

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the UNOG contracts for furniture supplies

Overall results relating to acquisition and management of the contracts for furniture supplies were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

14 August 2012

Assignment No. AE2011/311/02

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AUDIT REPORT

Audit of the UNOG contracts for furniture supplies

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the 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’s 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 and the contracts for furniture supplies 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 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. 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 contracts for furniture supplies**. OIOS made four recommendations to address issues identified in the audit.

13. 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 the current contractual provisions on payment discounts and price revisions. *UNOG provided evidence that it had started carrying out comparative cost estimates for recent contract extensions and producing annual vendor performance reports for its furniture suppliers.*

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

Table 1: Assessment of key controls

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 contracts for furniture supplies	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Need to enhance competitive solicitation for furniture supplies

15. 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.

16. 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.

UNOG accepted recommendation 1 and stated that it would advertise the request for expression of interest for future solicitations for furniture suppliers on the United Nations Procurement Division website and would fully document the results of the market research for effective international competition in the Source Selection Plan for the procurement of furniture supplies. UNOG also stated that it would elaborate the reasons for selection of vendors for the list of invitees in the Note for the File in cases where the minimum number of vendors would not be attained. 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.

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

17. 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.

UNOG accepted recommendation 2 and stated that it had started to carry out comparative cost estimates for recent contract extensions. Based on the action taken by UNOG, recommendation 2 has been closed.

Need to take advantage of early payment discounts and price revisions

18. 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.

19. 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.

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

UNOG indicated that it accepted recommendation 3 and stated that it would document its procedure for processing payment discounts and enforce price revisions as per the contractual terms and conditions. However, UNOG also stated that it was not recommended to invite vendors to price revisions as prices normally increase due to inflation, and there had been no negative inflation in this market. Recommendation 3 remains open pending formal documentation of the procedures for payment discounts and price revisions.

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

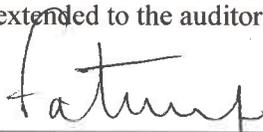
20. BU completed the vendor performance reports upon expiration of the contracts for furniture supplies rather than on an annual basis as required by the UNPM. For instance, the performance report for Company A for the period of 2003 to 2008 was prepared in February 2009, and the performance report for 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.

UNOG accepted recommendation 4 and stated that it had started producing annual vendor performance reports for its furniture suppliers. Based on the action taken by UNOG, recommendation 4 has been closed.

IV. ACKNOWLEDGEMENT

21. 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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ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of the UNOG contracts for furniture supplies

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
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	O	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	31 Dec 2014
2	UNOG should ensure that the condition regarding comparative price estimates is satisfied before any future extension of the contracts for furniture supplies.	Important	C	Action completed	IMPLEMENTED
3	UNOG should establish formal arrangements to comply with the contract provisions on payment discounts and price revisions for furniture supplies.	Important	O	Receipt of formal documentation of the procedures for payment discounts and price revisions.	31 Dec 2012
4	UNOG should prepare vendor performance reports for its furniture suppliers on an annual basis, as required by the United Nations Procurement Manual.	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.