

UNITED NATIONS



NATIONS UNIES

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

AUD: UNEP (034/004)

DATE 02 December 2004

TO: Dr. Klaus Töpfer, Executive Director  
United Nations Environment Programme (UNEP)

FROM: Egbert Kaltenbach, Director,  
Internal Audit Division II  
Office of Internal Oversight Services (OIOS)

SUBJECT: **OIOS Audit of UNEP Post-Conflict Assessment Unit (PCAU)**  
**(AA 2004/220/01)**

1. I am pleased to submit the final report on the audit of UNEP Post-Conflict Assessment Unit (PCAU), which was conducted in May 2004 in Geneva, Switzerland by Messrs Nicholas Makaa and Obin Silungwe. A draft of the report was shared with the Executive Director, the Deputy Executive Director, the Office of Executive Director, the Director of UNEP Division of Environmental Policy Implementation and the Head of PCAU whose comments, which were received on 5 November 2004, have been reflected in the final report.
2. I am pleased to note that the audit recommendations contained in this final report have been accepted and that UNEP has initiated their implementation. On the basis of the information provided with the formal comments OIOS has closed recommendations 1, 5, 6, 8, 11, 13, 14, 16 and 18. The table in paragraph 46 of the report identifies those recommendations, which require further action to be closed. I wish to draw to your attention that OIOS considers all of these to be of critical importance.
3. I would appreciate it if you could provide an update on the status of implementation of the audit recommendations not later than 31 May 2005. 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.
4. 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.
5. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the audit team.

Attachment: Client Satisfaction Survey Form

## **D R A F T**

cc: Mr. S. Tveitdal, Director of UNEP Division of Environmental Policy Implementation  
(by e-mail)  
Mr H. Slotte, Head of PCAU. (by e-mail)  
Ms. H. Featherstone, Executive Secretary, UN Board of Auditors  
Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)  
Mr. C. F Bagot, Chief, Nairobi Audit Section, OIOS (by e-mail)  
Ms. L. Kiarie, Auditing Assistant (by e-mail)

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

**Audit of UNEP Post-Conflict Assessment Unit (PCAU)**  
**(AA 2004/220/01)**

**Report date: 02 December 2004**

**Audit Team: Nicholas Makaa**  
**Obin Silungwe**

UNITED NATIONS



NATIONS UNIES

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

**OIOS audit of UNEP Post-Conflict Assessment Unit (PCAU)**

**(AA 2004/220/01)**

**EXECUTIVE SUMMARY**

In May 2004, OIOS conducted an audit of UNEP's Post-Conflict Assessment Unit (PCAU). PCAU started as the Balkans Task force in 1999 and became PCAU in 2001. At the time of the audit, PCAU had implemented 12 projects valued at approximately US\$30 million. The audit focussed on the adequacy of arrangements for handling its administration. The main conclusion was that administrative arrangements needed to be strengthened as inadequate attention had been paid at its inception to ensuring that PCAU staff were trained and were aware of what was required to manage the Unit in accordance with UN and UNEP Regulations and Rules. OIOS was unable to undertake a thorough analysis of the consequences of this because PCAU placed heavy reliance on UNOPS for provision of its services and UNOPS denied PCAU access to the records for audit purposes. UNOPS subsequently provided evidence to assist in closing some of the recommendations raised in the draft report, and an understanding was reached to facilitate future OIOS requests for information. However, discussions demonstrated the need to revise the MOU between UNOPS and UNEP to include audit and inspection access rights to strengthen accountability for work done on behalf of UNEP.

UNEP and OIOS held a number of meetings between September and November to discuss the issues raised in the report, and OIOS would like to thank UNEP for the spirit of openness and co-operation in which these discussions were held. OIOS is pleased to note that work is underway to address those recommendations that remain open. Key issues raised in the report are discussed below.

**Mandate, mission, Organizational Structure, and Planning**

At the request of member states, PCAU conducted environmental clean up and capacity building exercises, which went beyond the mandate given to the Unit by UNEP Governing Council. Consequently, UNEP should present a paper to its Governing Council explaining the changing nature of the activities being undertaken, and the need to alter the mandate to reflect these changes. OIOS also recommended that this needed to be supported with a strategy paper explaining how PCAU envisages itself developing and operating in the medium to long term and operational guidelines documenting the current rationale for how project activities are identified and the necessary preconditions for work to be undertaken. Work is underway to address the issues raised.

### **Financial management**

Adequate arrangements were established for receipt and accounting of contributions, but arrangements to handling expenditures in accordance with UN and UNEP Financial Regulations and Rules needed to be strengthened to ensure that expenditures for goods and services are certified and approved in accordance with the rules. A memo dated 4 April 2004 was provided to PCAU to clarify these issues and OIOS is seeking an assurance that PCAU staff are aware of and understand the process necessary to ensure that the memo is implemented to ensure compliance with UN Regulations and Rules.

### **Human Resources Management**

US\$1 contracts were initiated for two consultants working under an institutional contract, to enable them to work in Switzerland. These contracts should not have been let, as it was the responsibility of the institutional contractor to make the necessary working arrangements for their employees. UNEP has taken action and OIOS is awaiting confirmation of when the contracts were terminated.

### **Procurement**

Whilst there was a justification and explanation for a sole source ex-post facto award of an institutional contract for US\$165,000, there were no justifications and explanations for the subsequent contract extensions, which brought the total contract value to over US\$1 million. In the opinion of OIOS, a competitive tender must be undertaken to establish whether there are any other companies who can undertake the work cost effectively. UNEP has taken action and OIOS is awaiting confirmation when the contract was terminated.

**December 2004**

## TABLE OF CONTENTS

<b>CHAPTER</b>	<b>Paragraphs</b>
<b>I. INTRODUCTION</b>	1-5
<b>II. AUDIT OBJECTIVES</b>	6
<b>III. AUDIT SCOPE AND METHODOLOGY</b>	7-8
<b>IV. AUDIT FINDINGS AND RECOMMENDATIONS</b>	9-45
<b>A. Governance</b>	9-10
<b>B. Mandate, Mission and Organizational structure</b>	11-14
<b>(a) Mandate and Mission</b>	11-12
<b>(b) Organizational Structure</b>	13-14
<b>C. Planning</b>	15-20
<b>(a) Strategy</b>	15-16
<b>(b) Compliance with UNEP planning process</b>	17-18
<b>(c) Project identification and selection</b>	19-20
<b>D. Provision of Administrative Support (non staff)</b>	21-25
<b>(a) Provision of administrative services to projects</b>	21-23
<b>(b) Provision of administrative services to PCAU offices in Geneva</b>	24-25
<b>E. Financial Management</b>	26-29
<b>F. Human Resources Management</b>	30-36
<b>(a) Personnel supplied under Institutional Contract</b>	30-31
<b>(b) Individual Contractors</b>	32-33
<b>(c) Contract terms and conditions</b>	34-36
<b>G. Procurement</b>	37-38
<b>(a) Institutional contract</b>	37-38
<b>H. Asset Management</b>	39-42
<b>I. Programme and project management</b>	43-45
<b>V FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS</b>	46
<b>VI. ACKNOWLEDGEMENT</b>	47

**OIOS Audit of UNEP Post-Conflict Assessment Unit (PCAU)  
(AA2004/220/01)**

**I. INTRODUCTION**

1. This report discusses the results of an OIOS audit of the United Nations Environmental Programme (UNEP) Post-Conflict Assessment Unit (PCAU). The audit was carried out in May 2004 in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations.

2. UNEP conducted its first post-conflict environmental assessment after the 1991 Gulf war. In 1999, the UNEP Balkans Task Force (BTF) was formed to investigate the environmental and human health risks in the Balkans following the Kosovo conflict. In 2001, UNEP decided to formally establish BTF within UNEP and the Executive Director created PCAU. The UNEP Governing Council, in its twenty-second session held in February 2003 (UNEP/GC.22/11), gave PCAU the mandate to assist nations to assess environmental damage caused by war and thus contribute to the international efforts to rebuild the infrastructure of the nations in the war zones such as the former Yugoslavia. PCAU has since undertaken seven post-conflict environmental assessment reports (Federal Republic of Yugoslavia, Albania, Former Yugoslav Republic of Macedonia, Afghanistan, Kosovo, Serbia and Montenegro, and Bosnia and Herzegovina), three post-conflict desk study reports (Palestine, Iraq, and Liberia), one post-conflict environmental clean up in Serbia and four post conflict capacity building activities (Serbia and Montenegro, Afghanistan, Bosnia and Herzegovina, and Iraq).

3. At the time of the audit, PCAU was headed by an L-5 supported by three L-series staff appointed by UNEP, eight staff members recruited by UNOPS on appointments of limited duration, one GS staff member, and seven individual contractors.

4. PCAU activities are funded by donor contributions either in cash or in-kind support. As of December 2003, contributions pledged amounted to US\$32 million, receipts totalled approximately US\$23 million and cumulative expenditures amounted to approximately US\$19 million. Since its inception, PCAU has implemented 12 projects valued at about approximately US\$30 million.

5. A draft of the report was shared with the Executive Director, the Deputy Executive Director, the Office of Executive Director, the Director of UNEP Division of Environmental Policy Implementation and the Head of PCAU. A number of discussions were held in the period August through November, involving OIOS, and an agreed formal set of comments were received on 5 November 2004, which have been reflected in the final report.

**II. AUDIT OBJECTIVES**

6. The overall objective of the audit was to determine whether UNEP had put in place:

- (a) A governance framework to provide adequate guidance and support to PCAU in the definition and execution of its responsibilities.
- (b) An adequate mechanism to ensure PCAU understood and was only executing activities in support of its mandate, and
- (c) An internal control system for managing the structure, programme and resources in compliance with UNEP and UN Regulations and Rules.

### **III. AUDIT SCOPE AND METHODOLOGY**

7. The audit covered activities for the period 1999 to May 2004 and involved interviewing staff, reviewing available documents and assessing control procedures where documentation was available.

8. There were two scope limitations:

- a) OIOS requested UNEP to obtain records held on its behalf by UNOPS, to enable OIOS to confirm the propriety of arrangements made by UNEP for handling certain aspects of human resources management, financial management and procurement of goods and services. UNOPS denied UNEP access to the records and requested advice from their legal officer, who had not responded at the end of fieldwork. UNEP was therefore unable to provide OIOS with basic information to support how it had conducted its business. Further discussions with UNOPS resulted in an informal agreement between OIOS and UNOPS on how to handle direct requests from OIOS, but the principle of UNEP having sufficient safeguards over rights of access to information handled by UNOPS remained unanswered at the time of issue of this report.
- b) UNEP PCAU was unable to provide documentation of goods and services acquired for its offices in Geneva. OIOS was unable to confirm the cost effectiveness of the arrangements.

### **IV. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. Governance**

9. PCAU maintains a database of organizations such as universities, research institutions, non-governmental organizations, consultants and institutional consultancies it interacts with, but had not identified the UN bodies with which it should have some form of an institutional relationship to ensure that it did not duplicate or undertake work, which was the responsibility of another UN entity. The risk of duplication was reduced because UNEP is an observer of the UN Development Group and the Head of PCAU explained to the audit team that UNEP staff members who attend these meetings brief PCAU weekly on the issues raised. However, OIOS is of the opinion that PCAU needs to identify and establish more

formal links with UN bodies also involved in this work such as the Office for the Coordination of Humanitarian Affairs and the UN-HABITAT Disaster Management Unit.

**Recommendation:**

To ensure that PCAU activities are properly aligned with those of other UN entities the Head of PCAU should identify all UN entities which have an involvement in post-conflict matters and which could have an impact in either shaping its work, or assisting it in the conduct of its work. For each of these entities consideration needs to be given to the nature of the relationship between PCAU and the entity (Rec. 01).

10. *UNEP commented that the recommendation had been implemented, and provided a list of UN entities outlining current and potential areas of collaboration.* OIOS thanks UNEP for the prompt action taken and has closed the recommendation.

**B. Mandate, Mission and Organizational Structure**

(a) Mandate and Mission

11. The internal mission statement of PCAU refers to environmental clean up and capacity building, and PCAU has carried out, at the request of Member States, a number of assignments in these areas, as indicated in paragraph 2 above. However, the mission statement and the activities undertaken are not fully covered by the mandate given to the Unit by UNEP Governing Council. The Governing Council therefore needs to be advised of the need to align the mandate with the type of requests being received from Member States.

**Recommendation:**

To ensure that the work actually undertaken at the request of Member States is covered by the mandate of PCAU, the Executive Director of UNEP should present a paper to the next Governing Council in 2005 outlining the need to change the mandate to reflect operational experience to date (Rec. 02).

12. *UNEP commented that the Executive Director of UNEP would make a presentation to the 23rd session of the Governing Council in 2005 on the post-conflict activities carried out by UNEP since the previous UNEP Governing Council in 2003.* OIOS thanks UNEP for the positive response and will close the recommendation upon receipt and review of the documentation presented to the Governing Council and details of the Governing Council decision.

(b) Organizational Structure

13. In 2001, the Executive Director UNEP (ED-UNEP) requested that PCAU be established as a part of UNEP Division of Environmental Policy Implementation (DEPI). However, the necessary steps to achieve this were not carried out:

- a) The staff of PCAU were shown in the UNEP operations manual as being part of the DEPI Disaster Unit, whilst the staffing table in IMIS showed them as part of Regional Office for Europe. PCAU was in the process of rectifying this at the time of the audit.
- b) PCAU staff members were maintained on 200 and 300 series contracts, which is not permissible under UN staff rules for headquarters units. PCAU had recognised this and was in the process of rectifying it at the time of the audit.
- c) Roles and responsibilities of PCAU as a UNEP unit were never communicated to PCAU staff, with respect to such things as travel plans, and programme of work.

**Recommendation:**

To ensure that PCAU is properly established as a UNEP unit, the Executive Director of UNEP should confirm the structure of PCAU in terms of staffing and reporting lines, and request UNON and appropriate units within UNEP to ensure that appropriate documents are updated to reflect the inclusion of PCAU within UNEP and provide PCAU staff with guidance on their roles and responsibilities as UNEP staff members (Rec. 03).

14. *UNEP commented that the recommendation had been implemented and the structure and reporting lines were shown in the latest version of the UNEP Operational Manual.* OIOS thanks UNEP for the prompt action taken on clarifying the structure and reporting lines. To close the recommendation OIOS will require a copy of the approved staffing table, details of how UNON and UNEP will ensure that the table remains up to date and details on the steps proposed to ensure that current and all future PCAU entrants will be briefed on their roles and responsibilities as UNEP staff members.

**C. Planning**

(a) Strategy

15. In the period 1999 to 2003, BTF / PCAU was reactive to donor requests and had no long-term perspective on its future. OIOS is of the opinion, which PCAU agreed, that this situation changed when UNEP Governing Council endorsed the creation of PCAU in 2003. This change in circumstances created a need for PCAU to provide ED-UNEP with an indication of how PCAU envisaged itself developing and operating in the medium to long term.

**Recommendation:**

To provide the Executive Director of UNEP and UNEP Governing Council with guidance on the future of PCAU, in the medium to long term, the Head of PCAU should produce a strategy paper for consideration by the Executive Director (Rec.

04).

16. *UNEP commented that implementation was in progress with a planned target date for completion of end of 2004.* OIOS thanks UNEP for the prompt action taken and will close the recommendation upon receipt of a copy of the strategy paper outlining the future of PCAU in the medium to long term.

(b) Compliance with UNEP planning process

17. At the time of the audit PCAU was not aware of and was not operating in compliance with UNEP planning process and ST/SGB/2000/8 on Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation.

**Recommendation:**

To determine how PCAU should be included in the UNEP planning process, the Head of PCAU should seek advice and assistance from UNEP Programme Co-ordination and Monitoring Unit (Rec. 05).

18. *UNEP commented that the recommendation had been implemented. PCAU established as of October 2004 an internal Policy and Planning Team headed by an experienced PCAU staff member, with one of the tasks being to ensure that PCAU is included in the UNEP planning process, in close cooperation with the UNEP Programme Co-ordination and Monitoring Unit.* OIOS thanks UNEP for the prompt action taken and has closed the recommendation.

(c) Project identification and selection

19. PCAU had an adequate set of criteria for determining when PCAU should intervene and what conditions needed to be satisfied for PCAU to be able to commence operations. These were currently internal and in the opinion of OIOS they should form part of operational guidelines, which would support the mandate and strategy and should be reviewed and approved by ED-UNEP.

**Recommendation:**

To ensure that there is transparency and propriety in the selection of projects, the Head of PCAU should incorporate the criteria and conditions for project selection and implementation into PCAU operational guidelines (Rec. 06).

20. *UNEP commented that the recommendation had been implemented and internal guidelines had been developed.* OIOS thanks UNEP for the prompt action taken and has closed the recommendation.

## **D. Provision of Administrative Support (non staff)**

### **(a) Provision of administrative services to projects**

21. For provision of administrative services to its projects, PCAU used UNOPS in accordance with an MOU signed between UNEP and UNOPS in 2001. In principle, there is no objection against seeking UNOPS services for projects undertaken outside of Geneva. OIOS is, however, concerned about the arrangements in place to make use of these services:

- a) The Head of PCAU, as dictated by operational needs, determined where, and in what circumstances, UNOG, UNON or UNOPS services would be used. There was however no documentation to explain what these circumstances and operational needs were to ensure cost effectiveness because UNOPS charges 8 percent for provision of services, UNOG, 4–6 percent whilst UNON would be effectively free as its services were covered by UNEP's global payment to UNON.
- b) Current arrangements for access to UNEP records handled by UNOPS are inadequate. UNOPS denied UNEP access to its own records. This prevented OIOS from verifying the transactions and from confirming that UNOPS was discharging their duties as required by the MOU.
- c) PCAU had no Project Management Officer to define, identify, co-ordinate and monitor delivery of services to projects.

### **Recommendations:**

To ensure that UNEP has sufficient safeguards over rights of access to information handled by UNOPS, and to enable UNEP to hold UNOPS accountable for work it does on its behalf, the Executive Director of UNEP should review and revise the existing MOU with UNOPS to include clauses dealing with rights of inspection and audit (Rec. 07).

22. *UNEP commented that the information was subsequently provided. However, UNEP will look into the matter and assess whether any amendments are required in the establishment of future MOUs.* OIOS noted the comment and agrees that some information was subsequently provided to assist in addressing issues raised in the report. On the basis of the discussions held after the draft audit report was issued, OIOS agrees that the primary concern that needs to be addressed is strengthening the MOU to ensure UNEP has sufficient safeguards over rights of access to information handled by UNOPS, to enable UNEP to hold UNOPS accountable for work it does on its behalf. The recommendation as formulated above takes this into account. OIOS will close the recommendation upon receipt and review of the revised MOU with UNOPS.

To ensure cost effective and efficient arrangements for delivery of services to projects, including timely reporting requirements, a post of Project Management Officer should be established with responsibilities including development of

guidelines and procedures to assist in cost effective service delivery to projects (Rec. 08).

23. *UNEP commented that a post of Project Management Officer based with PCAU in Geneva with responsibilities including development of guidelines and procedures to assist in cost effective service delivery to projects will be established by end 2004 and charged against the Environmental Fund.* OIOS thanks UNEP for the prompt action taken and has closed the recommendation.

(b) Provision of administrative services to PCAU Offices in Geneva

24. PCAU was unable to demonstrate that it had ensured that goods and services were obtained in the most efficient and economical manner, in accordance with Financial Regulations and Rules. For provision of administrative services to its offices, PCAU, as with other UNEP offices in Geneva, was required to make use of UNOG and UNON, through UNEP Regional Office for Europe (ROE). Instead, PCAU used UNOPS for the provision of standard administrative support services such as procurement and personnel services. OIOS wished to examine the cost effectiveness and rationale for this use, but was unable to do so because PCAU was unable to provide the audit team with details of services and goods acquired and how they were acquired.

**Recommendation:**

The Head of PCAU should produce a paper for the Executive Director of UNEP dealing with the use of UNOPS for delivery of services to PCAU offices in Geneva. This paper should outline the goods and services obtained using UNOPS from 1999 to date and detail the amount paid to UNOPS for these services as compared to using UNOG / UNON and, where necessary, explain the reason for any additional cost arising from use of UNOPS (Rec. 09).

25. *UNEP commented that recommendation would be implemented with a target date for completion of end 2004.* OIOS thanks UNEP for the prompt action taken and will close the recommendation upon receipt and review of the report outlining the goods and services obtained using UNOPS from 1999 to date and detailing the amount paid to UNOPS for these services as compared to using UNOG / UNON and the reason for any cost differences where UNOPS is a higher cost.

**E. Financial Management**

26. When PCAU was established as a part of DEPI in February 2001, adequate arrangements were established for receipt and accounting of contributions, but UNEP did not put in place adequate arrangements to handling expenditures in accordance with UN and UNEP Financial Regulations and Rules:

- a) There was confusion about what was meant by certification and approval under financial rules, which resulted in occasions where these functions appear to have been carried out by the service provider, UNOPS, without sufficient checks and safeguards.

b) As required for other UNEP units within the building the Programme Management Officer of UNEP Regional Office for Europe (ROE) was not the focal point for all budget and financial information.

c) No mechanisms were put in place requiring preparation of comprehensive financial reports listing the status of allotments, obligations, the remaining unliquidated obligations and the expenditures on a current basis for control purposes, including reconciliation of financial reports from implementing partners working on PCAU activities.

d) Financial activity reports were not prepared and reviewed periodically to ensure that expenditures had not exceeded allotments in accordance with UN Financial Rule 105.8.

e) Project activities were not undertaken on the basis of allotments approved by the Executive Director, as required by UN Financial Rule 105.3 (a) in connection with UNEP Financial Rules, Article XI.

27. OIOS was pleased to note that PCAU recognised these weaknesses and actions were underway at the time of the audit to correct these deficiencies

#### **Recommendations:**

To ensure adequate arrangements for certification and approval of expenditures, the Head of PCAU, with assistance from the Programme Management Officer of UNEP's Regional Office for Europe, should develop a set of procedures detailing certification and approval arrangements for operational and PCAU Headquarters activities (Rec. 10).

28. *UNEP commented that a memo from Chief, UNON, Division of Administrative Services, to Chief, UNEP/PCAU, dated 2 April 2004, explains the role of the approving and certifying officer and explicitly segregates the approving responsibilities as being those of the Head of PCAU programmes/projects and the certifying responsibilities as being those of UNEP Regional Office for Europe's Administrative Officer. OIOS appreciates the clarification and will close the recommendation upon confirmation that staff has been made aware of the 4 April 2004 memo on approving and certifying functions for PCAU goods and services obtained for the Headquarters, and understand the processes that must be followed for obtaining goods and services in accordance with the memo.*

To improve arrangements for financial management and reporting, the Executive Director of UNEP should request UNON to assist in defining and implementing a financial system, which allows PCAU to identify, capture, and report on its financial status (Rec. 11).

29. *UNEP commented that with the implementation of Recommendation No. 08, the definition of the UNEP/PCAU Project Management Officer's functions should include the responsibility of establishing an efficient system of monitoring,*

*managing, updating and extracting financial information on the projects implementation progress from the UNOPS, UNEP and UNON systems. This will ensure that the reports envisaged by the project managers and the donors will be accurate and will be furnished in a timely manner and their updates will be done with more ease.* OIOS appreciates the prompt action taken and has closed the recommendation.

## **F. Human Resources Management**

### **(a) Personnel supplied under Institutional Contract**

30. PCAU signed an institutional contract, which included supplying the services of two consultants. To enable the two consultants to work in Switzerland, PCAU signed in addition US\$1 contracts directly with the two consultants. As these individuals were part of the institutional contract, it was up to the company to make all necessary arrangements for their stay in Switzerland, in the absence of any documentation placing this burden on UNEP. In addition, as the company paid the consultants, the signing of the US\$1 contracts inadvertently gave them the status of *Gratis* Type II personnel, who should have, but were not reported to the General Assembly quarterly and annually, as required by General Assembly resolution A/RES/51/243.

#### **Recommendation:**

PCAU should cancel the US\$1 contracts entered into with two individuals working for an institutional contractor and explain to the company its responsibilities for making all necessary arrangements for its staff to work in Switzerland (Rec. 12).

31. *UNEP commented that the recommendation had been implemented and the contracts have been terminated.* OIOS notes the response and will close the recommendation upon receipt of evidence explaining when the US\$1 contracts were terminated.

### **(b) Individual Contractors**

32. When PCAU hired seven individual contractors and used them as staff, it violated ST/AI/1999/8 and ST/AI/2002/4 in the way staff members are recruited. They also violated ST/AI/1999/7 on consultants and individual contractors that restricts using individual contractors continuously for more than nine months in any period of twelve consecutive months.

a) Their work assignment involved full-time or part-time functions similar to those of staff members such as temporary staffs used only during peak periods, to meet unexpected demands, to fill temporary vacancies or absences, to assist during conferences or to provide other short-term services in accordance with staff rules.

b) The Chairman of PCAU, who is a consultant, represented ED-UNEP and UNEP at numerous activities of PCAU as a UN official. According to

ST/AI/1999/7 section 6.2 individual contractors may not discharge representative or supervisory functions.

**Recommendation:**

To ensure that PCAU recruits personnel using the appropriate mechanism, the Head of PCAU should seek the advice of the Human Resources Management Section of UNON on how to conduct human resources matters in accordance with UN regulations and rules (Rec. 13).

33. *UNEP commented that the recommendation had been implemented. A focal point within HRMS/UNON has been assigned to advise PCAU as and when required. OIOS thanks UNEP for the prompt action taken and the recommendation has been closed.*

(c) Contract terms and Conditions

34. One of the individual contractors had his duty station outside of Geneva. As a consequence, he was paid Daily Subsistence Allowance (DSA) for the time spent in Geneva. Since the contractor spent approximately two weeks per month in Geneva, the DSA cost for the period from February 2002 to May 2004 amounted to approximately US\$72,000. OIOS was unable to get access to UNOPS records to verify the correctness of these payments. From the documents provided to the audit team, it was unclear, why Geneva was not chosen as the duty station.

35. The fee agreed for the individual contractor in 2003 was US\$10,000 per month from February 2002. This was raised to US\$12,000, in July 2003. The Office of the Executive Director clarified that the rate agreed was based on the Grade of ASG to reflect the position previously held by the consultant within his national government.

**Recommendation:**

In the absence of evidence justifying why the duty station of an individual contractor was outside of Geneva and the basis for the monthly fees, the Executive Director of UNEP should revisit the terms and negotiations offered to the contractor and determine whether unjustified payments have been made which should result in write-off action (Rec.14).

36. *UNEP commented that in light of the extensive high level political and other contacts necessary in Finland and beneficial for the post-conflict activities carried out by UNEP, it was decided that the individual contractor's duty station should be Helsinki. However, in light of the expanding portfolio of post-conflict activities, additional responsibilities and fast evolving political scenarios, the individual contractor's current contract has Geneva as the duty station. OIOS thanks UNEP for the clarification on why the duty station was in Helsinki and for clarifying that the high level political nature of the duties carried out by the consultant required a consultant at the level of ASG. On the basis of this information the recommendation has been closed.*

## G. Procurement

### (a) Institutional Contract

37. In June 1999, PCAU engaged, through UNON, GAIA Network Consultants to provide consultancy support for examining environmental consequences in war zone areas. The contract was extended three times through UNON and then was extended in excess of four times using UNOPS, from July 2000 to the time of the audit. Whilst there was a justification and explanation for the original sole source ex-post facto award of a US\$165,000, there were no justifications and explanations for the subsequent extensions, which brought the total contract value to over US\$1 million. In the view of OIOS, the contract extensions were not in compliance with the general principles for procurement in the UN per Financial Regulation 5.12 that requires exercising due consideration to achieve value for money, fairness, integrity and transparency, effective international competition, and the interest of the UN.

#### **Recommendation:**

To comply with UN Financial Regulation 5.12 that requires exercising due consideration to achieve value for money, fairness, integrity and transparency, effective international competition, and interest of the UN, the Head of PCAU, should terminate the current institutional contract with GAIA Network Consultants and initiate a tendering exercise to obtain any further consultancy services (Rec. 15).

38. *UNEP commented that following the successful post-conflict assessment activities in the Balkans, the requests for UNEP's involvement in similar disasters by the Governments increased significantly. As UNEP did not have the capacity to respond to these requests within its established structure, the services of the GAIA Network Consultants continued to be used while UNEP was looking into possibilities, with their support and experience, of establishing a more permanent structure to execute these activities. The Post-Conflict Assessment Unit was subsequently established and strengthened and has now the capacity to handle such requirements. Since then the institutional contract with the GAIA Network Consultants has been discontinued.* OIOS thanks UNEP for the clarification and will close the recommendation upon receipt of evidence explaining when the GAIA contract was terminated.

## H. Asset Management

39. PCAU had inadequate procedures for safeguarding assets valued at approximately US\$3 million. These assets included heavy equipment and permanent installations of the clean-up project in Serbia and Montenegro. Asset management had not been conducted in accordance with UN Financial Rule 105.20 and ST/AI/374 on Property records and inventory control:

- a) No definition of non-expendable property;

- b) No system for control of property as stated in UN Financial Rule 105.20. OIOS believes that this should include frequency of physical verification;
- c) No reconciliation was possible between the inventory records and the expenditure reports;
- d) No internal inventory number or barcode had been assigned to the inventories to assist in tracking and identification of items;
- e) Inventory lists were maintained, but no evidence that they are updated every time new assets are acquired, and no evidence of any physical checks to verify;
- f) PCAU did not have a system in place and did not have a policy for disposal of non-expendable items. How to determine the obsolete IT equipment, timing of disposal and the accounting procedures for the sales proceed from disposals was not clear;
- g) There was no methodology or policy for removal of assets transferred from the records held by PCAU;
- h) In the absence of a consolidated asset register, it is unclear as to whether the assets transferred at the completion of a project are complete; and,
- i) No policy was established on maintenance of equipment.

40. OIOS noted that PCAU had taken steps to establish an asset management system and whilst it noted that disposal action on property in Belgrade had been carried out in accordance with rules, in the absence of a properly maintained asset register, it was not clear whether all items, at a depreciated value of approximately US\$24,000, had been accounted for. *UNEP commented that the documents showing compliance with UN Financial Rule 105.20 and ST/AI/374 on Property records and inventory control, regarding the hand-over to the Local Authorities in Belgrade were subsequently provided to OIOS, showing that these procedures took place in May 2004, almost in parallel with the visit by the auditors to PCAU.* The recommendation raised on this issue has therefore been withdrawn.

#### **Recommendations:**

To ensure compliance with UN Financial Rule 105.20 and ST/AI/374 on property records and inventory control, the Head of PCAU should develop a system for control of assets, which involves the creation of a consolidated database of all non-expendable inventories purchased which should reflect the purchase date, description, value, and location. The database should be updated regularly for additions, disposals and transfers. A physical verification should also be carried out (Rec. 16).

41. *UNEP commented that with the implementation of Recommendation No. 08, the definition of the UNEP/PCAU Project Management Officer's functions would include the responsibility of establishing an efficient system for control of assets in*

Geneva and in the out-posted PCAU project offices, which would be updated regularly for additions, disposals and transfers. OIOS appreciates the prompt action taken and has closed the recommendation.

To ensure conformity with UN Financial Rule 105.20 and ST/AI/374 on property records and inventory control, the Head of PCAU should establish a written disposal policy, which clearly states conditions under which assets should be transferred, sold or donated (Rec. 17).

42. *UNEP commented that the recommendation would be implemented as part of the establishment of a new UNEP-wide disposal policy.* OIOS notes the response and will close the recommendation upon receipt and review of the UNEP disposal policy.

### **I. Programme and Project Management**

43. Since its inception in 1999, PCAU implemented about 12 projects valued at approximately US\$30 million, of which seven projects valued at approximately US\$25 million were complete and five projects valued at approximately US\$5 million were ongoing.

44. OIOS found that project documents had been completed in accordance with UNEP project guidelines; however, the majority of the projects were presented and approved ex-post facto by UNEP's Project Approval Group (PAG). OIOS is of the opinion that close cooperation between PCAU, PCMU, and BFMS is needed to ensure speedy and efficient project formulation and approval.

#### **Recommendation:**

To facilitate formulation and approval of PCAU projects the Head of PCAU, in consultation with PCMU and UNON Budget and Financial Management Service (BFMS) should devise a procedure for speedy and efficient formulation and approval of PCAU projects (Rec. 18).

45. *UNEP commented that the procedure agreed upon to ensure a speedy and efficient formulation and approval of PCAU projects, is for PCAU to send a draft project document simultaneously to PCMU and BFMS for comments within four working days, where after PCAU will finalize the project document and submit to BFMS/PCMU for direct management approval.* OIOS thanks UNEP for the response and has closed the recommendation.

### **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:

Recommendation No.	Action Required
Rec. 02	Receipt and review of the documentation presented to the Governing Council and details of the Governing Council decision.
Rec. 03	A copy of the approved staffing table, details of how UNON and UNEP will ensure that that the table remains up to date and details on the steps proposed to ensure that current and all future PCAU entrants will be briefed on their roles and responsibilities as UNEP staff members.
Rec. 04	Receipt of a copy of the strategy paper outlining the future of PCAU in the medium to long term.
Rec. 07	Receipt and review of the revised MOU with UNOPS.
Rec. 09	Receipt and review of the report outlining the goods and services obtained using UNOPS from 1999 to date and detailing the amount paid to UNOPS for these services as compared to using UNOG / UNON and the reason for any cost differences where UNOPS is a higher cost.
Rec. 10	Confirmation that staff have been made aware of the 4 April 2004 memo on approving and certifying functions for PCAU goods and services obtained for the headquarters, and understand the processes that must be followed for obtaining goods and services in accordance with the memo.
Rec. 12	Receipt of evidence explaining when the US\$1 contracts were terminated.
Rec. 15	Receipt of evidence explaining when the GAIA contract was terminated.
Rec. 17	Receipt and review of the UNEP disposal policy.

## VI. ACKNOWLEDGEMENT

47. I wish to express my appreciation for the assistance and cooperation extended to the audit team by management and staff of PCAU and UNEP.

Egbert C. Kaltenbach, Director  
 Internal Audit Division II  
 Office of Internal Oversight Services