



INTERNAL AUDIT DIVISION

AUDIT REPORT

Procurement management at the United Nations Joints Staff Pension Fund

4 June 2008

Assignment No. AS2007/800/06

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Ms. Alicia Bárcena, Under-Secretary General,
A: Department of Management

DATE: 4 June 2008

TO: Mr. Bernard Cochemé, Chief Executive Officer
A: United Nations Joint Staff Pension Fund

REFERENCE: IAD: 08/ C1375

TO: Mr. Warren Sach,
A: Representative of the Secretary-General for Investments
of the United Nations Joint Staff Pension Fund

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AS2007/800/06 - Audit of Procurement management at the**
OBJET: **United Nations Joint Staff Pension Fund**

1. This report replaces the version issued on 2 May 2008 (Ref IAD:08/01295). Following discussions with UNJSPF management, which provided clarification on its use of individual contractor agreements (ICA), Special Service Agreements (SSA) and institutional contractor or corporate (ICC) in engaging consulting contracts, OIOS has amended the final report to reflect the changes in the statistics and related analysis of contracts with Kevin Daly, as shown in paragraph 8 and Annex 2.

2. Based on your comments, we are pleased to inform you that we will close recommendations 3, 4, 15, 16, 17, 18, 20 and 23 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Your response indicated that you did not accept recommendations 2, 7, 10, 19, 21 and 24. In OIOS' opinion however, these recommendations seek to address significant risk areas. We are therefore reiterating them and request that you reconsider your initial response based on the additional information provided in the report.

4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1, 2, 5, 7, 12, 13, 14 and 22) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Suzanne Bishopric, Director, Investment Management Service, UNJSPF
Mr. Paul Buades, Chief, United Nations Procurement Service
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez-Troncoso, Officer-in-Charge, JIU Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. William Petersen, Chief, New York Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Procurement management at the United Nations Joint Staff Pension Fund (UNJSPF)

OIOS conducted an audit of procurement management at the United Nations Joint Staff Pension Fund Secretariat (the UNJSPF Secretariat) and the Investment Management Service (IMS). The overall objectives of the audit were to (i) assess efficiency and effectiveness of procurement activities; (ii) assess the economical use of the UNJSPF Secretariat and IMS resources; (iii) determine whether rules and regulations, policies and related instructions were complied with; (iv) verify the reliability of reported data and records supporting the expenditures incurred for the procurement operations; and (v) follow-up on the implementation of previous audit recommendations. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS concluded that the reported data and records supporting the expenditures incurred for the procurement operations for UNJSPF Secretariat and IMS were generally adequate. However, OIOS noted several weaknesses in the procurement process in the UNJSPF Secretariat, relating to the recurrent use of direct procurement and uneconomical use of resources relating to the hiring of consultants. Within IMS, the main issues related to the inherent conflict of interest in its present structure and instances of non-compliance concerning the contracting and technical evaluation phases.

UNJSPF Secretariat

- The UNJSPF Secretariat retained consultants on a full time basis, and in one case, at a rate considered by the Headquarters Committee on Contracts (HCC) as equivalent to the salary of an Assistant Secretary-General, for extensive periods of time, which in some cases overlapped with the time of existing staff specifically recruited for the same function. These contracts were not an economical use of the Secretariat's resources.
- The delegation of authority for direct procurement from the Pension Board in terms of General Assembly resolution 51/217 and the related procedure need further clarification in order to minimize recurrent use of the authority. Direct procurement was used outside of the established provisions and in some cases went against the Board's expectation that such use would be rare, at the risk of avoidance of the normal procurement process.
- The contract with the consulting actuary had not been competitively bid since the inception of the UNJSPF Secretariat in 1946 and without documenting the justification for deviation from normal procurement procedure. The current agreement is a contractual letter formulated by the consulting actuary that was not reviewed by the Office of Legal Affairs and does not comply with the UN general conditions of contract.

Investment Management Service

- There was an inherent conflict of interest in the structure whereby the Controller, as Head of Procurement, authorized all procurement cases recommended for approval by the HCC and as the designated Representative of the Secretary-General for the investments of UNJSPF, requested the related procurement exercises. This practice weakened managerial oversight over the procurement activities of IMS.
- In 2006, the Fund signed a new contract for the global custodial and master record keeper arrangement, a critical area of the operations of IMS. The process, as carried out, put into question the regularity of the vendor selection process.
- IMS had not obtained the required written disclosure of conflict of interest from the consultant retained to provide consulting service in developing the technical evaluation criteria for the global custodian contract and in carrying out the due diligence exercise at the four short-listed banks. This omission exposed the Fund to the risk of the consultant specifying requirements favourable to any of its affiliates and not having terms that are in the best interests of the Fund.
- Contracts with investment advisors for small capitalization (companies with market capitalization of \$3 billion or less) were signed in 2001 with a five year ceiling of \$21.5 million, without an option to extend. IMS did not effectively administer and monitor these contracts, resulting in an extension of these contracts, instead of engaging in new competitive bidding.

Common issues

- For both the Fund Secretariat and IMS, the procurement process was unduly protracted, taking as long as 42 months. In addition, neither the UNJSPF Secretariat nor IMS prepared nor transmitted an annual acquisition plan to the Procurement Service (PS). The lack of adequate acquisition planning could lead to over usage of the direct procurement authority.

Procurement Service

- There is a need for PS to strengthen internal controls to ensure compliance by the requisitioner with the Procurement Manual in regard to the technical evaluation process, and the requirement for the Head of Office of the requisitioner to provide full written justification for not seeking competitive bids. PS also needs to clarify in the Procurement Manual the chronological timeline for submission of finalized technical evaluation criteria, which should be prior to issuance of the request for proposal.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement management at the United Nations Joint Staff Pension Fund Secretariat (the UNJSPF Secretariat) and the Investment Management Service (IMS). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. In the 2006-07 biennium, the administrative costs for the UNJSPF Secretariat and the UNJSPF Secretariat-Geneva were estimated at about \$26.3 million, including \$12.8 million for consultants and contractual services. The comparable expenses for IMS were estimated at about \$39.8 million, including \$34.9 million for consultants and contractual services.
3. The UNJSPF Secretariat's General Procedure (the Procedure) for undertaking direct procurement action states that, as per General Assembly resolution 51/217, the Procurement Service (PS) should be available for the Fund's procurement. Under this arrangement, reviews and recommendations with respect to the Fund's contracting and procurement actions, made by PS or the Headquarters Committee on Contracts (HCC), would be submitted directly to the Secretary to the Pension Board/Chief Executive Officer (CEO) for decision. Based on an arrangement between the Secretariat and PS on direct procurement by the Secretariat as noted by the Assistant Secretary-General for Central Support Services in a memorandum dated 12 August 1999, "the Secretariat can directly procure up to \$25,000". In practice, all procurement actions for IMS are carried out by PS.
4. Comments made by the UNJSPF Secretariat, Investment Management Service and the Department of Management are shown in *italics*.

II. AUDIT OBJECTIVES

5. The objectives of the audit were to:
 - a) Assess the efficiency and effectiveness of procurement activities;
 - b) Assess the economical use of the UNJSPF Secretariat and IMS resources;
 - c) Determine whether regulations and rules, policies and related instructions were complied with;
 - d) Verify the reliability of reported data and records supporting the expenditures incurred for procurement operations; and
 - e) Follow-up on implementation of previous audit recommendations.
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III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the Fund's procurement activities relating to the period from 1 January to 31 December 2006 and included contracts from previous periods. The audit was conducted using various methods including: review of relevant documentation maintained by the UNJSPF Secretariat, IMS and PS, evaluation of procurement procedures, interviewing of key staff and testing of controls pertaining to procurement activities of the UNJSPF Secretariat and IMS.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Procurement management at the UNJSPF Secretariat

Use of consultants

7. The total value of the three consultancy contracts discussed in the ensuing paragraphs amounted to \$8,348,063, of which \$3,754,063 (see Annex 2) was obtained through the direct procurement authority granted to the CEO by the Pension Board, over a period of about 10 years. In the opinion of OIOS, these arrangements did not represent an economical use of the UNJSPF Secretariat funds. Consultancy services were used to discharge core functions for a long period of time and the services of Hitachi Consulting and Sprig, Ltd were procured on a recurring basis, instead of establishing posts and developing internal capacity, in contravention of ST/AI/1997/7 on the use of Consultants and Individual Contractors, which states that consultants may be hired only if: the need for the required services cannot be met within staff resources; and the services to be performed do not duplicate work or activities already done, being done or about to be done by other individuals, departments or offices. Furthermore, ST/AI/1997/7 states that, in areas where consultants are frequently hired for a period of more than one year, the head of department or office should submit proposals for the establishment of posts to be filled by staff members.

A1. Consultancy for Database Administrator Services with Kevin Daly/Hitachi

Contract for database administrator services with Kevin Daly/Hitachi

8. The UNJSPF Secretariat had used one individual contractor since 1997 to provide Database Administrator (DBA) services at a cumulative cost of \$2,220,965 as of 30 September 2007, of which contracts valued at \$370,385 were directly procured. One Institutional or Corporate Contract was directly entered into with Kevin Daly for a six-month period in 1997 and totaled \$86,400. Five Special Service Agreements (SSA), seven individual contractor agreements (ICA) and two amendments issued to Kevin Daly totaling \$1,315,380 and spanning from 1997 to June 2004, were exceptionally approved by the Office of Human Resource Management (OHRM). Subsequently, because OHRM was reluctant to continue to extend these ICAs with Kevin Daly, the UNJSPF

Secretariat directly contracted in July 2004 with Hitachi Consulting, while being fully aware that Hitachi Consulting would subcontract the job to Kevin Daly. This contract was for a period of six months in the amount of \$124,800, and was extended three times for a cumulative amount of \$285,676 pending the completion of the procurement action that was being carried out by PS. In August 2005, at the conclusion of the procurement exercise, the Fund signed a one-year contract with Hitachi Consulting for \$267,600 that was extended for an additional year in October 2006 at the same rate. OIOS observed that the Fund continued to procure these consultancy services despite twice hiring a DBA in 2003 and again in 2005. The UNJSPF Secretariat functioned without consulting DBA services in August and September of 2006, pending the conclusion of procurement action, with no apparent drop-off in technical services.

9. The UNJSPF Secretariat thus retained Hitachi Consulting on a full time basis for an extended period of time, which overlapped with the times of the staff DBA in 2003 and 2005. Furthermore, the UNJSPF Secretariat had not revised the contract with Hitachi Consulting to a limited support-hours arrangement to ensure a more economical use of resources. Notwithstanding the repeated concerns of HCC regarding the high cost of the consultant, which it deemed to be at a rate comparable to the salary of an Assistant Secretary-General (HCC/04/44 and HCC/02/29), it still recommended these cases for Hitachi Consulting for approval. OIOS noted that HCC had, on two occasions, expressed reservations regarding the pricing of the service provided by Hitachi Consulting and the fact that the consultant was located in Texas while functioning as the day-to-day DBA. In addition, HCC had twice recommended to the UNJSPF Secretariat to hire a full time DBA, which was finally done as noted above.

10. At the HCC meeting (HCC/05/35) held on 21 June 2005, Committee members had sought justification for having to pay Hitachi Consulting nearly \$100,000 more than the second ranked bidder. According to the minutes of this meeting, the UNJSPF Secretariat responded that “the difference was not really a \$100,000 since Hitachi had factored in travel expenses into their proposal amounting to \$18,000. As a result, the cost differential was about \$72,000.” The actual difference between Hitachi and the second-ranked candidate was \$116,240. The HCC minutes also attributed to the UNJSPF Secretariat the statement that they “would not be responsible for [paying] the \$18,000 travel expenses.” However, the audit found that travel expenses were in fact disbursed by the UNJSPF Secretariat to Hitachi as per the proposal, the contract and the purchase order.

A2. Consultancy for Project Manager Coordinator with Sprig, LTD¹

Contract for project management services with Sprig, Ltd

11. Sprig, Ltd was hired to provide services as a Project Manager Coordinator for the UNJSPF Secretariat reengineering project from June 1998 to September 2006 through 15 contracts totaling \$1,893,450. Nine of those contracts were ICAs totalling \$343,450. The others were processed through PS for a total amount of \$1,550,000. Two of these contracts were competitively bid for \$800,000 and there were four amendments totalling \$750,000 extending the contracts beyond expiration.

12. At an HCC meeting (HCC/02/29) held on 7 May 2002, the Committee recommended to have the function of Project Management Coordinator (PMC) regularized as a staff post instead of outsourcing at a high level of remuneration. At a subsequent HCC meeting (HCC/04/44) held on 13 July 2004 to consider the request for an additional two-year contract with Sprig Ltd., the Committee reiterated its previous position that the function of PMC be regularized as a staff post. However, OIOS noted that the UNJSPF Secretariat did not seek to establish this position as an internal post, although the ACABQ in its report A/56/7Add.1 had recommended the establishment of other posts for the reengineering project.

13. According to the material presented to the HCC by PS for a meeting held on 7 May 2002, PS indicated that “Sprig, Ltd was the only vendor that met the minimum overall threshold of 80 percent” (combined technical and financial evaluation). This statement was incorrect: according to the evaluation, Sprig’s overall score was 78% with the highest financial proposal of \$25,000 per month. The second highest proposer – Revere Group – had an overall score of 76% and a financial proposal of \$17,500 a month; a total contract difference of \$180,000 or a 30% savings on a \$600,000 contract for a two-year period. Furthermore, the procurement procedures do not require a minimum threshold for an overall score, but only for the technical evaluation score.

Contract for Web Architect Services with Revere Group

14. OIOS found that the UNJSPF Secretariat had retained Revere Group as a consultant on a full time basis since 2000, and for an extensive period of time that overlapped the time of the staff Web Architect. UNJSPF Secretariat had not revised the contracts with the consulting Web Architect to a limited support-hours arrangement after recruiting a staff Architect. During this period, Revere Group has been contracted 32 times to provide web architectural services and support and maintenance for the Lawson accounting system, for a cumulative amount of \$4,233,648. Eleven of those contracts were let through PS for a total amount of \$1,193,420 and the remaining 21 contracts were directly procured by

¹ The audit considered the findings, recommendations and management action, relating to the investigation that was carried out by OIOS on the consultancy services by Sprig, Ltd., and noted that the recommendations have since been closed.

the Fund Secretariat by way of Institutional or Corporate Contractor contracts. It should be noted that since 2005, when the Fund initiated a procurement exercise with PS, 15 of these contract extensions were for a period of three months or less while awaiting completion of the procurement action by PS.

15. The necessity of this consultancy is questionable since the UNJSPF Secretariat hired an in-house web-developer in November 2005, but retained the web development consultancy for a total value of \$295,000 until December 2006. A similar issue was raised in the Audit of the Lawson Accounting System (AS2005/800/01 dated 4 April 2006), but was not fully addressed by the Fund.

Recommendations 1 to 4

(1) The UNJSPF Secretariat should ensure compliance with ST/AI/1999/7 on hiring of Consultants and Individual Contractors, and recruit professional staff to perform functions that are being regularly performed by outside consultants for extended periods of time, in order to maximize the economical use of resources.

(2) The Chief Executive Officer of the UNJSPF Secretariat should address accountability for the inefficient and uneconomical use of the Fund's resources with regard to (i) the database administrator service contract with Kevin Daly/Hitachi Consulting; (ii) the project management services contract with Sprig, Ltd; and (iii) the web architect services contract with the Revere Group.

(3) The UNJSPF Secretariat should ensure due care is taken to provide accurate information to the Headquarters Committee on Contracts to enable the Committee to properly discharge its functions.

(4) The Procurement Service should ensure due care is taken to provide accurate information to the Headquarters Committee on Contracts to enable the Committee to properly discharge its functions.

16. *The UNJSPF Secretariat partially accepted recommendation 1 and stated that it generally followed ST/AI/1999/7 where appropriate in the past and will certainly do so in the future. The Fund disagreed with the findings and stated further that it believes that recruiting consultants (Hitachi, Sprig and Revere) for limited duration projects was an efficient solution to achieve the desired project results. It was necessary to accept overlapping consultant and staff contracts at times, to ensure that projects were completed on a timely basis, with competent resources. Due to the highly specialized functions to be performed, good candidates were difficult to attract, in that there were plenty of opportunities at higher salaries in the marketplace. This brings into question the level of posts offered by the Fund. The issues associated with resource alignment will be addressed in the upcoming Whole Office Review. The UNJSPF Secretariat*

further explained that the cited direct procurement arrangements were necessary because of the unsuccessful efforts to recruit a fully qualified Database Administrator, the slowness of PS in filling procurement requests, and the urgent needs of the Fund for specialized and immediately accessible Information Technology (IT) expertise. Also, whenever reviewed by PS, the rates paid for consultants were found to be in line with the market rates for consultants.

17. *The UNJSPF Secretariat did not accept recommendation 2 and stated that management is unable to accept OIOS's statement that recruitment of consultants on a temporary basis to work on IT projects of short-term duration was inefficient and uneconomical. Management would point out that all projects were delivered in a timely manner and within approved budget. For these projects, part of the "re-engineering projects", recruitment of consultants proved to be effective both operationally and economically. OIOS has not provided evidence that recruitment of staff would have allowed the Fund to achieve its objectives. Regarding overlapping of DBA functions, management made unsuccessful attempts to recruit and retain staff members. When a candidate was finally recruited, his performance did not meet expectations, thereby requiring ongoing support. The Fund is currently addressing these performance issues. The UNJSPF Secretariat further explained that it had been using the services of the Revere Group from 2003 for occasional Web Enablement related tasks within the framework of Lawson support and maintenance activities. The one-year overlap of services of the Web Architect consultant and those of the Web Architect staff member was justified to complete "out of the scope" projects while the staff member was fully engaged in day to day maintenance activities and outstanding Pension Board mandated web-related projects.*

18. OIOS maintains that the prolonged use of consultants was: (a) not in compliance with ST/AI/1999/7; (b) inefficient since it required numerous extensions; and (c) uneconomical considering the remuneration applied to Hitachi Consulting and Sprig Ltd, and the duplication of consultancy services with in-house resources in some instances. Therefore, recommendations 1 and 2 remain open pending receipt of the conclusions of the Whole Office Review and of documentation from the Fund showing that they have been implemented.

19. *The UNJSPF Secretariat accepted recommendation 3 and stated that all cases and supporting documents are prepared and submitted to the HCC by PS. The Fund, as the requisitioning office, may later be asked to provide additional information upon HCC's request. The UNJSPF always provided the most accurate and relevant information. OIOS found that this was not the case for the HCC presentation relating to Hitachi Consulting. However, based on the assurance provided by the Fund, recommendation 3 has been closed. OIOS will continue to review the Fund's practices in regard to information provided to HCC in future audits, as appropriate.*

20. *PS accepted recommendation 4 and stated that it is based on a submission by PS to the Headquarters Committee on Contracts (HCC) in May 2002. Since that time, PS has implemented numerous reforms and improvements in order to ensure, among other things, that due care is taken to provide accurate information to the HCC. Improvements include training; staff changes;*

strengthening of internal controls in accordance with the Report of the Secretary-General to the 60th General Assembly, entitled "Investing in the United Nations: For a Stronger Organization Worldwide" (A/60/846/Add.5). Based on the response by PS, OIOS has closed recommendation 4.

Actuarial consultancy with Buck Consultants

21. OIOS found that the Fund had not embarked on a competitive bidding exercise in accordance with procurement procedures for actuarial service, a critical area for the Fund. Contracts should be awarded on a competitive basis. However, the contract with Buck Consultants, the consulting actuary, was awarded on a non-competitive basis and without documenting the justification for deviation from normal procedure. The consulting actuary prepares, amongst other requirements, the periodic actuarial valuation, which is a critical component of the Fund's operations. The Committee of Actuaries (COA) performs an annual evaluation of the consulting actuary; they consistently deemed the Consulting Actuary's work satisfactory and fairly priced. While acknowledging the value of the evaluation of the COA, OIOS is concerned that the Fund has not explored alternatives to using Buck Consultants and thus has not mitigated the risks of excessive reliance on this vendor.

22. OIOS is of the view that a competitive bidding exercise should be carried out for the actuarial services. The value of the contract for actuarial services was \$460,000 for the 2006 – 2007 biennium. The issue of a lack of competitive bidding was raised in the OIOS audit of contractual arrangements between the UNJSPF Secretariat and the consulting actuary (AS2002/110/01) and resulted in the establishment of an agreement between the Fund and the consulting actuary. This agreement, which is a contractual letter formulated by the consulting actuary, was not reviewed by the Office of Legal Affairs (OLA) and does not comply with the UN general conditions of contract.

Recommendation 5

(5) The UNJSPF Secretariat, in cooperation with the Procurement Service, should conduct a competitive bidding exercise for the Fund's actuarial services. Any exception to competitive bidding should be justified in writing by the Chief Executive Officer and approved by the United Nations Joint Staff Pension Board.

23. *The UNJSPF Secretariat partially accepted recommendation 5 and stated that: (a) the current contractual arrangements are based on several ongoing, concordant and external professional assessments of the services, both in terms of methods and value for money; and (b) that a change would not provide added value, but instead would result in unnecessary disruptions in the work of the Fund. However, if changes in the assessments were to occur, Fund Management would be prepared to review the contractual arrangements. In the meantime, the Fund agrees with the recommendation that any exception to competitive bidding should be justified in writing and approved by the Pension Board. In this connection, and in accordance with Article 10 of the Regulations of the Fund, the*

appointment of the Consulting Actuary would continue to be based upon the recommendation of the Pension Board. Management intends to include a standing item on the agenda of the Pension Board, thereby requesting specific approval of this appointment. The item will be addressed by the Pension Board this year and in the future in each year prior to the signing of any future contracts with the Consulting Actuary (i.e. in the odd-numbered years).

24. *PS accepted recommendation 5 and stated that it was not consulted prior to the decision to award the contract for actuarial services on a non-competitive basis. PS has assured the UNJSPF Secretariat of its willingness to coordinate such bids. In order to facilitate the coordination of solicitation for actuarial services, PS is in the process of retaining a senior Procurement Officer with expertise in this area. PS therefore considers its responsibility within this recommendation as implemented.*

25. OIOS is unable to accept the UNJSPF Secretariat's explanation due to the significant risks arising from the lack of a competitive bidding exercise and also the fact that the existing terms and agreements between the two parties have not been reviewed by OLA and PS. In addition, in the 50 years that the Fund has retained same consulting actuary, the UNJSPF has never performed a comprehensive review of the consulting actuary's work programme, including valuations. It is industry practice to rotate actuaries and to engage in periodic competitive bidding. OIOS therefore reiterates recommendation 5, which will remain open pending receipt of documentation from the Fund showing that it has been implemented.

Request for Proposal for Sprig, Ltd consultancy

26. In one instance, the vendor (Sprig, Ltd) proposed and the UNJSPF Secretariat and PS accepted terms that were contrary to the Request for Proposal (RFP). The RFP requested a performance bond of 20 per cent of the contract value; however, the contract was accepted by PS with the caveat that 10% of the contract amount would be held back in lieu of the bond. Paragraph 9.9.13(2) of the Procurement Manual states that "for contracts with a value over \$100,000, it may be prudent to require the contractor to provide a performance bond, and a labour and materials payment bond, if applicable". This arrangement was unique to this contract and there was no justification documented in the procurement file for the deviation from the RFP.

Recommendation 6

(6) The Procurement Service should strengthen internal controls to ensure that: (i) contract terms comply with the requirements indicated in the Request for Proposal and with the UN general conditions of contract; and (ii) reasons for any deviation are properly documented.

27. *PS accepted recommendation 6 and stated that as part of the reform efforts, PS has strengthened internal controls to ensure that: (i) contract terms comply with the requirements indicated in the Request for Proposal and with the UN*

General Conditions of Contract, and (ii) reasons for any deviation are properly documented. It is now standard practice to secure performance bonds for the required amount, or to document the reasons for any deviation. By memo to staff dated 21 November 2007, the Chief of PS instructed staff to ensure application of the performance bond policy. Recommendation 6 remains open pending receipt of the instruction to the staff dated 21 November 2007.

Procurement policy and direct procurement authority

(a) Responsibility

28. OIOS found that there was uncertainty regarding the ultimate responsibilities for the Fund's procurement activities, including those pertaining to IMS. This was evident from the recent clarification sought from OLA by PS, following queries raised by HCC regarding the procurement for the main contract for banking arrangements with JP Morgan Chase.

29. Furthermore, the delegation of the direct procurement authority given to the CEO by the Pension Board in terms of General Assembly resolution 51/217 and the related UNJSPF Secretariat's General Procedure were not clear. The provisions of the procurement procedure authorize the CEO to act on his own authority: (a) when PS cannot complete the process within the required timeframe, (b) when the CEO is unable to accept a particular recommendation made by PS or HCC, or (c) when PS informs the CEO that a particular contract or procurement action cannot be carried out by that office. The excessive flexibility to use or not the services of PS as allowed by these provisions has resulted in over-usage of the direct procurement authority, and is reflective of the lack of adequate acquisition planning.

30. Moreover, without clear criteria for non-acceptance of recommendations by PS and/or HCC, the provision which authorizes the CEO to exercise his delegation of authority to directly procure when the CEO was unable to accept a particular recommendation made by PS or by HCC, further diminishes internal controls.

31. In a memorandum dated 5 July 2007 to PS, OLA stated that paragraph 112 of the Board's report [A/51/9] requires that "...the normal UN procurement processes are to be used for the procurement requirements of the Fund ... except the final decision on the Fund's procurement activities is to be taken by the CEO of the Fund, rather than by the UN's Chief Procurement Officer." In light of this memorandum from OLA, OIOS believes that there is a need for the Fund to further clarify the policy. Furthermore, OIOS seeks clarification as to what constitutes an extenuating circumstance, and whether the direct procurement authority granted to the CEO should also apply to purchases by IMS (as discussed in Section B – Procurement management at the Investment Management Service), particularly regarding the reference by OLA in its memo of 5 July 2007 to the administrative responsibilities, including procurement.

Recommendation 7

(7) The Chief Executive Officer of the UNJSPF Secretariat should seek clarification from the United Nations Joint Staff Pension Board on the direct procurement delegation of authority granted to him in 1996 and revise the guidelines accordingly, including establishing clear criteria for executing the direct procurement authority.

32. *The UNJSPF Secretariat did not accept recommendation 7, stating that it disagrees with OIOS's view that there is a lack of clarity about the CEO's authority in this area: the matter is settled by GA resolution 51/217 and the straight forward OLA memo of 5 July 2007. The direct procurement process requires no further clarification or edition.* In the view of OIOS, the Fund should make use of PS in all procurement exercises, with the exception of cases involving unforeseen circumstances or emergencies that might necessitate bypassing the normal UN procurement process. It is also the view of OIOS that neither the GA Resolution nor the OLA memorandum obviates this requirement. OIOS reiterates recommendation 7, which remains open pending receipt of documentation showing that it has been implemented.

(b) Flexibility

33. In April 2006, the UNJSPF Secretariat amended the General Procedure and established the Procurement Advisory Committee (PAC), as part of the UNJSPF Secretariat's procedure for undertaking direct procurement action, "which segregates responsibilities between the requisitioning and the recommending entities..." The Procedure states that "the PAC shall review and provide advice to the CEO as to whether it recommends the authorization of proposed procurement actions, considering the criteria and procedure described in this General Procedure. Mutatis mutandi, the functions of the PAC mirror those of the HCC." The Procedure further states that "the main responsibilities of PAC shall be to: verify that the direct procurement requests contain at least the elements described in the Procedure; assess if the direct procurement requests meet the criteria established in the Procedure; and communicate its recommendations to the CEO to authorize or reject direct procurement requests."

34. In its first meeting of 24 April 2006, PAC concluded (in paragraphs 8.3.2 and 8.3.3) that: (a) Requisitioners should be reminded to plan their procurement needs and allow adequate lead time for the procurement through PS and alternatively through the PAC; and (b) the Information Management Services Section (IMSS) in UNJSPF should request the issuance of longer-term contracts by the PS when it is foreseeable that support services for a particular project or need would be required for longer periods. This would avoid the request of recurring short-term extensions for the same project. Similar conclusions were drawn in the 2nd and 4th PAC meetings held on 22 May 2006 and 05 February 2007.

35. With regard to the Procurement Manual's provision on exigency (Section 9.5.2), OIOS is of the view that the circumstances of the request did not meet an exceptional compelling and emergent need as defined in the manual. Furthermore, the manual states that, exigency notwithstanding, the PS should

make all attempts to conduct a market survey, to the extent possible, to ensure that the costs of the product or service purchased under such circumstances are reasonable.

36. The PAC recommended for approval six out of nine cases reviewed (see Table 1 below) based on the conclusion that the cases met the criteria established in the Procedure. OIOS found however, that most of these cases did not meet the Procurement Manual’s definition of exigency, as they represented extensions of existing support and maintenance contracts. Their late submissions appear to have resulted from inadequate planning of requirements. Two of the six cases were recommended for approval on an ex-post facto basis. One of the ex post-facto cases was not brought to the attention of PS until after the support hours provided by the contract were expended and an additional 150 support hours (25% of the contract) were used by Information Management Systems Services (IMSS). Although critical systems are vital to the functioning of the Secretariat, OIOS believes that the condition in the original mandate was established for exigencies such as failure of the actual systems, a disaster recovery or business continuity scenario.

Table 1 – Procurement Authority Committee Meetings (Apr 06-Feb 07)

PAC Meeting #	Recommended for Approval	Rejected or Abstained	Total Cases
1	1	0	1
2	3	1	4
3	1	0	1
4	1	2	3
Total	6	3	9

Recommendation 8

(8) UNJSPF Secretariat should strengthen the role of the Procurement Advisory Committee, to require more stringent review of criteria, clearly define what constitutes an exigency and require requisitioners to adequately plan their procurement requirements.

37. *The UNJSPF Secretariat accepted recommendation 8 and stated that the Fund has established a process for direct procurement which segregates responsibilities between the requisitioning and the recommending entities, and which establishes a separate review process by an independent advisory body with clear criteria, which duly records the information presented, the review process and the decisions made by the CEO. This process has been presented to the Pension Board. The Fund’s direct procurement guidelines protect the Fund’s assets and processes and enable the CEO to guarantee a proper and continuous operation of the Fund and the opportune and controlled payment of pension benefits, when extraordinary circumstances require a direct procurement or in cases where PS is unable to meet the Fund’s procurement requirements.*

38. *The UNJSPF Secretariat further stated that most direct procurement actions were short-term (one month) extensions of maintenance contracts previously approved by HCC, at a time when the procurement process was unduly protracted. Since then, the Fund recognized significant progress made by PS in the timely delivery of services and this led to a major reduction in direct procurement actions. Furthermore, all presentations provided to the PAC were well documented after comprehensive study and discussion. The PAC had concluded that none of the submitted cases had been the result of poor acquisition planning and that they met the PS Procurement Manual's definition of "exigency" as provided in paragraphs 5.9.2.(3)(a) and (b) of the manual. The UNJSPF General Procedures and Guidelines for direct procurement provide all criteria defining what constitutes an exigency in paragraphs 2 and 8, which is in line with those described in the PS Procurement Manual.*

39. OIOS would like to point out that of the six requisitions recommended for approval, only one was for a one-month extension of service and none were for contracts previously reviewed by HCC. In addition, on three separate occasions, PAC indicated in the meeting minutes that the requisitioner could have planned the procurement better, and was of the view that better acquisition planning would enhance the procurement process. Recommendation 8 remains open pending receipt of the updated procurement procedure.

(c) Reporting to the Pension Fund Board

40. OIOS is aware of the Board's decision expressed in its report JSPB/48/R.36 that it was not necessary for the Secretary to submit to the Board or the Standing Committee annual reports on procurement actions taken under the CEO's authority since these would normally be reviewed by either the internal or external auditors. The Board also indicated that should exceptional circumstances occur, which required attention or review by the Board or Standing Committee, the Secretary would be expected to report thereon. However, OIOS is of the view that until the direct procurement policy is clarified, it will be difficult to determine those exceptional circumstances to be reported on by the CEO.

41. In its memorandum to PS dated 5 July 2007, OLA stated that paragraph 112 of the Board's report [A/51/9] requires the CEO to report to the Board any cases in which the CEO exercises such authority [delegation of authority as per GA resolution 51/217 of 18 December 1996] to conduct procurement activities outside of the UN Procurement Service "machinery". OLA further pointed out that any deviations from the foregoing practice must be consistent with the circumstances described in the Board's report and must be specifically brought to the attention of the Board by the CEO.

Recommendation 9

(9) The UNJSPF Secretariat should clarify, when revising the direct procurement policy, the exceptional circumstances that would need to be reported to the United Nations Joint Staff Pension Board.

42. *The UNJSPF Secretariat accepted recommendation 9 and stated that as shown in the responses to the OIOS recommendations 7 and 8, the Fund's procurement authority and procedures are clear and have been approved by the Pension Board and the General Assembly. Furthermore, the establishment of the PAC and the attendant formal procedures for direct procurement has also been fully disclosed to the Board. Nevertheless, the CEO will inform the Board of the OIOS concerns with direct procurement and ask whether the Board or the Audit Committee would now like to receive reports from the CEO on the exercise of his direct procurement authority. Recommendation 9 remains open pending receipt of documentation indicating the deliberations by the Pension Board and any changes in the reporting procedures made as a result of the Board's decisions.*

(d) Contracts Officer's role and reporting lines

43. In the previous audits of procurement operations (AS2000/64/1 of 24 January 2002) and Contractual Arrangements-UNJSPF Secretariat and Consulting Actuary (AS2002/110/1 of 24 March 2003), the UNJSPF Secretariat accepted five recommendations and indicated that the soon to be hired Contracts Officer would be responsible for: overseeing and documenting all aspects of the procurement process; providing the requirements and specifications for enhancement of the Lotus Notes Procurement system; and formalizing recordkeeping requirements in consultation with the Executive Office. Accordingly, the Contracts Officer was recruited in April 2003. OIOS noted that the Contracts Officer reports to the Chief of IMSS and is currently dedicated solely to procurement for the UNJSPF Secretariat-IMSS. According to industry best practice, this position is normally located in either the Legal Office or the Executive Office, with responsibility for monitoring all aspects of the procurement process.

Recommendation 10

(10) The UNJSPF Secretariat should revise the reporting lines and expand the duties and work plan goals of the Contracts Officer to include oversight over contracts throughout the Fund's Secretariat.

44. *The UNJSPF Secretariat did not accept recommendation 10, stating that the referenced recommendations and corresponding comments from audit # AS2000/64/1 of 24 January 2002 and AS2002/110/1 of 24 March 2003 refer mainly to the revision of the UNJSPF procurement procedures and guidelines and to the enhancement of the Lotus Notes procurement database. None of these documents address the organizational/hierarchical extent of administrative responsibilities and accountabilities of the suggested post of Contracts Officer. The Contracts Officer had successfully performed its primary function of overseeing and documenting all aspects of the procurement process and has worked closely with the Executive Office to enhance the Lotus Notes procurement database, as recommended in previous audits. The functions of the Contracts Officer are directly related to the goals and objectives of IMSS, in which the incumbent is also responsible for all facets of "contracts administration" and*

liaises with PS for all IMSS procurement actions. The suggested structural change, together with the proper classification of the current post would require additional responsibilities and accountabilities and will be included in the upcoming Whole Office Review.

45. OIOS is of the view that the realignment of the Contracts Officer's role in line with best practice [for the location of the Contracts Officer function within the Legal Office or Executive Office] will further enhance the overall contract management process throughout the Fund Secretariat, and that due consideration should be given to this during the Whole Office Review. Recommendation 10 remains open pending the outcome of the Whole Office Review.

B. Procurement management at the Investment Management Service

Procurement authority

(a) Responsibility

46. The structure of the Fund comprises the Secretariat, which is headed by the CEO who reports to the Pension Board, and IMS which is headed by the RSG, assisted by the Director, and is responsible for the investment activities of the Fund. In a memorandum dated 5 July 2007 to PS, OLA stated that the UNJSPF was established as a subsidiary organ of the General Assembly. However, it is also an inter-agency body administered by the Board of the UNJSPF, which reports to the General Assembly. OLA also stated that the procurement activities of the Fund fall within the administrative responsibilities of the CEO within the meaning of Article 7 of the Regulations of the UNJSPF. In practice however, OIOS found that the procurement exercises for IMS were not administered by the UNJSPF Secretariat.

47. The memorandum of understanding (MOU) of 2002 between IMS and the Fund Secretariat does not clearly define the responsibilities of the CEO and/or the Fund Secretariat for any procurement activity relating to IMS. The purpose of the MOU was to establish modalities for collaboration and cooperation in personnel, procurement and information technology. OIOS believes that there is a need to clarify this responsibility as it relates to the original delegation of authority by the Pension Board (General Assembly resolution 51/271, December 1996), and the administrative responsibilities of the Representative to the Secretary-General (RSG), who has been entrusted fiduciary responsibility for the investments of the Fund.

Recommendation 11

(11) The Chief Executive Officer and the Representative of the Secretary-General should, in light of the advice from the Office of Legal Affairs, seek clarification from the UNJSPF Board on the administrative responsibility for the procurement of the Fund.

48. *The UNJSPF Secretariat did not indicate its acceptance or non-acceptance of recommendation 11, but stated that the 2002 MOU between the Fund's CEO and the RSG for Investments did not mention procurement activities of IMS that had traditionally been carried out through PS, without any involvement by the Fund's CEO. Clarification would be required only if the RSG were to change the past practice so as to involve henceforth the Fund's CEO in some responsible capacity. However, IMS Management accepted recommendation 11 and stated that the RSG shall seek the recommended clarification from the UNJSPF Board. The target date for full implementation of this recommendation is 30 June 2008. Recommendation 11 remains open pending receipt of documentation indicating clarifications obtained by the RSG from the Pension Board and any changes made to the MOU between the CEO and RSG and related procurement procedures as a result of these decisions.*

(b) Conflict of Interest

49. OIOS observed a conflict whereby the former Under-Secretary General for Management, who was at the time also overseeing the UN Secretariat procurement functions, was also the RSG-IMS. For example, in the case of the global custodian contract the USG/RSG-IMS had approved the overriding of the procurement process. Within two months of contract signing, the Custodian Bank, by way of an amendment to the original contract, was engaged to provide transition management services for the liquidation investment of a small cap portfolio valued at \$74 million, at an additional cost of \$108,000.

50. Currently, the RSG, who has delegated authority for investments of the UNJSPF, is also the Controller who is currently responsible for approving HCC cases as the acting Head of the Office of Central Support Services. To avoid a conflict of interest in the cases of small cap management contracts, the Director of IMS had to sign amendments for contract extension and the ex-post justification submitted to HCC as head of IMS in lieu of the Controller. Furthermore, in the deliberations of HCC, as per minutes dated 1 June 2007, it was not clear who should be the responsible officer for signing-off on IMS contracts.

Recommendation 12

(12) The Representative of the Secretary-General should establish a mechanism ensuring adequate segregation of duties for approving and signing-off on all procurement cases pertaining to the Investment Management Service that are presented to the Headquarters Committee on Contracts.

51. *The RSG accepted recommendation 12 and stated that the RSG/Controller has already established procedures to recuse himself from approving the HCC minutes in cases where IMS is the requisitioner. Recommendation 12 remains open pending receipt of documentation of the procedure that indicates that the RSG will recuse himself from approving the HCC minutes in cases where IMS is the requisitioner.*

Contact with vendors in the disaster recovery contract

52. OIOS found that IMS officers, in breach of UN procurement procedures, contacted vendors and obtained financial information, at the risk of compromising the procurement process. The Procurement Manual states that “prior to Bid Closure no communication shall take place between the recipients of the Solicitation Documents and the UN, except with the issuing Procurement Officer designated as the UN’s sole point of contact” and that “under no circumstances shall any cost data furnished by the Vendors be released to the requisitioner prior to the finalization of the technical evaluation”. A memo from IMS was sent to PS requesting assistance in completing procurement for a disaster recovery site. In the memo, IMS indicated that three companies had already been contacted by IMS; due diligence was completed including site visits; and the financial proposal for each of the three vendors was obtained. The memo also indicated that SunGard was the only vendor that fulfilled all the requirements. PS later became involved in this procurement exercise and issued an RFP, following which SunGard was awarded a one year contract in the amount of \$56,160. OIOS found that IMS had technically carried out most of the procurement process before involving PS in contravention of the procurement procedures.

Recommendation 13

(13) The Investment Management Service should comply with Procurement Manual requirements at all times including consultation with Procurement Service at the beginning of all procurement exercises.

53. *IMS accepted recommendation 13 but did not indicate its proposed action for implementation.* Recommendation 13 remains open pending receipt of documented evidence of cases showing that IMS has begun to comply with the requirements of the recommendation to consult with PS at the beginning of all procurement exercises.

Contract administration of small cap advisor contracts

54. OIOS found that IMS did not effectively monitor the contracts with the small cap advisors, resulting in the extension of these contracts beyond their expiration without the approval of PS. Contracts with investment advisors for small capitalization portfolios (companies with market capitalization of \$3 billion or less) were signed in 2001 with a five year ceiling of \$21.5 million and without an option to extend. The contracts did provide for a 270-day transition period to any new investment advisor. Upon expiration of the contracts in 2006, IMS extended these contracts for one year and later presented the cases to HCC on an ex-post facto basis.

Recommendation 14

(14) The Investment Management Service, in cooperation with the Procurement Service, should ensure that future

contracts are properly monitored to minimize contract extensions beyond the approved timeframes.

55. *IMS accepted recommendation 14 and stated that "Small Cap" contracts were extended according to former IMS Director to ensure the contracts' continuation while contract replacements and procurement exercise were finalized. The monitoring of contract expiration is now one of the duties of the Legal Officer who recently joined IMS. Constant coordination and follow-up are made to ensure new contracts and RFPs are finalized in due course and PS requests are always addressed in a timely manner. PS commented that it has been cooperating with IMS in this connection, and is currently strengthening its staffing in order to provide even greater support to IMS. Based on the current close collaboration between PS and IMS, it is anticipated that in the future, IMS will involve PS at the beginning of the procurement process for small cap contracts. Recommendation 14 remains open pending receipt of documentation from IMS outlining the Legal Officer's job description as it relates to contract monitoring.*

(d) Competitive bidding relating to Northern Trust and Skae Power contracts

56. IMS had not initiated a competitive bidding exercise, but instead requested an amendment to the custodian contract with Northern Trust to provide transition management services for the liquidation of and reinvestment of a small cap portfolio. OIOS noted that PS had expressed reservations in processing the amendment and suggested having a competitive bidding exercise, but was subsequently satisfied with the justification by IMS to expedite. OIOS is of the view that this approach was not in keeping with industry practice, in which this type of transition management service is not normally treated as a core service, but rather as other services that are provided under a separate contractual arrangement, even if carried out by the global custodian. IMS management explained that in this specific case, due to potential market risk in the liquidation of a small cap portfolio, whose managers had been discontinued, the Director of IMS requested from the RSG that competitive bidding not be initiated due to the time the process would take for completion and considering the potential financial loss to the Fund. Northern Trust was then requested to liquidate the portfolio.

57. The contract with Skae Power Solutions for uninterrupted power supply (UPS) relocation and reinstallation, at a cost of \$93,000 was procured by PS without competitive bidding. The request and the justification for the non-competitive bid (due to the cost of switching suppliers) were presented to PS by the IMS-Information Technology staff. The Procurement Manual states that only the Head of Office, in this case the Director of IMS, can request PS to circumvent the competitive bidding process.

Recommendation 15

(15) The Investment Management Service, in cooperation with the Procurement Service, should comply with the Procurement Manual requirement for competitive bidding.

Any exception to competitive bidding should be justified in writing by the Director of IMS and approved by the Representative of the Secretary-General.

58. *IMS accepted recommendation 15 and stated that it is now standard practice to ensure that any exception to competitive bidding is justified in writing by the Director of IMS and approved by the Representative of the Secretary-General. Based on the response by IMS, OIOS has closed recommendation 15.*

(e) Global Custodian Contract with Northern Trust

59. IMS had implemented a previous recommendation by OIOS (AS2003/72/1) to consolidate the custodial and master record-keeper arrangements in order to achieve more efficiency and economy, and signed a contract with Northern Trust (the Bank) for \$500,000, reporting savings of \$5.6 million for the biennium 2006-2007. During the 2007 audit of global custodian and master record-keeper operations (AS2006/801/01), OIOS identified a number of issues relating to the solicitation and evaluation of proposals, fees and contract amendment. These issues were reviewed in more detail as part of this audit, which found several instances of non-compliance with procurement procedures that put into question the regularity of the procurement process in this case.

60. In accordance with industry practice, IMS used an external consultant, Deloitte and Touche (D&T) to provide advisory assistance to the Fund in the development of an evaluation criteria spreadsheet for responses from prospective banks, drafting of an addendum to the RFP for Other Value-Added Services, and attending due diligence visits to the short-listed banks. However, D&T had not disclosed a conflict of interest with the four short-listed bidders prior to being engaged. During the due diligence visits, it became known to IMS that D&T had contractual relations with some of the banks. In particular, officials of one of the banks, Northern Trust, mentioned that D&T is often retained to collect taxes on behalf of the Bank. Once PS became aware of this omission, D&T was asked, but was reluctant, to sign a disclosure statement. Based on the lack of disclosure on conflict of interest by the contracted vendor [D&T], the audit concluded that the procurement was not in compliance with the principles of guaranteeing objectivity and transparency.

61. The technical evaluation criteria for the bidding exercise for the global custodian and master record keeper's service were not finalized prior to the bid opening date (01 November 2004). The Procurement Manual states that when the requirement necessitates the use of a RFP, the Procurement Officer shall include, among other things, the criteria to be used in evaluating the proposals. OIOS found that IMS had not revised the criteria in a timely manner subsequent to the issuance of the amendment to the RFP to provide more detailed clarification and obtain additional information. Failure to comply with the requirements of the Procurement Manual in this regard posed a risk that the technical evaluation criteria could be changed in favour of a preferred vendor.

62. OIOS also noted that the technical evaluation criteria did not assign scores to test the ability of bidders to reclaim old and delinquent taxes, although as noted in the HCC deliberations on this case, the ability of the Bank to collect old and delinquent taxes had had a substantial bearing on the technical evaluation. In fact, the RFP was amended due to the significance of tax reclaiming capabilities of the prospective bidders. The technical evaluation criteria had only one question on this subject, and there was no rating score assigned to this attribute in the technical evaluation report; the methodology used was simply ranking the banks as (a), (b), (c) etc. OIOS could not therefore determine how the ability to collect taxes was considered in the overall score. Such action raises questions as to the objectivity of the technical evaluation process, particularly since the contract was awarded to Northern Trust, the second most compliant but lowest bidder, with which D&T had undisclosed contractual relations. OIOS is further concerned that the RFP amendment was effected to state the criticality of an area of common interest to both D&T and Northern Trust, that of the collection of taxes.

Recommendations 16 to 20

(16) The Investment Management Service should finalize all the requirements for the Request for Proposal for future contracts along with the technical evaluation criteria in a timely manner.

(17) The Procurement Service should strengthen internal controls to ensure compliance with the Procurement Manual in regard to the technical evaluation process.

(18) The Procurement Service should ensure compliance with the requirement that the Head of Office of the requisitioner provides full written justification for not seeking competitive bids.

(19) The Procurement Service should revise the Procurement Manual to clearly state the timeline for submission of finalized technical evaluation criteria to the Procurement Service, which should be prior to issuance of the Request for Proposal.

(20) The Investment Management Service management should ensure, until such time that it is authorized to use the UNJSPF Secretariat's direct procurement authority, that procurement is processed through the Procurement Service.

63. *IMS accepted recommendation 16 and explained that as part of separate consulting project for IMS, D&T was requested by the Director of IMS to assist in the RFP process for the global custodian, particularly with regard to the preparation of the RFP. As D&T was unable to sign a conflict of interest statement, they were not allowed to participate in any technical evaluation of any potential bidders. The last payment to D&T was withheld as the Director of IMS*

was not satisfied as to the completion of certain items requested of the consultant. Funding availability for D&T was extended for an additional year to 31 December 2007 to allow for completion of the open items. These items were not completed to the satisfaction of IMS as of 31 December 2007 and the funding was allowed to lapse. Based on the acceptance by IMS and in the context of the response and action taken by PS to recommendation 17, recommendation 16 has been closed.

64. PS accepted recommendation 17 and stated that they have strengthened internal controls to ensure compliance with the Procurement Manual. With specific regard to technical evaluation, the newly revised Procurement Manual issued in November 2007 contains detailed guidelines governing this process. The current Procurement Manual provides in paragraph 11.6.7 that the "evaluation criteria shall be determinant, not merely important. They shall be documented in writing prior to the release of the Solicitation Document." The Manual further provides detailed guidelines on the application of the weighting ratios for commercial and technical evaluations, respectively, as well as the criteria. The proper application of these guidelines is overseen by an Evaluation Committee appointed in accordance with the provisions of the Manual. Built-in internal controls include mandatory reviews by Team Leaders, Section Chiefs and the Chief of Procurement in accordance with respective Delegations of Procurement Authority. Based on the action taken by PS, recommendation 17 has been closed.

65. PS accepted recommendation 18 and stated that it is now standard procedure that PS's management should ensure compliance with the requirement that the Head of the Office of the requisitioner provides full written justification for not seeking competitive bid as mandated. PS complies fully with the Financial Regulations and Rules and with the Procurement Manual. Based on the commitment made by PS to ensure compliance, recommendation 18 has been closed.

66. PS did not accept recommendation 19, stating that it agrees that it is desirable that evaluation criteria should be finalized and submitted to PS prior to the issuance of the Request for Proposal. However, it may not be in the best interest of the organization to prescribe rigid timelines for such submission, since this may cause delays likely to affect critical supplies to peacekeeping and other activities of the Organization. OIOS would like to point out that it was not the intention of OIOS for PS to stipulate the exact timeline, but to indicate the chronological order of submission that requires the completion of the evaluation criteria prior to the issuance of the RFP. OIOS reiterates recommendation 19, which remains open pending reconsideration of this change in the Procurement Manual and implementation of this recommendation.

67. IMS accepted recommendation 20. Based on the acceptance of the recommendation by IMS to continue using PS pending any change in the procedure to use the UNJSPF Secretariat, recommendation 20 has been closed.

C. Common issues

Acquisition planning

68. OIOS found that no annual acquisition plan was transmitted to Procurement Services by the UNJSPF Secretariat or IMS. In paragraph 8.1.3 the Procurement Manual states that requisitioning offices shall perform long term planning covering at least the remainder of the budgetary period and the forthcoming budgetary period and communicate with PS on an annual basis to set up spending plans, including procurement plans. In the case of the Secretariat, the lack of adequate acquisition planning could lead to over-usage of the direct procurement authority.

Recommendation 21

(21) The UNJSPF Secretariat and the Investment Management Service should each complete an acquisition plan annually and submit the plans to the Procurement Service.

69. *The UNJSPF Secretariat accepted recommendation 21 and stated that the requisitioning office is responsible for preparing the annual acquisition plan, but the submission of the plan to PS has always been initiated by PS. UNJSPF/IMSS had not received such requests from the PS beyond 2003; hence it never submitted a formal plan to PS, but had discussed those related to complex projects. The Fund has nonetheless submitted to PS its acquisition plans for both IMSS and IMS-IT and met with the appropriate PS representatives on 15 February 2008 to discuss the details of the plan. IMS also accepted the recommendation, stating that they have completed and submitted the acquisition plan for 2008. Recommendation 21 remains open pending receipt of the most recent acquisition plans submitted to PS by the UNJSPF Secretariat and IMS.*

Procurement timeline

70. There is a need to improve communication with OLA during the procurement exercise, as a means of streamlining the process and improving the procurement timeline. In the case of the global custodian contract, PS/IMS had not contacted OLA in a timely manner. OLA in their memo dated 8 September 2005 stated that the draft agreement was revised by PS without further review of OLA before the draft agreement was included in the RFP. The solicitation exercise was concluded on 31 December 2004 but PS only sought advice of OLA on 5 July 2005, seven months later. Further, when seeking advice from OLA, PS had not yet obtained comments from IMS on the proposed changes to the draft agreement.

71. OIOS also noted that in some cases, the procurement process was unusually long: the procurement for the UNJSPF Secretariat banking services took almost three years to complete; the procurement for the global custodian and master record keeper took over 20 months; and the Lawson accounting system upgrade procurement has taken over 16 months to date. Seven other requisitions

from the UNJSPF Secretariat-IMSS to PS had taken or are taking more than 150 days to complete. The average number of days to complete these requisitions was 267 days or approximately nine months. These delays impacted the effectiveness of the procurement process, delayed improvement initiatives, and may also be reflective of the general lack of acquisition planning.

Recommendations 22

(22) The Procurement Service should ensure that draft contractual agreements are cleared by the Office of Legal Affairs before being distributed to third parties during the solicitation exercise, when applicable.

72. *PS accepted recommendation 22 and stated that it is now standard procedure that draft agreements are cleared by OLA before being distributed to third parties during solicitation exercises. In addition, PS has just successfully concluded a competition for the appointment of a Contracts Officer who will be responsible for liaising with OLA in order to finalize the terms of any non-standard contractual provisions, thereby expediting the process of approval of any non-standard contracts. Recommendation 22 remains open pending receipt of the Legal Officer's job description and a written procedure indicating that draft agreements are to be cleared by OLA before being distributed to third parties during solicitation exercises.*

Vendor evaluation

73. Some contracts were renewed by the UNJSPF Secretariat and IMS without formal evaluation to ascertain satisfactory performance. Furthermore, for most contracts reviewed, contractor performance reports were not completed at the conclusion of the contract period or at renewal of contracts. In addition, for those completed evaluations, the performance reports were missing from the vendor files maintained by PS. Paragraph 7.11.1 of the Procurement Manual states that "Proper Vendor Database maintenance requires regular reporting on vendor performance. To achieve this purpose, requisitioners are responsible for the timely evaluation of vendor performance."

Recommendation 23

(23) The UNJSPF Secretariat and the Investment Management Service should ensure that vendor performance evaluations are completed at the conclusion of the contract period or prior to renewal of contracts.

74. *The UNJSPF Secretariat accepted recommendation 23 and stated that IMSS has consistently prepared vendor evaluations and submitted reports to PS upon completion of contractual services. There have been very few exceptions from this practice, which primarily occurred when purchase orders were amended for monthly service extensions under the terms and conditions of the same contract. IMSS will continue to make sure that vendor evaluations are prepared. IMS also accepted recommendation 23 and stated that vendor*

performance evaluations will be completed at the conclusion of contract period or at renewal of contracts. Based on these responses, recommendation 23 has been closed.

Procurement database

75. The UNJSPF Secretariat-IMSS has created and has been using an effective and well-structured Lotus Notes-based procurement system that is currently only being used actively by IMSS. The database allows easier searching, better management reporting, scanning and proper maintenance of invoices, and improved follow-through of the internal requisition approval process. It is the view of OIOS that this database would be useful to the Executive Office of the UNJSPF Secretariat, the Geneva Office as well as IMS operations and would vastly improve the documentation and management oversight of procurement carried out by these areas.

Recommendations 24 and 25

(24) The UNJSPF Secretariat should expand the use of the Lotus Notes procurement database to include procurement activity in the Secretariat offices in New York and Geneva.

(25) The Investment Management Service should adopt the procurement database used by the UNJSPF Secretariat.

76. *The UNJSPF Secretariat did not accept recommendation 24, stating that as an internal repository and tracking system, the IMSS procurement database contains procurement related files relevant only to IMSS's activities. It should be clearly noted that this system is not a procurement system and should not be confused with a commercially available procurement system. OIOS is unable to accept this response and would like to point out that the recommendation was intended for the Fund Secretariat to expand the use of an effective tool currently in place to increase the overall efficiency of the procurement process in the Fund. OIOS did not intend for this expansion of the use of the Lotus Notes database to include sharing of the actual procurement exercises, but merely the sharing of blank replicas of the Lotus Notes database. Moreover, OIOS notes the UNJSPF Secretariat's willingness to share the database with IMS, which seems contradictory to its position on using it across the Secretariat. OIOS reiterates recommendation 24 for the Fund's reconsideration, and will keep the recommendation open pending the Fund's reconsideration and evidence of its implementation.*

77. *IMS accepted recommendation 25 and stated that implementation depends upon finalizing the information and communication technology consolidation with the Fund Secretariat. The UNJSPF Secretariat commented that as a result of the IT consolidation, all IT infrastructure-related procurement activities of the IMS will be transferred to IMSS and will be properly reflected in the procurement database. The effective date for implementation is dependent upon the approval by the RSG of the proposed MOU and Service Level Agreement.*

Recommendation 25 remains open pending receipt of documentation showing that the sharing of UNJSPF Secretariat's procurement database with IMS has been fully implemented.

V. ACKNOWLEDGEMENT

78. We wish to express our appreciation to the Management and staff of the UNJSPF for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Submission to OIOS of the conclusions of the Whole Office.	Not provided
2	O	Submission to OIOS of the conclusions of the Whole Office.	Not provided
3	C	Action completed	Implemented
4	C	Action completed.	Implemented
5	O	Submission to OIOS of documentation from the Fund showing that it has been implemented.	Not provided
6	O	Submission to OIOS of the instruction to the staff dated 21 November 2007.	Not provided
7	O	Submission to OIOS of documentation from the Fund showing that it has been implemented.	Not provided
8	O	Submission to OIOS of the updated procurement procedure.	Not provided
9	O	Submission to OIOS of documentation indicating the deliberations by the Pension Board and any changes in the reporting procedures made as a result of the Board's decisions.	Not provided
10	O	Submission to OIOS of the conclusions of the Whole Office.	Not provided
11	O	Submission to OIOS of documentation indicating clarifications obtained by the RSG from the Pension Board and any changes made to the memorandum of understanding between the CEO and RSG and related procurement procedures made as result of these decisions.	30 June 2008
12	O	Submission to OIOS of the procedure indicating that the RSG will recuse himself from approving the HCC minutes in cases where IMS is the requisitioner.	Not provided
13	O	Submission of documented evidence of cases showing that IMS has begun to comply with the requirements of the recommendation to consult with PS at the beginning of all procurement exercises.	Not provided
14	O	Submission to OIOS of the new Legal Officer's job description.	Not provided
15	C	Action completed	Implemented
16	C	Action completed	Implemented
17	C	Action completed	Implemented
18	C	Action completed	Implemented
19	O	Submission to OIOS of the change in the procurement manual and implementation of this recommendation.	Not provided
20	C	Action completed	Implemented
21	O	Submission to OIOS of the most recent acquisition plans submitted to the PS by the Secretariat and IMS.	Not provided
22	O	Submission to OIOS of the Legal Officer's job description and a written procedure indicating that that draft agreements are to be cleared by OLA before being distributed to third parties during solicitation exercises.	Not provided
23	C	Action completed	Implemented
24	O	Submission to OIOS of evidence of implementation of this recommendation	Not provided
25	O	Submission to OIOS of documentation showing that the sharing of UNJSPF Secretariat's procurement database with IMS has been fully implemented.	Not provided

1. C = closed, O = open

2. Date provided by UNJSPF Secretariat and IMS in response to recommendations.

ANNEX 2

Vendor: Kevin Daly/Hitachi Consulting				
Contract #	Period	Contract Type	Source	Amount
ICC 1194	03/02/97-02/08/97	Direct Procurement	Executive Office	\$86,400.00
SSA 1893	03/08/97-02/12/97	OHRM Contract	Executive Office	\$57,600.00
SSA 2318	03/12/97-02/06/98	OHRM Contract	Executive Office	\$86,400.00
SSA 3014	03/06/98-31/12/98	OHRM Contract	Executive Office	\$100,800.00
SSA 3608	01/01/99-30/06/99	OHRM Contract	EO+IMIS	\$96,000.00
SSA 4376	01/07/99-31/12/99	OHRM Contract	EO+IMIS	\$96,000.00
ICA 4841	01/01/00-30/06/00	OHRM Contract	EO+IMIS	\$96,000.00
ICA 5529	01/07/00-31/12/00	OHRM Contract	EO+IMIS	\$96,000.00
ICA 6092	01/01/01-30/06/01	OHRM Contract	EO+IMIS	\$104,250.00
ICA 6768	01/07/01-31/12/01	OHRM Contract	EO+IMIS	\$96,000.00
ICA 7477	01/01/02-30/06/02	OHRM Contract	EO+IMIS	\$96,000.00
ICA 7477-Add.	01/07/02-31/12/02	OHRM Contract	EO+IMIS	\$96,000.00
ICA 8797	02/01/03-30/06/03	OHRM Contract	EO+IMIS	\$96,000.00
ICA 8797-Add.	01/07/03-31/12/03	OHRM Contract	EO+IMIS	\$96,000.00
ICA 10112	01/01/04-30/06/04	OHRM Contract	EO+IMIS	\$96,000.00
ICA 10112-DSA	Aug-04	OHRM Contract	EO+IMIS	\$6,330.21
		Kevin Daly Direct Procurement Sub-total		\$86,400.00
		Kevin Daly OHRM Contracts Sub-total		\$1,315,380.21
DP00028	01/07/04-31/12/04	Direct Procurement	IMIS	\$124,800.00
DP00048	03/01/05-28/02/05	Direct Procurement	IMIS	\$44,600.00
DP00057	01/03/05-30/04/05	Direct Procurement	IMIS	\$45,480.00
DP00062	01/05/05-31/07/05	Direct Procurement	IMIS	\$69,105.00
		Hitachi Direct Procurement Sub-total		\$283,985.00
PD/CO170/05	01/08/05-31/07/6	UNPS Contract	IMIS	\$267,600.00
PD/CO170/05-1	01/10/06-30/09/07	UNPS Contract	IMIS	\$267,600.00
		Hitachi Consulting Procured through UNPS		\$535,200.00
		Kevin Daly & Hitachi Direct Procurement Sub-total		\$370,385.00
		Kevin Daly & Hitachi Contracts through OHRM & UNPS		\$1,850,580.21
		Kevin Daly & Hitachi Total		\$2,220,965.21
Vendor: Sprig, Ltd				
Contract #	Period	Contract Type	Source	Amount
6 ICC + 3 Amd.	06/1998-2004	Direct Procurement	PF Files	\$343,450.00
2 Contracts	2002 & 2004	UNPS Contract	PF & UNPS Files	\$800,000.00
4 Amendments	Thru Sept. 2006	UNPS Contract	PF & UNPS Files	\$750,000.00
		Sprig, Ltd Total		\$1,893,450.00
Vendor: Revere				
Contract #	Period	Contract Type	Source	Amount
19 ICC + 3 Amd.	03/02-07/2007	Direct Procurement	PF Files	\$3,040,228.00
7 Contract/PO + 4 Amd.	2000-2007	UNPS Contract	PF & UNPS Files	\$1,193,420.00
		Revere Total		\$4,233,648.00
		Direct procurement Total		\$3,754,063.00
		Contracts through OHRM & UNPS Total		\$4,594,000.21
		Three Consultants Total		\$8,348,063.21