UNESCO

United Nations
Educational, Scientific and
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Organisation
des Nations Unies
pour l'éducation,
la science et la culture

Organización
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para la Educación,
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联合国教育、
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Audit of UNESCO's Controls
to Achieve Value for Money in Contracting

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Key Results of the Audit

UNESCO's controls are generally well designed to ensure that value for money is achieved in contracting. However, more needs to be done to (i) increase competitive practices when selecting contractors and (ii) justify the pricing of non-competitive awards.

Competitive selection is a fundamental principle for achieving value for money. In the absence of competition – either by exceptional waiver or based on the type of contract – the proposed costs must be assessed and, if necessary, negotiated to ensure reasonableness.

A positive aspect is that high-value contracts are subject to close review and approval of a Contracts Committee. These contracts generally conform to UNESCO requirements. Below the threshold for Contracts Committee review, there is a more permissive culture of non-competitive contracting which is inconsistent with UNESCO's controls and requires attention to ensure appropriate value for money.

The audit also noted opportunities to improve the processes for receiving and accepting contract deliverables, determining the level of advance and installment payments, and evaluating contractor performance.

Background

1.   The UNESCO procurement process is governed by the principles of best value for money, fairness, integrity and transparency. To ensure that value for money is achieved, contractors are to be selected on the best possible terms of cost and quality through a transparent and fair solicitation of qualified suppliers. To accomplish this, UNESCO has established a framework of controls through a series of administrative instructions, procurement rules and procedures, including formal delegation of procurement authorities with centralized technical support and the constitution of a Contracts Committee to review high-value contract actions.

2.   UNESCO's procurement responsibilities are shared between the Bureau of Financial Management (BFM/FPC/OSS) and the Operations Section of the Sector for Management of Support Services (MSS/OPS). BFM is responsible for procurement and contracting policy, guidance and technical assistance for high-value contracts. It also provides advice and monitoring on selection, negotiation and contract management. MSS has responsibility for operational and technical back-stopping to sectors and services including definition of specifications, dealing with suppliers and general support related to procurement. Within this framework of support and control, most contracting and procurement is delegated to the various sectors, services and field offices. UNESCO's administrative officers, with a functional reporting line to BFM, play a key role in certifying that contracts and payments conform to applicable requirements and that best value for money has been achieved.

3.   There are five main contract modalities: (i) Contracts for Services, Goods and Works, (ii) Financing Activities Contracts, (iii) Implementation Partnership Agreements, (iv) Intergovernmental Body Allocation Contracts and (v) Individual Consultant Contracts. The UNESCO Administrative Manual sets forth policies, procedures and guidance for the first four contract types and the fifth, Individual Consultant Contracts, is addressed in the Human Resource Manual.

4.   Specific requirements for the selection of the contractor are based on the contracting modality and price range. All contracts for Services, Goods and Works above US$5,000 are to be subject to

competition. Requirements become more stringent as the contract value increases. The other contracting modalities, i.e. Implementation Partnership Agreements, Financing Activities Contracts and Intergovernmental Body Allocation Contracts, are restricted to not-for-profit entities and do not require formal competition.

5.   Competitive contracts above US$150,000 and non-competitive contracts exceeding US$100,000 are to undergo a pre-award compliance review and examination of the Contracts Committee convened in Headquarters.

6.   UNESCO's Finance and Budget System (FABS) is the repository of all financial transactions. Commitments can be created directly in FABS or through a user-friendly interface, the DUO Contract Management Tool. Analysis of FABS data provides an overall picture[1] of how UNESCO uses the various contract modalities (see Figure 1 below).

Figure 1. Type of contracts awarded in 2013 [2]
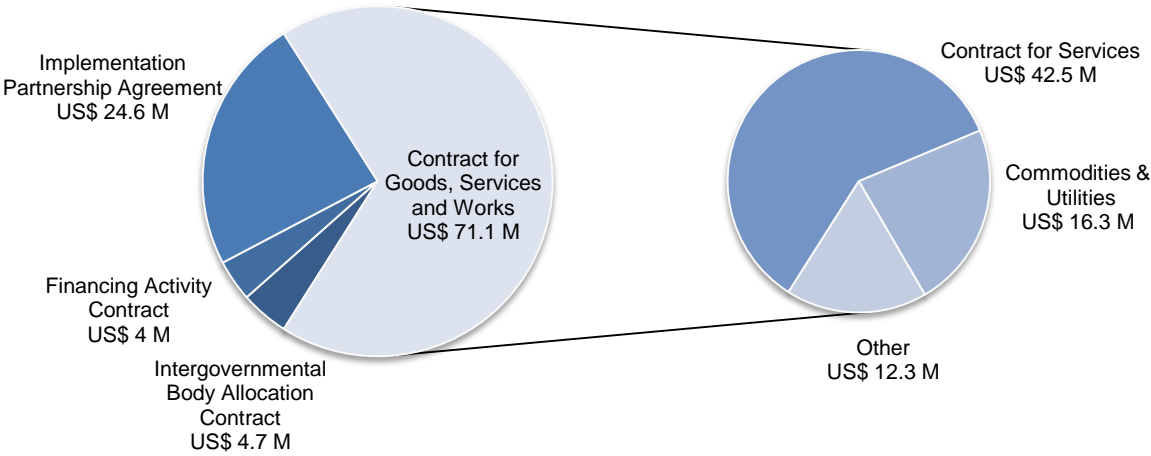
7.   A breakdown by monetary threshold and contract type shows that 74 percent of UNESCO's contracts have a value lower than US$5,000. Figure 2 below shows information by contract type and further analysis is presented in Annex I of this report.

Figure 2. Breakdown of contract amount by threshold in 2013 [3]

Contract Threshold in US$	Total Amount in US $		Number of Contracts				
			Total	**CSGW**	**IPA**	**FAC**	**IBAC**
Below 5,000	11,433,970	*11%*	8,744	*74%*	8,546	7	190	1
Between 5,000 and 50,000	41,627,540	*40%*	2,764	*24%*	2,368	95	243	58
Between 50,000 and 150,000	16,331,258	*15%*	206	*2%*	135	49	5	17
Above 150,000	35,020,337	*34%*	55	*0.01%*	28	22	-	5
Total	**104,413,104**	*100%*	**11,769**	*100%*	**11,077**	**173**	**438**	**81**

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[1] This illustration reflects contracting and procurement for UNESCO except for the Brasilia Office, ICTP and IHE which apply different procedures or systems.

[2,3] Source: FABS - US$104.4 million (1 Nov 2012 – 30 Oct 2013)

2

Objective

8. IOS conducted this audit in order to assess the design and operation of controls to ensure that appropriate value for money is achieved in UNESCO's contracting and procurement.

Scope and methodology

9. To answer this, we focused our work on the controls, accountabilities and procedures for (i) competitive selection, (ii) budgetary review of non-competitive awards, (iii) receipt, inspection and acceptance of the goods and services and (iv) evaluation of vendor performance.

10. As a preliminary phase, interviews were conducted with BFM and MSS personnel to understand the procedures and controls in place. Concurrently, we performed a macro-level data analysis of UNESCO contracts and selected samples for detailed examination. During the testing phase, IOS performed further data analytics, reviewed supporting records and interviewed over 40 staff of the contracting and administrative units to obtain additional information on the sampled contracts.

11. The audit focused on entries recorded in the Materials Management module of the Financial and Budget System and in the Contract Management Tool for the period November 2012 to October 2013. The audit excludes various types of personnel contracts falling under HRM's authority such as fixed term appointments, project appointments, supernumerary, service contracts, special service agreements and contracts for individual consultants. Fellowship, study grants and participation programme are also not included in the scope of this audit.

12. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Achievements

- The Contracts Committee under its current terms of reference provides substantial assurance that contracting units adhere to UNESCO's rules and procedures when awarding high-value contracts.

- The creation of an office in BFM in 2012 responsible for policy, guidance, training and technical assistance for high-value-contracts, as well as for providing advice and monitoring on selection, negotiation and contract management, has contributed to both learning and control across the organization.

- The completed roll-out of the Materials Management module to all field offices in 2013, followed by the introduction of the Contract Management Tool, significantly increases accountability and transparency of contract actions. Together they provide a clear audit trail on how funds are committed and spent and who performed critical roles and authorizations as well as information on the selection process and contractor performance. In 2013, 84 percent of the payments for contracts and equipment originated from commitments entered in the Materials Management module – a substantial improvement when compared to only 69 percent in 2012.

Challenges and Opportunities

- While the framework of controls is generally well designed to achieve value for money in contracting and procurement, the controls are not consistently applied. Though competition is a fundamental principle for UNESCO's contracting, competition requirements apply to only 58 percent of the total monetary value of UNESCO's contracts. The remaining 42 percent either

fall below the monetary threshold requiring competition (US$5,000) or involve contract types that do not specifically require competition (i.e., Financing Activities Contracts, Implementation Partnership Agreements and Intergovernmental Body Allocation Contracts).

- Of the contracts requiring competition, 38 percent were awarded non-competitively based on a formal waiver of competition (23 percent) or by misreporting a non-competitive award as competitive (15 percent). Details are presented in Figure 3 below.

Figure 3. Selection process for
Contracts for Services, Goods and Works [4]
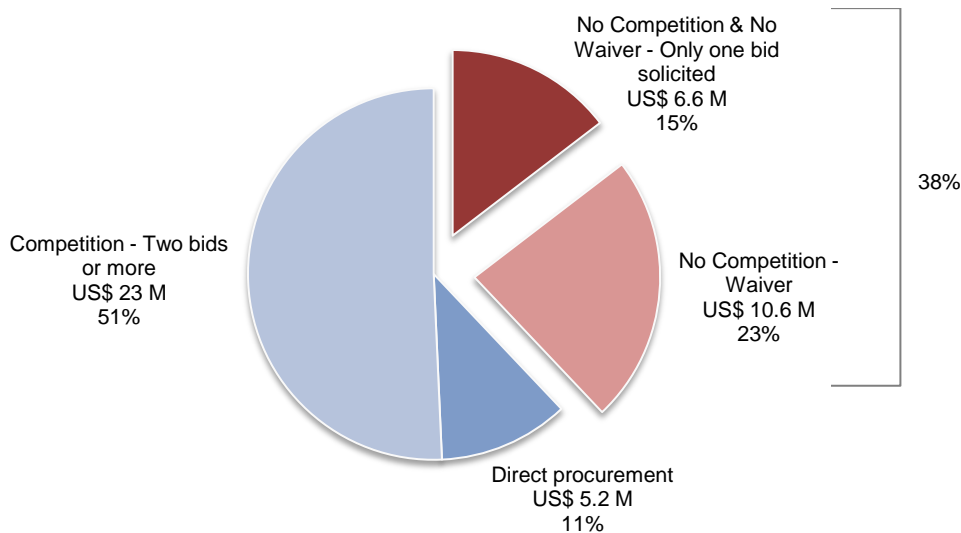
- The required assessment of the cost reasonableness for non-competitive awards is almost never documented.

- Although selection of implementation partners is required to be made on a comparative basis with consideration of other potential partners, less than 10 percent meet this requirement and an assessment of cost reasonableness is seldom documented.

13. The above conditions can be largely attributed to a permissive culture of non-competitive contracting arising from a need for clearer accountability and a better understanding of procedures.

14. In response to past instances of non-compliance in the contracting process, BFM (i) issued compliance checklists and reminder memoranda to the administrative officers, executive officers and heads of offices and (ii) is currently developing further guidance and training to build capacities.

15. These are important steps to increase awareness of requirements and to promote good practices. As these requirements are already established in UNESCO's Administrative Manual and supported by automated workflows, we believe that training is only part of the solution. Increased accountability, including monitoring and feedback, is needed as well – particularly among the certifying officers.

16. BFM has encountered difficulties in monitoring the effectiveness of these control activities without real-time and systematic reporting tools, and their monitoring in this regard centres on self-reporting by the administrative officers. An important BFM initiative, currently in a pilot phase, is to increase transparency and accountability through a "dashboard" of key information for administrative and executive officers. In light of the improvements in UNESCO's IT systems in recent years, a wide range of contract management data is now readily available and can support this new dashboard as a tool for

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[4] Source: CMT – Contract for services, goods and works awarded between May 2012 and June 2014

monitoring accountabilities in contracting. IOS developed a number of automated and repeatable analyses during this audit which will be shared with BFM as cost-effective measures to improve its control monitoring.

17. The audit makes eleven recommendations to improve UNESCO's value for money in contracting.

Table of recommendations

Recommendation 1: BFM to include in its periodic monitoring mechanisms (e.g., the Administrative Officer Dashboard that is currently being piloted) specific analyses of key accountabilities in the contracting process. These should include conformance to competitive selection requirements and, where a contract is awarded non-competitively, ensuring a waiver is duly authorized and that the price has been justified. When this mechanism has been introduced, results should be used to enhance performance management and accountabilities of certifying officers where needed.

Recommendation 2: BFM, in consultation with the involved sectors, to (i) revise the Implementation Partnership Agreement policies to introduce a distinction between the partners according to their nature (i.e., non-governmental and governmental) and strengthen the corresponding requirement for comparison among non-governmental partners and (ii) establish and monitor explicit accountability of certifying officers to ensure compliance with comparative selection requirements for non-governmental partners.

Recommendation 3: BFM to revise the standard selection form for Implementation Partnership Agreements to include specific accountability, and clarify expected information, for the assessment of IPA budgets prior to award. The role and accountability of certifying officers should be explicit with regard to pre-award budget assessment.

Recommendation 4: BFM, in consultation with MSS and the Contracts Committee, to improve segregation of duties in the compliance review of contracts submitted to the Contracts Committee. Given current contracting patterns and competencies, a viable solution would be to centralize these reviews in BFM.

Recommendation 5: BFM to introduce preventative controls or improve its compliance monitoring of misuse of Financing Activities Contracts for Extrabudgetary projects. Further training in this regard is also warranted.

Recommendation 6: BFM to review the exceptions noted in this report and reiterate to certifying officers of these offices the importance of recording receipt, inspection and acceptance of services and goods in the Contract Management Tool by the responsible officer prior to payment.

Recommendation 7: BFM to revise the Administrative Manual with regard to payments to implementation partners to include (i) risk-based limitations on payments comprising pre-financing (e.g., not to exceed 90 days operating needs) and (ii) requirements that final payments comprise a sufficient amount to serve as incentive for partners to fulfil their final deliverables. In instances where final deliverables are not received, partners should be suspended from further UNESCO awards until resolution of outstanding deliverables.

Recommendation 8: BFM to periodically (i) identify completed or terminated contracts that are still open and pending contractor evaluation in the DUO Contract Management Tool and (ii) inform the cognizant administrative officers to ensure evaluation is entered as part of the contract close-out process. Such a review could be included as part of BFM's annual assessment of unliquidated obligations or could be incorporated into the Administrative Officer Dashboard that is currently being piloted.

Recommendation 9: BFM, in coordination with ERI, to review the status of organizations currently blocked from receiving funding from the Participation Programme and determine whether these

conditions should result in suspension from eligibility for other UNESCO contracts until necessary corrective actions are completed.

Recommendation 10: BFM to (i) reassess the value-added of the required comprehensive annual assessment of implementation partners in light of the low compliance with this requirement and in consideration of other mechanisms already in place and (ii) based on that reassessment consider revising the IPA control framework.

Recommendation 11: BFM to (i) simplify the criteria for requiring independent audits of the financial reports of implementation partners, (ii) introduce mechanisms to improve compliance with partner audit requirements (e.g., clarifying internal accountability, withholding last payment and/or suspending future awards) and (iii) introduce annual audit requirements for high-value IPAs, particularly in high-risk environments.