



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the Headquarters Committee on Contracts

**Overall results relating to the rendering of
written advice to authorized officials on
proposed procurement actions were initially
assessed as satisfactory**

FINAL OVERALL RATING: SATISFACTORY

4 June 2012

Assignment No. AH2011/510/01

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AUDIT REPORT

Audit of the Headquarters Committee on Contracts

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Headquarters Committee on Contracts (HCC).

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 HCC was established, pursuant to Financial Rule 105.13 (b), to render written advice to the Under-Secretary-General for Management (USG/DM) on actions leading to the award or amendment of procurement contracts. Where the advice of a review committee is required, no final action leading to the award or amendment of a procurement contract may be taken before such advice is received. In cases where USG for Management decides not to accept the advice of such a review committee, he or she shall record in writing the reasons for that decision. Under the provisions of administrative instruction ST/AI/2004/1, USG/DM delegated authority to implement Financial Rule 105.13 (b) to the Assistant Secretary-General for Central Support Services (ASG/OCSS).

4. The composition of the HCC and its scope of review were initially outlined in the Procurement Manual (PM). Recently, ST/AI/2011/8 dated 28 July 2011 has defined the composition and terms of reference of review committees on contracts, including the HCC. The HCC comprises five voting members, including the Chair and Deputy Chair, who are staff members of the Office of USG/DM. Other members are from the Office of Programme Planning, Budget and Accounts, the Office of Legal Affairs, the Department of Economic and Social Affairs and the Department of Peacekeeping Operations, and they serve in their individual expert capacity. Table 1 shows a summary of the HCC activities between 2009 and 2011.

Table 1: HCC activities from 2009 to 2011

	2009	2010	2011
Number of meetings	93	101	96
Number of cases	583	677	545
Value of cases (in millions)	\$5,879	\$4,616	\$3,126

5. The HCC is supported by a secretariat comprising eight staff members. The HCC secretariat also services the Headquarters Property Survey Board, the Award Review Board and the HCC's capacity development programme.

II. OBJECTIVE AND SCOPE

6. The audit of the HCC was conducted to assess the adequacy and effectiveness of governance, risk management and control processes in providing reasonable assurance regarding the **processes for rendering written advice to authorized officials on proposed procurement actions.**

7. The audit was included in the OIOS 2011 risk-based work plan as the HCC plays an important role in reviewing proposed procurement actions to ensure compliance with established procurement principles. The last audit of the HCC was carried out in 2003.

8. The key controls tested for the audit were: (a) performance monitoring indicators and mechanisms; and (b) training and development plans. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Performance monitoring indicators and mechanisms** - controls that provide reasonable assurance that performance metrics are established and procedures are in the place to monitor them and take necessary actions.

(b) **Training and development plans** - controls that provide reasonable assurance that members of committees on contracts are provided training to develop their capacity to conduct effective reviews.

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

10. OIOS conducted the audit from September 2011 to January 2012. The audit covered the period from January 2009 to 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 assess their effectiveness. This included a review of selected HCC minutes, analyses of data in the HCC database, and a review of the electronic Committee on Contracts (eCC) system.

III. AUDIT RESULTS

12. The HCC governance, risk management and control processes examined were **satisfactory** in providing reasonable assurance regarding the effectiveness of the **processes for rendering written advice to authorized officials on proposed procurement actions**.

13. The initial overall rating was based on the assessment of key controls presented in Table 2. The final overall rating is satisfactory.

Table 2: 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
To render written advice to authorized officials on proposed procurement actions	(a) Performance monitoring indicators and mechanisms	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Training and development plans	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: SATISFACTORY					

14. Performance monitoring indicators and mechanisms were in place to ensure the efficient and effective functioning of the HCC. The capacity building and training activities were adequate to ensure that members of committees on contracts are equipped with necessary skills and knowledge to discharge their duties effectively.

A. Performance monitoring indicators and mechanisms

Case processing times were within the targets

15. The HCC case processing times were below the target rates specified in the programme budget of the Department of Management (DM) and administrative instruction on review committees, i.e. 6.3 days in 2010 and 6 days for the first six months of 2011 as compared to a target of 7.5 days. Further, positive feedback was received from the representatives of the Procurement Division (PD) and Department of Field Support (DFS), a major requisitioner, concerning the timely processing of cases by the HCC.

The electronic Committee on Contracts (eCC) Bridge system resulted in expedited case processing times for field missions

16. The eCC Bridge is a system designed to facilitate submission of procurement cases from the field missions. According to the HCC secretariat, a Lean Six Sigma Team calculated the average processing time for case submissions from field missions as 79 days (from the date of the Local Committee on Contracts (LCC) minutes to the approval by ASG/OCSS) and, after the introduction of the eCC Bridge in July 2010, processing time has been reduced to about 40 days.

The HCC reviews were satisfactory

17. The minutes of selected cases showed that the HCC members discussed the cases thoroughly and deliberated proposed procurement actions with a view to ensuring compliance with the following procurement principles as defined in the Financial Regulations and Rules: (i) best value for money; (ii) fairness, integrity and transparency; (iii) effective international competition; and (iv) the interest of the United Nations. Representatives of PD and DFS indicated that they were generally satisfied with the quality of questions asked by the HCC members. The meetings were usually chaired by the Chair or Deputy Chair, and the attendance by voting members was satisfactory; on average 3.8 members voted while 3 members are required to constitute a quorum.

Recommendations made by the HCC were largely accepted by ASG/OCSS

18. The HCC renders written advice to ASG/OCSS on proposed procurement actions. As seen in Table 3 below, the approval rate of recommendations made by the HCC was very high; about 98 per cent.

Table 3: Approval rate of the HCC recommendations

	2009	2010	2011**
Number of the HCC recommendations accepted by ASG/OCSS*	572	670	264
Number of the HCC recommendations not accepted by ASG/OCSS*	11	7	5
Total cases reviewed by the HCC	583	677	269
% of the HCC recommendations accepted by ASG/OCSS	98.1	99	98.1

(*) The unanimous or majority recommendations by the HCC

(**) As at 30 June 2011

19. In general, the HCC reaches decisions by consensus, and where that is not possible, decisions are made by a majority of the members present. The number of instances of dissenting opinions among the HCC members was 13, 15 and 10 cases in 2009, 2010 and 2011 (January to June) respectively.

The role of HCC was effective in the acquisition process as an internal control mechanism

a. The HCC rejected proposed procurement actions when in the best interest of the Organization

20. The HCC meetings result in one of the following recommendations: (i) accept - make the award recommendation; (ii) reject - recommend to re-bid and/or negotiate; and (iii) defer - seek additional clarifications or information. Table 4 below shows a summary of rejections by the HCC for the period from 2009 to 2011. An analysis of these cases showed that air charter was the most rejected category of all the commodity/service groups. The HCC recommended that “ASG/OCSS request USG/DFS, in light of the continuing issues that have recurred over the years in acquiring air assets, to order a management audit of the concerned operational areas within DFS dealing with acquiring air assets in support of peacekeeping missions”. ASG/OCSS formally requested the intervention of senior DFS management in a number of issues relating to the procurement for air charters.

Table 4: The HCC recommendations for rejected cases

	2009			2010			2011*		
	No.	Value		No.	Value		No.	Value	
		\$m	%		\$m	%		\$m	%
Reject - recommend to re-bid	10	\$131	2.2%	16	\$257	5.6%	5	\$43	3.1%
Reject - recommend to negotiate	21	\$543	9.2%	18	\$388	8.4%	4	\$238	17.3%
Total cases rejected	31	\$674	11.4 %	34	\$645	14.0%	9	\$281	20.4%
Total of all the HCC cases	583	\$5,879		677	\$4,616		269	\$1,377	

(*) As at 30 June 2011

b. The HCC took necessary actions on ex-post facto cases

21. An ex-post facto (EPF) or a partially ex-post facto (PPF) case means a procurement action, whether a written contract exists or not, in which deliverables, i.e., goods and services, have already been completely received (ex-post facto) or have commenced and received in part (partially ex-post facto) prior to obtaining the advice of the HCC/LCC and/or approval of all other appropriate authorities. The percentages of EPF and PPF cases for the period from 2009 to 2011 are shown in Table 5 below.

Table 5: EPF and PPF cases for the period 2009 to 2011

	2009			2010			2011*		
	No.	Value		No.	Value		No.	Value	
		\$m	%		\$m	%		\$m	%
EPF/PPF cases	90	\$269	4.6%	113	\$395	8.5%	48	\$119	8.6%
Total number of cases	583	\$5,879			\$4,616			\$1,377	

(*)As at 30 June 2011

22. The HCC either recommends to ASG/OCSS to take note of an EPF/PPF case, or not to take note of it. The HCC also makes other recommendations to ASG/OCSS related to EPF and PPF cases. During the period from 2009 to 2011, the HCC recommended not to take note of two cases which had been deliberated in four meetings. ASG/OCSS took note of the first case, contrary to the HCC recommendation, due to the urgency of the requirement. Concerning the second case, however, ASG/OCSS did not take note of it as recommended by the HCC, and requested USG of the concerned requisitioning department to explain the reasons for the delay resulting in additional cost to the

Organization, i.e. demurrage charges of more than \$1.5 million, and the remedial actions considered or taken to prevent future repetition. The HCC also included EPF cases and recommendations on how they can be avoided in its various workshops or conferences.

c. The HCC also made other recommendations related to the acquisition process

23. In addition to award recommendations, the HCC also made other recommendations on policy and procedural matters covering systemic issues and trends in the acquisition process. For the years 2009, 2010 and 2011 (Jan-June), the number of other recommendations were 200, 154 and 94 respectively. Most frequently raised issues were related to contract monitoring, specification of requirements, negotiations with vendors, sourcing, timing of commencement of procurement activities and procedural matters. ASG/OCSS, after accepting these recommendations, formally conveys them to offices and departments concerned. The Office of ASG/OCSS follows up implementation of the recommendations.

The framework for monitoring the LCCs was being finalized

24. Due to resource limitations, the HCC could only undertake field assessment missions (FAMs) for a small number of field missions. According to Section 10.3 (b) of ST/AI/2011/8, the HCC shall monitor the proper functioning of the LCCs and the HCC secretariat has developed a draft monitoring framework for this purpose. Since 2009, the HCC has undertaken four FAMs in the United Nations-African Union Mission in Darfur (UNAMID), United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), United Nations Support Office for AMISOM (UNSOA) and the United Nations Logistics Base (UNLB). Comprehensive assessment reports were prepared after each FAM, which analyzed various aspects of the LCC performance and included recommendations for improvement. At the time of the audit, the HCC was in the process of finalizing the framework for monitoring the LCCs.

The HCC will prepare periodic reports

25. While the Chairman of the HCC regularly meets with USG/DM and provides a briefing on the activities of the HCC, there was no requirement for a periodic report. It would be useful to prepare a brief report annually to inform all stakeholders of the activities of the HCC. Such a report might include statistics and information on case processing times, pre-cleared cases, EPF/PPF cases where the HCC recommends to take note or not to take note of a case, expedited cases, and acceptance rate by the HCC of the proposed procurement actions. *DM agreed that the HCC would produce annual reports on its activities.*

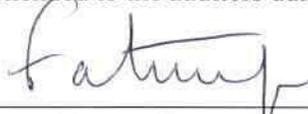
B. Training and development plans

High number of capacity building and training activities organized by the HCC secretariat

26. There were a number of capacity building and training activities conducted by the HCC secretariat. Under the capacity development programme, the secretariat has provided the following for the period from 2009 to 2011: (i) Sixty-six training courses to a total of 1,036 participants; (ii) Eight workshops between 2009 and 2011 for 170 PD and DFS staff members; and (iii) two three-day conferences of the LCC Chairs in 2009 and 2010 in which 53 LCC Chairs participated.

IV. ACKNOWLEDGEMENT

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



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