

UNITED NATIONS



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Office of Internal Oversight Services
Internal Audit Division II

MEMORANDUM

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26 April 2006

TO: Prof. Hans van Ginkel, Rector
United Nations University

FROM: Corazon C. Chavez, Acting Deputy Director,
Internal Audit Division II,
Office of Internal Oversight Services

SUBJECT: **Audit of UNU's Resource Management (AE2005/370/01)**

1. I am pleased to submit the final report on the audit of the United Nations University's Resource Management, which was conducted in October 2005 in Tokyo, Japan by Mr. Berner Matthee and Mr. Chunlin Tang.
2. A draft of the report was shared with the Executive Officer, Office of the Rector on 2 March 2006, and the comments, which were received from the Rector on 21 March 2006, are reflected in this final report.
3. I am pleased to note that almost all of the audit recommendations contained in the final Audit Report have been accepted and that the Division for Operations has initiated implementing most of them. The table in paragraph 46 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 1, 6 and 7, which OIOS considers to be of critical importance.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 15 June 2006. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.
5. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me under confidential cover.
6. Thank you for your cooperation.

Attachment: Client Satisfaction Survey Form

cc: Ms. C. Burnham, Under-Secretary-General for Management (by e-mail)
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors (by e-mail)
Mr. T. Rajaobelina, Deputy Director of External Audit (by e-mail)
Mr. M. Bond, Executive Officer, Office of the Rector, UNU (by e-mail)
Dr. F. d' Artagnan, Director of Administration, UNU (by e-mail)
Mr. B. Matthee, Auditor-in-Charge (by e-mail)
Mr. D. Tiñana, Auditing Assistant (by e-mail)
Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)



**United Nations
Office of Internal Oversight Services
Internal Audit Division II**

Audit Report

**Audit of UNU's Resource Management
(AE2005/370/01)
Audit Report No. E06/R03**

- **Report date: 26 April 2006**
- **Auditors: Berner Matthee
Chunlin Tang**



Office of Internal Oversight Services
Internal Audit Division II

Audit of UNU's Resource Management (AE2005/370/01)

EXECUTIVE SUMMARY

In October 2005, OIOS conducted an audit of UNU's Resource Management. The audit covered Administrative activities of the UNU Centre, with an allocation of \$37.6 million for the 2004-2005 biennium. UNU Administration adequately performs its tasks, but lack of funding resulting from vacancies in key positions resulted in weak internal controls in the procurement and travel functions. UNU needs to adopt an Enterprise Resource Management System to improve its records and reports. UNU has accepted almost all of the recommendations and is in the process of implementing most of them

Funding and staffing of the Administration

- There were vacancies in key resource management posts *resulting from lack of funding according to UNU*. At the date of the audit, except for the Director, there were only two staff at the Professional level in Administration, i.e. the Chief, Personnel and General Services (P-4) and an Acting Finance Officer (P-4) for Finance, Budget and Travel. Key vacant posts were that of a Procurement Officer (P-3), a Building Management/Conference Development Officer (P-2), an Assistant Personnel Officer (P-3) and Finance Officer (P-3).
- Administration expects UNU's core income in the 2006-2007 biennium to be 15 per cent less than the \$30 million of the previous biennium. Consequently, the planned number of core posts to be funded by specific programme contributions (that was only 20 per cent of the total income in 2004-2005) would increase by some 70 per cent. *If income reduces further, even the current staffing levels and activity levels are not sustainable and UNU will have to consider out-posting academic and administrative units of the UNU Centre to lower-cost locations outside of Japan. A number of specific out-posting possibilities of the UNU Centre units were considered and a formal proposal to the UNU Council was expected in December 2005.* UNU's Management is fully aware of the situation and is in the process of finding solutions. In the interim and until vacant key posts are funded and filled, the Administration will not have enough staff to perform its functions adequately.

Finance

- The Financial, Budgetary and Personnel Management System, developed at a cost of some \$300,000, did not fully modernize UNU's financial management platform. Personnel and project management systems were not included. The system also lacked adequate reporting functions, in particular for accounts receivables. The Administration was in the process of identifying an improved system within the UN that could be implemented at UNU.
- UNU had 19 bank accounts. As it did not monitor centrally its cash, certain Regional Training Centres and Programmes did not have enough cash while others had excessive cash balance.

UNU is in the process of taking corrective actions including that of centralizing its Treasury Functions. The number of bank accounts at the RTC/Ps and the UNU Centre is under review and the Centre has already identified two bank accounts from UNU-INTECH and one bank account from UNUWIDER which will be closed as soon as April 2006. A system is also being put in place to analyze monthly bank balances of RTC/Ps in relation to their budget implementation to ensure that no excess of cash is kept in their accounts. OIOS noted the corrective measures taken and improvements in cash management procedures, but is of the opinion that the Centre should consider introducing a Treasury Management function as a separate function within Budget and Financial Services with the appropriate expertise. However, OIOS recognizes that the skills review, that UNU will undertake, will first have to be completed before any formal decision can be made on the structure of such a function.

- Internal controls in the issuance of allotments, registering of obligations and the recording and payment of expenditures were adequate, but clearance procedures in respect of travel advances were unclear. This resulted in delayed submission and settlement of individual travel claims and advances for workshops. Some of the outstanding claims dated as far back as 2002. *Significant efforts were made to clear outstanding Travel Authorizations. A monitoring system is being put in place to review the Accounts Receivable Accounts on a quarterly basis for outstanding claims. Furthermore, a UNU Administrative Instruction on "Administration of Travel Claims" will be issued shortly to introduce 100 per cent advance payment of travel expenses, including all terminal expenses. The system will reduce the cost of managing travel claims and ultimately should provide more reliable control over travel expenditure.*

Procurement

- UNU did not make optimal use of the LCC whose composition is outdated. There was no Chief Procurement Officer, no Chief Transport Officer and the Legal Adviser did not attend the meetings held in the past two years. Since only cases above \$50,000 had to be submitted to the LCC, only two cases were submitted and reviewed in 2004 and one case in 2005. Related contracts below that amount in respect of HQ building maintenance were issued without LCC review. *UNU considers that the current LCC members have responsibilities comparable with the list of functions listed in the delegation of authority. However, it should be noted that the posts of Legal Adviser and Chief Transport Officer do not appear anymore on the UNU Staffing Table (although the functions of these posts are handled directly or indirectly by the Executive Officer and Chief, Personnel and General Services, respectively). The post of Chief Procurement Officer is not funded under the approved budget due to lack of funding. Therefore, UNU will communicate, to New York, the list of current members and will seek advice on the need to amend the delegation of authority accordingly. Also, UNU reckoned that the limit of \$70,000 for the submissions to the HCC is in accordance with its authority and that the limit proved to be effective. OIOS does not dispute the limit of \$70,000 for submissions to the HCC, but the limit required for submissions to the LCC, that is \$50,000. Which means that, even without a Procurement Officer, the procurement function could enter into procurement up to \$50,000 without any submission to the LCC. This limit is too high, especially under the current circumstances in which the UNU is without a Procurement Officer. Therefore, OIOS suggests that UNU reconsider and reduce the limit to a reasonable level, especially because there is no Procurement Officer.*
- Procurement procedures did not always ensure that best value for money, fairness and transparency was attained. Multi-year contracts of up to five years and contracts renewal were entered into without proper review and assessment to determine their cost effectiveness as illustrated below:
 - Only a few companies received request for proposals for the "Provision of Building

Maintenance and Operation including Security Services and Custodial Cleaning of the UNU” which was awarded to SANKO in July 2001 for a period of five years for an amount of \$1.16 million per year.

- Orders were placed with EBARA REINETSU SYSTEM K.K. to overhaul the direct-fired absorption water chiller-heater unit for 2004 and 2005, although the overhaul was only needed every five years.
- After a contract for the “Maintenance of the Automatic Control System” was entered into with YAMATAKE Building Systems CO. LTD in June 2001 for three years totalling \$180,000, no bidding or quotations were obtained for extension of current services. Similarly, renewals of the last contract with Fujitec Co. Ltd that ended in September 2002, were merely based on a note for the file from the Senior Procurement Assistant because the annual contract value was below US\$ 50,000. The engagement was last discussed in a LCC meeting in 1997.
- *UNU commissioned UNOPS in 21 September 2005 to provide services concerning its facilities and building management of the UN House, UNU Headquarters building in Tokyo. The project consisted of two phases: Phase I is a desk review and on-site facilities assessment resulting in the production of an assessment report listing findings, recommendations and identifiable cost savings measures (completed in December 2005); Phase II is the formulation of a Request for Proposal (RFP) for the provision of Facilities Management/Operations Services. The RFP will be made public by UNOPS during the last week of March 2006. A UNOPS building manager who will be assigned on-site will manage the contractor.*
- *All procurement actions for the building will then be handled by UNOPS. UNU will also explore the possibility of having other procurement actions for the UNU Centre handled by UNOPS. At the same time, options are being considered for strengthening the procurement function of the UNU, including relocation of the administrative functions outside of Japan, which would provide an opportunity to undertake a skills assessment. OIOS views these corrective actions as good progress to address the identified shortcomings in the facilities management and procurement function of UNU.*

April 2005

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I. INTRODUCTION

1. In October 2005, OIOS conducted an audit of the United Nations University's (UNU's) Resource Management. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UNU was established by the United Nations General Assembly as "an international community of scholars, engaged in research, postgraduate training and dissemination of knowledge in furtherance of the purpose and principles of the Charter of the United Nations". Its mission is "To contribute, through research and capacity-building, to the resolution of pressing problems that are of concern of the United Nations, its Peoples and Member States." The afore-mentioned is underlined by five key roles. These are that UNU should be an international community of scholars; form a bridge between the UN and international academic community; serve as a think-tank for the UN; contribute to capacity-development, particularly in developing countries; and serve as a platform for dialogue and new and creative ideas.
3. It consists of the UNU Centre in Tokyo, ten UNU Research and Training Centres and Programmes (RTC/Ps), and a network of associated and cooperating institutions and scholars. The Rector is the chief academic and administrative officer of UNU, with the responsibility for the direction, organization, administration and programmes in accordance with the general policies and criteria formulated by the Council of 24 members who serve in their individual capacities. There are three ex-officio members: the Secretary-General of the UN, the Director-General of UNESCO and the Executive Director of the UN Institute for Training and Research. UNU's Rector is also a Council member.
4. UNU Centre assists the Rector in planning, programming and monitoring the subjects of research and areas of training for the University and administers the overall University programme. The overall resource requirement for the biennium 2004-2005 amounted to \$81.3 million of which \$37.6 million was allocated to the UNU Centre.
5. As regards the management of resources, Administration provides overall support for the academic work of UNU that includes administrative, human resources, budgetary and financial services, logistical and organizational backstopping for the UNU Centre and RTC/Ps.
6. The findings and recommendations contained in this report have been discussed during the Exit Conference held on 20 October 2005 with the Rector and the Director of Administration. A draft report was then shared with the Executive Officer of the Office of the Rector on 2 March 2006 and a reply was received from the Rector of UNU on 21 March. The comments are shown in this report in italics. *UNU has accepted almost all of the recommendations and is in the process of implementing most of them.*

II. AUDIT OBJECTIVES

7. The overall objective of the audit was to evaluate the efficiency and effectiveness of UNU resource management and compliance to United Nations and UNU regulations and

rules. This includes:

- Assessing the efficiency and effectiveness of the UNU Centre's Administration, including budget, financial, personnel and procurement as well as travel functions.
- Assessing the UNU Centre's compliance to UN and UNU regulations and rules.
- Assessing the integrity of data that supports managerial decision-making on resource management.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit focused on the UNU Centre's Administration and reviewed expenditures incurred within the 2004-2005 biennium of \$37.6 million. The audit assessed processes, interviewed staff and reviewed records and reports.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

(a) Resources funding and staffing of the Administration

9. Income for the UNU Centre totaled \$37 million as of 31 August 2005 for the 2004-2005 biennium, of which \$30 million (80 per cent) consisted of core income and \$7 million (20 per cent) specific programme contributions. Endowment Fund contributions to RTC/Ps and the UNU Centre were pooled and the income was distributed according to the ratio of contributions. Core or specific programme contributions to RTC/Ps are not used for resources at the UNU Centre, even though a substantial part of the UNU Centre's resources management is devoted to RTC/Ps, especially personnel management, but also procurement and financial services.

10. UNU Centre's core income was not sufficient to fund all post in Administration and certain key posts that depended on the receipt of specific programme contributions remained unfilled for lack of funds. At the date of the audit and except for the Director, there were only two staff at the Professional level in Administration, i.e. the Chief, Personnel and General Services (P-4) and an Acting Finance Officer (P-4) for Finance, Budget and Travel. Vacant posts were that of a Procurement Officer (P-3), a Building Management/Conference Development Officer (P-2), an Assistant Personnel Officer (P-3) and Finance Officer (P-3).

11. The UNU Centre expected its core income for the 2006-2007 biennium to be 15 per cent less than the 2004-2005 biennium and the number of posts to be funded from specific programme contributions to increase by almost 70 per cent. Three of these are within Administration: two in Procurement (Procurement Officer: P-3 and General Service Clerk: GS-4) and the Chief of Budget, Finance & Travel Unit (P-4).

12. UNU faces many of the same challenges of other UN Organizations in mobilizing resources and in the 2006-2007 biennium, will have less income, especially for the UNU Centre, because of a reduction in investment income from the Endowment Fund coupled by less income from the host country, Japan, over the past years. Therefore, a number of cost-saving measures were introduced and it became necessary to abolish unfilled posts. If income reduces further, the current staffing levels and activity levels are not sustainable and UNU

will have to consider out-posting academic and administrative units of the UNU Centre to lower-cost locations outside of Japan. A number of specific out-posting possibilities of UNU Centre units are considered and a formal proposal to the UNU Council was expected in December 2005. In the interim and until vacant key posts are funded and filled, the Administration will remain under pressure to perform its functions adequately.

(b) Treasury

13. The Budget and Financial Services at the UNU Centre had the overall responsibility to manage and report on the financial resources of UNU. Fund management was excluded. A private firm managed the Endowment Fund. Also, Host Countries of RTC/Ps deposited their operational contributions (core funding besides the Endowment Fund and special contributions) and specific contributions directly in bank accounts of the RTC/Ps and not in the bank accounts of the UNU Centre. Therefore and although some treasury functions are performed, the Centre does not have a full-fledge treasury function.

14. Internal controls over UNU funds were found to be adequate, but there were many bank accounts. There were 19 bank accounts in total, with two RTC/Ps, UNU WIDER and UNU IIST having three each and UNU INTECH four bank accounts. This weakened the UNU Centre's central control and oversight over RTC/Ps' fund management and the practice to keep funds only in bank accounts in countries where the RTC/Ps are located resulted in excess cash being kept at some banks with a potential loss of revenue. The bank account opened with the Representative Office in Paris, for example, had a balance of \$340,000 that equaled more than 20 months' expenditures.

Recommendation:

- The UNU Centre's Administration should introduce a Treasury Management function within the Budget and Financial Services to manage UNU' funds, including that of RTC/Ps, to ensure that UNU obtain the best return on its cash funds or at least prevent potential loss of revenue (Rec. 01).

15. *UNU accepted the recommendation and is in the process of taking corrective actions. Already, opening of bank accounts, appointment of Certifying Officers, Approving Officers and Bank Signatories is coordinated centrally in close relation with the Treasurer of the United Nations Secretariat. Conscious of the importance of the treasury function, and anticipating the growing budgets of UNU (the combined budgets of the RTC/Ps in the approved biennium budget of 2006-2007 grew by 42.3 per cent while at the same time the budget for the UNU Centre decreased by 14.9 per cent), the Council of UNU, at its 50th Session in December 2003, established a separate fund managed by the UNU Centre, the Revolving Cash Fund, to meet the short-term cash flow requirements of duly authorized UNU activities. The number of bank accounts opened for the RTC/Ps and the UNU Centre is currently under review and the Centre have already identified two bank accounts from UNU-INTECH and one bank account from UNUWIDER which will be closed as soon as April 2006. A system is also being put in place to analyze monthly bank balances of RTC/Ps in relation to their budget implementation to ensure that no excess of cash is kept in their*

accounts. A skills review within Finance Services will be undertaken to identify any gaps in expertise and if required, appropriate measures will be taken, including training. OIOS noted the corrective measures taken and improvements in cash management procedures, but is of the opinion that the Centre should consider introducing a Treasury Management function as a separate function within Budget and Financial Services with the appropriate expertise. However, OIOS recognizes that the skills review will first have to be completed before any formal decision can be made on the structure of such a function. OIOS will record the recommendation once the structure of the function had been determined.

(c) Budget

16. Budgets are prepared by organizational units and are similar in format. The 2004-2005 approved budget was not sufficiently results-based, but for 2006-2007, the guidelines for preparation specifically encourage organizational units to reflect a results-based budgeting approach. It is, however, understandably difficult to determine expected outputs for academic activities. Even more difficult to link such outputs with resources utilized (inputs). Therefore, results-based budgeting is an approach that UNU could only achieve over a period of time as organizational units become more conversant with the approach and identify more measurable outputs.

17. The Status of Expenditure Report (C) revealed over-obligations totaling some \$500,000 in a number of object lines because the allotments were not revised. We requested the Administration to review and revise the allotments in consultation with the Programmes, prior to year-end. *The Administration undertook to review them.*

(d) UNU's finance and accounting system (FBPMS)

18. The Financial Budgetary and Personnel Management System (FBPMS), developed at a cost of some \$300,000, did not fully modernize the UNU's financial management platform. It did not include personnel or project management systems and had shortcomings. The system's coding structure did not have enough flexibility. Some important functions and control procedures, such as fund-sufficiency checks, reporting, payroll, bank reconciliation and the clearance of accounts had to be performed manually or in separate systems that were not linked to FBPMS. The system also lacked adequate reporting functions.

19. According to a report of a consultancy firm, there were technical problems and weaknesses in the system. It also lacked system documentation. Therefore, the Administration viewed the possibility to further develop the system as slim and embarked on finding another system at other UN Organizations. *When found, a comparative study would have to be carried out that should take into consideration the strengths of FBPMS, which were found in its sub-systems within the expenditure cycle; i.e. allotment, obligation and payment functions, and cost implications.*

(e) Expenditure cycle and related internal controls

Internal controls and supporting documentation

20. OIOS found the internal controls in the expenditure cycle, especially in the issuance of allotments and registering of obligations, as strengths in the UNU Centre's financial management. Sufficient supporting documentation was found for payroll, individual contracts and purchase orders. However, clearance procedures were not clear to properly settle advances for workshops and trainings and final contract payments to institutions. Also, programmes did not always provide adequate supporting documentation to Finance to clear advances.

Travel Authorizations – individuals

21. Travel is one of the main categories of expenditures with 1,400 Travel Authorizations issued since the beginning of 2004.

22. Claims were not submitted in a timely manner, with outstanding advances dating as far back as 2002. As ageing reports were not available in FBPMS to facilitate follow-up, the task to follow-up on claims was too time consuming and one staff member's time was solely devoted to travel claims. For individuals, the list of Travel Authorizations (PT8-I), which was the only control mechanism, was not complete.

23. An automated system, or improvement in FBPMS, is required to provide information on outstanding claims per staff member. In the interim, Finance should record all outstanding claims from the Travel Authorizations, group them per staff member and send reminders with a deadline to settle advances.

Recommendation:

- The UNU Centre's Administration should prepare a complete list of outstanding Travel Authorizations (PT8-I), group them per staff member and send reminders to them with a deadline to submit their claims (Rec. 02).

24. *UNU agreed with the recommendation and for the 2004-2005 biennium, significant efforts were made to clear outstanding Travel Authorizations. A monitoring system is being put in place to review the ARL on a quarterly basis for outstanding claims. Furthermore, a UNU Administrative Instruction on "Administration of Travel Claims" will be issued shortly to introduce 100 per cent advance payment of travel expenses, including all terminal expenses. The system will reduce the cost of managing travel claims and ultimately should provide more reliable control over travel expenditure.* OIOS concurs with the actions taken and will record the recommendation as implemented upon receipt from UNU of confirmation that the outstanding Travel Authorizations have been cleared.

Travel Authorizations – workshops

25. Finance did not have complete documents to verify settlement of advances for workshops and to follow up on outstanding advances because programme offices which prepared settlement sheets to clear these advances, did not forward them to Finance. A list of outstanding Travel Authorizations PT8 (Ms) was not available, but we noted advances of 2004 that were still not cleared. In general, advances for workshops were substantial. One obligation was for \$73,000, with \$28,000 still to be cleared since May 2004. The practice to

keep the settlement sheets in programme offices is understood, because they are “bulky”, but they are needed by Finance for proper review and support of settlement of advances.

Recommendation:

- The UNU Centre’s Administration should compile a list of outstanding Travel Authorizations (PT8-M) per Programme Unit and request Programme Managers to submit the clearance sheets for verification by Finance (Rec. 03).
- The UNU Programme Units should, in future, submit all clearance sheets to Finance. Advances should not be cleared until verified by Finance (Rec. 04).

26. *UNU agreed with the recommendations and as for recommendation 02, is in the process of clearing out the advances for workshops. OIOS will record the recommendations as implemented upon receipt of confirmation that the outstanding workshop advances have been cleared and clearance sheets are submitted to Finance.*

(f) Account Receivables

27. On 12 October 2005, the Accounts Receivable Ledger in FBPMS reflected a balance of \$24,000, but the accuracy of the ledger could not be substantiated and some accounts reflected account payables. Expenditures were also not separated by category of expenditure nor recorded per debtor. Therefore and without time-consuming manual calculations, it was not possible to determine the amounts outstanding per individual debtor and/or the totals for each type of advance; i.e. travel advances, workshops, education grants and operational advances. This hampered effective follow-up procedures for settlement or collection of accounts.

28. The manual workings and calculations could, however, not be avoided and until a solution is found, should continue. Also and until an improved finance system is introduced, Administration should request the Campus Computing Centre to create separate accounts receivable sub-accounts in the Accounts Receivable Ledger in FBPMS to enable Finance to register obligations per category of expenditures and per creditor. For example, PT8 (I); PT8 (M); salary and education grant advances as well as advances to institutions (ICA). Finance should be able to create new accounts for creditors as and when needed.

Recommendation:

- The UNU Centre’s Administration should request the Campus Computing Centre to create separate accounts receivable sub-accounts in the Accounts Receivable Ledger in FBPMS to enable Finance to record receivables per category of transaction and per debtor (Rec. 05).

29. *UNU accepted the recommendation and will consult the Campus Computing Centre and more specifically the programmer of the Oracle database (Tata Cie) to assess the technical feasibility and the cost implications. UNU also acknowledged that the recommended action would provide increased functionality and control. The*

recommendation is therefore under further consideration. The recommendation remains until UNU makes a decision following their consultations.

(g) Procurement

Delegation of Authority and Local Committee on Contracts (LCC)

30. The Delegation of Procurement Authority and the Establishment of a Local Committee on Contracts (LCC) to UNU was issued in 1997. The financial delegation was limited to a purchase amount of \$70,000 or less per transaction. Above this amount, the case had to be submitted to the United Nations Headquarters Committee on Contracts.

31. The composition of the LCC had been approved, but is outdated. There was no Chief Procurement Officer, which might have affected the delegation in itself, no Chief Transport Officer and the Legal Adviser did not attend the meetings held in the past two years.

32. The UNU Centre decided that all procurement cases above \$50,000 had to be submitted to the LCC. OIOS found this limit to be too high considering the inadequate procurement staffing. A number of contracts and purchase orders, especially in respect of UNU HQ building maintenance were issued without LCC review and inputs, merely because the amount was below the \$50,000 limit. UNU did not make optimal use of the LCC. Only two cases were submitted and reviewed in 2004 and one case in 2005.

Recommendation:

- The UNU Centre's Administration should update the composition of the Local Committee on Contracts (LCC) and reduce the \$50,000 limit, above which all cases had to be submitted to the LCC, to a more reasonable level of \$20,000 to strengthen decision-making in and accountability over procurements. Also, the administration should consider making better use of the LCC (Rec. 06).

33. *UNU considers that the current LCC members have responsibilities comparable with the list of functions listed in the delegation of authority. However, it should be noted that the posts of Legal Adviser and Chief Transport Officer do not appear anymore on the UNU Staffing Table (although the functions of these posts are handled directly or indirectly by the Executive Officer and Chief, Personnel and General Services, respectively). The post of Chief Procurement Officer is not funded under the approved budget due to lack of funding. Therefore, UNU will communicate, to New York, the list of current members and will seek advice on the need to amend the delegation of authority accordingly. Also, UNU reckoned that the limit of \$ 70,000 for the submissions to the HCC is in accordance with its authority and that the limit proved to be effective.* OIOS does not dispute the limit of \$70,000 for submissions to the HCC, but the limit required for submissions to the LCC, that is \$50,000. Which means that, even without a Procurement Officer, the procurement function could enter into procurement up to \$50,000 without any submission to the LCC. This limit is too high, especially under the current circumstances in which the UNU is without a Procurement Officer. Therefore, OIOS suggests that UNU reconsider and reduce the limit to a reasonable level, especially because there is no Procurement Officer.

Procurement records, workload and staffing

34. Monitoring of procurement cases needed improvement. Better record keeping was required, in general, including that for purchase requests, orders, minutes of LCC meetings and contractor information. A register should have been introduced to keep track of purchase requests, purchase orders issued and finalized. There is only one Senior Procurement Assistant who issued, 1,200 purchase orders since the beginning of 2004, including 1,000 for the UNU Centre per FBPM records. The staffing table provided for a Procurement Officer, but the position was not filled, *as it was not funded*.

Contracts and purchase orders (Specific cases)

35. The procurement function was under-staffed and in some cases, the procedures followed prior to entering into contracts did not ensure that UNU engaged the best available contactors at the best prices. Contracts were also entered into for substantial periods, up to five years, while other contracts were renewed without a proper review and assessment to determine whether the contractor remained the most preferred contractor and as to whether the contract was cost-effective. This was OIOS' assessment after reviewing the main contracts, in particular, the following contracts that were of substantial amounts.

36. Proper bidding procedures were not followed as the "Request for Proposal" were submitted to a few companies only in the five-year contract on "Provision of Building Maintenance and Operation including Security Services and Custodial Cleaning of the UNU" with SANKO in July 2001 for an amount of \$1.16 million per year.

37. There was no bidding, quotations and/or even contracts after 2003, for extension of services for the "Maintenance of the Automatic Control System" first entered into with YAMATAKE Building Systems CO. LTD in June 2001 for three years totaling \$180,000.

38. There were also no contracts on file for the renewal of contracts with "NIHON BISOH CO. LTD" for the maintenance of the façade (Gondolas) and the "Maintenance Agreement for Elevators and Escalators" by Fujitec Co. Ltd. For the latter, the last contract found on file was for the period October 2001 to September 2002. The subsequent renewals with annual contract amount below \$50,000, were merely based on a note for the file from the Senior Procurement Assistant. The engagement of "Fujitec Co. Ltd." was last discussed in a LCC meeting in 1997.

39. UNU ordered in excess of needs. The "Request for Proposal" for the overhaul of the direct-fired absorption water chiller-heater unit (RADG013), specified that the service was needed only every five years. However, two orders, one dated 21 June 2004 for \$49,000 and the other 1 July 2005 for \$47,000, were placed with EBARA REINETSU SYSTEM K.K. to cover this service for 2004 and 2005 respectively.

40. The bidding for a three-year maintenance contract for the "Central Building Control System and Security Control System" entered into in October 2004 with NEC Corporation for a total amount of \$180,000 (\$60,000 per year) appeared improperly carried out. The request for proposals were sent to six firms and three declined. Of the remaining three, two of them submitted proposals with bids that differed for as little as Japanese Yen 300 (US\$ 2). Both

proposals used the same summary sheet. Furthermore, the three proposals, all submitted on 2 April 2004, included exactly the same “Additional Information”, i.e. time period of maintenance, which differed from the required additional information as per the Request for Proposals. “Sanko” evaluated the proposals, but did not report any of the discrepancies to the UNU Centre. The “Requests for Proposal” were extensive documents, but the practice to only request a few vendors to submit proposals is not acceptable. There was no evidence that the requests were properly distributed.

41. UNU engaged UNOPS to perform a review of UNU Headquarters Building management, including related contracts. The results were not yet known at the date of the audit, but Administration gave a clear indication that major changes could follow the review. These included the possibility to outsource main procurements to UNOPS. From an audit perspective, the procurement function needed to be strengthened. Current contracts should be reviewed to ensure that current contractors are the preferred contractors at the best prices. In future, the “Request for Proposal” should be more widely distributed to attain best value for money, fairness and transparency. Proper submissions should be made to the LCC and where required the Headquarters Committee on Contracts or LCC for renewals.

Recommendation:

- The UNU Centre’s Administration should either strengthen the procurement function and/or consider outsourcing main procurements to an appropriate UN agency, specializing in procurement (Rec. 07).

42. *UNU already commissioned UNOPS on 21 September 2005 for provision of services concerning facilities and building management of the UN House, UNU Headquarters building in Tokyo. The project consists of two phases: Phase I is a desk review and on-site facilities assessment resulting in the production of an assessment report listing findings, recommendations and identifiable cost savings measures (completed in December 2005); Phase II is the formulation of a Request for Proposal (RFP) for the provision of Facilities Management/Operations Services. The RFP should be made public by UNOPS during the last week of March 2006. A UNOPS building manager who will be assigned on-site will manage the contractor. All procurement actions for the building will then be handled by UNOPS. UNU will also explore the possibility of having other procurement actions for the UNU Centre handled by UNOPS. At the same time, options are being considered for strengthening the procurement function of the UNU, including relocation of the administrative functions outside of Japan, which would provide an opportunity to undertake a skills assessment.*

43. OIOS views UNU’s actions to strengthen the procurement function adequate and good progress had been made. Considering that the recommendation is under implementation, OIOS will record the recommendation as implemented when a formal arrangement with UNOPS had been reached.

Recommendation:

- The UNU Centre’s Administration should review the current Headquarters Building contracts to ensure that current contractors are the preferred contractors at the best prices (Rec. 08).

44. *UNU agreed and referred to their action already taken. The main contract with the*

current service provider for "Building Maintenance and Operation, including Security Services and Custodial Cleaning" ends on 30 June 2006. The plan is to finalize the ongoing procurement action by that date to ensure continuity of service. Other services related to the building, which are currently contracted to separate companies, have been integrated under the same RFP. This will hopefully result in additional cost savings for UNU. OIOS will record the implementation when the procurement process is completed.

Recommendation:

- The UNU Centre's Administration should in future distribute the "Request for Proposal" more widely to attain best value for money, fairness and transparency (Rec. 09).

45. *UNU accepted the recommendation. For the past few years, all UNU requests for proposals have been posted on the UNU website, UNU will have the link to the procurement page of the UNU website visible on its homepage. UNU will also explore, with UNOPS, ways to ensure that a large audience in and outside of the duty station is reached in their RFPs. OIOS will record it as implemented when UNU determines its methods to ensure that the RFPs are more widely distributed.*

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

46. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Rec. no.	Action/document required to close the recommendation
1*	The final decision on the structure of the Treasury Function.
2	Confirmation that the outstanding Travel Authorizations have been cleared.
3	Confirmation that the outstanding workshop advances have been cleared, and clearance sheets are submitted to Finance.
4	Confirmation that arrangements had been made for the Programme to submit clearance sheets in respect of workshop advances to Finance.
5	UNU's decision to create separate accounts receivable sub-accounts in the Accounts Receivable Ledger in FBPMS.
6*	UNU reconsideration of the limit of \$50,000 for submissions to the LCC.
7*	A copy of the formal arrangement with UNOPS.
8	Engagement of contractors.
9	Once UNU determines methods to ensure that RFPs are distributed more widely.

* Critical recommendations

VI. ACKNOWLEDGEMENT

47. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNU.

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