



## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT 2013/008**

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### **Procurement activities in UNTSO**

**Overall results relating to the effective management of procurement activities in UNTSO were initially assessed as unsatisfactory. Implementation of three critical and four important recommendations remains in progress**

**FINAL OVERALL RATING: UNSATISFACTORY**

**12 February 2013**

**Assignment No. AP2012/674/01**

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# AUDIT REPORT

## Audit of procurement activities in UNTSO

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement activities in the United Nations Truce Supervision Organization (UNTSO).
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. Procurement of goods and services is governed by the United Nations Financial Regulations and Rules and the United Nations Procurement Manual and is the joint responsibility of the Procurement Section and Self-accounting units (SAUs).
4. Under the direct supervision of the Chief of Mission Support (CMS), the Procurement Section is responsible for the purchase and rental of goods and services. The Section is headed by a Chief Procurement Officer (CPO) at the FS-6 level and is supported by five staff members, one international and four national staff. From 1 January 2011 to August 2012, UNTSO issued 407 purchase orders valued at \$7.7 million on Headquarters systems contracts, local contracts and direct purchases. During the period, UNTSO had 60 local contracts with a Not-to-Exceed (NTE) amount of \$5.9 million.
5. Comments provided by UNTSO are incorporated in italics.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the UNTSO governance, risk management and control processes in providing reasonable assurance regarding the **effective management of procurement activities**.
7. The audit was included in the 2012 OIOS risk-based work plan on request of UNTSO and taking into account the importance of timely procurement of goods and services to the Mission, as well as the vulnerability of the procurement process to fraud.
8. The key controls tested for the audit were: (a) regulatory framework; and (b) delegation of authority. For the purpose of this audit, OIOS defined these key controls as follows:
  - (a) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of the procurement activities; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
  - (b) **Delegation of authority** - controls that provide reasonable assurance that procurement activities are managed in accordance with the delegated procurement authority.
9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit in August and September 2012. The audit covered the period from 1 January 2011 to 31 August 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.

### III. AUDIT RESULTS

12. The UNTSO governance, risk management and control processes examined were assessed as **unsatisfactory** in providing reasonable assurance regarding the **effective management of procurement activities**. OIOS made nine recommendations to address issues identified. UNTSO had conducted procurement activities within its delegated procurement authority and there were no ex-post facto cases presented to the Committees on Contracts. However, a number of control weaknesses were identified in the procurement process, including: (a) the Best and Final Offer (BAFO) was not used as prescribed in the Procurement Manual; (b) meetings took place between requisitioners and vendors during the procurement process, in breach of the Procurement Manual; (c) the performance of vendors were not adequately monitored; and (d) there was inadequate project management capacity to oversee the implementation of its headquarters renovation and rehabilitation projects. The Procurement Division (PD) of the Department of Management stated that they would review the capacity of UNTSO and assist them in strengthening procedures. UNTSO had taken action and developed a revised Statement of Works (SOW) for the construction of a fuel station and had submitted the required reports on core requirements to the Department of Field Support (DFS).

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of three critical and four important recommendations remains 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
Effective management of procurement activities in UNTSO	(a) Regulatory framework	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
	(b) Delegation of authority	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: UNSATISFACTORY</b>					

#### A. Regulatory framework

Procedures for Best and Final Offer were not complied with

14. For three of 23 procurement cases sampled, the UNTSO CPO had requested vendors to provide a BAFO without prior approval of the CMS. The use of BAFO is appropriate when: (a) clarification from

vendors on technical proposals could impact the commercial proposal; (b) clarification of requirements and/or correction of factual errors are necessary; (c) weaknesses in submissions are remediable; and (d) commercial proposals are tied.

15. For the construction of a fuel station, the procurement evaluation team had identified Vendor A as the vendor with the highest technical score and lowest commercial offer. Therefore, there was no need to request a BAFO. However, instead of awarding the contract to Vendor A, the Procurement Section requested a BAFO from the three technically compliant vendors (including Vendor A). The contract was subsequently awarded to another vendor (Vendor B) who reduced its initial bid of \$349,868 by 78 per cent to \$75,000. After awarding the contract to Vendor B, UNTSO changed the location of the project due to security reasons and negotiated with Vendor B to amend the contract to increase the award price by approximately 27 per cent to an estimated price of \$95,000. Following the audit, UNTSO agreed that a new procurement exercise would be conducted.

16. For the repair of electrical systems, water, sewage and drainage infrastructures, UNTSO identified a technically qualified vendor (Vendor C). Therefore, there was no need to request a BAFO; nonetheless, a BAFO was requested from two vendors, Vendor C and one other vendor that was not technically qualified. Following the submission of the BAFO from the two vendors, UNTSO split the contract award.

17. For the security protection enhancement contract, all proposals received included bids that were significantly higher than the estimated cost. The requisitioner streamlined the requirements of the SOW and met with the vendors to clarify the changes. The changes were significant, and all vendors reduced their initial bid price by an average of over \$460,000. The selected vendor reduced its price by \$730,000 or 89 per cent of its initial bid. As there was a significant change to the SOW, a new solicitation exercise needed to be done.

18. In addition, in seven of 23 procurement cases reviewed, after bids were received the CPO directly negotiated discounts with the selected vendors, without approval of the CMS. The CPO advised that negotiations were necessary as the prices offered by vendors were significantly higher than the estimated costs of requirements in the Source Selection Plans. Requisitioners had not conducted a market research to better understand the possible costs of goods and services. Therefore, cost estimates were generally under-budgeted. For example, contracts' values for the seven contracts reviewed were significantly higher by 10 to 226 per cent than the estimated costs in the Source Selection Plans.

**(1) UNTSO should ensure that the use of Best and Final Offer by the Procurement Section is justified and approved by the Chief of Mission Support in accordance with the procedures established in the Procurement Manual.**

*UNTSO accepted recommendation 1 and stated that it would ensure that BAFO is applied based on the requirements of the Procurement Manual with the approval of the CMS. Full and detailed documentations would be kept when BAFO is utilized. Based on action taken, recommendation 1 has been closed.*

**(2) UNTSO should conduct a new procurement exercise for the construction of a fuel station as the initial process did not comply with the United Nations Procurement Manual.**

*UNTSO accepted recommendation 2 and stated that it would undertake a new procurement exercise for the project upon completion of the revised SOW by 31 January 2013. Recommendation 2 remains open pending receipt of evidence that a new procurement exercise has been conducted for the construction of a fuel station.*

**(3) UNTSO should conduct market surveys to establish realistic cost estimates for required goods and services.**

*UNTSO accepted recommendation 3 and stated that SAUs and the Procurement Section would work together to coordinate procurement activities of similar goods and services. Also, an Expression of Interest would be placed on the United Nations Global Market and where necessary, site visits would be conducted for prospective vendors to ensure that they have the necessary capacity. Recommendation 3 remains open pending receipt of evidence that market surveys have been done prior to developing cost estimates for future purchases.*

Requisitioners had discussions with vendors without involving the Procurement Section

19. Discussions and negotiations with vendors during the procurement process needed to be conducted by at least two United Nations staff, including a procurement officer. In seven of 23 cases, the Procurement Section allowed requisitioners to have individual discussions with vendors on technical issues during the procurement process. The Procurement Section was of the view that their presence was not required as it involved technical issues. There were no records of the requisitioners' discussions with vendors.

**(4) UNTSO should ensure that the procurement case officer and at least one other United Nations staff member are involved in discussions and negotiations with vendors. These discussions should be summarized in a 'Discussion Note' and included in the procurement case files.**

*UNTSO accepted recommendation 4 and stated that it had been implemented, and provided copies of minutes of meetings with vendors. The minutes of meetings provided related to interactions with vendors after the contract had been concluded. Recommendation 4 remains open pending receipt of a copy of an instruction and evidence of compliance thereof that requires at least two United Nations staff, including a procurement officer, to be present during discussions with vendors and that there is a record of these discussions and negotiations.*

Inadequate capacity and understanding of procurement procedures

20. OIOS' review of 23 procurement cases noted control weaknesses and non-compliance with the Procurement Manual in all cases. Examples of non-compliance included: (i) inadequate time given to vendors to submit their bids; (ii) Source Selection Plans were not prepared or finalized prior to the procurement; (iii) commercial and technical evaluations were not signed by all members of the evaluation teams; (iv) supervisors and subordinates, contrary to the Procurement Manual, were included on evaluation teams for procurement cases with contract values exceeding \$200,000; (v) records of questions and answers during vendors' site visits were not maintained; and (vi) vendors' compliance with insurance coverage provisions were not verified. This may have occurred in part due to the lack of training of staff involved in the procurement process. Only two of six procurement staff had completed the mandatory online procurement training.

**(5) UNTSO should ensure that procurement staff complete the mandatory on-line training, and staff involved in the procurement process, including requisitioners, are provided with additional training to ensure that they perform their functions effectively and in compliance with the Procurement Manual.**

*UNTSO accepted recommendation 5 and stated that the Procurement Section staff have completed the mandatory on-line training, and provided copies of the training certificates. Recommendation 5 remains open pending receipt of evidence that all staff, including requisitioners, have been provided adequate training to effectively perform their functions.*

UNTSO needed to increase its contract management capacity

21. UNTSO did not have a dedicated contracts management section and therefore, the respective chiefs of SAUs (the requisitioners) were responsible for managing the performance of vendors. However, there were no standard operating procedures (SOPs) to guide staff in this function, including procedures for assessing the contractor's performance and following-up when a contractor failed to deliver. As a result, the following were noted: (a) performance of vendors were not adequately documented in the 12 contract files reviewed, and for a further six sampled contracts, no vendor performance evaluations were completed; (b) payments totaling \$237,000 were made to vendors prior to certification by the project manager; and (c) no action was taken to follow-up and resolve issues on the poor quality of work done by vendors. In April 2012, DFS issued a policy guideline on contract management.

**(6) UNTSO should, based on the Department of Field Support policy guideline on contract management, develop standard operating procedures for contract management. The procedures should clarify roles and responsibilities of staff involved in monitoring and managing contracts, including actions to be taken when vendors fail to perform their contractual obligations.**

*UNTSO accepted recommendation 6 and stated that it had established a Management Working Group to develop SOPs based on current DFS policy guidelines by March 2013. Recommendation 6 remains open pending the receipt of a copy of the SOPs on contracts management.*

Oversight of UNTSO headquarters rehabilitation projects was needed

22. In 2011, UNTSO planned to renovate and rehabilitate its headquarters. According to the master plan for the project, it would be completed in three phases, costing about \$7 million. As of August 2012, UNTSO had received allotments of \$3 million and awarded nine contracts totaling \$1.9 million.

UNTSO had not established a proper project management structure to oversee the implementation of the project. While a Project Manager was hired to manage the project, there was insufficient monitoring of the selected contractors. The progress reports were incomplete and did not highlight that the start date for six of nine contracts relating to the rehabilitation and renovation projects were delayed by between four to six months. Also, the Project Manager was on extended leave for over two months, leaving a gap in project management.

**(7) UNTSO should ensure that there is adequate project management capacity to oversee, monitor and effectively report on the implementation of its rehabilitation and renovation projects.**

*UNTSO accepted recommendation 7 and stated that a revised Project Charter had been approved in December 2012, which outlined the rationale for the project, its various phases, estimated costs, project timelines, as well as the terms of reference of the Project Steering Committee, Project Implementation Team and the Project Management Team. Recommendation 7 remains open pending receipt of evidence that the various project teams are adequately overseeing the implementation of the project.*

## **B. Delegation of authority system**

### Need to adhere to the principle of delegation of authority

23. The 33 procurement cases reviewed were conducted within the authority delegated to the CMS. In two procurement cases, however, the minutes of the Local Committee on Contracts (LCC) recorded that the Procurement Section proposed to reduce the contract period and to split contract awards to avoid submission to the Headquarters Committee on Contracts as described below:

- (a) For travel services, the Procurement Section proposed to reduce the contract period from two to one year. The LCC had rejected this, and requested the procurement case to be re-presented.
- (b) For duty-free fuel products, the Procurement Section proposed to split the contract award, as otherwise the procurement value would have exceeded the UNTSO delegation of authority of \$1 million. There was no valid justification for splitting the award because the price difference between the two vendors was \$23 and UNTSO was incurring higher overhead costs by having to manage two contracts instead of one.

24. Furthermore, the Procurement Section did not consistently classify purchases by core and non-core requirements and did not submit the required monthly reports to DFS on its procurement of core requirements exceeding \$500,000.

**(8) UNTSO should ensure that procurement cases above its threshold are submitted to the Headquarters Committee on Contracts for review. Monthly reports on the procurement of core requirements exceeding \$500,000 should be submitted to the Department of Field Support.**

*UNTSO accepted recommendation 8 and provided copies of the reports of core requirements exceeding \$500,000 that were submitted to DFS for the third and fourth quarter of 2012. Based on actions taken, recommendation 8 has been closed.*

### Need to review delegation of authority

25. In October 2011, PD had noted several areas of non-compliance, including failure to: (a) advertise the Requests for Expression of Interest for requisitions above \$200,000; (b) exclude Procurement Section staff from the technical evaluation team; and (c) exclude financial information from the technical evaluation criteria. While UNTSO had taken action to address these shortcomings, and staff had been

provided training in the procurement process, a number of control weaknesses in the procurement process continued, as noted in the report.

**(9) The Office of Central Support Services in conjunction with the Department of Field Support should review the capacity of UNTSO to conduct procurement activities under its current delegation of authority.**

*The Office of Central Support Services, DM accepted recommendation 9 and stated that PD would review the capacity of UNTSO to conduct procurement activities and propose measures to strengthen controls. Recommendation 9 remains open pending receipt of evidence that PD has reviewed the UNTSO capability to conduct procurement activities.*

#### **IV. ACKNOWLEDGEMENT**

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



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

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of Procurement in UNTSO

Recom. no.	Recommendation	Critical/ <sup>1</sup> Important <sup>2</sup>	C/ <sup>3</sup> O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNTSO should ensure that the use of Best and Final Offer by the Procurement Section is justified and approved by the Chief of Mission Support in accordance with the procedures established in the Procurement Manual.	Critical	C	Action completed	Implemented
2	UNTSO should conduct a new procurement exercise for the construction of a fuel station as the initial process did not comply with the United Nations Procurement Manual.	Important	O	Receipt of evidence that a new procurement exercise has been conducted for the construction of a fuel station.	To be provided
3	UNTSO should conduct market surveys to establish realistic cost estimates for required goods and services.	Important	O	Receipt of an instruction from UNTSO management to the Procurement Section to conduct market surveys establishing realistic cost estimates for the required goods and services.	March 2013
4	UNTSO should ensure that the procurement case officer and at least one other United Nations staff member are involved in discussions and negotiations with vendors. These discussions should be summarized in a 'Discussion Note' and included in the procurement case files.	Critical	O	Receipt of an instruction from UNTSO management to the Procurement Section to comply with the Procurement Manual by: (i) ensuring at least two United Nations staff, including a procurement officer, are present during discussions and negotiations with vendors; and (ii) documenting those discussions and negotiations during the procurement.	To be provided
5	UNTSO should ensure that procurement staff	Critical	O	Receipt of evidence that all staff involved in the	To be provided

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses 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.

<sup>2</sup> 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.

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

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

Recom. no.	Recommendation	Critical/ Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
6	<p>complete the mandatory on-line training, and staff involved in the procurement process, including requisitioners, are provided with additional training to ensure they perform their functions effectively and in compliance with the Procurement Manual.</p> <p>UNTSO should, based on the Department of Field Support policy guideline on contract management, develop standard operating procedures for contract management. The procedures should clarify roles and responsibilities of staff involved in monitoring and managing contracts, including actions to be taken when vendors fail to perform their contractual obligations.</p>	Important	O	<p>procurement process have received training to effectively execute their functions and responsibilities.</p> <p>Receipt of a copy of the approved standard operating procedures on contracts management.</p>	March 2013
7	<p>UNTSO should ensure that there is adequate project management capacity to oversee, monitor and effectively report on the implementation of its rehabilitation and renovation projects.</p>	Critical	O	<p>Receipt of: (i) a report detailing the status of projects against planned timelines; and (ii) minutes of meetings of the project teams and committees.</p>	To be provided
8	<p>UNTSO should ensure that procurement cases above its threshold are submitted to the Headquarters Committee on Contracts for review. Monthly reports on the procurement of core requirements exceeding \$500,000 should be submitted to DFS.</p>	Important	C	Action completed	Implemented
9	<p>The Office of Central Support Services in conjunction with the Department of Field Support should review the capacity of UNTSO to conduct procurement activities under its current delegation of authority.</p>	Important	O	<p>Receipt of evidence that the Procurement Division has reviewed the UNTSO capability to conduct procurement activities.</p>	To be provided