



LE DIRECTEUR GÉNÉRAL

THE DIRECTOR-GENERAL

MEMORANDUM INTERIEUR

INTEROFFICE MEMORANDUM

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

*Jn.*

From: Kassym-Jomart Tokayev

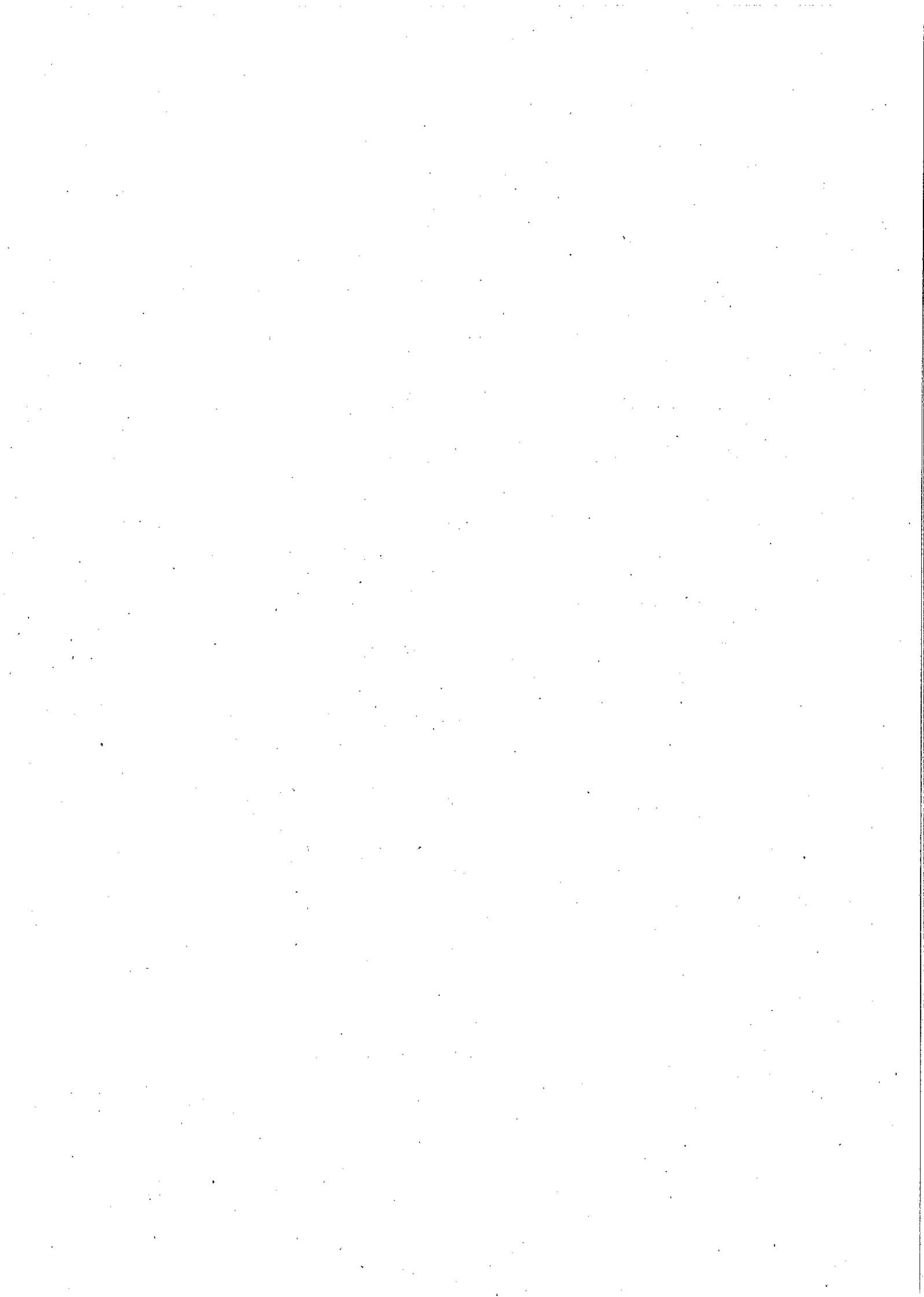
*Kassym*

Date: 25 July 2012

Subject: **Assignment no. AE2011/311/02 – Audit of the UNOG contracts for furniture supplies**

1. Reference is made to your memorandum dated 10 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 comparative analysis prior to contract extension and annual vendor performance reports referring to recommendations no. 2 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 Noubissie, 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 INTERNE

**CONFIDENTIAL**

DATE: 10 July 2012

TO: Mr. Kassym-Jomart Tokayev, Director-General  
A: United Nations Office at Geneva (UNOG)

REFERENCE: IAD: 03711-12

FROM: Christopher F. Bagot, Chief  
DE: Geneva Audit Service  
Internal Audit Division, OIOS

SUBJECT: **Assignment no. AE2011/311/02 – Audit of the UNOG contracts for furniture supplies**  
OBJET:

**Overall results relating to acquisition and management of the contracts for furniture supplies 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 24 July 2012.

2. Please provide an action plan with a target date and the title of the individual responsible for implementation of recommendations 1-4 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  
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DRAFT

## Audit of the UNOG contracts for furniture supplies

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Office at Geneva (UNOG) contracts for furniture supplies.
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. UNOG purchases furniture supplies through three different contracts: one for chairs ("the contract for chairs"), one for cabinets ("the contract for cabinets"), and another for other types of furniture ("the contract for office furniture"). The current contract for chairs, valued at CHF 951,450 (\$821,632), was awarded to Company A for five years as a result of a procurement process conducted by UNOG in 2009. The current contract for cabinets, valued at CHF 2,374,400 (\$2,327,843), and the current contract for office furniture, valued at CHF 4,441,752 (\$4,354,659), were awarded to Company B and Company C, respectively, as a result of one combined procurement process conducted by UNOG in 2009.
4. The Buildings Unit (BU), as part of the Buildings and Engineering Section of UNOG Central Support Services (CSS), is responsible for the requisitioning of furniture supplies for the Palais des Nations and its annexes. It is also responsible for management of the contracts for furniture supplies. The Procurement and Contracts Unit (PCU), as part of the Purchase and Transportation Section (PTS) of CSS, is responsible for the procurement process for the contracts for furniture supplies.
5. Comments provided by UNOG are incorporated in italics.

### II. OBJECTIVE AND SCOPE

6. The audit of the UNOG contracts for furniture supplies was conducted to assess the adequacy and effectiveness of UNOG governance, risk management and control processes in providing reasonable assurance regarding the **effective acquisition and management of the contracts for furniture supplies**.
7. The audit was included in the 2011 internal audit work plan for UNOG, as contract management was identified as high risk, the contracts for furniture supplies had not been previously audited, and Company A and Company C had been UNOG's vendors since 1998 and 2003, respectively.

We refer back to our comments provided in February 2012 on the highlighted sentence, see below: The phrase "Company A and Company C had UNOG's vendors since 1998 and 2003" 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 furniture supplies 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 1998 and 2003 when paragraph 10 below states "the audit covered the period from 1 December 2009 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 contracts for furniture supplies.

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

10. OIOS conducted this audit from April 2011 to April 2012. The audit covered the period from 1 December 2009 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 contracts for furniture supplies**.

13. The overall rating is based on the assessment of key control presented in Table 1 below.

Table 1: 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 contracts for furniture supplies	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

14. UNOG had put in place a monitoring system to ensure the receipt of good quality furniture supplies and the proper verification of invoices. However, UNOG did not fully comply with the United Nations Procurement Manual (UNPM) in the areas of advertising and market research, contract extensions and vendor performance evaluations. In addition, UNOG did not strictly adhere to contractual provisions on payment discounts and price revisions.

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

#### A. Regulatory framework

##### Need to enhance competitive solicitation for furniture supplies

16. UNOG did not comply with the required minimum number of vendors as per the UNPM for the solicitation of the contract for cabinets and office furniture that took place in 2009. Moreover, there was

no written justification for the deviation from these requirements. The UNPM also requires that if the number of registered vendors in the vendor database is less than the minimum number established, the Procurement Officer shall initiate such procedures as market research, request for expressions of interest (REOI), request for information (RFI), vendor registration, and dissemination of the solicitation through posting on the United Nations Procurement Division (UNPD) website of an RFI or REOI for a period of two to four weeks.

17. PTS posted a REOI notice for the solicitation of cabinets and office furniture on the UNOG website to identify additional vendors. As explained by PTS, it was the practice of UNOG to use its own site rather than the UNPD website, to advertise procurement activities. In addition, it had posted the REOI on the United Nations Global Marketplace (UNGM). However, in the interest of enhancing international competition, as the UNPD website has a broader audience than the UNOG website, UNOG should have also advertised on the UNPD website. According to PTS, the formal and comprehensive market research was conducted to identify potential vendors. OIOS observed only a list of invitees and no documentation of the process.

**(1) UNOG should advertise the requests for expression of interest for future solicitations of furniture supplies on the United Nations Procurement Division website when the number of registered vendors in the UNOG database is less than the required minimum and document the process of the market research for identifying potential vendors.**

18. *UNOG accepted recommendation 1 and stated that it agreed to the concept of attracting vendors and every effort would be made to ensure effective international competition. UNOG will consider advertising requests for expression of interest on the website of UNPD, as appropriate. UNOG would improve the documentation of the reasons for future procurement cases of significant importance if additional advertising was not deemed appropriate. UNOG would continue to conduct market research to identify potential vendors and better document the actions taken. In cases where the minimum number of vendors would not be attained, UNOG would elaborate the reasons for selection of vendors for the list of invitees in the Note for the File. Recommendation 1 remains open pending issuance of a formal instruction to PTS staff reminding them of the need to take adequate measures to ensure effective international competition in future procurement, as well as receipt of evidence that compliance is monitored by management. OIOS will further verify the effective implementation of recommendation 1 in future audits, as appropriate.*

UNOG did not adequately safeguard its interests at the time of contract extensions

19. The contract for chairs with Company A was extended three times between 2003 and 2009. BU recommended extensions of the contract in accordance with the standardization plan for chairs throughout UNOG and submitted the recommendation together with the vendor's performance reports to PTS. However, there was no documentation demonstrating the cost effectiveness of the request to extend, or why such an analysis was not appropriate, as required. Consequently, PTS was unable to demonstrate that the decision to extend the contract was cost effective.

**(2) UNOG should ensure that the condition regarding comparative price estimates is satisfied before any future extension of the contracts for furniture supplies.**

20. *UNOG accepted recommendation 2 and stated that comparative cost estimates would be carried out when appropriate and possible. In this case, it was determined to be unnecessary. Although there are catalogue prices available for office furniture, it is impossible to publicly obtain from companies rebates granted for large scale requirements such as UNOG's. A reliable price comparison could only be*

achieved by putting the requirement out for tender. If comparative cost estimates were not carried out, UNOG CSS would in future document the reasons. UNOG had a responsibility to demonstrate the cost effectiveness of the decision to renew the contract, especially for a contract value of \$0.8 million. If it was considered inappropriate, or not possible to demonstrate costs effectiveness, documentation explaining this should form part of the package presented to the Committee on Contracts to demonstrate why it is in the best interests of the UN to maintain the contract. Recommendation 2 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. The decisions not to perform comparative cost estimates should be documented retroactively. OIOS will further verify the effective implementation of recommendation 2 in future audits, as appropriate.

Need to take advantage of early payment discounts and price revisions

21. In accordance with the contracts with Companies B and C, UNOG is entitled to early payment discounts on invoices settled within 30 days of receipt. In certain cases UNOG did not benefit from the discounts even though it paid within 30 days. This was due to either inconsistent payment terms in the purchase orders and the contract, inaccurate date of receipt of the invoices in the Integrated Management Information System (IMIS), or incomplete discount information in IMIS, resulting in financial loss to UNOG of \$4,000 from January 2010 to June 2011.

22. Article 7.2 of Contract 32/2010 with Company B states that prices may be revised annually based on the price catalogue submitted to UNOG in advance. The first price revision was to take effect in March 2011 upon written request from Company B. Article 7.2 of Contract 31/2010 with Company C has a similar requirement, and the first price revision was to take effect in June 2011. However, according to PTS, price revisions and catalogues had not been provided by either of these companies. The lack of proper supervision and follow up on the price revisions may present a risk that UNOG is not following the current market tendencies.

We wish to reiterate our comments made in February 2012 as regards the price revision clause in these contracts. It is not recommended to invite vendors to price revisions as prices normally increase due to inflation. This is the reason why the contracts require the vendors to submit a written and justified request to UNOG, and not vice versa. There has been no negative inflation in this market.

**(3) UNOG should establish formal arrangements to comply with the contract provisions on payment discounts and price revisions for furniture supplies.**

23. UNOG indicated that it accepted recommendation 3 and stated that a procedure would be put in place to ensure compliance with contractual payment provisions in cooperation with the Financial Resources Management Services. The Operations Support Unit (OSU), in cooperation with PTS and the Financial Resources Management Services (FRMS), would ensure that the purchase orders and the related invoices indicated the payment discount terms stated in the contracts, in order to allow OSU and the General Payments Unit (GPU), FRMS to implement the deduction of the discount within the time limit. OSU would continue to request requisitioners to return certified invoices with payment discounts within 3 days and highlight the discount amount obtained on the routing slip. GPU would ask PTS to provide a summary table of the vendors subject to payment discounts. OSU would work out a table with vendors/contracts with special payment terms. This would allow OSU to better follow these special cases. UNOG stated that the United Nations standard payment terms are 30 days. A more efficient

*payment process could only be achieved with the introduction of a fully integrated ERP system. This was systemic to the United Nations and not only to UNOG. UNOG also stated that price revisions would be enforced as per the contractual terms and conditions. Recommendation 3 remains open pending formal establishment of the above-mentioned procedures for payment discounts and price revisions.*

Vendor performance reports were not prepared annually as required by the United Nations Procurement Manual

24. BU completed the vendor performance reports upon expiration of the contracts for furniture supplies rather than on an annual basis as required by the UNPM. For instance, the performance report for Company A for the period of 2003 to 2008 was prepared in February 2009, and the performance report for Company C for the period of 2003 to 2008 was completed in October 2009. Since the contract with Company B covers the period from 2009 to 2014, no performance reports for Company B had been prepared. Although UNOG had put in place a monitoring system to ensure the receipt of good quality furniture supplies, regular and timely evaluation of vendors' performance is an additional control to mitigate the risk of the vendors not complying with the contractual terms and conditions.

**(4) UNOG should prepare vendor performance reports for its furniture suppliers on an annual basis, as required by the United Nations Procurement Manual.**

25. *UNOG indicated that it accepted recommendation 4 and stated that action has been taken. Recommendation 4 remains open pending receipt of copies of annual vendor performance reports.*

#### IV. ACKNOWLEDGEMENT

26. 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 contracts for furniture supplies

Rec. no.	Recommendation	Critical/ <sup>1</sup> important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNOG should advertise the requests for expression of interest for future solicitations of furniture supplies on the United Nations Procurement Division website where the number of registered vendors in the UNOG database is less than the required minimum and document the process of the market research for identifying potential vendors.	Important	Yes	Chief, PTS	31 Dec 2014 in line with the expiration of the current contracts for the provision of furniture supplies	The request for expression of interest for future solicitations for furniture supplies will be advertised on the United Nations Procurement Division website.  The results of the market research for effective international competition will be fully documented in the Source Selection Plan for the procurement of furniture supplies.  In cases where the minimum number of vendors will not be attained, UNOG elaborates the reasons for selection of vendors for the list of invitees in the necessary Note for the File.
2	UNOG should ensure that the condition regarding comparative price estimates is satisfied before any future extension of the contracts for furniture supplies.	Important	Yes	Chief, PTS	Implemented	PTS started to carry out comparative cost estimates for recent contract extensions (see enclosure). Therefore, this recommendation can be considered as implemented.

<sup>1</sup> 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.

<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.

Rec. no.	Recommendation	Critical/ important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	UNOG should establish formal arrangements to comply with the contract provisions on payment discounts and price revisions for furniture supplies.	Important	Yes	Chief, PTS  Chief, OSU	31/Dec/2012	UNOG agrees to document its procedure for processing payment discounts. UNOG agrees to enforce price revisions as per the contractual terms and conditions.
4	UNOG should prepare vendor performance reports for its furniture suppliers on an annual basis, as required by the United Nations Procurement Manual.	Important	Yes	Chief, BES	Implemented	BES is now producing annual vendor performance reports for its furniture suppliers (see enclosures). Therefore, this recommendation can be considered as implemented.

