



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/024

Audit of air travel activities and related practices at UNON

Overall results relating to efficient and effective management of travel services were assessed as partially satisfactory. Implementation of one important recommendation remains in progress. Management has implemented one recommendation satisfactorily.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

25 March 2013

Assignment No. AA2012/211/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1 - 2
III. AUDIT RESULTS	2 - 7
A. Needs assessment	3
B. Regulatory framework	3 - 6
C. Coordinated management	6 - 7
IV. ACKNOWLEDGEMENT	7
ANNEX I Status of audit recommendations	
APPENDIX 1 Management response	

AUDIT REPORT

Audit of air travel activities and related practices at UNON

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of air travel activities and related practices at the United Nations Office at Nairobi (UNON).
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 General Assembly, in its resolution 65/268, requested the Secretary General to entrust OIOS to conduct a comprehensive audit of all air travel activities and related practices including “processes related to bidding on air travel services in the United Nations and their procurement”. According to Financial Regulation 5.12, procurement functions include all actions necessary for the acquisition of goods and services and are governed by the following general principles: (a) best value for money; (b) fairness, integrity and transparency; (c) effective international competition; and (d) the interest of the United Nations.
4. UNON contracted two travel agencies (referred to in this report as Contract A and Contract B) to provide travel management services. Both contracts, with maximum values of \$1,731,960 each in transaction fees excluding air fares, commenced on 1 June 2008 and expired on 31 December 2012. Under the terms of the contracts, the travel agencies provided services to UNON, the United Nations Environment Programme (UNEP), United Nations Human Settlements Programme (UN-Habitat), and the Nairobi Based United Nations Agencies (NBUNA). From 1 January 2010 to 30 June 2012, UNON paid the two travel agents a total of \$28,373,125 for both transaction fees and air fares for UNON, UN-Habitat and UNEP.
5. Comments provided by UNON are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit of air travel activities and related practices at UNON was conducted to assess the adequacy and effectiveness of UNON governance, risk management and control processes in providing reasonable assurance regarding the **efficient and effective management of travel services**.
7. The audit was conducted as part of a comprehensive audit of travel and related activities requested by the General Assembly in its resolution 65/268.
8. The key controls tested for the audit were: (a) needs assessment; (b) regulatory framework; and (c) coordinated management. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Needs assessment** - controls that provide reasonable assurance that proper mechanisms are in place to determine the requirements for air travel management services. These include strategic planning, requisitioning and budgeting processes.

(b) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the management of travel services; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

(c) **Coordinated management** - controls that provide reasonable assurance that potential overlaps in the management of travel services are mitigated, and that issues affecting or involving other UN partners and actors are identified, discussed and resolved timely and at the appropriate forum to ensure efficient and effective delivery of air travel management services to achieve synergy.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from June to August 2012. The audit covered the period from January 2010 to June 2012.

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. This included review of the processes related to needs assessment, requisitioning for travel services, solicitation, bidding and evaluation of bids, award and amendment of contracts, compliance with contract terms and conditions, performance monitoring and evaluation, and coordination in the management of the travel services.

III. AUDIT RESULTS

12. UNON governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **efficient and effective management of travel services**. OIOS made two recommendations to address issues identified in the audit. UNON, in coordination with other United Nations Organizations (UNO), had set up and maintained adequate mechanisms for provision of travel management services through administration and management of two contracts and received significant discounts on airfares by implementing agreements with preferred airlines. UNON complied with United Nations regulations and rules and Procurement Manual procedures for establishment and management of the contracts. UNON has implemented a recommendation to establish performance indicators for measurement and evaluation of the travel agents' performance. UNON was also in the process of implementing a recommendation for clarifying travel agents' insurance obligations for the upcoming travel tender and contracts.

13. The final overall rating was **partially satisfactory** as one important recommendation remained in progress.

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Efficient and effective	(a) Needs assessment	Satisfactory	Satisfactory	Satisfactory	Satisfactory

management of travel services	(b) Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Satisfactory
	(c) Coordinated management	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Needs assessment

Travel needs were adequately assessed

14. In accordance with the Secretary-General’s Bulletin on the organization of UNON (ST/SGB/2009/3), UNON provides “administrative and other support functions to UNEP and UN-Habitat” as well as “joint and common services to other organizations of the United Nations system”. In executing this function, UNON coordinated with UNEP, UN-Habitat and other Nairobi Based United Nations Agencies (NBUNA) to identify travel needs, which formed part of the Terms of Reference (ToR) of the Requests for Proposals for provision of travel management services that UNON prepared in 2007 during the procurement process. The ToR defined service requirements and minimum levels of performance and competences expected to be achieved by potential vendors.

B. Regulatory framework

Market research conducted to identify bidders was not documented

15. On 19 November 2007, UNON Procurement, Travel and Shipping Section (UNON/PTSS) presented to the UNON Local Committee on Contracts (UNON/LCC) that UNON identified 28 vendors to participate in the bidding process. According to UNON/PTSS, these vendors had been identified through "UNON vendor roster and from market research of the Kenya market". This complied with the Procurement Manual, which required 20 prospective vendors to be invited for acquisitions between \$1 million and \$5 million.

16. However, only 4 out of 28 vendors (14 per cent) were registered in the UNON vendor roster at the time they were invited to bid while the other 24 (86 per cent) were identified from a market research. Moreover, there was no evidence in the procurement files that a market research had been conducted to identify the remaining 24 invited vendors. On the bid closing date of 24 August 2007, only five bids from Kenya were received out of the total 28 vendors that had been invited (18 per cent).

17. UNON/PTSS stated that since 2010, UNON had adopted a Procurement Manual procedure that all procurements above \$40,000 were publicly advertised on the United Nations Global Marketplace website in order to enhance transparency and to widen participation of vendors. Based on the new procedures adopted by UNON, no recommendation is raised.

Contracts established in accordance with rules

18. The procurement process was fair and transparent, and complied with the Procurement Manual and Financial Regulations and Rules. OIOS assessed that both the technical and commercial evaluations were objectively and fairly conducted, and that the UNON/PTSS had provided the UNON/LCC with sufficient information to make informed decisions.

19. On 19 November 2007, the UNON/LCC recommended the award of two contracts for an estimated amount of \$1,731,960 each, to the lowest qualified bidders, for the provision of the travel management services to UNON, UNEP, UN-HABITAT and NBUNA for a period of up to five years. Consequently, UNON sent the award notices to the successful bidders on 23 November 2007.

20. On 10 March 2008, the Director of the Division of Administrative Services (DAS) of UNON signed the two contracts for the provision of travel management services with transaction fees of \$1,000,000 each, covering the periods from 1 June 2008 to 31 May 2011. The maximum amounts of the contracts have since been increased, after two amendments, to \$1,731,960 each and the duration of the contracts extended to 31 December 2012 after satisfactory evaluation of the contractors' performance.

Agreements with preferred airlines implemented

21. UNON signed agreements with 13 preferred airlines that gave UNON discounts on airfares. As a result, as at 31 August 2012, 11 UNOs which had signed Memoranda of Understanding with UNON for travel management services enjoyed various discounts on booking classes with the airlines. Both travel agents applied discounted fares at the time of issuing tickets which resulted in reduction of travel expenditure for the organizations. UNON estimated to have obtained discounts of \$1.8 million during the period 2010 to 2012 by implementing the agreements with airlines.

UNON obtained most direct and economical routes

22. Generally, UNON complied with the United Nations requirement to undertake all travel by the most direct and economical route. Travel agents were required to provide at least three quotations/flight options to the substantive offices and the Travel Unit whenever a travel was requested. On a random sample basis, the Travel Unit independently verified the accuracy of the quotations/flight options provided using a travel booking system. In addition, Travel Unit confirmed that the quotations/flight options provided complied with UN travel policies on accommodation and use of the most direct and economical route. Normally, the lowest available fares were chosen unless there were compelling justifications for exceptions. Examples of exceptions where higher fares were authorized included the following: (a) avoiding options where staff members were waitlisted; and (b) selecting itineraries that allowed staff members attending to duties on date of arrival or taking late flights on the same day staff members completed missions. The Travel Unit authorized the Travel Request in Integrated Management Information System (IMIS) and issued approved Travel Authorization to the substantive offices and the travel agents as authority to issue tickets.

23. At their own cost, staff members were allowed to obtain tickets other than the most direct and economical route and to make variations to itineraries. In such cases, the staff members paid the travel agent the additional costs before tickets were issued.

Procedures were developed for issuing tickets in exceptional circumstances

24. Tickets were not always issued with formal authorization as provided for in contracts with travel agents. Previous contracts required agents to issue air tickets "only upon presentation of approved Travel Authorization or in case of emergency upon approval by the Director or Deputy Director of DAS/UNON". However, during the period January 2010 to June 2012, there were tickets issued or amended without the Travel Authorizations. The travel agents could not submit their invoices for the tickets issued until the relevant Travel Authorizations were obtained. For example, as at 31 March 2012, the two travel agents had issued tickets amounting to \$118,196 that they could not invoice UNON due to lack of Travel Authorizations.

25. UNON Travel Unit explained that there were exceptional circumstances, such as emergencies, when tickets had to be issued before completion of travel authorization processes. In addition, UNON stated that IMIS was slow in processing travel requests during peak hours.

26. In December 2012, UNON amended the travel agents' contracts to provide that, in addition to the Director DAS/UNON, the Chief, Support Services, and the Chief, Travel, Shipping and Visa Unit could, henceforth, request travel agents to issue emergency air tickets outside of normal UNON working hours upon written and/or verbal communication. In addition, as an internal matter, UNON undertook to process travel requests and related Financial Authorizations within ten working days after issuance of the tickets in emergency situations.

Adequate controls for reviewing invoices before payment

27. UNON had adequate controls in place, both at the Travel Unit and at Budget and Financial Management Service (BFMS), for managing payments made to the travel agents. On a daily basis, the travel agents submitted invoices to the Travel Unit who verified that tickets were issued as per approved Travel Authorization in IMIS and that discounts were applied as per agreements with preferred airlines. Once verified, the Travel Unit returned the invoices to the travel agents who in turn submitted the invoices to BFMS for payment. BFMS recorded the payment requests in IMIS, matched them with certified travel requests and approved Travel Authorizations, and if satisfactory, approved the payments. On a monthly basis, BFMS generated reports that summarized invoices processed per travel agent. These reports were reconciled with invoice summaries submitted by travel agents and any discrepancies were resolved. BFMS then applied any credit notes received from the travel agent and proceeded to make bulk payments, depending on the funding sources, for the several invoices received and processed in a month.

Travel agents paid in accordance with contract terms

28. As at 30 June 2012, UNON had paid the two travel agents a total of \$28,373,125, in accordance with the signed contracts. During the period 1 January 2010 to 30 June 2012, UNON paid \$13,453,884 and \$14,919,241 under Contracts A and Contract B respectively for invoices that contained both airfares and transaction fees. According to Travel Unit records, the transaction fees for both travel agents amounted to \$1,441,477.

Need for performance monitoring mechanisms

29. UNON did not have mechanisms to measure and evaluate the travel agents' performance against verifiable criteria. Performance indicators were not developed in line with the service level agreements. While the service level agreements had detailed criteria of minimum levels of performance and competencies that bidders were expected to achieve (such as provision of assistance, complaint resolution, client satisfaction, refund processing, and provision of management information), follow-up mechanisms to objectively measure, evaluate and report the travel agents performance had not been developed.

30. OIOS confirmed during the audit that the Travel Unit had informal mechanisms for managing the performance of travel agents. The Travel Unit held regular meetings and exchanged emails with travel agents to resolve any issues that arose in the implementation of the contracts. In addition to the Monitoring and Evaluation Committee, which met quarterly or as needed, they had informal focus groups with stakeholders that provided feedback on the travel management services received and any issues were resolved timely with parties concerned. Generally, the Travel Unit was satisfied with the performance of both travel agents.

(1) UNON should develop performance indicators, based on the service level agreement's minimum levels of performance and competencies, for monitoring the performance of travel agents.

UNON accepted recommendation 1 and stated that it had implemented the recommendation and provided a draft copy of key performance indicators for the terms of reference for upcoming travel tender. Based on the action taken by UNON, recommendation 1 has been closed.

Need to clarify insurance requirements for travel agents

31. The contracts for the provision of travel management services required the travel agent to obtain and maintain insurance for the duration of the contract, including general liability, automobile liability and workman's compensation and that these insurance policies, except for the latter one, would name UNON as an additional insured. The contracts provided that the travel agent would provide UNON with evidence of the insurance when requested.

32. There was no evidence that UNON requested the travel agents to provide insurance cover as stipulated in the contract or that the travel agents had obtained the required insurance cover. Generally, there was uncertainty as to what risks were to be insured against and the appropriate insurance cover to be obtained.

33. UNON management noted that the successful contractor was required to have the specified insurance coverage and must provide proof of this upon request, but so far it had not been necessary for UNON to request for these documents. OIOS interviewed both travel agents and UNON procurement staff, but neither were able to provide a clear explanation of which risks UNON was mitigating or what insurance cover the travel agents were expected to obtain and provide to UNON. Therefore, there was still a need for clarity on insurance requirements that the travel agents were expected to fulfil.

(2) UNON should clarify the travel agents' insurance obligations and ensure that the travel agents obtain appropriate insurance coverage to fulfil the requirements of the contracts.

UNON accepted recommendation 2 and stated that implementation of the recommendation was in progress. As insurance obligations relate to the contract, the same will be evaluated by Procurement Section during the financial review of bids between October and November 2013 for the upcoming travel tender. Recommendation 2 remains open pending receipt of confirmation that new draft contracts with travel agents contain clear insurance obligations.

C. Coordinated management

Adequate coordination mechanisms were in place for travel management services

34. UNON, UNEP, UN-Habitat and other NBUNA participated in the definition of requirements, which formed part of the ToR leading to the establishment of the contracts. A Monitoring and Evaluation Committee provided oversight of the travel management services. According to the Travel Unit, the Monitoring and Evaluation Committee met quarterly or as needed, to review issues relating to provision of travel management services.

35. UNON set up adequate coordination mechanisms with UNEP, UN-Habitat and other NBUNA for the use of travel management services. Travel agents were accommodated within the United Nations

compound. This contributed to achievement of synergies and avoided overlap and duplication of effort by UNO. In addition, the arrangement promoted consistent application of United Nations travel policies.

IV. ACKNOWLEDGEMENT

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



Mr. David Kanja, Assistant Secretary-
General for Office of Internal Oversight
Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of air travel activities and related practices at UNON

Recom. no.	Recommendation	Critical/ ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNON should develop performance indicators, based on the service level agreement's minimum levels of performance and competencies, for monitoring the performance of travel agents.	Important	C	Implemented	28 February 2013
2	UNON should clarify the travel agents' insurance obligations and ensure that the travel agents obtain appropriate insurance coverage to fulfil the requirements of the contracts.	Important	O	Receipt of confirmation that new draft contracts with travel agents contain clear insurance obligations	31 December 2013

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.

3 C = closed, O = open

4 Date provided by UNON in response to recommendations.