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**OFFICE OF INTERNAL OVERSIGHT SERVICES  
INTERNAL AUDIT DIVISION**

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13 February 2006

To: Mr. Warren Sach, Assistant Secretary-General, Controller  
Office of Programme Planning, Budget and Accounts

Mr. Andrew Toh, Assistant Secretary-General  
Office of Central Support Services

From: *for* Patricia Azarias, Director  
Internal Audit Division I, OIOS

Subject: **OIOS Audit No. AH2004/513/2: Audit of the Management of Maintenance and Service Contracts**

1. I am pleased to present herewith OIOS' final report on the audit of the management of maintenance and service contracts which was conducted between November 2004 and March 2005 at Headquarters. Based on comments provided by OCSS in November 2005 and discussions between OIOS and the Facilities Management Services and the Procurement Service, OIOS has considered that all recommendations were accepted by OCSS. In light of the explanations provided, recommendations 1, 5, 8, 11 – 12, and 14 – 16 are considered implemented and closed. A summary of the status of recommendations and the additional steps required to close the remaining recommendations 2 – 4, 6 – 7, 9 – 10, 13 and 17 are shown in Annex 5. I would appreciate your returning this Annex indicating the implementation dates.

2. The Internal Audit Division I is assessing the overall quality of its audit process and kindly requests that the attached client satisfaction survey form is completed by your office after consulting with the managers who dealt directly with the auditors.

3. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the auditors on this assignment.

Copies to:

Mr. C. Burnham

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UN Board of Auditors

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Planning and Compliance Officer, OIOS



**UNITED NATIONS**  
**OFFICE OF INTERNAL OVERSIGHT SERVICES**  
**Internal Audit Division I**



**Audit Subject:** Audit of the Management of Maintenance and Service Contracts  
**Audit Number and Location:** AH2004/513/02  
**Report date:** 13 February 2006  
**Audit Team:** Pauline Chow, Auditor-in-Charge  
Florante Yabyabin, Assisting Auditor  
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## **OIOS Audit No. AH2004/513/02: Audit of the Management of Maintenance and Service Contracts**

### **Executive Summary**

The audit's primary objective was to determine whether the monitoring of maintenance contracts currently performed by the Facilities Management Service (FMS) of the Office of Central Support Services (OCSS) ensured the efficient management of FMS maintenance and service contracts. Three contracts amounting to approximately \$140 million reviewed in this audit represented about 92 percent of all FMS contracts totaling approximately \$153 million. These were:

- a. PD/C0077/03 – OneSource Facility Services Inc. for custodial cleaning – \$27 million;
- b. PTD/C0005/97 – Petrocelli Electric Company, Inc. – \$13 million; and
- c. PTD/C0004/97 – E-J Electric Installation Co. – \$100 million.

The audit disclosed that maintenance contracts existed for all UN-owned equipment at Headquarters; however, OIOS found that FMS did not establish a proper inventory of equipment covered by these contracts until only recently. With the absence of this inventory during the prior years, OIOS is concerned that the procurement of maintenance services for the equipment covered by these contracts was not supported by proper needs assessments, and that the contracts might not have been economical. Also, the absence of an inventory had rendered the proper management of these contracts impossible.

Although OIOS had in 2002-2003 recommended that FMS fully implement the MP2 asset management application to monitor work orders and tasks for maintenance contracts, little improvement was found to have been made, except for the MP2 work requests system, which was implemented in March 2003 and has satisfactorily allowed offices to make online requests for building services. However, OIOS was informed that FMS, in coordination with ITSD, was planning to upgrade and/or replace the MP2 system. In OIOS' view, considering that the MP2 system had already cost approximately \$400,000, efforts should be made to ensure that the MP2 work orders system is used to record and track the work hours for all FMS contracts and equipment without delay until the upgrade or replacement system is installed.

OIOS found that when the MP2 work orders system was used, the information it contained was insufficient to assess the work order tasks actually performed by the contractors. For example, approximately 89 percent of MP2 work order records pertaining to the Electrical Shop (tasks performed by Petrocelli) did not identify the serial number of equipment being serviced. There was also no functioning compensatory control as OIOS found that maintenance cards were not legible and reliable. In OIOS' view, the lack of sufficient, reliable information on work performed by contractors dramatically increased the risk that contractors might have overcharged the UN for the maintenance contracts.

In its review of the OneSource custodial services contract, OIOS found that the contractual terms related to contractual staff vacations and holidays should be clarified as the possibility existed that overpayments might have been made for vacation replacement hours in excess of the standard work hours stipulated in the contract. OIOS also noted that FMS had identified overpayments for vacation replacements in the year 2004, but had not expanded its review to the year 2003 although the conditions in 2003 were the same as in 2004. There was also a need for FMS to ascertain that the list of employees provided by OneSource was exact, and to ensure that future needs assessments for custodial cleaning contracts are based on reliable historical data on work hours.

Other weaknesses were further noted in overtime reporting, the monitoring of supplies, and the excessive prices charged by OneSource for these supplies.

OIOS reviewed the types of procurement of maintenance and services contracts and concluded that it was possible for FMS to clearly define work specifications and determine the deliverables (services) in sufficient detail for all three contracts reviewed by OIOS, especially because the UN had continuously needed such services for almost 60 years. It is therefore OIOS' opinion that on the basis of precise specifications drawn by FMS, the Procurement Service (PS) of OCSS should have issued Invitations to Bid (ITBs) instead of Requests for Proposal (RFPs) in such situations thereby increasing the potential for more economical and efficient procurement. Also, OIOS did not find justification why PS used lump-sum contracts for 23 out of 44 contracts it processes, while using cost-plus contracts for the others. In OIOS' view, the rationale for using a particular type of contract should be explained.

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## **I. INTRODUCTION**

1. From November 2004 to March 2005, the Internal Audit Division I, OIOS carried out an audit of the maintenance and services contracts managed by the Facilities Management Services (FMS) of the Facilities and Commercial Services Division, Office of Central Support Services (FCSD/OCSS) at United Nations Headquarters. The audit was conducted in accordance with international standards for the professional practice of internal auditing.

2. FMS is responsible for planning, management, maintenance and operation for all existing physical facilities and assets of the organization. It is comprised of Planning, Design and Overseas Properties Section (PDOPS), Plant Engineering Section (PES), Administrative, Finance & Personnel Section (AFPS), and Broadcast & Conference Support Section (BCSS), employing approximately 144 regular UN staff. (FMS' current organizational structure is found in Annex 1.) The Procurement Service (PS) of OCSS processed all FMS contracts awarded to various vendors performing these services and also maintained the original contract files.

## **II. OVERALL ASSESSMENT**

3. The audit revealed that FMS still needs to improve the management and monitoring of its contracts. For example, during the audit of the electrical services and maintenance contract in 2002 (AN2002/45/4), OIOS' recommendations concerning the use of FMS' MP2 asset management system were not fully implemented by management. As a result, there was no complete record of all tasks and work orders for all FMS contracts. Also, although contracts for the maintenance and service of electrical equipment had existed since the UN's inception, FMS did not establish its inventory of electrical equipment until only recently, upon the submission of OCSS' non-expendable equipment inventory to the Office of Programme Planning, Budget and Accounts in mid-January 2006. The establishment of this inventory would now enable FMS to properly plan its procurement of maintenance services in the future, as long as OIOS' recommendations on the tracking and monitoring of all maintenance tasks performed under these contracts are implemented by management.

## **III. AUDIT OBJECTIVES AND SCOPE**

4. The audit's primary objective was to evaluate whether organizational arrangements and existing contract monitoring procedures performed by PES and BCSS ensured the efficient management of maintenance and service contracts. Three of these contracts were reviewed, representing approximately 92 percent of the total value of FMS contracts (see Table 1):

- a. PD/C0077/03 – OneSource Facility Services Inc. for custodial cleaning – \$27 million;
- b. PTD/C0005/97 – Petrocelli Electric Company, Inc. – \$13 million; and
- c. PTD/C0004/97 – E-J Electric Installation Co. – \$100 million.

**Table 1  
Organization and contracts of PES and BCSS**

	PES	BCSS
Staffing level and organization	Chief of Section: P-4 78 staff members (P-4, P3, 6 GS 70 at T & C Category) Six functional units	Chief of Section: P-5 13 staff members (3 Professionals and 10 GS)
Number of contracts	44 contracts	2 contracts
Value of contracts	\$53 million <ul style="list-style-type: none"> <li>• Average yearly payments of \$11.2 million</li> </ul>	\$100 million <ul style="list-style-type: none"> <li>• Average yearly payments of \$11.9 million</li> </ul>
Major contracts and their value	<ul style="list-style-type: none"> <li>• Electrical maintenance, \$13 million for 1 July 1996 to 30 June 2004</li> <li>• Custodial cleaning services, \$27 million for 1 May 2003 to 30 April 2006</li> </ul>	<ul style="list-style-type: none"> <li>• Telecommunications and Broadcasting, \$100 million for 1 February 1997 to 30 June 2005</li> </ul>

5. Table 1 indicates the total contracts supervised by PES and BCSS as well as personnel details. During the audit, interviews were conducted with FMS officials and contractors' representatives, available documents were analyzed, and tests of procedures were performed. Audit findings were discussed with the responsible officials during the audit and at exit conferences on 21 July and 21 November 2005; their comments were included in the preparation of this report.

#### IV. AUDIT FINDINGS AND RECOMMENDATIONS

##### A. Contract Monitoring

###### 1. No proper inventory for equipment covered by maintenance contracts

6. During the prior audit of the Petrocelli contract (AN2002/45/4), OIOS found that no proper inventory of Headquarters electrical equipment was produced nor submitted to the Office of Programme Planning, Budget and Accounts (OPPBA), Department of Management (DM) as required under existing procedures. Since then, FMS has attempted to establish and finalize this inventory (along with other non-expendable Headquarters equipment inventory) during its physical inspection of equipment between 2003 and 2005. OIOS was informed that this inspection has just been finished and that FMS is finalizing the equipment values before the latest inventory is submitted to OPPBA. OIOS had suggested that once this inventory was finalized, a copy should be provided to OIOS, and that FMS should review the current contracts to check if any change in contract terms is required.

7. In OIOS' opinion, the failure to initially establish and finalize the electrical equipment inventory in order to accurately indicate the status of equipment covered by maintenance contracts rendered proper contract management impossible because FMS was unable to: (i)

comprehensively identify and ascertain the condition of all equipment supposed to be serviced by contractors, and (ii) assess the reasonableness of work hours reported by contractors on the basis of the identified equipment and their status.

8. During the period that this inventory did not exist, the risk that a contractor could fraudulently charge fees to maintain equipment which did not need maintenance, or to service non-existing equipment, was material. Further, without this inventory, the procurement of maintenance services was not supported by proper needs assessments, and the risk that maintenance contracts might not be economical was very high.

### **Recommendation 1**

OIOS recommends that FMS finalize the non-expendable equipment inventory to determine the status of all electrical equipment being maintained, and submit the inventory of non-expendable equipment to OPPBA, with copies of the inventories of electrical equipment and non-expendable equipment being provided to OIOS (AH2004/513/2/001 – implemented and closed).

### **Recommendation 2**

OIOS recommends that once the inventory of non-expendable equipment is finalized, FMS should review the current maintenance and service contracts for these equipment to check if any change in contract terms is required (AH2004/513/2/002 – maintained).

9. *In OCSS' reply to the draft report and in the exit conference on 21 November, FMS disagreed that this risk existed, stating that the requirements (for the maintenance of equipment) were based on work-orders recorded in the MP2 (the asset management database) and on instructions given by FMS managers. OCSS also stated that the maintenance of all equipment is initiated and terminated with FMS staff through the MP2 system and that it would review the current maintenance and service contracts for this equipment by the second quarter of 2006.*

10. A copy of FMS' non-expendable equipment inventory and its submission to OPPBA has been provided to OIOS; Recommendation 1 is therefore closed, but Recommendation 2 remains open pending the results of FMS' planned review of the maintenance and service contracts by the second quarter of 2006.

## **2. Under-utilization of the MP2 asset management monitoring system**

11. The Plant Engineering Section (PES) was responsible for monitoring 44 outsourcing contracts. Two professional and six general service staff were the ones actually involved with contractual management. The audit revealed that, in general, because of the large number of



service contracts under the Section's responsibility, PES largely depended on attendance and overtime documents submitted by contractors for monitoring actual contract costs.

12. OIOS noted that PES did not reduce its reliance on documentation submitted by contractors despite purchasing an asset management application called the MP2 in March 1999 which could accurately monitor work orders and tasks. The MP2 consists of several modules which have the ability to: (a) receive electronic work requests from staff (currently done online for OCSS building service requests); (b) assign work orders electronically to each section, unit or shop; (c) keep track of work orders, hours worked, contractual staff assigned to tasks and the materials used; (d) manage electronic communication regarding the status of work orders; (e) maintain maintenance schedules; (f) maintain and track stockroom inventory parts and supplies; and (g) produce performance reports.

13. OIOS found that, with the exception of the online building service request system established by FMS in March 2003, the work orders module of the MP2 system was hardly used to monitor PES' contracts. (OIOS noted that the online building requests system was fully operational and functioned satisfactorily at the time of the audit.) The observation made in 2002-2003 by OIOS in respect of the Petrocelli contract (audit AN2002/45/4), one of the major contracts managed by PES, is therefore considered still valid for this audit because only approximately 50 per cent of all tasks based on expected work hours were recorded in the MP2 system for work performed under Petrocelli. For two other major PES contracts: E-J Electric and OneSource, the work orders module was not even used in the first and only partially used in the latter. even though during the prior audit (Petrocelli contract), OIOS had emphasized and FMS had agreed that the United Nations must track the work performed by contractors in the MP2 to avoid improper payments for non-related work.

14. *During the exit conference, FMS management contended that the proper monitoring of all contracts is done even without using the MP2 work orders module to track all tasks because other monitoring tools exist, such as the 'Kronos' attendance system used by contractors.* OIOS, however, noted that the Kronos system, although installed, was not yet fully operational as of 19 December 2005. Also, the system was restricted to attendance records and would not have indicated all tasks and work hours performed on each UN equipment maintained and serviced. In OIOS' opinion, the monitoring of work hours through a database such as an MP2 would be necessary when verifying whether maintenance services were actually performed for the work hours indicated. Therefore, OIOS reiterates the recommendation that FMS use the MP2 work hours module (or its planned upgrade or replacement) to track all work performed by contractors.

15. The Broadcasting Conference Support Section (BCSS), comprising three professional and ten general service staff, was responsible for managing the conference support services contract with E-J Electric Inc. valued at approximately \$100 million for eight years until 30 June 2005. The audit revealed that BCSS also depended on the contractor's attendance and overtime documents for monitoring actual contract costs, and did not use the MP2 system. Before being made part of FMS in 2004, BCSS under the Information Technology Services Division (ITSD), OCSS used the E-Meets electronic meetings scheduling and resource allocation system to

monitor services. In OIOS' opinion, the MP2 work orders system should be used by BCSS and interfaced with E-meets, a suggestion to which the Chief of BCSS has agreed.

16. OIOS was informed that FMS in coordination with ITSD is in the process of upgrading and/or replacing the MP2 system into an enterprise-wide CRM (Customer Relationship Management) application aimed at combining all or interfacing current systems (i.e. E-meets, Aperture, MP2, etc.). The planned upgrade is in the procurement solicitation phase, and it is not clear how long the procurement process will take. Considering the price paid for the MP2 system (approximately \$400,000 for system installation and maintenance between March 1999 and March 2005), OIOS is of the opinion that the MP2 system, especially the work orders module, should have been used more effectively for the efficient management of FMS contracts.

### **Recommendation 3**

OIOS recommends that FMS use the MP2 work orders module for all FMS contracts, instead of just for Petrocelli and OneSource, and record all work hours and tasks performed (AH2004/513/2/003 – maintained).

17. *At the exit conference on 21 July, FMS management explained that with the planned implementation of the CRM application, the recording of contractual tasks into the current MP2 might no longer be necessary or efficient. In its reply to the report, OCSS also said that work hours for all tasks are currently being recorded in the MP2 for all FMS in-house labour-related contracts with the exception of BCSS, whose work orders would be implemented with the replacement of the MP2 by January 2006. OIOS agrees that there would be no further need to use the MP2 once the CRM application or the MP2's replacement or upgrade has been implemented, and once all its planned features for contract monitoring are in place and are functioning properly. However, until that time, it is OIOS' opinion that FMS should, without further delay, use the MP2 work orders module for all FMS contracts, instead of just for Petrocelli and OneSource, and record all work hours and tasks performed. OIOS therefore maintains Recommendation 3.*

### **3. Insufficient information on maintenance performed by contractors**

18. An OIOS analysis of MP2 records revealed that insufficient maintenance information was contained in the MP2, a finding similar to the one made by OIOS during the prior audit of the Petrocelli contract. For example, the MP2 records assigned to the Electrical Shop (tasks performed by Petrocelli staff) showed that out of 189,449 total work orders indicated in the system, around 168,752 or approximately 89 per cent did not identify any equipment or serial number, and did not contain sufficient information as to which items were repaired or changed (filters, spare parts, etc.) and which work was performed for the task description indicated (see Table 2 extract of the MP2 system for the period 11-18 November 2004).

**Table 2**  
**Extract of MP2 for period 11-18 November 2004**

WORK NO.	TASK DESCRIPTION	EQUIP NO.	COMP. DATE
DM-24895	Other (Provide details in "comments" field)	-	18/11/2004
DM-24740	Hook up electric box in 5-B and 4-B for welding machine	-	17/11/2004
DM-24867	Too Hot in S-2171a	-	17/11/2004
DM-24716	Function Announcement for Urban Resource Institute - 16 November 2004	-	16/11/2004
DM-24749	Adjust Knoll surface panel (for FAX station)	-	15/11/2004
03-07605	Check A/C--Tent Outside Visitors Plaza	-	15/11/2004
DM-24418	OneSource proj work	-	11/11/2004

19. During a review of maintenance procedures, OIOS analyzed maintenance cards for some equipment which revealed pencil marks or lines on weekly inspection records (see Figures 1, 2, 3 – copies of 2004-2005 maintenance cards for some equipment found in S-16<sup>th</sup> floor). In OIOS' opinion, because no information is found in the MP2 system, FMS has to rely on other maintenance information such as those found on maintenance cards. However, no relevant maintenance information was found in these cards, therefore making it seemingly impossible for FMS to determine and verify the work done by contractors. The lack of sufficient information on work performed by contractors dramatically increases the risk that contractors may overcharge for maintenance services, as identified in paragraph 6 above.

**Figure 1**  
**Copy of maintenance card for Gould cold water pump #1 for 2004**

The figure shows three copies of a 'WEEKLY INSPECTION RECORD' for Gould cold water pump #1. Each record is a grid with months (JAN, FEB, MAR, APRIL, MAY, JUNE, JULY, AUG, SEPT, OCT, NOV, DEC) and days of the week. The records are filled with handwritten pencil marks, including initials and dates, indicating inspection activities. The top record is for 2002, the middle for 2003, and the bottom for 2004. The 2004 record shows specific dates like 12/14, 12/15, and 12/16.

**Figure 2**  
**Copy of maintenance card for Century pump #2 for 2004**

WEEKLY INSPECTION RECORD											
JAN			FEB			MAR			APRIL		
M	M	M	P	O	O	O	O	O	O	O	O
MAY			JUNE			JULY			AUG		
W	W	W	W	W	W						
SEPT			OCT			NOV			DEC		
2003											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		
2004											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		
2005											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		

**Figure 3**  
**Copy of maintenance card for GE fan #116-13 for 2004-2005**

WEEKLY INSPECTION RECORD											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		
2003											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		
2004											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		
2005											
JAN			FEB			MAR			APRIL		
MAY			JUNE			JULY			AUG		
SEPT			OCT			NOV			DEC		

**Recommendation 4**

OIOS reiterates its prior audit recommendation that FMS record in the MP2 system all relevant information (such as items changed/repared, equipment condition, etc.) related to tasks performed by contractors, in clear and properly-numbered work orders (AH2004/513/2/004 – maintained).

20. *In its reply to the report, OCSS stated that a physical inspection to assess the condition of equipment was being performed on an on-going basis, with the adding of this information into the MP2 system expected to be done by the end of 2005. However, FMS did not consider OIOS' Figures 1 to 3 above to be valid, stating that the contractor's internal documentation was not used for billing, and that the MP2 was the principal tracking system for work requested and completed at the UN HQ.*

21. OIOS disagrees that the contractor's internal documentation should not be considered valid for monitoring FMS contracts. At the time of the audit, records for the equipment indicated in Figures 1 to 3 above did not exist in the MP2 system. In OIOS' opinion, if service information for equipment is missing or not recorded in the MP2 for some equipment, FMS should verify their condition and status through other means, such as looking at the contractor's records such as maintenance logs. Without this verification, there is no valid proof that such equipment were serviced satisfactorily and were in good condition. OIOS therefore maintains Recommendation 4.

#### **4. Personnel management**

22. OIOS performed a detailed review of a custodial cleaning contract (PD/C0077/03) awarded to OneSource Facility Services Inc. for the period 1 May 2003 to 30 April 2006 totaling \$22.6 million for cleaning services and supplies. Article 5 of the contract (Vacations and Holidays) states:

5.1 "... Vacations shall be allowed only if provided for and agreed to by the parties in the vacation schedule, or subsequently proposed by the Contractor and approved in writing by the UN Custodial Supervisor. During sessions of the General Assembly, vacations shall not be allowed, except with the prior written approval of the UN Custodial Supervisor. Vacation may be granted in exceptional cases at the discretion of the United Nations and provided that the Contractor shall provide for security clearance by the United Nations at least two weeks prior to the requested vacation, an immediate replacement acceptable to the United Nations..."

Article 4 (Contractor's Employees) states:

4.3 "... All actual expenses related to withdrawal or replacement of any employee assigned by the Contractor to provide services or carry out any obligation shall, in all cases, be borne exclusively by the Contractor..."

23. The audit revealed that the UN paid all benefits plus salaries to all the bench and vacation replacements. Although the Contract's weekly fixed work hours were 4,754 hours (123 employees at 40 hours with five employees on part-time basis), the hours worked by vacation replacement staff during the period April to September 2005 were added to the weekly work hours, and the additional amounts were also paid by the UN. Also, articles 4.3 and 5.1 of the contract above indicate that the UN does not pay for the services of vacation replacement staff. , OIOS further noted that OneSource had failed to present the sufficient documentation for the replacements as no cross-referencing was provided by OneSource in respect of its employees on vacation and the related vacation replacements. PES had noted this and corrected the invoices of June, July and August 2004 for vacation replacements from a total of \$219,750.12 (initially

paid under the contract) to \$158,107.99, a cost saving of \$61,642.13 or approximately 28 percent.

### **Recommendation 5, 6 and 7**

OIOS recommends that FMS:

- (i) In consultation with the Office of Legal Affairs, determine whether the UN is liable to pay hours in respect of vacation replacements in excess of 4,754 standard work hours per week (AH2004/513/2/005 – withdrawn).
- (ii) Review payments made for vacation staff replacement during 2003 to ensure that the UN was not overcharged when the UN had not requested for replacement staff (AH2004/513/2/006 – maintained); and
- (iii) Henceforth request OneSource to provide detailed breakdowns of the names of bench and vacation replacements (AH2004/513/2/007 – maintained).

24. *In its reply to the report, OCSS said that FMS had not paid any amount in excess of the contractor's standard work hours of 4,754 per week, and that the RFP, which formed part of the contract, states that the UN may require temporary vacation replacement during the period; the number of temporary replacements might be determined according to the requirements. However, OCSS also said that FMS had identified overcharges for vacation staff replacement in 2004 as part of the systematic monitoring of the contract by FMS resulting in a credit by the vendor to the UN, and that it would complete the review of 2003 payments by the end of December 2005.*

25. OIOS has withdrawn Recommendation 5 after further review and after checking the contract terms. Also, PES has informed OIOS that it has not finished its review for the year 2003 and will continue the process for the year 2005. Therefore, OIOS maintains Recommendations 6 and 7 pending the results of FMS' current review of payments for 2003 and 2005.

26. Article 4.9 of the Contract stipulates that "Any savings associated with a reduction in the minimum number of employees the Contractor provides must be passed on the United Nations and reflected accurately, in real-time, in the computerized work reporting and scheduling tracking system that the Contractor is responsible for providing." The names of about 15 OneSource employees who had retired, were deceased, or were on disability or long-term leave of absence remained on the monthly list of employees for up to a year. They were all included in the count of 123 employees, thereby overstating the total active employees on board in a given month (see Annex 2) which could lead to contract overpayments if no review was made.

## **Recommendations 8 and 9**

OIOS recommends that FMS:

- (i) Ensure that OneSource include only active employees on the monthly employee list, and require OneSource to fill vacant posts on a timely basis when employees are deceased, retired, disabled or on long-term leave of absence (AH2004/513/2/008 – implemented and closed); and
- (ii) Assess the impact on contract costs of OneSource overstating the total active employees on board (AH2004/513/2/009 – maintained).

27. *In its reply to the report, OCSS said that on a regular basis, the contractor already provides FMS with the required staff replacement information which could also be verified on the monthly online report. It said that as of September 2005, only active contractor staff are listed on monthly contractor reporting, and that the consolidated report showed both active and non-active staff, with the non-active staff being shown with “zero hours”; therefore no charge was applied. The total staff was contractually defined as 123, and the contractor reporting list has to date not included more than 123 active staff under the contract. Based on this explanation, OIOS has closed Recommendation 8, but maintains Recommendation 9 as no mention was made on FMS’ assessment of the impact on contract costs if OneSource overstated the total active employees on board.*

28. The monthly payroll summary report of OneSource did not include year-to-date comparisons (over- or under-) between the expected 4,754 hours and actual work hours on a monthly basis. The contractor is not required to provide justifications or explanations to deviations from expected 4,754 hours. However, if the reasons for these deviations are not investigated to determine whether they are consistent with actual workload, there is a risk that the needs assessment for subsequent custodial cleaning contracts may be based on historical, inflated actual work hours, resulting in uneconomical contracts in the future.

## **Recommendation 10**

OIOS recommends that FMS require the Contractor to provide actual work hours as well as year-to-date comparisons (over- or under-) between expected 4,754 hours and actual work hours on a monthly basis in order to build reliable historical work hours data on the services rendered (AH2004/513/2/010 – maintained).

29. *In its reply to the report, OCSS said that the contractor has provided FMS with the required information, and that there had originally been a roll-over of work hour balances from month to month; as of September 2005, credits were reflected on a monthly basis, if applicable. PES will provide details of these credits to OIOS; therefore Recommendation 10 is maintained pending an examination of the credit details.*

#### **4. Overtime reporting**

30. In the case of the custodial services contract with OneSource, the main overtime hours reported are for elevator operators, and the Secretary-General's (SG) residence at Sutton Place. There were also overtime reported for special functions which in many cases are reimbursable from various entities which used the UN facilities at the time. In both 2003 and 2004, the average monthly overtime payments made to elevator operators amounted to \$2,000 and overtime reported for services at Sutton Place amounted to \$5,000.

31. OIOS reviewed the work orders for the month of February 2004 at Sutton Place and noted that one employee worked 129.50 hours of overtime and the other worked 69 hours and they were paid \$5,514 and \$2,938 respectively. The work order only stated the date, hours, name of the employees and hourly rate (1.5 times over the regular rate) and neither job details nor service description were provided. OIOS also noted that during the normal work week, if the work hours were from 7:00 am to 4:00 pm (9 hours minus 1 hour lunch time), many times, the work from 3:00pm to 4:00 pm was reported as overtime. OIOS was informed that the workers did not take lunch break. Further, there were also instances when 10 to 14 hours were worked on weekend or holidays, but the overtime did not deduct one hour lunch break; sometimes only half hour was deducted. The net hourly rate of overtime was \$42.58. In light of this situation, FMS could not ensure that all overtime hours reported from the SG's residence were justified or that the services were provided. There was also no consistency in overtime reporting.

#### **Recommendation 11**

OIOS recommends that criteria for overtime reporting be established by FMS so that one-hour lunch breaks are included in the time reporting irrespective of whether they are actually taken or not; and that work orders for overtime systematically indicate the type of functions and job details prior to the approval of payments (AH2004/513/2/011 – implemented and closed).

32. *In its reply to the audit, OCSS said that contractor staff attendance was generally monitored through the Kronos system except for those working at the SG residence, for which work orders were not always issued, as the residents might have verbally requested overtime for the staff without previously notifying FMS. FMS has recently effected measures which conformed with the recommendation as follows:*



- Requests for overtime from the EOSG are submitted via email to FMS;
- Staff at the SG residence would call the contractor's supervisor at UN HQ when arriving, leaving, and/or when overtime is requested by the residents; and
- A security attendance sheet signed by contractor staff is sent on a daily basis to FMS.

OIOS has therefore closed Recommendation 11.

## **5. Monitoring of supplies**

33. The custodial cleaning services provided by OneSource involve two types of supplies: cleaning and sanitary. As a part of the contract, in 2004, the UN was charged a flat sum of about \$10,000 per month for cleaning supplies and actual payment of sanitary supplies averaging also \$10,000 per month. OIOS noted that the cleaning supplies were not properly stored and recorded.

34. In reply to a query, OIOS was informed by the Chief of PES via email dated 14 April 2005 that *"PES has commenced (with) the relocation of needed space to accommodate the OneSource cleaning supplies into our stock room. Based on our current work load this process will take some time to accomplish. However, your office will be advised upon completion."* In the case of sanitary supplies, the only monitoring done by the Custodial and Maintenance Unit, PES was to sign off the receipt of the supplies every Monday. However, the contractor was not required to keep track of and record the consumption of the supplies during the week nor the reconciliation of inventory at the store room.

### **Recommendation 12**

OIOS recommends that FMS immediately establish the cleaning and sanitary supplies inventory and determine and monitor the use of these items for each UN building, ensuring that all supplies are properly recorded and accounted for (AH2004/513/2/012 – implemented and closed);

35. *In its reply to the report, OCSS said that in the past, incoming items had been checked and stocked in the contractor's area. At present, a system for stocking incoming items and issuances is being set up by FMS in the Stockroom area and would be fully implemented by October 2005. Furthermore, FMS in coordination with the contractor would review its mechanisms monitoring the use of cleaning and sanitary supplies in the various locations by the second quarter 2006.* OIOS has therefore closed Recommendation 12.

36. Under the contract, the UN incurred charges for the provision of sanitary supplies of approximately \$123,300 for 2003 and \$127,000 for 2004. OIOS, however, noted that the PES made a requisition outside the Contract (ITBG 1158 dated 5 May 2003) for three types of sanitary supplies: toilet paper, roll hand towel and liquid hand soap. Burke Supply Company

was awarded the bid. Subsequently, the UN issued two purchase orders (PG-14119 and PG-14225) dated 30 June 2003 in the amounts of \$7,733.54 and \$23,453.62 respectively for bulk purchase of toilet paper (528 cases), paper hand towels (816 cases) and liquid soap (6 drums, 55 gallons per drum). Again in May 2004, two purchase orders (PG-15779 and PG-15780) in the amounts of \$9,937.24 and \$19,874.48 respectively were issued to Burke Supply for the same three items.

37. In reply to OIOS' query, FMS said that these items were bought for the DC buildings, which were not covered by the OneSource contract. The auditors noted that these items were kept together with those purchased by OneSource and found that no separate inventory was established for them. With the absence of separate records, it therefore appears that FMS is unable to properly monitor the use of these items in all buildings, creating the risk that some supplies bought were either unnecessary, not received, unaccounted for or stolen. To ensure that only sufficient items are purchased by the UN, OIOS suggested and FMS agreed to henceforth determine and monitor how much of these items are actually used for each building; the auditors also suggested that separate records are kept for their use in each building.

38. OIOS further noted that the unit prices charged by Burke Supply were considerably lower than those billed by OneSource in its UN contract, i.e. toilet tissue (\$33.69 versus \$43.5 per case) and paper roll towels (\$15.49 versus \$23.18 per case). In OIOS' opinion, as the UN is bound by the current contract, PS should consider negotiating with OneSource for lower supply prices before the current contract is extended beyond April 2006.

### **Recommendation 13**

OIOS recommends that FMS negotiate with OneSource for lower supply prices before the current contract is extended beyond April 2006 (AH2004/513/2/013 – maintained).

39. *In its reply to the report, OCSS said that the purchases of sanitary supplies were part of a lump-sum payment, which was part of the current contract. FMS would submit a request to PS for review and advise shortly so that PS could renegotiate with the contractor in the context of the renewal of the present contract by the second quarter of 2006. OIOS therefore maintains Recommendation 13.*

40. OIOS noted that in Annex B of the contract, both sanitary napkin (item# 10) and sanitary napkin dispenser (item# 11) were classified as cleaning supplies and included in the monthly lump sum payment of approximately \$10,000.00 for cleaning supplies. However, the footnote of Annex B stated that "all monies collected from the sanitary napkins sales shall belong to the contractor. Price of napkin should be no more than \$0.25. Price change is subject to the UN approval." In OIOS' opinion, FMS should have Annex B amended to remove items 10 and 11 from the supplemental list of cleaning supplies, and the monthly lump-sum payment of cleaning supplies accordingly reduced by approximately \$850.00, and obtain credits from OneSource for overpayments totalling \$23,800 (28 months @ \$850) for the period May 2003 to September 2005.

## **Recommendations 14 and 15**

OIOS recommends that FMS:

- (i) Have Annex 8 of the OneSource contract amended to remove items 10 and 11 from the supplemental list of cleaning supplies (AH2004/513/2/014 – implemented and closed); and
- (ii) Have OneSource reduce the monthly lump-sum payment of cleaning supplies by approximately \$850.00 and obtain credits from OneSource for overpayments totaling \$23,800 (850 times 28 months) for the period May 2003 to September 2005 (AH2004/513/2/015 – implemented and closed).

41. *In its reply to the report, OCSS said that the inclusion of such items in the contract was an oversight, and that the contractor has agreed to remove these items from the supplemental list. FMS would also request PS to amend the contract accordingly; the recommended reduction has been implemented and the contractor has refunded past overpayments. OIOS has closed Recommendations 14 and 15, but has asked FMS for details of credits from the contractor.*

### **B. Procurement Process**

#### **1. ITB vs. RFP**

42. According to Section 9.4.2 of the Procurement Manual, two formal solicitation documents are used by PS:

- a. Invitation to Bid (ITB) – for goods and services of standard and firm specifications (very clearly defined or continuously used deliverables); and
- b. Request for Proposal (RFP) – for deliverables that cannot be quantitatively or qualitatively expressed in sufficient detail to allow the use of an ITB at the time the solicitation document is issued. The procurement process using RFPs tend to take longer than those using ITBs due to longer deadlines.

43. Of the 44 contracts monitored by PES, OIOS noted that 15 were solicited through ITB and 29 through RFP, with the latter category including the three contracts reviewed in this audit. OIOS concluded that it was possible for FMS to clearly define work specifications and determine the deliverables (services) in sufficient detail for all three contracts reviewed, especially because the UN had continuously needed such services for almost 60 years. It is therefore OIOS' opinion that on the basis of precise specifications drawn by FMS, PS should have issued ITBs instead of RFPs for these three contracts thereby increasing the potential for more economical and efficient procurement.

## **Recommendation 16**

For services where work specifications could be clearly defined and where the deliverables or services could be easily determined in sufficient detail, OIOS recommends that PS henceforth use ITBs instead of RFPs as indicated in the Procurement Manual (AH2004/513/2/016 – implemented and closed).

44. *In its reply dated 8 November, OCSS said that the Procurement Service (PS) agrees with the recommendation in principle, but said that the decision as to which type of solicitation document is more appropriate to use would be a professional decision made by the procurement officer with the advice of requisitioners and would depend on the nature and complexity of requirements. There would be cases wherein PS would decide to use RFPs even if the work specifications and deliverables appear to have been clearly defined. OIOS has closed Recommendation 16 but will follow up on this issue in subsequent audits.*

## **2. Lump-sum vs. Cost-plus**

45. An analysis of the 44 contracts managed by PES revealed that 21 were categorized as cost plus (direct cost plus management fee) contract in the total value of \$105 million. The Communications and Broadcasting Contract managed by BCSS is one of them, with a contract value of \$100 million dollars over an eight-year period. The remaining 23 contracts were categorized as lump-sum and had a combined value of \$48.5 million. The latter category includes the Custodial Cleaning Contract with OneSource (\$27.5 million) and the Electrical Maintenance Contract with Petrocelli (\$13 million). OIOS noted that PS did not define these two types of contracts – lump-sum and cost-plus – nor had guidelines for their use in the Procurement Manual.

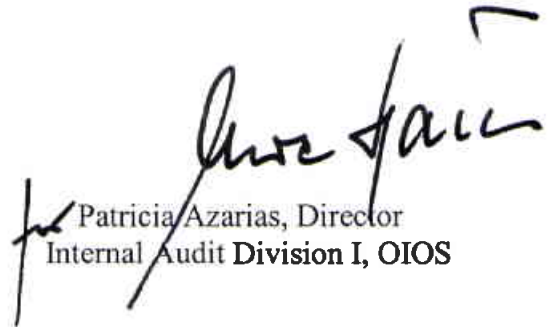
## **Recommendation 17**

OIOS recommends that PS make a concerted effort to define lump-sum and cost-plus contracts in the Procurement Manual and issue detailed guidelines for their use (AH2004/513/2/017 – maintained).

46. *PS agreed with the recommendation and would define lump-sum and cost-plus contracts and amend the Procurement Manual by the end of 2005. As for the issue of detailed guidelines, PS said that it would have to carefully review many variables that affect the decision on using these types of contracts. PS would develop guidelines by the end of March 2006 with the assistance of a consultant, if necessary. OIOS maintains Recommendation 17 pending the amendment of the Procurement Manual and the issuance of PS' guidelines expected by the end of March 2006.*

**V. ACKNOWLEDGMENT**

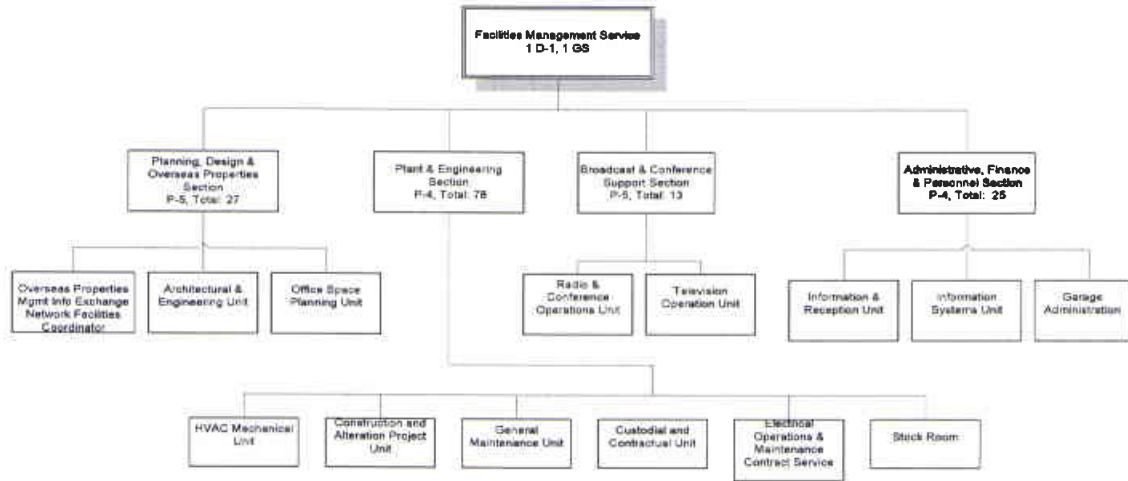
47. We wish to express our appreciation for the assistance and co-operation extended to the auditors by the management and staff of OCSS.



Patricia Azarias, Director  
Internal Audit Division I, OIOS

# ANNEX 1

## Current FMS organizational structure Referred to on page 1



**PDOPS:**  
1 P-5, 3 P-4, 2 P-2  
11 GS [1 PL, 10 OL]  
10 TC

**PES:**  
1 P-4, 1 P-3  
8 GS [1 PL, 5 OL]  
70 TC

**BCSS:**  
1 P-5, 1 P-4, 1 P-3  
10 GS [10 OL]

**AFPS:**  
1 P-4, 2 P-2  
19 GS [1 PL, 18 GS]  
1 TC  
(GAA):  
2 GS [2 OL]

## ANNEX 2

### Leave Analysis Referred to on page 9

#### Disability

1. Bracale, Antoni  
Mr. Bracale is a regular employee and he was on disability status from 16/07/04 thru 4/10/04. He was then switched to the Bench list from 27/10/04 to 23/11/04, replacing Daif, who was neither in the Regular nor Replacement list. From 5/01/05 to 31/1/05, he again replaced Daif.
2. Caruk, Teresa  
Ms. Caruk was on Disability from 24/12/03 thru 08/06/04. She reported to work on 8/6/04, but was on SL for the following periods: 9/6-16/6/04, 23/6 – 29/6/04. She was further being replaced for the weeks ending on 13/7, 20/7, 26/7, 17/8, 24/8/04. However, no reasons were given as to whether she was on SL or VL.
3. El Saadi, Wahida  
On Disability status from 18/09/03 thru 5/2/05. She was credited with 40 hours for the week of 3-9/12/03, at the same time she was replaced by H. Berishaj. She was again on Disability from 28/6/04 to 5/2/05. While on D status, she was again replaced by Berishaj.
4. Mehmeti, Nurije  
On Disability status from 3/9/03 thru the entire 2004 and up to 5/2/05.
5. Jackson, Michel  
Staff was on Disability from 3/2/04 up to 10/5/04. Although the Workmen's compensation was indicated to start on 21/11/03, he continued working until 3/2/04. He was again on Disability status continuously since 28/7/04.
6. Wysocka, Bogum  
On Disability from 18/2/04 thru 30/4/04.
7. Feratovic, Sapk  
On Disability continuously from 21/01/04, marked as in receipt of Workmen's Compensation for more than one year.

#### Deceased

1. Lyons, Judith  
Reported on Disability from 14/7/03 and continuously marked as "Deceased" since the weekending of 21/9/04.

## ANNEX 2

### Leave Analysis *Referred to on page 9*

2. Mejia, Fausto  
Continuously marked as “Deceased” since the weekending of 18/5/04.

#### **Retired**

1. Prekpolaj, Dilj  
Mr. Prekpolaj has been continuously reported as “retired” since 1/4/04.
2. Ortiz, Jose  
Mr. Ortiz has been continuously reported retired since 10/5/04.
3. Durakovic, Ruzd and Berishaj, Hana were both wrongly reported as Retired on 10/5/04. In fact, Mr. Durakovic commenced Disability on 24/5/04 and continued up to the present time.
4. Delosovic, Saba  
Continuously reported as “retired” since 02/6/04.



FMS/OCSS Comments on Draft Report

14/11/2005

General Comments on the Executive Summary of the Draft Audit of FMS Maintenance and Service Contracts

We take exception to OIOS statements such as contracts handled by FMS are uneconomical and hard to manage or that contractors might have overcharged the UN. We find these comments highly speculative and not well substantiated.

For the past several years, FMS has been working incrementally in the implementation of an appropriate contract monitoring system which has considerably improved the administration and supervision of the major maintenance contracts and services.

We would like to clarify that the above improvements have been achieved through the diligent efforts of two professional and six general service staff. Please note that FMS manages and monitors 78 contracts and the existing staffing remains insufficient despite requests made by the service to increase the number of staff.

We would also like to emphasize that FMS has gradually implemented all OIOS recommendations with regard to the use of the present Computerized Maintenance Management system (MP2) which is expected to be replaced in early 2006 with a Customer Relationship Management system (CRM).

This new system will provide improved automated tracking and contract monitoring for all FMS services resulting in better monitoring of key performance indicators in real time, tracking of contracts, projects and allocated financial resources.

In addition, FMS has also recently introduced a Kronos system for selected contracts to verify vendor employees' attendance which is reconciled with the contractor's monthly charges. As a result, FMS has and will continue to reduce the cost and improve efficiency in contract management.

All requests related to the electrical service and maintenance contract are currently entered into the MP2, along with all special requests and overtime for cleaning and custodial services. In addition, FMS will start monitoring by early 2006 through the new CRM all services related to the broadcast and conference support operations and maintenance contract and all day to day routine cleaning services.

With regards to the OIOS opinion that little improvement has been made to fully implement the MP2 asset management application to monitor work orders and tasks for maintenance contracts, please note that FMS completed the equipment inventory and entered the data into the MP2 system. Furthermore, FMS has recently included equipment ID and location in all MP2 work-orders along with the condition of the equipment.

With regard to the risk that a contractor would fraudulently charge fees for maintaining equipment not in need of maintenance or for services of non-existing equipment, please note that the existing electrical service contract is based on number of staff and number of hours actually worked. The current staffing level totals 21 electricians and one

## ANNEX 3

### FMS/OCSS Comments on Draft Report

14/11/2005

administrative clerk. The performance of these services is covered by hours completed and recorded in the MP2 system.

FMS considers that the statement by OIOS under paragraph 6, III, A, that a contractor has discretionary authority in the repair and servicing of equipment is incorrect, as all maintenance of equipment initiates and terminates with FMS staff through the MP2 system.

FMS also considers that paragraphs 8 and 14 as well as figures 1-3 are not valid as these are the contractor's internal documentation which are not used for billing. FMS uses the MP2 system as the principal tracking device for work requested and completed at UNHQ.

Finally, as is evidenced from the above clarifications, FMS has worked to implement and facilitate all recommendations noted by this audit observation. While the audit outlines perceived deficiencies, it fails to acknowledge challenges that have either been resolved or overcome, nor does the report outline constraints which currently prevent FMS from immediately addressing an outstanding issue. These omissions provide an unbalanced view of the actual and current status of FMS activities.

Below are FMS responses to OIOS audit observations.

#### **OIOS Audit of FMS Maintenance and Service Contracts** Responses to Findings and Recommendations 14 November 2005

Under paragraph 6 OIOS states that there is a risk that a contractor would fraudulently charge fees for maintaining equipment not in need of maintenance or for servicing non-existing equipment. We would like to clarify that such a risk does not exist due to the fact that requirements are based on work-orders recorded in MP2 and instructions given by FMS managers.

#### **Recommendation 1**

OIOS recommends that FMS finalize the non-expendable equipment inventory to determine the status of all electrical equipment being maintained, and submit the inventory of non-expendable equipment to OPPBA, with copies of the inventories of the electrical equipment and non-expendable equipment being provided to OIOS (AH2004/513/2/001)

FMS has been working progressively on the completion of the physical inventory of non-expendable equipment. This has been a difficult and time consuming undertaking. Currently, monetary values are assigned to all items; this exercise was completed on 30 September 2005. FMS will submit the inventory for submission to OPPBA shortly.

## ANNEX 3

### FMS/OCSS Comments on Draft Report

14/11/2008

#### Recommendation 2

OIOS recommends that once the inventory of non-expendable equipment is finalized, FMS should review the current maintenance and service contracts for these equipment to check if any change in contract terms is required (AH2004/513/2/002).

As mentioned under recommendation one, the physical inventory of non-expendable equipment has already been finalized. Currently, monetary values are assigned to all items; this exercise was completed on 30 September 2005. FMS will review by the second quarter of 2006 the current maintenance and service contracts for this equipment as part of the incremental exercise on this matter.

#### Recommendation 3

OIOS recommends that FMS start using the MP2 work orders module for all current FMS contracts, from the time of this audit, to ensure that work hours for all contractual tasks are recorded in the MP2 system (AH2004/513/2/003).

Work hours for all tasks are currently being recorded in MP2 for all FMS in-house labour related contracts with the exception of BCSS, whose work orders will be implemented with the replacement of MP2 by January 2006.

#### Recommendation 4

OIOS reiterates its prior audit recommendation that FMS record in the MP2 system all relevant information (such as items changed/repaired, equipment condition, etc.) related to tasks performed by contractors, in clear and properly-numbered work orders (AH2004/513/2/004).

MP2 work orders include all equipment with ID numbers and locations. Physical inspection to assess the condition of equipment is being performed on an on-going basis. This information is being added into MP2 on a continuous basis with an anticipated completion by the end of 2005.

#### Recommendation 5

OIOS recommends that FMS, in consultation with the Office of Legal Affairs, determine whether the UN is liable to pay hours in respect of vacation replacements in excess of 4,754 standard work hours per week (AH2004/513/2/005).

FMS has not been paying contractor's standard work hours in excess of 4,754 hours.



## ANNEX 3

### FMS/OCSS Comments on Draft Report

14/11/200

The RFP, which forms part of the contract, states "*The vacation schedule for all Contractor's employees...shall be between 1 April and 15 September. The UN may require temporary vacation replacement during the period. The number of temporary replacements may be determined according to the requirements. In the past, 12 temporary replacements had been required.*" And item c: *The UN shall notify..., to confirm provision of the "temporary assistance" at the proposed rate indicated in pricing table.*" Therefore, FMS is paying for 123 staff. (4,754 standard work hours, including allotment vacation and sick time.)

#### Recommendations 6 and 7

OIOS recommends that FMS:

- (i) Review payments made for vacation staff replacement during 2003 to ensure that the UN was not overcharged (AH2004/513/2/006); and

FMS identified overcharges for vacation staff replacement in 2004 as part of the systematic monitoring of the contract by FMS resulting in a credit by the vendor to the UN. Similarly, FMS will complete the review of 2003 payments by the end of December 2005.

- (ii) Henceforth request OneSource to provide detailed breakdowns of the names of bench and vacation replacements on a monthly basis for payment purposes (AH2004/513/2/007).

The contractor already provides FMS on a regular basis with the required information which can also be verified on the monthly on-line report. This recommendation is fully implemented.

#### Recommendations 8 and 9

OIOS recommends that FMS:

- (i) Ensure that OneSource include only active employees on the monthly employee list, and require OneSource to fill vacant posts on a timely basis when employees are deceased, retired, disabled or on long-term leave of absence (AH2004/513/2/008); and

As of September 2005, only active contractor's staff is listed on monthly contractor's reporting. We consider this recommendation fully implemented. The consolidated report showed both active and non active staff. Non active staff was shown as "zero hours" therefore charges were not applied.

## ANNEX 3

### FMS/OCSS Comments on Draft Report

14/11/05

- (ii) Assess the impact on contract costs of OneSource overstating the total active employees on board (AH2004/513/2/009).

The total number of contractor's staff is contractually defined as 123. The contractor's reporting has to date not included more than 123 active staff under the contract. The contract costs have therefore not been affected. We consider this recommendation fully implemented.

#### Recommendation 10

OIOS recommends that FMS require the Contractor to provide actual work hours as well as year-to-date comparisons (over- or under-) between expected 4,754 hours and actual work hours on a monthly basis in order to build reliable historical work hours data on the services rendered (AH2004/513/2/010).

The Contractor has provided FMS with the required information. Originally, there has been a roll-over of work hours balances from month to month. As of September 2005, credits are effected on a monthly basis, if applicable. We consider this recommendation fully implemented.

#### Recommendation 11

OIOS recommends that criteria for overtime reporting be established by FMS so that one-hour lunch breaks are included in the time reporting irrespective of whether they are actually taken or not; and that work orders for overtime systematically indicate the type of functions and job details prior to the approval of payments (AH2004/513/2/011).

FMS is fully compliant with this recommendation. Contractor's staff attendance is generally monitored through the Kronos system with exception to Contractor's staff working at the SG's residence, for which work orders are not always issued, as the residents might verbally request overtime from the staff without previously notifying FMS.

However, FMS has recently effected measures which conform with the above recommendation:

- Requests for OT from the EOSG are submitted via E-mail to FMS Office;
- Staff at the residence call the contractor's supervisor at UNHQ when arriving, leaving and/or when OT requests are made by the residents;

**FMS/OCSS Comments on Draft Report**

14/11/2005

- Security attendance sheet signed by contractor staff is sent on a daily basis to FMS;
- In coordination with the contractor, FMS is identifying a location in the residence to install a punch-in clock that would not be intrusive nor disruptive to the occupants.

**Recommendations 12 and 13**

OIOS recommends that FMS henceforth:

- (i) Immediately establish the cleaning and sanitary supplies inventory and determine and monitor the use of these items for each UN building, ensuring that all supplies are properly recorded and accounted (AH2004/513/2/012); and

In the past, incoming items have been checked and stocked in the contractor's area. Currently, a system for stocking of incoming items and disbursement is being set up by FMS in the Stock Room and will be fully implemented since October 2005. Furthermore FMS in coordination with the Contractor will review by the second quarter of 2006 the mechanisms to monitor the use of the cleaning and sanitary supplies in the various locations.

- (ii) consider negotiating with OneSource for lower supply prices before the current contract is extended beyond April 2006 (AH2004/513/2/013).  
accounted for (AH2004/513/2/013).

Purchases of sanitary supplies are part of a lump-sum payment, which is part of the current contract. FMS will submit a request to PS for review and advice shortly so they can re-negotiate with the contractor in the context of the renewal of the present contract by the second quarter of 2006.

**Recommendations 14 and 15**

OIOS recommends that FMS:

- (i) Have Annex 8 of the OneSource contract amended to remove items 10 and 11 from the supplemental list of cleaning supplies (AH2004/513/2/014); and

The inclusion of these items in the contract was an oversight. The contractor has agreed to remove these items from the supplemental list. FMS will request PS to amend the contract accordingly.

- (ii) Have OneSource reduce the monthly lump-sum payment of cleaning supplies by approximately \$850.00 and obtain credits from OneSource for overpayments

## ANNEX 3

### FMS/OCSS Comments on Draft Report

14/115

totaling \$23,800 (\$850 times 28 months) for the period May 2003 to September 2005 (AH2004/513/2/015).

The recommended reduction has been implemented and the contractor has refunded the total for past overpayments. This recommendation is fully implemented.

#### **Recommendation 16**

For services where work specifications could be clearly defined and where the deliverables or services could be easily determined in sufficient detail, OIOS recommends that PS henceforth use ITBs instead of RFPs as indicated in the Procurement Manual (AH2004/513/2/016).

Response to be provided by PS.

#### **Recommendation 17**

OIOS recommends that PS make a concerted effort to define lump-sum and cost-plus contracts in the Procurement Manual and issue detailed guidelines for their use (AH2004/513/2/017)

Response to be provided by PS.

## ANNEX 4

### PS/OCSS Comments on Draft Report

#### Note to Mr. Jonathan Childerley

Subject: OIOS Audit No. AH2004/513/2: Audit of the Management of Maintenance and Service Contracts

In connection with the subject audit, we would like to provide you with the comments of the Procurement Service as shown below.

#### **Recommendation 16**

For services where work specifications could be clearly defined and where the deliverables or services could be easily determined in sufficient detail, OIOS recommends that PS henceforth use ITBs instead of RFPs as indicated in the Procurement Manual (AH2004/513/2/016).

#### **Comments of the Procurement Service**

The Procurement Service agrees with the recommendation in principle. However, it should be noted that the decision as to which type of solicitation document is more appropriate to use will be a professional decision made by procurement officer with advice of requisitioners and depending on the nature and complexity of requirements, there will be cases where we decide to use RFPs even if work specifications and deliverables appear to have been clearly defined.

#### **Recommendations 17**

OIOS recommends that PS make a concerted effort to define lump-sum and cost-plus contracts in the Procurement Manual and issue detailed guidelines for their use (AH2004/513/2/017)

#### **Comments of the Procurement Service**

The Procurement Service agrees with the recommendation and will define lump-sum and cost-plus contracts and amend the Procurement Manual by the end of 2005. As for the issue of detailed guidelines, we would have to carefully review many variables that affect our decision on use of this type of contract. PS will develop guidelines by the end of March 2006 with assistance of a consultant, if necessary.

Kiyohiro Mitsui  
Officer-in-Charge  
Procurement Service  
8 November 2005

cc: Mr. W. Sach  
Mr. J. Karia



## ANNEX 5

### Status of Recommendations and Action Required from Auditee

*Referred to in the cover memo*

<i>Rec. No. AH2004/513/2-</i>	<i>Comment and Status</i>	<i>Action Required from OCSS</i>	<i>Implementa- tion Date</i>
001	Implemented; closed	None	n/a
002	Accepted; open	Satisfactory evidence of FMS review of contracts expected by end 2 <sup>nd</sup> quarter 2006	
003	Accepted; open	Satisfactory evidence that work hours and tasks performed for all FMS contracts have been recorded in MP2 or its replacement system	
004	Accepted; open	Satisfactory evidence that all relevant information (such as items changed/repared, equipment condition, etc.) related to tasks performed by contractors, are recorded in clear and properly-numbered work orders in the MP2 or its replacement system	
005	Withdrawn	None	n/a
006	Accepted; open	Satisfactory evidence of FMS' review of past payments	
007	Accepted; open	Satisfactory evidence of contractor providing detailed breakdowns of the names of bench and vacation replacements	
008	Implemented; closed	None	n/a
009	Accepted; open	Satisfactory evidence of FMS' assessment of the impact on contract costs of the contractor overstating the total active employees on board	
010	Accepted; open	Satisfactory evidence of the contractor providing actual work hours as well as year-to-date comparisons (over- or under-) between expected 4,754 hours and actual work hours on a monthly basis in order to build reliable historical work hours data on the services rendered	
011	Implemented; closed	None	n/a
012	Implemented; closed	None	n/a
013	Accepted; open	Satisfactory evidence of PS/OCSS' negotiation with the contractor in the context of the renewal of the present contract by the second quarter of 2006	
014	Implemented; closed	None	
015	Implemented; closed	None	
016	Implemented; closed	None	
017	Accepted; open	Satisfactory evidence that PS had developed guidelines by the end of March 2006	

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: The Management of Maintenance and Service Contracts

(AH2004/513/2)

	1	2	3	4	5
<b>By checking the appropriate box, please rate:</b>	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Your overall satisfaction with the conduct of the audit and its results.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

*Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:  
 Ms. Patricia Azarias, Director, Internal Audit Division-1, OIOS  
 By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA  
 By fax: (212) 963-3388  
 By E-mail: iad1support@un.org*