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**Internal Oversight Service
Audit Section**

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**Audit of the
Procurement of Goods at Headquarters**

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EXECUTIVE SUMMARY

Key Results of the Audit

The procurement of goods at Headquarters, which is of the order of \$5 million per year, involves many steps and is procedurally heavy. The staff efficiency and cost-effectiveness falls short of the norm set by the Joint Inspection Unit for UN organizations. The procurement process in UNESCO HQ and the nature of procurement sets it apart from other similar organizations. A restructuring of the procurement process could improve the staff efficiency.

Improvements can be achieved by broader use of Long Term Agreements (LTA) for recurring purchases and the introduction of corporate cards for smaller purchases.

A large proportion of procurements was done without competitive bidding. The vendor performance in terms of delivery was generally poor. The review also notes that the purchase of non-standard computers and accessories is quite widespread and should be controlled.

Background, Scope and Objective

The Organization's Policies on procurement of goods, works and services at Headquarters and field offices are defined in the Administrative Manual item 1025 and Administrative Circular 2245 and 2246. Procurement of services (through fee contracts/consultant contracts) at both Headquarters and in field offices is decentralized to the Sector/Service/field Office concerned and procurement actions with a value of \$100,000 and above need to be submitted to the Contracts Committee. Procurement of commodities (goods and works) at field Offices is also decentralized.

Procurement of goods at Headquarters is handled by Headquarter Procurement Service (HPS) of ADM/PRO. Such procurements are of the order of \$5 million per year. In addition, procurement actions are also taken by Sector/Central Services directly using the fund reservations of Fund Management module, thus bypassing the controls inherent in Materials Management Module of FABS. Such procurements of goods amounted to an additional \$2 million in 2008.

The Internal Audit Service (IOS) audited procurement of goods at UNESCO Headquarters in April/May 2009 to provide assurance that UNESCO delegations, processes and practices for procurement of commodities are efficient, effective and provide appropriate value for money to the Organization.

The scope of the audit included procurement of commodities that is centralized through ADM/PRO. The audit also examined procurement of goods at HQ where fund reservations were used.

The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. The methodology was based on a risk assessment conducted during the planning phase of the audit. Substantive testing of a sample of 40 high value items, procured in 2008 was performed in order to provide assurance on economies in procurement and compliance with the policies. The auditors also interviewed ADM/PRO staff involved in procurement of goods and surveyed Sector/Service AOs in order to obtain information regarding client satisfaction and other information related to the procurement process.

Challenges and Opportunities in Procurement process

- The existing procurement process involves 28 steps with multiple interventions from different services. This can be simplified and made more efficient.
- The staff efficiency and cost effectiveness of Headquarters Procurement Service falls well short of the norm set by the Joint Inspection Unit. This underscores the need for restructuring of the procurement set up and staff involved.
- There is a need to provide clear guidance on authority, accountability and the role of ADM/PRO in procurement of goods at Headquarters.
- In a large number of procurements, competition was not undertaken. Only in a few instances, formal waiver was documented . There is a need to ensure competitive selective of vendors and respective documentary support.
- For high value procurements sampled, vendors took 2.6 months on average to deliver. There is a need is better manage vendor performance.
- In 2008, only 10 percent of procurement was done under Long Term Agreements (LTA). Efficiency can be improved and economies of scale achieved through Long Term Agreements (LTA) with vendors.
- Smaller purchases of less than \$500 could be made through corporate cards rather than using purchase orders. Purchase through corporate cards would be more cost efficient, provided there is adequate control over the cards to prevent misuse.
- No clear guidelines exist on use of the 'Fund Reservation' route in procurement of goods at HQ. In 2008, 31 percent (by value) of the purchases for goods and commodities were done by the Sectors through fund reservation route, effectively bypassing the controls inherent in MM module.
- Purchase of non-standard computers and accessories is widespread and needs to be better controlled.
- The FABS user profiles of staff working in ADM/PRO/HPS were incompatible with their assigned functions and did not provide adequate segregation of duties.
- The internal monetary limits set for validating Purchase orders are not functional in FABS and should be introduced.
- A number of dysfunctionalities were noted in MM module which needs to be corrected.
- The Product catalogue in the FABS MM module needs to be better controlled.
- The Delivery process needs to be streamlined and direct deliveries should be encouraged.

Table of recommendations

Recommendation 1: Simplify the workflow for procurement of goods.

Recommendation 2: Frame internal benchmark on staffing efficiencies and accordingly restructure the staff resources available in the ADM/PRO division.

Recommendation 3: Develop a uniform accountability framework covering HQ and Field Office procurements of goods and obtain the approval of the Delegation and Accountability Committee (DAC).

Recommendation 4: Undertake a risk-based review of the procurement process with an aim to align controls, including waiver authorities, with identified risks.

Recommendation 5: Monitor vendor performance (timeliness of deliveries, quality, after sales service etc.) and systematically consider past performance in future engagements.

Recommendation 6: Frame standard specifications for all recurring items like office supplies, furniture, stationery and other office equipment and invite competitive bidding in order to enter LTAs for procurement of standard items.

Recommendation 7: Consider institution of corporate cards for purchases of items costing less than \$500. If such a system is introduced, detailed guidelines on its use should be prepared and adequate controls like monthly reconciliation, self-verification and sample check by BOC should be introduced.

Recommendation 8: Prepare clear guidelines prohibiting use of FR route for procurements of goods and commodities.

Recommendation 9: Enforce procurement of standard computer items.

Recommendation 10: Modify MM Module to include monetary limits consistent with delegated authority.

Recommendation 11: Realign individual profiles of staff in ADM/PRO/HPS with their assigned roles and responsibilities.

Recommendation 12: Carry out necessary modifications in the module to address the dysfunctionalities raised in the report.

Recommendation 13: Restrict users in MM module from modifying product specifications while making a purchase requisition. Any deviation from the catalogue specification should be validated by ADM/PRO.

Recommendation 14: Investigate the anomaly in the system relating to blocking of funds dedicated to PR/PO and carry out necessary modifications in the module to address the issue.

Recommendation 15: Prepare guidelines for direct delivery to end users in order to facilitate direct delivery of goods.

Recommendation 16: Maintain complete procurement files (either in paper or in electronic form) comprising of all relevant documents