support Services (CSS), is responsible for the maintenance of all physical facilities at the Palais des Nations and its annexes including maintaining and improving the working environment that is clean and pleasant for everyone. This includes management of the contract for cleaning services. The Procurement and Contracts Unit (PCU), as part of the Purchase and Transportation Section (PTS) of CSS, is responsible for the procurement process for cleaning services.
5. Comments provided by UNOG are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit of the UNOG contract for cleaning services was conducted to assess the adequacy and effectiveness of UNOG's governance, risk management and control processes in providing reasonable assurance regarding the **effective acquisition and management of the contract for cleaning services**.
7. The audit was included in the 2011 internal audit work plan for UNOG, as contract management was identified as high risk and the contract for cleaning services is one of the largest contracts that UNOG manages. In addition, Company A had been a service provider to UNOG since 1997 but the management of the contracts with Company A had not been previously audited.

We refer back to our comments provided in February 2012 on the highlighted sentence, see below:
 The phrase "In addition, Company A had been the a service provider to UNOG since 1997" is still misleading since it gives the impression that there is only one vendor that has been identified as capable

of providing the required service. The contracts for the provision of cleaning services have been the result of planned formal solicitation exercises including tenders issued to a number of potential vendors.

It is also not clear why you have referred to service provider since 1997 when paragraph 10 below states "the audit covered the period from 1 September 2008 to 30 June 2011".

8. The key control tested for the audit was **regulatory framework**. For the purpose of this audit, OIOS defined this key control as controls that provide reasonable assurance that policies and procedures exist to guide the operations of UNOG in the procurement and management of the contract for cleaning services.

9. The key control was assessed for the control objectives shown in Table 2.

10. OIOS conducted this audit from April 2011 to April 2012. The audit covered the period from 1 September 2008 to 30 June 2011.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. In OIOS' opinion, UNOG's governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **effective acquisition and management of the contract for cleaning services**.

13. The overall rating is based on the assessment of key control presented in Table 2 below.

Table 2: Assessment of key control

	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective acquisition and management of the contract for cleaning services	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

14. UNOG needed to ensure full compliance with the United Nations Procurement Manual (UNPM) in assessing the needs and describing the specifications for cleaning services. The principle of effective international competition was not given due consideration in the procurement exercise, and the evaluation committees were not properly constituted. Furthermore, UNOG needed to consider early payment discounts offered by potential vendors in awarding contracts and ensure that its interests were properly protected at the time of contract extension.

15. OIOS made four recommendations to address issues identified in this audit. UNOG accepted and is in the process of implementing the audit recommendations.

Regulatory framework

Need to enhance effective international competition in the acquisition of cleaning services

16. In accordance with the UNPM and to ensure an appropriate level of competition, a minimum of 25 vendors should be invited to participate in the bidding exercise for cleaning services, given that the value of the contract is above \$5 million. The 2005 solicitation document was distributed to 24 vendors, three of which submitted offers. The 2010 solicitation document was submitted to 11 vendors, and 4 vendors submitted offers. Approval for the limitation on the number of invited vendors was obtained prior to the solicitation and justification was provided in a note for the file approved by the then Chief of PTS. However, the evaluation process for whether available vendors met the selection criteria established by UNOG was not in the file and the only available documentation was the final list of invitees. Two criteria were applied for establishing the list of invitees in 2010: a critical size of at least 180 personnel and a logistical base near the Palais des Nations.

17. The Request for Expression of Interest (REOI) for cleaning services was posted on the websites of UNOG and United Nations Global Marketplace (UNGM) in 2010, but it was not advertised in international print/internet media as required by the UNPM. PTS did not consider the use of local and international media as an effective means to attract suppliers and argued that it was unlikely to result in additional vendors. PTS also stated that it did not have the budget for this purpose. However, there was no analysis done by UNOG justifying the decision that advertising the REOI in the international print/internet media, as required by the UNPM, would not be cost-effective.

18. Effective international competition is one of the four general principles for procurement as stated in the United Nations Financial Regulations and Rules and, to this end, the competitive process should, *inter alia*, include a market research for identifying potential suppliers. According to PTS, internet research and review of directories of Geneva area were conducted, which led to the identification of an increased number of potential vendors, although this research was not documented. However, formal means of a market research, such as the Request for Information (RFI), were not carried out.

As stated before, market research was conducted.

19. According to UNOG, the number of potential vendors who could effectively respond to UNOG requirements had to be restricted to those companies with subsidiaries near the Palais des Nations. In light of the estimated annual value of the contract, and the related incorporation, labor and legal fees, it was determined that there was only a remote possibility that cleaning services companies not already established in the vicinity would open a subsidiary in Geneva in response to the UNOG requirements. In OIOS' opinion, UNOG should have tested the market and if results demonstrated that competition would be limited, then UNOG could have considered whether it represented best value for money to award the contract for cleaning UN buildings in Geneva to a single contractor.

- (1) UNOG should, in relation to future procurement for cleaning services, advertise the Request for Expression of Interest in the appropriate international print/internet media and conduct a more formal and comprehensive market research with proper documentation to identify an adequate number of qualified sources, in order to ensure effective international competition in accordance with the UN Financial Regulations and Rules and the UN Procurement Manual.

20. UNOG accepted recommendation 1 and stated in relation to the concept of attracting vendors that every effort will be made to ensure effective international competition. Advertising in international print/media will remain subject to the availability of specialized press and the related funding, and consideration will be given to advertising future requirements in international print/internet media, as appropriate. UNOG also stated that it would improve the documentation of the reasons for future procurement cases of significant importance if additional advertising is not deemed appropriate. UNOG will continue to conduct market research to identify potential vendors and will better document the actions taken. In cases where the minimum number of vendors is not obtained, UNOG will elaborate the reasons for selection of vendors for the list of invitees in the Note for the File. Recommendation 1 remains open pending receipt of evidence that adequate measures are taken to ensure effective international competition in the next bidding process for the cleaning contract, in line with the comments provided by UNOG above.

The composition of the Evaluation Committees was not in accordance with the United Nations Procurement Manual

21. The audit reviewed the technical and commercial evaluations of the bids and found the process reasonable and well documented. However, the UNPM states that "the Source Selection Committee shall establish two Evaluation Committees, each consisting at least two members i.e., at least one of whom shall be from the requisitioning office and another shall be a qualified UN staff member or a consultant. A superior and subordinate may not serve together on the Evaluation Committee". The 2010 Commercial Evaluation Committee for the cleaning services consisted of the Procurement Assistant and this staff member's then first supervisor from PCU, which was in violation of the UNPM, since a superior and a subordinate may not serve together in the committee and there were no members from the requisitioning office. The Technical-Evaluation Committee included three staff members of BU, including the Chief of Unit, which also violated the principle of not having a superior and a subordinate in the committee. Improperly established Evaluation Committees present a potential risk that the selection processes are not, or are not perceived to be, objective and fair towards all vendors.

We wish to reiterate our comments of February 2012 as regards the highlighted text above.

Members from the requisitioning office should in general not be part of the Commercial Evaluation Team. The price evaluation for this tender did not require any technical expertise, as it is a price per hour.

Regarding superiors and subordinates serving on the same committee it is important to note that the UNOG structure and staffing table is not the same as UNHQ New York, which has more than enough staff in all branches to allow, in principle, for a superior and subordinate not to be part of the same Evaluation Team. UNOG's limited resources and relatively thin staffing structure does not always allow us to strictly adhere to the guideline of not having a superior and subordinate in the same Evaluation Committee. The UN PM was written for UNHQ PD taking into account UNHQ's structures and resources. UNOG's priority remains to obtain the best possible technical evaluation versus trying to adhere to the guidance, which remains in effect guidance. As such, superiors and subordinates may continue to serve on the same Evaluation Committee when it provides the best composition to ensure the

necessary level of expertise. The establishment of an Evaluation Committee with proper constitution cannot come at the expense of diminishing the level of the evaluations. This would not be in the interest of the Organization.

(2) UNOG should ensure appropriate composition of the technical and commercial evaluation committees in future solicitations.

22. *UNOG accepted recommendation 2 and stated that it would issue an instruction to PTS and requisitioning offices on the proper constitution of Evaluation Committees.* Recommendation 2 remains open pending confirmation receipt of the copy of the instruction requiring proper composition of the evaluation committees.

Need to take advantage of early payment discounts

23. As per UNPM, payment discount should be a consideration in the contract award. The UNPM states that if a payment discount is offered, the Procurement Officer shall carefully consider the rate of discount and the applicable time limit in order to determine whether the discount is cost-effective and can be realistically availed of within the period specified by the prospective vendor. Company A offered a 60-days payment term without any discounts while a prospective vendor, Company B offered a 2 per cent discount for payments made within 30 days. However, PTS did not consider the 2 per cent discount offered by Company B in the contract award. The contract was awarded to Company A based on its annual price offer, which was CHF 5,414.81 (\$4,381) less than that of Company B.

This statement concerns the bidding exercise of 2005 which is in contradiction with the period covered by the audit that started on 1 September 2008.

24. Had the 2 per cent discount been taken into account, the annual price of Company B would have been CHF 65,011 (\$52,601) less than that of Company A. According to PTS, it does not take into account any of the early payment discounts proposed by vendors when it establishes the ranking of commercial offers, only rebates are included in price comparison.

25. Furthermore, UNOG did not attempt to obtain a payment discount from Company A at the contract award stage for any given payment period that would have been feasible for UNOG to achieve, despite the size of the contract. This could have resulted in annual financial savings of CHF 72,000 (\$70,000). Under the principle of best value for money, all financial incentives should be taken into consideration in awarding a contract.

It should be noted that an attempt to obtain a payment discount from Company A at the contract award stage would have involved a request for authorization for negotiation from the Committee on Contracts as negotiations are normally not authorized when doing a formal solicitation.

(3) UNOG should consider early payment discounts offered by the potential vendors in awarding contracts.

26. *UNOG accepted recommendation 3 and stated that it would review the matter with a view to establishing a procedure for benefiting from early payment discounts for certain contracts.* Recommendation 3 remains open pending receipt of an action plan to address the issue of consideration of early payment discounts in awarding future contracts.

UNOG did not adequately protect its interests at the time of the contract extension

27. According to UNPM 15.7.2, before issuing an amendment that extends a contract, the procurement officer shall confirm that: a) a satisfactory vendor performance report is on file, and any guarantee document is re-issued or modified, as appropriate; b) if appropriate, a comparative cost estimate has been undertaken to determine if the prices under the contract are still competitive and are less than the cost would be if the UN were to engage in formal competitive bidding; c) standardization of the goods or services or issuance of a Systems Contract would not provide better results; and d) contracts shall not be increased or extended as a means for unduly avoiding competitive solicitation for the requirement. They shall only be amended to reflect a development in the contractual arrangement, such as a change in prices or other material change in circumstances.

28. The UNOG cleaning contract with Company A was extended in September 2008 for two years ending on 31 August 2010. The contract value for two-year cleaning services was approximately \$6.9 million. PTS submitted the report to UNOG Committee on Contracts for the extension of the contract, which included the estimated cost for the two-year period and the Vendor Performance Report for the period 2005–2008. However, no comparative cost estimate had been conducted before the contract extension and the reasons were not documented. In addition, the bank guarantee required in section 3.02.2 of the solicitation document ITBS-100/ED was not received from Company A. These cases of non-compliance with the UNPM were primarily caused by lack of coordination between BU and PCU.

As stated in February 2012, there was coordination between BU and PCU to ensure that the contract would be extended for an additional two years as foreseen in the tender documents. Can you please clarify the highlighted part and provide evidence?

(4) UNOG should ensure that all the conditions required by the United Nations Procurement Manual for contract extension are satisfied before any future extension of the contracts.

29. *UNOG accepted recommendation 4 and stated that comparative cost estimates would be carried out when appropriate and possible; in this case it was considered unnecessary because there was no "catalogue price" for the provision of cleaning services and a reliable price comparison could only be achieved by putting out the requirement for tender. If a comparative cost estimate is not carried out, UNOG would in future document the reasons. UNOG also stated that it was in agreement with the audit finding on bank guarantees and, in this regard, a common database on bank guarantees had been created in response to the audit recommendation in order to ensure the follow-up. If it was considered inappropriate, or not possible to demonstrate cost effectiveness, documentation explaining this should have formed part of the package presented to the Committee on Contracts. As not all the conditions required by the United Nations Procurement Manual for contract extension were satisfied, the Contracts Committee should not have approved the extension. Recommendation 4 remains open pending issuance of a memorandum to PTS staff explaining the steps to be followed to comply with the requirements of the UNPM for contract extensions. These steps should include details of what documentation is required when UNOG considers that it is inappropriate or not possible to carry out a comparative cost estimate or a formal competitive bid.*

IV. ACKNOWLEDGEMENT

30. OIOS wishes to express its appreciation to the Management and staff of UNOG for the assistance and cooperation extended to the auditors during this assignment.

AUDIT RECOMMENDATIONS

Audit of the UNOG contract for cleaning services

Rec. no.	Recommendation	Critical/ ² important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOG should, in relation to future procurement for cleaning services, advertise the Request for Expression of Interest also in appropriate international print/internet media and conduct a more formal and comprehensive market research with proper documentation to identify an adequate number of qualified sources, in order to ensure effective international competition in accordance with the UN Financial Regulations and Rules and the UN Procurement Manual.	Important	Yes	Chief, PTS	Implemented.	As per the Procurement Manual, the Request for Expression of Interest shall be advertised in the international print / internet media, depending on the circumstance of the case, i.e. should there be specialized and internationally recognized press for cleaning services. The results of the market research for effective international competition were fully documented in the Source Selection Plan for the procurement of cleaning services for the Motta building. This tender was launched internationally in February 2012. See enclosed Source Selection Plan, List of invitees and Note for the file.
2	UNOG should ensure appropriate composition of the technical and commercial evaluation committees in future solicitations.	Important	Yes	Chief, PTS	31 Dec 2012 (depending on UNPD)	The PM guidance in this matter is unclear and not adapted to realities in offices away from headquarters (OAHs) such as UNOG. PTS raised the matter with UNPD providing suggestions how to better address the

¹ Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Rec. no.	Recommendation	Critical/ ¹ important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	UNOG should consider early payment discounts offered by the potential vendors in awarding contracts.	Important	Yes	Chief, PTS and Chief, OSU	31 Dec 2012	<p>matter. UNDP advised that the respective chapter of the Procurement Manual (PM) is being revised promising to consider UNOG's input. In the interim UNOG will seek an exception to the relevant provision in the PM for UNOG's operation.</p> <p>UNOG will apply the guidance provided by Chapter 11.28 of the PM, i.e. "If a discount is offered, the Procurement Officer shall carefully consider the rate of discount and the applicable time limit in order to determine whether the discount is cost-effective and can be realistically availed of within the period specified by the prospective vendor."</p> <p>PT will train its staff in applying this provision.</p> <p>OSU will document its procedure in place for the processing of early payment discounts.</p>
4	UNOG should ensure that all the conditions required by the United Nations Procurement Manual for contract extension are satisfied before any future extension of the contracts.	Important	Yes	Chief, PTS	Implemented	<p>PTS started to carry out comparative cost estimates for recent contract extensions (see enclosure). Therefore, this recommendation can be considered as implemented.</p>