



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Human resources management in the office of the Enterprise Resource Planning (ERP) Project Director

Serious breaches of human resources, financial and procurement regulations, rules and procedures posed reputation risk for the ERP project

24 August 2010

Assignment No. AG2010/510/03

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

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

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Angela Kane, Under-Secretary-General
A: Department of Management

DATE: 24 August 2010

Mr. Choi Soon-hong, Assistant Secretary-General for
Information and Communications Technology, Chief
Information Technology Officer
Office of Information and Communications
Technology

REFERENCE: IAD: 10- **00746**

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AG2010/510/03 - Audit of human resources management in the office of the
OBJET: Enterprise Resource Planning (ERP) Project Director**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 2 and 6 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 recommendation 9. In OIOS' opinion however, this recommendation seeks to address significant risk areas. We are therefore reiterating it and requesting 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 high risk (i.e., recommendations 2, 4, 5, 6, 7, 10, and 12), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Jun Yamazaki, Assistant Secretary-General, OPPBA, Controller
Mr. Warren Sach, Assistant Secretary-General, OCSS
Ms. Catherine Pollard, Assistant Secretary-General, OHRM
Mr. Paul Van Essche, ERP Project Director, Department of Management
Mr. Paul Buades, Director, Procurement Division
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
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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

Audit of human resources management in the office of the Enterprise Resource Planning (ERP) Project Director

OIOS conducted an audit of human resources management in the office of the ERP Project Director. The overall objective of the audit was to assess the effectiveness and efficiency of the ERP project in managing its human resources capability, comprising staff members and consultants. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The organizational structure of the ERP project has been well designed and positions filled with staff with the required experience and expertise. There were however, serious breaches of rules and procedures in the recruitment of some staff and hiring of the main consultant. Further, where there was an expectation of transparency and integrity (but no laid down procedures), this was not always met. The major findings were as follows:

- The reasons for cancelling and reissuing three vacancy announcements (VA) were not documented making it difficult to conduct an independent review of the decision and ascertain whether internal controls were present to mitigate the risk of vacancy announcements being cancelled and reissued to favour one or more candidates. *The Office of the ERP Project Director explained that the VAs were rewritten to attract and select the strongest possible and most suitable candidates. After the selection of the ERP Project Director, in agreement with the Chief Information Technology Officer, all hiring activities were suspended to enable the Director to shape the team according to his own vision and experience. The Office of Human Resources Management stated that the documentation for the cancellation of these VAs was available and that the VAs were not cancelled and reissued to favour any candidates. There were however, no documents outlining the explanations now provided.*
- A comparison of personal history profiles submitted in response to two different vacancy announcements revealed inconsistencies in the employment history of the successful candidate for a D-1 position. The ERP Project Director, who was also the Programme Case Officer, had worked with the candidate in the past and was in a position to detect and take steps to address these inconsistencies, but there is no evidence that this was done. *The Department of Management (DM) stated it was further examining the issues raised to determine if inconsistencies existed.*
- A P-5 position was filled temporarily although there was no documentation of the need for the expertise and without advertising the temporary vacancy.

- The composition of the technical evaluation committee for the selection of the consultant was inadequate as only one out of the six members had prior experience with a commercial ERP system. *OCSS commented that a second member of the panel has 10 years commercial ERP experience, while the others have a great deal of United Nations expertise including that of the Integrated Management Information System.*

- The commercial evaluation of bids was based on blended day rates of staff on prospective consultants' teams, with no reference to the total number of days they would require to undertake the project. The total estimated costs of the project were therefore not factored in the evaluation. Further, although there was a difference of less than two points in the best value for money scores between PricewaterhouseCoopers and the second placed bidder, the Procurement Division did not request best and final offers (BAFO) from bidders in the competitive range to provide them with an opportunity to further distinguish their proposals. Negotiations were later held with PricewaterhouseCoopers, during which the specifications in the solicitation documents were materially altered. *OCSS stated that requesting BAFOs would have limited its ability to negotiate. The changes in scope listed were mentioned by the United Nations as a possibility in the case of further budgetary restrictions, but this may have been misunderstood by the vendor.*

- The master services agreement between the United Nations and PricewaterhouseCoopers does not include the contract sum or the agreed person days to be provided by PricewaterhouseCoopers. The two main statements of works issued by the end of September 2009, which do not include a major component of the services to be provided under the contract, were for a total cost of \$9,911,748, indicating an overrun of 42 per cent over the results of the negotiations with PricewaterhouseCoopers.

- An invoice by PricewaterhouseCoopers for use of office facilities was inappropriately certified for payment. The invoice was matched against the wrong purchase order and there is no evidence that advice was sought from the Office of the Capital Master Plan on the reasonableness of the amount charged. *DM stated that it has initiated an examination of this case.*

OIOS recommended that DM should address the specific breaches of regulations, rules and procedures highlighted in the report to mitigate the reputation risk they may pose to the ERP project. The Department of Management should also clarify and consolidate guidance on a number of processes and procedures that would serve as comprehensive reference for staff undertaking recruitment and procurement actions. DM accepted all but one recommendation and has started implementing them.

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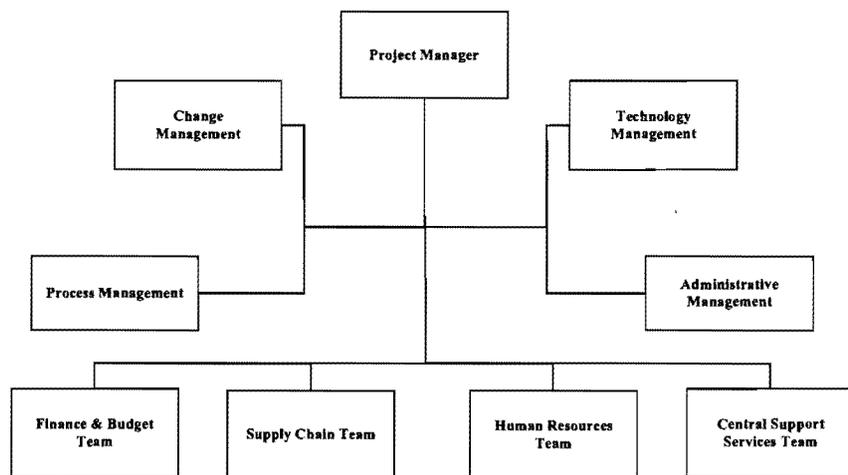
I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of human resources management in the office of the Enterprise Resource Planning (ERP) Project Director. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The General Assembly, in resolution 60/283, decided to replace the Integrated Management Information System (IMIS) with a next generation ERP system. According to the Secretary-General's report A/64/380, the ERP project, named Umoja, aims "to renew the way the United Nations manages human, financial and material resources ... enabling the Organization to deliver better on its mandates". The ERP project team is responsible for coordinating and leading the project in collaboration with the Assistant Secretaries-General responsible for the four main functional areas of human resources, finance and budget, supply chain, and central support services.

3. The ERP project team comprises 44 approved temporary posts (increased to 80 as of February 2010). The team operates with the following organization structure:

Figure 1: ERP project organization structure



Extracted from A/62/510/Rev.1

4. In addition to its staff resources, the ERP project has contracts with consultants to provide systems integration services for the design phase of the project and strategic advisory services. The main contract is with PricewaterhouseCoopers, to which, as of September 2009, statements of work had been issued to provide approximately 7,268 person-days of services at a total cost of \$10.4 million.

5. Comments made by the Department of Management (DM) and the Office of Information and Communications Technology (OICT) are shown in *italics*. *DM noted that factual inaccuracies contained in the draft report have been separately communicated by the Director of Umoja and requested that*

these be taken into account when finalizing the report. OIOS took into account these clarifications where relevant and applicable.

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to assess the adequacy and effectiveness of internal controls in:

- (i) Managing the human resources capability (comprising staff and consultants) of the ERP project; and
- (ii) Ensuring compliance with applicable financial, human resources and procurement regulations, rules and procedures.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit involved a review of the:

- (i) Human resources strategy of the ERP project to determine whether it provided an adequate framework for the delivery of the project objectives;
- (ii) Process of hiring staff and consultants to determine whether the best candidates were selected in accordance with established procedures or best practice; and
- (iii) Technical ability of staff and consultants to determine whether it is appropriate for the needs of the project.

8. Out of 35 recruitments that had been conducted by the ERP project team up to 4 January 2010, OIOS reviewed a sample of 11 P-4 to D-2 posts. OIOS also reviewed the process of procuring services from PricewaterhouseCoopers, the main consultant to the project.

9. This audit follows OIOS assignment no. AT2009/510/02, audit of the ERP project at the United Nations Secretariat, which reviewed and assessed the adequacy and effectiveness of the controls designed and implemented by the Secretariat to govern and manage the ERP project.

10. The audit was conducted by reviewing relevant documentation at the ERP project office, Office of Human Resources Management (OHRM) and Procurement Division (PD), and interviewing officers in charge of the relevant functions.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Human resources strategy

The ERP project team is based on a sound structure given the size and complexity of the project

11. Best practices for implementation of ERP systems indicate that the ERP project team must be cross-functional comprising the best people in the organization and having a mix of consultants and internal staff. The team should be adequately trained and have both business and technical knowledge. Enterprise-wide culture and structure change, which include people, organization and culture, should be managed.

12. OIOS is of the opinion that the structure of the ERP project team, as defined in the proposed governance framework in document A/62/510/Rev.1, complies with best practices for ERP implementation. A review of the specific requirements defined in the vacancy announcements of project posts and the personal history forms of the staff members selected for the ERP project team reveal that they reflect the mix of competencies required for the project.

The number and mix of staff comprising the ERP project team is inadequate

13. The size of the ERP project team during the conduct of the audit (44 posts of which 35 were already filled) was inadequate for the size and complexity of the project. In particular, the ERP project team was understaffed in two functional areas: technical architecture and master data management/business intelligence, where there were no resources. However, the additional temporary posts requested for the ERP project team in the first progress report on the project – A/64/380 (36 additional staff requested and approved, for a total of 80) may bring the size of both the technical and functional teams to levels appropriate for the project.

The ratio between UN staff and consultants PricewaterhouseCoopers on the ERP team is inadequate

14. Best practices recommend a ratio of 1:1 (one consultant for each internal team member). The composition, by functional area, of the ERP project team between UN internal staff (without considering interns and the change management function) and PricewaterhouseCoopers consultants is as follows:

Table 1: No. of staff and consultants in functional areas

Functional area	UN Staff	Consultants peak staff for Phase 2
Project Leadership/Programme Management Office	9	10
Finance Team	6	15
Human Resources Team	7	8
Supply Chain Procurement Logistics Team	4	12
Central Support Services	6	8
Technical Architecture	3	16
Master Data Management/Business Intelligence	-	6
Total	35	75

15. The ERP project team is based on an approximate 2:1 ratio, i.e., 2 consultants for 1 UN staff member.

16. A 2:1 ratio is not adequate to ensure an effective knowledge transfer. The recommended 1:1 ratio would allow the UN ERP project staff to have a stronger opportunity for learning and benefiting from the experience and expertise of the consultants. As the project ends and the consultants leave, the UN will be able to rely on its own staff to maintain and update the new system.

17. *The Office of the ERP project commented that the above finding does not take into consideration the type of consultants, and is therefore not accurate, or in accordance with common practice. While it is preferable to have a one-to-one client-consultant correspondence between roles such as project leaders, business analysts, and technical analysts, it is quite acceptable to have a many-to-one relationship between programmers and other technical specialists. In the experience of the Umoja leadership, a 10-1 ratio is acceptable and manageable. Some projects run up to 50-1, which incurs significant risk, but is not unheard of, and can be successful.*

Recommendation 1

(1) The ERP Project Director should take urgent steps to fill the vacant posts, including the additional posts recently approved, to improve the ratio between UN staff and consultants and enable appropriate knowledge transfer.

18. *The Office of the ERP Project Director accepted recommendation 1 and stated that supported by his team, he has made every effort to expedite recruitment. Since the audit, of the 80 posts approved, 43 have been filled. The Office is in the process of preparing a structure outlining the number of staff and consultants along with their profile required for the project. This recommendation will be taken into account. In the mean time, Umoja will continue to compensate for the slow rate of recruitment through working additional hours, subject matter experts, and other actions, until such time as it may find a way to mitigate the effects of these long procedural cycles.*

Recommendation 7 remains open pending notification that vacant posts have been substantially filled.

B. Technical ability of staff and consultants

The personal history profile (PHP) of staff at the D-2, D-1 and P-5 levels indicate they have the required competencies and qualifications

19. The competency and qualification requirements in the vacancy announcements (VAs) for D-2, D-1 and P-5 posts in the ERP project were appropriate to the needs of the different positions. The vacancies appear to have been filled with people with the requisite experience and expertise (based on a review of their PHPs) in their respective professional domains.

The composition of the team provided by PricewaterhouseCoopers is being monitored by the ERP Project Director

20. PricewaterhouseCoopers's team, as presented in its commercial and technical proposal, is not the same as that currently working on the ERP project. Each work order requires its own set of profiles and consultants, and the use of statements of work enables the ERP Project Director to evaluate the consultancy resources and change them if performance is unsatisfactory. Despite initial setbacks, PricewaterhouseCoopers has been able to provide adequate staffing with either functional or technical expertise to fulfil the scope of their statements of work. The ERP Project Director has implemented processes and mechanisms for determining that the best mix of consultants needed during each phase of the project is provided.

C. Recruitment of staff

Cancellations of VAs were not transparent

21. The ERP project cancelled and reissued three vacancy announcements. There was no information in the files on who made the decisions and the reasons for cancelling and reissuing the VAs. The ERP project subsequently informed OIOS that VA 419609 for a D-1 post had been cancelled and replaced with VA 420003 to inter alia, "reflect revised education, work experience and skills requirements" that were "more inclusive and ensure consideration of internal candidates." OIOS notes however, that an external candidate, who had not applied for the earlier vacancy, was selected for the position. *The ERP Project Director noted that although the candidate selected was an external candidate, she is of the right gender. Of the two internal candidates and one external candidate who were interviewed, the winning candidate was eminently more qualified and experienced than the nearest internal candidate, having 28 years of manufacturing/enterprise resource planning experience, half of which is within the UN system.*

22. VA 416349 for a D-1 post was cancelled and replaced with VA 419603. The Administrative Officer in the office of the ERP Project Director informed OIOS that the post was re-advertised to spell out in more detail the post's

responsibilities, competencies and skills and “to encourage highly qualified candidates to apply.” Mr. A, who had not applied for the earlier vacancy, was selected for this post. While Mr. A was an external candidate when the post was re-advertised, he had been a P-4 staff member within the UN common system at the time of the first advertisement.

23. By not maintaining documentation regarding the cancellations, there was lack of an audit trail to enable an independent review and assessment of the actions taken. OIOS was therefore unable to determine whether internal controls to mitigate the risk of a VA being cancelled and reissued to favour one or more candidates were implemented.

24. *The Office of the ERP Project Director explained that the vacancy announcements for these two posts had been written prior to the arrival of the new Project Director in September 2008. While written in good faith, and to the best of the author(s) abilities, they were not of the best quality, and were not best disposed to attracting as well as selecting the strongest possible and most suitable candidate for each post. In agreement with his supervisors, the Project Director rewrote the VAs after his arrival. In fact, on agreement between the incoming Project Director and the Chief Information Technology Officer (CITO), all hiring activities were suspended from the time that the Project Director had been selected and offered the job, to his actual arrival. It was correctly recognized, and indeed is only natural, that in a project as critical as this the Director should be able to shape the team according to his/her own vision and experience, in order to achieve the best possible team balance and performance.*

25. OHRM stated that the documentation for the cancellation of these VAs was available and that the VAs were not cancelled and reissued to favour any candidates. OIOS noted that the documentation referred to was a memorandum requesting the Executive Officer of DM to cancel the VAs, which does not reflect the explanation provided above.

Recommendations 2 and 3

OHRM should:

(2) Review the circumstances leading to the cancellations of vacancy announcements 416349 and 419609 (replaced with vacancy announcements 419603 and 420003) and verify the appropriateness of related decisions; and

(3) Issue guidelines on the documentation that should be retained on cancelled vacancy announcements to ensure there is an audit trail for such decisions and to mitigate the risk of a vacancy announcement being cancelled and reissued to favour one or more candidates.

26. OHRM accepted recommendation 2 stating that the recommendation is already implemented since OHRM reviews all requests for cancellation prior to cancelling vacancies, taking into consideration reasons such as the revision of

the responsibilities and qualifications required of the post or the restructuring of an office or department. Based on the clarifications provided, recommendation 2 has been closed.

27. OHRM accepted recommendation 3 stating that as stipulated in paragraph 2.6 of ST/AI/2010/3, the forthcoming instructional manual for recruiters provides guidance on cancellation of job openings. This manual is being drafted. Recommendation 3 remains open pending receipt of a copy of the instructional manual.

Recruitment of Mr. A

28. Mr. A had applied for a P-5 position for VA 417551, which closed in May 2008. He was not selected for that post. In the PHP supporting that application, Mr. A listed the ERP Project Director as his supervisor at three of his previous positions: one within the UN common system and two in the private sector. The ERP Project Director was the managing director/owner of one of the private sector companies.

29. Mr. A applied for a D-1 post (VA 419603), for which the vacancy announcement closed in December 2008. In the PHP supporting this application, all references to the ERP Project Director as Mr. A's supervisor had been removed from the PHP. The ERP Project Director was the Programme Case Officer for both recruitments and interviewed the candidate for both positions.

30. OIOS is concerned that references to the ERP Project Director in the second PHP may have been removed to avoid mention of Mr. A's previous associations with the Programme Case Officer. While previous and current supervisors frequently participate in recruitment exercises, efforts by Mr. A to withhold information on his previous relationship with the ERP Project Director raises questions as to whether the recruitment was conducted on an arm's length basis. Further, in OIOS' opinion, by signing the PHP, Mr. A attested to information he knew was inaccurate, in violation of the standards of integrity expected of a United Nations staff member.

31. The ERP Project Director was aware of his previous relationship with Mr. A, yet he did not bring the matter to the attention of relevant officials in OHRM for advice. As Programme Case Officer, the ERP Project Director was responsible to ensure the integrity of the recruitment process. To mitigate the appearance of nepotism, especially when dealing with an external candidate, the ERP Project Director should have disclosed his previous relationship and recused himself from actively participating in the recruitment of Mr. A. The cumulative findings regarding the recruitment of Mr. A raises the possibility that he may have been favoured in the filling of VA 419603, which is in violation of the staff rules.

Recommendations 4 and 5

OHRM should:

(4) Examine the inconsistencies in the personal history profile of the candidate selected to fill vacancy announcement 419603 and take appropriate action; and

(5) Examine why the Programme Case Officer did not take any action to address the apparent inconsistencies/inaccuracies in the personal history profile of the successful candidate for vacancy announcement 419603, and take appropriate action.

32. *OHRM accepted recommendations 4 and 5 stating that it is further examining the issues raised to determine if inconsistencies existed. Recommendation 4 and 5 remain open pending notification of the results of the examination being conducted by OHRM.*

One temporary vacancy was not filled competitively

33. Out of 11 recruitments reviewed, the recruitment of one P-5 had not been properly undertaken as the person selected was not recruited through a competitive process. According to documents in the file, Mr. C was an ERP expert at the P-5 level at a UN agency based in Geneva, whose contract was about to expire. The ERP Project Director, in an e-mail dated 11 March 2009, asked his staff to find a P-5 post or consulting equivalent, and put together terms of reference if necessary. The ERP Project Director stated that Mr. C would “coordinate the preparation of the business case with the systems integrators, participate in the formulation of the ERP Charter and in the operationalization of the Project.” Mr. C was recruited against IMIS post no. 67996.

34. It is unclear to OIOS whether a vacancy actually existed or whether there was a need for the stated expertise on the project. The correspondence sighted appears to suggest that the justification for the recruitment was for the benefit of Mr. C, whose contract was expiring, rather than for the Organization. Further, Annex 1b of ST/AI/2006/3/Rev.1 states that “[f]or temporary vacancies expected to last for three months or longer, staff of the department/office concerned shall be informed of the temporary vacancy so as to give staff members the opportunity to express their interest in being considered”. Mr. C was appointed for an initial period of six months on 19 April 2009, (which has been extended to 31 December 2010) and was selected without applying this provision.

35. *OHRM explained that the ERP Project Director recommended the temporary recruitment of Mr. C based on a specific need of the Project and in view of Mr. C's more than 20 years of experience in technical operations and project management of ERP systems. The recommendation was endorsed and implemented by DM Executive Office based on Mr. C's credentials. While there was no specific temporary vacancy announcement (TVA) issued, there was a need to act expeditiously so as not to impede the work programme of the ERP*

project. Following a review of possible candidates, the ERP Project Director's determination was to offer the temporary position to Mr. C. There is no indication in the official status file that the recruitment was for the benefit of Mr. C, nor does the quoted e-mail of 11 March 2009 from the Project Director appear on file. Nevertheless, for the sake of transparency, a TVA should have been promulgated. OHRM will advise DM's Executive Office to bear in mind the provisions of Annex 1(b) of ST/AI/2006/3/Rev. 1 (now abolished and replaced with ST/AI/2010/3, which will be incorporated in user manuals). The e-mail of 11 March 2009 can be found in the records of the Office of the ERP Project Director. OIOS reiterates that there was no evidence that other candidates were reviewed.

Recommendation 6

(6) OHRM should review the appropriateness of the recruitment process for IMIS post number 67996 and take necessary action.

36. *OHRM accepted recommendation 6 stating that it has been implemented. Based on the explanation provided by OHRM in paragraph 35, recommendation 6 has been closed. However, OIOS requests a copy of the written advice that OHRM will send to DM's Executive Office regarding the provisions of ST/AI/2010/3.*

Other recruitment findings

a. Shortened duration of vacancy announcement

37. The Administrative Instruction on the Staff selection system (ST/AI/2006/3/Rev.1¹) states that vacancy announcements for the professional level and above should be open for 60 days unless OHRM "has exceptionally approved a 30-day deadline." At the time of the recruitment action, 30-day candidates were generally internal candidates applying for a promotion one level higher than their current one (although there were exceptions for external female applicants and peacekeeping mission staff for P-3 to P-5 positions). All other candidates, including external candidates, were considered at the 60-day mark or other specified deadline.

38. OIOS noted that the D-2 position in the ERP Project (VA 416161) was open only for 30 days and the list of candidates considered included external applicants. OIOS could not find any written approval or explanation for the shortened duration of the advertisement period. OHRM was unable to provide a copy of any such approval.

b. Lack of evidence of background checks

39. OIOS was unable to verify whether background checks had been conducted on the successful candidate for VA 416161 (the D-2 position), as

¹ Abolished and replaced with ST/AI/2010/03, which includes a similar provision.

OHRM informed that the file had been misplaced during the move to Madison Avenue and there was no electronic record. As the candidate had been self-employed since 2000, OIOS inquired what background checks were usually conducted on self-employed candidates and was informed that OHRM would review employment records prior to the applicant becoming self-employed. In this instance, OHRM advised that the candidate had done consultancy work for other UN agencies and the official assumed that the Senior Review Group would have checked his work product.

40. In the case of the D-2 candidate, when he was recruited in 2008, information relating to his employment prior to 2000 would have been obsolete and not a reflection of his current work experience, responsibilities and salary levels. A substantial element of his suitability for employment was therefore not verified. Background checks on self-employed candidates should include corroborating information provided by the applicant with: (a) clients to whom he or she had provided relevant services; and (b) audited financial statements and/or notarized copies of filed tax returns. OHRM needs to develop a methodology for conducting background checks on self-employed candidates and ensure they are consistently performed.

c. Screening and evaluation of candidates

41. Inconsistencies in the way candidates were screened and evaluated made the recruitment process less transparent:

(i) The ERP project tested all 30-day internal candidates for VAs 419603, 420583 and 420003 but not for VA 416311; and

(ii) Model answers, marking schemes or reasons why grades were changed were not documented making grading of written tests appear inconsistent and arbitrary.

d. Inconsistency in classification of vacancy announcements

42. Vacancy announcements were listed under Administration instead of the specific occupational groups to which they were related, e.g., Finance, Human Resources, Information Systems and Technology. This limits the possibility of the VAs being viewed by the right potential candidates, who may be searching for VAs under the more specific classifications. OHRM questioned the classification adopted by the ERP project once, but there were no other documents showing that the classifications of occupational groups had been reviewed or questioned.

e. Lack of documentation

43. The recruitment files in the ERP project did not always contain a complete set of relevant documents. For example:

(i) Some files did not include answers to written tests, list of interviewed candidates, interview questions and interview notes (VAs 420609, 417551, and 416311); and

(ii) Only one file contained an approval of the evaluation criteria.

Recommendation 7

(7) OHRM should develop and/or consolidate policies and procedures on the recruitment process to ensure the robustness and transparency of the recruitment process.

44. *OHRM accepted recommendation 7 stating that ST/AI/2010/3 establishes the staff selection system and sets out the procedures applicable from the beginning to the end of the staff selection process. Manuals will be issued that provide guidance on the responsibilities of those concerned, focusing on the head of department/office/mission, the hiring manager, the staff member/applicant, the central review body members, the recruiter, namely OHRM, the Field Personnel Division of the Department of Field Support, executive offices and local human resources offices as well as the occupational group manager and expert panel. Recommendation 7 remains open pending receipt of a copy of the manual to be issued by OHRM.*

D. Hiring of consultant

Composition of the technical evaluation committee was inadequate

45. The technical evaluation committee comprised six persons, five from the ERP project and one from Office of Central Support Services. Apart from the ERP Project Director who had the required technical expertise, members of the committee were staff with varying backgrounds and experience such as travel and transportation, human resources/administration, finance, etc. Given the very technical and complex nature of the requirements of the RFP, it is doubtful whether these staff members had the competence to technically evaluate the responses. The technical evaluation process may therefore not have benefited from a critical analysis by more than one ERP expert. OIOS noted that waivers had been obtained from all bidders to share their submissions with external third party experts but no consultants or experts were hired. Conversely, consultants had been used to evaluate responses to the EOIs.

46. The ERP Project Director stated that the technical evaluation committee members had all worked with IMIS and thus had ERP experience, albeit of a non-commercial ERP system. Further, he wanted members of his team to be convinced of the bidders' propositions and for them to have ownership of the redesign of the processes. While agreeing that the inclusion of ERP team members brought some advantages to the technical evaluation process, OIOS questions why this could not have been achieved in conjunction with the participation of more technical expertise, as there are no limits on the size of the technical evaluation committee. The RFP identified very specific (SAP-related) requirements for evaluating prospective vendors' staff pool, methodology to be

used for timely realization of each deliverable, company background and experience in ERP design projects, business process engineering, etc., which accounted for 80 per cent of the technical evaluation. The majority of the technical evaluation committee did not have previous experience in conducting such evaluations.

47. PD explained that the composition of the technical evaluation committee was the prerogative of the client, in this case the ERP project. However, as PD has a responsibility to ensure the integrity of the procurement process, PD should have ascertained that the technical evaluation committee was comprised of a panel of fully competent experts.

48. *OCSS commented that suggestions by PD as to the composition of the technical evaluation committee could be perceived as a conflict of interest to an external review. PD is a guide in the procurement process and does not impose its will on that of the requisitioners. The segregation of duties helped maintain the integrity of this exercise as intended. Further, the evaluation of this proposal required a mix of functional as well as technical services. The panel was purposefully composed of UN functional experts as the majority of the work to be performed under this contract would be process re-engineering and functional design. The panel was thus well balanced and had six members with a great deal of UN expertise including that of IMIS. The ERP Project Director was not the only member of the panel with ERP experience. The panel coordinator, also an Umoja team member, has 10 years commercial ERP experience, while almost all members of the panel have IMIS experience, also an ERP system, although not commercial.*

Lack of transparency of contractual evaluation

49. PD recently introduced a “contractual evaluation” as part of the bid evaluation process. This involves evaluating bidders’ willingness to accept UN contractual terms and conditions. OIOS was informed that the contractual evaluation is a recent addition to the procurement process, designed to assess the willingness of vendors to accept UN contractual terms and conditions. It is not currently covered in the Procurement Manual.

50. The RFP requested bidders to review the draft master services agreement and general conditions of contract and confirm their willingness to accept the clauses, or specify any reservations and provide alternative language. The RFP went on to state that such proposed amendments will be taken into account and “marks reduced accordingly” for the proposed amendments that deviate from the UN standard terms and conditions. The Office of Legal Affairs (OLA) undertook the evaluation and awarded points ranging from 1 to 8 out of a total score of 10. The evaluation was based on the “relative unacceptability and number of concerns raised”, which OLA presented in a table.

51. It is unclear whether the number of concerns raised should play any part in the contractual evaluation. It is also unclear how exactly the significance or gravity of each proposed amendment is factored into the final score. The fact that a vendor proposed certain amendments or suggested modifications to text is not

conclusive evidence that the vendor would ultimately refuse to accept UN terminology or text. Reverting to the vendor for a final position may therefore be a good step to take prior to awarding points. Such a measure would serve to enhance the fairness and transparency of the contractual evaluation.

52. OCSS explained that the three-envelope approach [responding to the technical, commercial and contractual elements of the RFP] forces vendors to respond and negotiate on the basis of UN's form of contract and general conditions. This approach is also intended to shorten the time frame for concluding a contract with the successful vendor, following the completion of the procurement process. OLA conducted the contractual evaluation based upon its professional legal assessment of the vendors' responses and the likely difficulties of negotiating a contract with that vendor. In addition to the quantitative scores, OLA provided a detailed qualitative summary table setting forth the significance of each vendor's comments or objections in relation to the protection of legal interests of the Organization.

Recommendation 8

(8) The Procurement Division, in consultation with the Office of Legal Affairs, should produce clear guidelines on conducting contractual evaluations to make the process consistent and transparent.

53. OCSS requested that recommendation 8 be redirected to OLA because, as the entity that conducts the contractual evaluation, it should be the one to set the criteria under which the evaluations will be done. In terms of ST/AI/2004/1, responsibility for the procurement function is delegated to the Assistant Secretary-General, OCSS, who should establish the procurement system. There is currently no guidance for conducting contractual evaluations. Recommendation 8 remains open pending receipt of a copy of the guidelines established by OCSS for conducting contractual evaluations.

Commercial evaluation may have been inappropriate

54. Financial proposals ranged from \$5.2 million to \$18 million with commercial evaluation scores of between 5.09 and 20. However, these amounts were not used to evaluate the proposal. Instead, a blended day rate, comprising the daily rates of various levels of staff on the proposed teams, was used. These ranged from \$1,223.36 to \$1,713.54 resulting in commercial evaluation scores between 14.28 and 20 points. PD explained to the Headquarters Committee on Contracts (HCC) that it had adopted this approach "as the actual deliverables are not confirmed" and the Division wanted "to be able to look at an apples for apples evaluation". OIOS had the following concerns with the commercial evaluation:

(i) The wide difference between the lowest and highest financial bids may indicate a lack of clarity/understanding of the RFP. However, PD is yet to develop guidance on what level of difference between the

lowest and highest bids should trigger a further clarification of the requirements contained in a solicitation document.

(ii) Using the blended day rate alone to perform the commercial evaluation, without referring to the number of days to be spent on the project, gives an incomplete and misleading estimation of the cost of the project, distorting the commercial evaluation. A bidder using more qualified staff on the project may have a higher blended day rate but lower overall fee and vice versa. The best value for money score using the actual financial proposals placed PricewaterhouseCoopers third in the ranking of bidders, while the one using the blended day rate placed it first.

(iii) The wide disparity in estimated total cost was not manifested in blended day rate.

(iv) At the time of making the submission to the HCC, the financial proposal of the recommended bidder, PricewaterhouseCoopers, was approximately \$16 million while the not-to exceed amount (NTE) requested was \$11 million. This disparity was not revealed by PD to the HCC, thereby omitting a material fact that may have influenced the HCC's recommendation.

55. *OCSS explained that the day-estimates cannot be accurate with this level of information. The argument on the more qualified staff is also not valid as (a) quality of proposed consultants was taken into consideration, and (b) the time spent is not a function of consultant quality only, in fact it is a minor consideration in comparison with delays regularly experienced due to the UN's methods of conducting business, and (c) the nature of the work being mostly intellectual, effort durations cannot be calculated in the same way as if the work was manual or purely technical.* The comments by OCSS are unclear. Fees for services are ultimately based on a rate per period multiplied by the estimated period needed to deliver the services. It is inconceivable that the estimated duration of a project (irrespective of its nature) should not be factored into the commercial evaluation of a proposal to determine the projected cost.

56. *OCSS further stated that the \$11m referred to in sub-paragraph (iv) above was set due to temporary budgetary constraints in 2009, while the \$16m figure was a fixed-price estimate, which was not the basis for the ensuing contract. The notion of concealing anything from the HCC should be formally rejected. Furthermore, PD rejects any implication that HCC was in any way deceived or misinformed during the proceedings or that PD "concealed" any information from the HCC.* OIOS reiterates that the case presentation to the HCC did not include the amount of the financial proposal by PricewaterhouseCoopers.

Absence of requests for best and final offers (BAFO)

57. The difference in best value for money scores between PricewaterhouseCoopers and the second-placed bidder was less than two points

(82.55 vs. 80.63); yet there was no effort to request BAFOs. A file note dated 27 March 2009 and signed by the Procurement Officer and Officer in Charge of Procurement Operations Service, stated that the issue of requesting BAFOs had been raised during review of the case file by PD senior management, and in discussions with the procurement officer and ERP project, "it was felt that requesting a BAFO **may weaken the opportunity for negotiation with the selected vendor**" (emphasis added), although PD supported the idea of a BAFO. The note also stated that approval was given to submit the case to the HCC and "[i]f HCC recommends a BAFO this will then be carried out". There is no evidence, however, that the HCC was requested to advise on this matter, and it was not raised by the HCC.

58. OIOS questions PD's decision to involve the requisitioner in determining whether or not a BAFO should be requested. In terms of the Procurement Manual, such a decision should be made by the Procurement Officer and cleared by the Director, PD. OIOS is of the view that BAFOs should have been requested due to the closeness of the best value for scores, to provide bidders in the competitive range with an opportunity to further distinguish their proposals.

59. *PD commented that given the exceptional nature of the circumstances, its consultation with the requisitioner on the use of BAFO is neither a conflict of interest nor a compromise of the integrity of the process. BAFOs are discretionary and there is no rule to say that the negotiating strategy should not be discussed between PD and the requisitioner. Once a BAFO has been called for and received, there is no further room for discussion with the winning vendor. In the sale of intellectual services, large margins of maneuver are possible and almost always exercised by vendors. The UN could deny itself the opportunity to benefit from this margin by being too rigid in negotiations, and therefore pay more than necessary. Furthermore, the HCC is not "requested to advise" on matters of BAFO; if the HCC feels that a BAFO is required, they will advise PD to seek one. In this instance, the HCC did not question why a BAFO had not been carried out and in fact pre-cleared the case for approval.*

Recommendation 9

(9) The Procurement Division should issue clearer, more definitive guidelines on the criteria to be applied in making a decision on whether or not to request best and final offers from bidders.

60. *OCSS did not accept recommendation 9 stating that the criteria outlined in the Procurement Manual are clearly sufficient for the circumstances. OIOS is of the view that the contents of the file note cited above do not indicate that there is a clear understanding of when the BAFO process should be applied and reiterates recommendation 9, which will remain open pending notification that clearer guidelines have been issued.*

Negotiations may not have been appropriately conducted

61. The HCC recommended the procurement case for approval on 9 April 2009, with a NTE of \$11 million; the approved budget for the consultancy. Negotiations were held with PricewaterhouseCoopers on 29 April 2009. During the negotiations, PricewaterhouseCoopers proposed a reduction in the duration of the project from 11,915 to 4,873 person-days; there were no changes to the blended day rate. The reasons for the changes included the following:

- (i) “Additional time to rationalize requirements and reevaluate our approach
- (ii) “Improved understanding of scope
- (iii) “Delayed deliverables or level of detail until future
- (iv) “Understanding that the UN will have its own project management resources”.

62. The reduction of proposed person-days from 11,915 to 4,873 resulted from the removal from the Scope of Work processes, related to the Central Support Services, such as: (i) Archives and Record Management; (ii) Facilities Management, Commercial Activities; (iii) Conference and Event Management; (iv) Safety and Security; and (v) Mail Operations. However, these processes are listed in the RFP’s As-Is² and To-Be³ processes and are still part of the Umoja Process Master List as presented in the Umoja Project Charter.

63. The negotiations resulted in a material alteration of the RFP, thus skewing for foundation for the source selection. They gave PricewaterhouseCoopers more time to study the RFP and resubmit both their approach and commercial proposal; an opportunity which was not afforded to other bidders, especially the bidder that had a higher technical score than PricewaterhouseCoopers. These actions were in violation of the Procurement Manual and stipulations in the RFP.

64. *OCSS stated that this is not a typical project and there was no material change to scope. The negotiations resulted in no material alteration. The scope of work was maintained. The RFP specifically allowed for either time-and-materials or fixed-price contracting, and due to budgetary uncertainty the fixed-price option was both unaffordable and too risky. It was decided to conduct the work on a time and materials basis, meaning that the incremental rates were the only major factor in the negotiations of the MSA. Work to be performed would all be detailed in subsequent staged Work Orders. The changes in scope listed (CSS area) were mentioned by the UN as a possibility in the case of further budgetary restrictions, but this may have been misunderstood by the vendor. It bears no relevance as these functions are all still within scope, and are included in all design work to date. OIOS maintains that documents prepared by*

² Appendix B of RFPS-1289

³ Appendix C of RFPS-1289

PricewaterhouseCoopers, which are the only evidence of the negotiations, clearly excludes some of the services that had been included in the original scope of work.

No NTE in the master services agreement

65. The UN entered into a one-year master service agreement no. PD/C0095/09 (Agreement) with PricewaterhouseCoopers on 21 May 2009, which provided for the UN to request services, resources and deliverables in the form of duly executed statements of work (SOW). The SOWs were to include a description of the services, etc. to be provided and the related fees, which the UN would pay on satisfactory and timely completion of the SOW. However, the Agreement does not state the NTE over the term of the contract or the agreed person-days to be provided by PricewaterhouseCoopers. The agreed blended day rate is only reflected in Annex D to the Agreement, which is a template of the SOW to be used for the contract. Paragraph a (iii) of Financial Rule 105.8 stipulates that a written procurement contract shall state the contract or unit price. OIOS was informed by PD that the requisitioner did not want the contract to make reference to the NTE, as they did not want the vendor to know the possible spending limit. However, this made the financial obligations under the contract indeterminate and violated the Financial Rules.

66. There was no documentation of the results of the negotiations except for the presentation prepared by PricewaterhouseCoopers, which indicated an agreement to 4,873 person-days at a revised blended day rate of \$1,428 giving a total cost of \$6,958,644. However, the two main SOWs issued up to September 2009 were for 6,941 person-days at a total cost of \$9,911,748, indicating an overrun of 42 per cent. This does not take into account the work order for the final design phase, which is yet to be issued.

67. The lack of an NTE or other relevant financial information in the Agreement makes it impossible to manage the contract within defined financial parameters.

68. *OCSS stated that the reason the NTE was not included in the Agreement was so as not to provide the vendor with any notion of the funds available. The vendor was encouraged to apply the best possible pricing on the grounds of (a) working with a humanitarian organization, and (b) the tight budgetary situation of Umoja, as witnessed by information available to the general public in the General Assembly resolutions in the 63rd session.*

Recommendation 10

(10) The Procurement Division should amend the master service agreement no. PD/C0095/09 to include the not-to-exceed amount of the contract.

69. *OCSS accepted recommendation 10.* Recommendation 10 remains open pending notification that the Agreement with PricewaterhouseCoopers has been amended to include the NTE.

Inappropriate payment for use of office facilities

70. The ERP project had an urgent requirement for office accommodation from May to July 2009, to house up to 80 staff members and consultants. PricewaterhouseCoopers offered the use of their premises free of charge and the ERP Project Director sought the opinion of the Ethics Office on the offer. The Ethics Office advised that in order not to place the UN under an obligation with PricewaterhouseCoopers, a vendor, the UN should compensate PricewaterhouseCoopers for the use of the non-PricewaterhouseCoopers employee space the ERP project team would occupy, based on the commercial/market level rate for the UN, and that the Office of the Capital Master Plan (CMP) should assist in the arrangement.

71. PricewaterhouseCoopers, in invoice no. 1031480540-8, charged the UN \$135,660 for use of office facilities including administrative charges. OIOS found that the invoice had been applied against purchase order (PO) P-S-15823 in the same amount, which had been issued on 11 May 2009 to task 95 person-days for the provision of design services to the ERP project. The invoice was certified by the ERP Director and processed by the Accounts Division, although the nature of the services indicated on it was clearly not in agreement with the PO. OIOS requested an explanation of the anomaly from both the Certifying Officer in the Department of Management and the Approving Officer in Accounts Division, but is yet to receive a response.

72. Further, the basis on which the ERP Project Director certified the invoice was unclear as no supporting documentation on the calculation of the amount due was provided by PricewaterhouseCoopers. OIOS was provided these computations on request, and noted that the UN had been charged \$119 per square foot per annum for a period of 2.5 months. There is no evidence that the ERP project consulted with CMP to determine whether this was a reasonable fee for the office facilities provided.

Recommendations 11 and 12

The Office of the Under-Secretary-General for Management should:

(11) Examine the manner in which invoice no. 1031480540-8 from PricewaterhouseCoopers, relating to purchase order P-S-15823, was processed and take appropriate action against those staff members who may not have performed their certifying and approving roles with due care and attention; and

(12) Examine the manner in which master service agreement no. PD/C0095/09 was awarded to PricewaterhouseCoopers and take appropriate action against those staff members who may have been responsible for allowing violations of procurement procedures to occur.

73. *The Office of the Under-Secretary-General for Management accepted recommendation 11 and stated that it has issued instructions to the Executive Office and the Policy and Oversight Coordination Service to examine this case and to report on its findings within 30 days. The Office of the Under-Secretary-General for Management also accepted recommendation 12 and stated that it has issued instructions to the Assistant Secretary-General, OCSS to examine this case and to report on its finding within 30 days. Recommendations 11 and 12 remain open pending notification of the outcome of these reviews.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1.	The ERP Project Director should take urgent steps to fill the vacant posts, including the additional posts recently approved, to improve the ratio between UN staff and consultants and enable appropriate knowledge transfer.	Human Resources	Medium	O	Notification that vacant posts have been substantially filled.	31 March 2011
2.	OHRM should review the circumstances leading to the cancellations of vacancy announcements 416349 and 419609 (replaced with vacancy announcements 419603 and 420003) and verify the appropriateness of related decisions.	Human Resources	High	C	Implemented	
3.	OHRM should issue guidelines on the documentation that should be retained on cancelled vacancy announcements to ensure there is an audit trail for such decisions and to mitigate the risk of a vacancy announcement being cancelled and reissued to favour one or more candidates.	Human Resources	Medium	O	Receipt of a copy of the instructional manual for recruiters.	30 September 2011
4.	OHRM should examine the inconsistencies in the personal history profile of the candidate selected to fill vacancy announcement 419603 and take appropriate action.	Human Resources	High	O	Notification of the results of the examination being conducted by OHRM, into reported issues in filling vacancy announcement 419603.	Ongoing
5.	OHRM should examine why the Programme Case Officer did not take any action to address the apparent inconsistencies/inaccuracies in the personal history profile of the successful candidate for vacancy announcement 419603, and take appropriate action.	Human Resources	High	O	Notification of the results of the examination being conducted by OHRM, into reported issues in filling vacancy announcement 419603.	Ongoing

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
6.	OHRM should review the appropriateness of the recruitment process for IMIS post number 67996 and take necessary action.	Human Resources	High	C	Implemented	
7.	OHRM should develop and/or consolidate policies and procedures on the recruitment process to ensure the robustness and transparency of the recruitment process.	Human Resources	High	O	Receipt of a copy of the instructional manual to be issued by OHRM, to provide guidance to officers with responsibilities for the recruitment process.	September 2010
8.	The Procurement Division, in consultation with the Office of Legal Affairs, should produce clear guidelines on conducting contractual evaluations to make the process consistent and transparent.	Operational	Medium	O	Receipt of a copy of the guidelines established by OCSS for conducting contractual evaluations.	Not provided
9.	The Procurement Division should issue clearer, more definitive guidelines on the criteria to be applied in making a decision on whether or not to request best and final offers from bidders.	Operational	Medium	O	Notification from OCSS that clearer guidelines have been issued on when to apply the BAFO process.	Not provided
10.	The Procurement Division should amend the master service agreement no. PD/C0095/09 to include the not-to-exceed amount of the contract.	Operational	High	O	Notification that master service agreement no. PD/C0095/09 with PricewaterhouseCoopers has been amended to include the NTE.	October 2010
11.	The Office of the Under-Secretary-General for Management should examine the manner in which invoice no. 1031480540-8 from PricewaterhouseCoopers, relating to purchase order P-S-15823, was processed and take appropriate action against those staff members who may not have performed their certifying and approving roles with due care and attention.	Operational	Medium	O	Notification of the outcome of the examination being conducted by the Executive Office and the Policy and Oversight Coordination Service into the manner in which invoice no. 1031480540-8 from PricewaterhouseCoopers, relating to purchase order P-S-15823, was processed.	September 2010
12.	The Office of the Under-Secretary-General for Management should examine the manner in which master service agreement no. PD/C0095/09 was awarded to PricewaterhouseCoopers and take appropriate action against those staff members who may have been responsible	Operational	High	O	Notification of the outcome of the examination being conducted by OCSS into the manner in which master service agreement no. PD/C0095/09 was awarded to PricewaterhouseCoopers.	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/ O¹	Actions needed to close recommendation	Implementation date²
	for allowing violations of procurement procedures to occur.					

1. C = closed, O = open

2. Date provided by Department of Management in response to recommendation.