



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the UNOG contract for cleaning services

Overall results relating to the acquisition and management of the contract for cleaning services were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

**30 August 2012
Assignment No. AE2011/311/04**

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AUDIT REPORT

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's (UNOG's) 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 historical 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: 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 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, the management of the contracts with Company A had not been previously audited.
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. UNOG’s governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective acquisition and management of the contract for cleaning services**. OIOS made four recommendations to address the issues identified in the audit.

13. UNOG needed to ensure full compliance with the United Nations Procurement Manual (UNPM) and the terms and provisions of the contract 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 are properly protected at the time of contract extension. *UNOG had started fully documenting the results of market research in a recent solicitation exercise and carrying out comparative cost estimates for contract extensions.*

14. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 2: Assessment of key control

| Business objective | 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 |
| FINAL OVERALL RATING: PARTIALLY SATISFACTORY | | | | | |

A. Regulatory framework

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

15. 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.

16. 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.

17. 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, market 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.

18. 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 document the market research performed 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.

UNOG accepted recommendation 1 but stated that advertising in the international print/internet media would depend on the availability of specialized and internationally recognized press for cleaning services. UNOG had started to fully document the results of market research in the Source Selection Plan for the procurement of cleaning services in one of the buildings that it maintains. The tender had been launched internationally in February 2012. Recommendation 1 remains open

pending receipt of evidence of effective international competition in the next bidding process for the cleaning contract after the present one with Company A expires in August 2013.

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

19. 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.

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

UNOG accepted recommendation 2 but stated that members from the requisitioning office should in general not be part of the Commercial Evaluation Team and that the price evaluation for this tender did not require any technical expertise, as it was a price per hour. Regarding superiors and subordinates serving on the same committee UNOG noted that the UNOG structure and staffing table is not the same as at the United Nations Headquarters in New York, where there are more than enough staff to allow 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 it to strictly adhere to the guideline of not having a superior and subordinate in the same Evaluation Committee. The UNPM was written for the United Nations Procurement Division (UNPD) 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. PTS raised the matter with UNPD providing suggestions how to better address the matter. UNPD advised that the respective chapter of the UNPM is being revised and promised to consider UNOG’s input. In the interim, UNOG will seek an exception to the relevant provision in the UNPM for UNOG’s operation. Recommendation 2 remains open pending implementation of the alternative solution that UNOG had proposed to address the risk of the selection process not being viewed as objective and fair.

Need to take advantage of early payment discounts

20. 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.

21. 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.

22. 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.

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

UNOG accepted recommendation 3 and stated that it would apply the guidance provided by UNPM Chapter 11.28 and train staff in applying this provision. UNOG also stated that it would document the procedures in place for the processing of early payment discounts. At the same time, UNOG pointed out that the OIOS statement concerns the 2005 bidding exercise, which was in contradiction with the period covered by this audit. UNOG further mentioned 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. Regarding UNOG's comment on the period covered by the audit, the contract period of 2008-2010, which was the focus of the audit, represented an extension of contractual obligations stemming from the 2005 bidding exercise. Recommendation 3 remains open pending receipt of an action plan for considering early payment discounts in awarding future contracts.

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

23. 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.

24. 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.

(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.

UNOG accepted recommendation 4 and stated that it had started to carry out comparative cost estimates for recent contract extensions. 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. Based on the action taken by UNOG, recommendation 4 has been closed.

IV. ACKNOWLEDGEMENT

25. 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.



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STATUS OF AUDIT RECOMMENDATIONS

Audit of the UNOG contract for cleaning services

| Recom. no. | Recommendation | Critical ¹ / Important ² | C/ O ³ | Actions needed to close recommendation | Implementation date ⁴ |
|------------|---|---|----------------------|---|----------------------------------|
| 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. | Important | O | Submission to OIOS of evidence of effective international competition in the next bidding process for the cleaning contract after the present one with Company A expires in August 2013 | 31 August 2013 |
| 2 | UNOG should ensure appropriate composition of the technical and commercial evaluation committees in future solicitations. | Important | O | Confirmation of implementation of alternative solution proposed by UNOG to address the risk of the selection process not being viewed as objective and fair | 31 December 2012 |
| 3 | UNOG should consider early payment discounts offered by the potential vendors in awarding contracts. | Important | O | Submission to OIOS of an action plan for considering early payment discounts in awarding future contracts | 31 December 2012 |
| 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 | C | Action completed | Implemented |

¹ 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.

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 UNOG in response to recommendations