# INTERNAL AUDIT DIVISION OFFICE OF INTERNAL OVERSIGHT SERVICES

To: Ms. Alicia Bárcena, Under-Secretary-General

A: Department of Management

DATE: 06 February 2007

reference: AUD-7-1:4 ( 7/07)

FROM: Dagfinn Knutsen, Acting Director

DE: Internal Audit Division

Office of Internal Oversight Services

SUBJECT: OIOS Audit No. AH 2006/511/06: Audit of Payment of Contracts

**OBJET:** with Eurest Support Services

- 1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted from February to July 2006, The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 2. We note from the responses to the draft report that the Procurement Service and the Controller have accepted all of the recommendations. Based on the responses, I am please to inform you that we will close all recommendations upon receipt of information showing that recommendations have been implemented. Please note that OIOS will subsequently monitor these target dates and report on them in its annual report to the General Assembly and its semi-annual report to the Secretary-General.
- 3. IAD is assessing the overall quality of its audit process and kindly request that you consult with your managers who dealt directly with the auditors and complete the attached satisfaction survey form.

#### I. INTRODUCTION

4. During the period 2003 to 2006, the United Nations entered into eight different contracts with Eurest Support Services (ESS) for the provision of food rations and other logistical services to military contingents deployed in peacekeeping missions. Except for the contracts with UNMIK and UNFICYP, which were issued locally by the missions, all of the contracts with ESS were processed by the Procurement Service (PS) in New York. The individual missions were responsible for contract implementation. The combined not-to-exceed (NTE) value of awards to ESS was approximately \$ 462.5 million, as shown in table 1 below.

**Table 1: Contracts to ESS (2003-2006)** 

					Annual	Disbursements
	Mission	Contract No.	Signed	NTE Amount	estimated	as at
					amount	30 Jun 2006
1	ONUB	PD/C0128/04	20-Jul-04	\$111,138,450	\$44,455,380	\$24,135,967
2	UNMIL	PC/C0286/03	10-Dec-03	\$61,966,885	\$61,344,599	\$79.564,533
3	UNAMIS	PD/D0008/05	UN-Signed	\$201,560,105	\$120,936,062	\$16,835,416
4	UNMEE	PD/C0310/03	27-Jan-04	\$43,234,335	\$24,409,567	\$17,423,547
5	UNIFIL	PD/C0007/03	19-Mar-04	\$9,537,450	\$5,688,334	\$8,650,346
6	UNDOF	PD/C0008/03	19-Mar-04	\$5,144,323	\$3,086,594	\$1,982,677
7	UNMIK	MIK/C0052/04	15-Nov-04	\$28,558,614	\$6,420,452	\$3,242,379
8	UNFICYP	CON/CYP/02-16	27-Mar-03	\$1,341,981	\$1,341,981	\$1,182,777
		TOTAL		\$462,482,143	\$267,682,969	\$153,017,643

5. The comments made by Management of the Procurement Service on the draft report have been included in the report as appropriate and are shown in italics.

#### II. AUDIT OBJECTIVES AND SCOPE

6. The objective of the audit was to determine whether the payments to ESS were in accordance with the terms of the contracts and relevant UN rules and established procedures. The audit was performed at Headquarters and covered the period 2002 to 2005. Relevant payment data was obtained from the field. However, OIOS did not verify the accuracy and completeness of this data, or the validity of related payments.

#### III. OVERALL ASSESSMENT

7. OIOS found that the risk of fraudulent vendor payments was not managed adequately. There were no established procedures to ensure that all contracts contained detailed payment instructions and that these instructions were the basis for making payments. The justifications for changing vendor bank account information were not submitted to the Procurement Service and differed among the missions creating a risk that changes could be initiated by unauthorized personnel for fraudulent purposes.

#### IV.AUDIT FINDINGS AND RECOMMENDATIONS

#### A. Vendor bank account information

- 8. The Missions were responsible for executing the ESS contracts at the field level, which included requisitioning services, issuing purchase orders (POs) and processing invoices and payments to the contractors. All payments were effected by electronic wire transfer by the Missions to the ESS bank accounts.
- 9. The contracts with ESS did not specify the method for paying vendor invoices nor did they contain vendor bank information. Furthermore, PS indicated that they had no such information on file. The absence of such information made it difficult to control payments and posed the risk of irregular payments to unauthorized parties.

10. There were inconsistencies between the vendor name and address in the contract and the actual payee in contract PD/C0286/03 (UNMIL). Payments were made to the Compass Group, USA and ESS Worldwide, although ESS Worldwide is the sole contract signatory. Payment details were not specified in the contract, and therefore changes did not have to be approved by PS<sup>1</sup>. According to PS officials, the Mission did not notify them of the change in payee information prior to effecting payments to the Compass Group, USA.

#### Recommendation 1

OIOS recommends that the Procurement Service should ensure that vendor payment details are specified in all contracts (AH 2006/511/05/01).

11. The Procurement Service accepted recommendation 1 and stated that all contracts are issued with payment terms and vendor payments details. The Procurement staff shall be advised to use the Funds Transfer Request Form in case of change of vendor payment details in the course of contract execution. The new procedure has been developed in consultation with the Accounts Division and Treasury and is scheduled for implementation March 2007. Recommendation 1 remains open pending receipt of documentation showing that the procedures have been implemented.

#### Recommendation 2

OIOS recommends that the Controller should remind all approving officers that vendor payments must be based on payment details contained in contracts or as approved by the Procurement Service (AH 2006/511/05/02).

12. The Controller accepted recommendation 2 and indicated that a memorandum will be issued to all approving officers reminding them that vendor payments must be based on payment details contained in contracts or agreements between the United Nations and vendors, or as approved by the Procurement Service. This will also include procedures to be followed when changes in the payment details are requested by vendors. This is scheduled to be implemented by March 2007. Recommendation 2 remains open pending receipt of documentation showing that the procedures have been implemented and approving officers notified.

### B. Payments to Banks

13. In six missions, ESS' banking information was changed frequently by the Missions. As at December 31 2005, missions made total payments of \$92.5 million to ESS via electronic wire transfers sent to 10 different bank accounts held in five banks. However, there was no consistent procedure for processing changes in ESS bank information. For example, UNMIL and ONUB used the following practices:

<sup>&</sup>lt;sup>1</sup> Article 45 of the contract states that: "no modification or change in this Contract shall be valid and enforceable against the United Nations unless provided by an amendment to the contract signed by the Contractor and the Chief, or authorized Representative, of the Procurement Division."

- a) Normally, the vendor invoices to UNMIL state the name of the payee including the bank account details. In March 2005, vendor bank accounts were changed to a different bank with different account numbers based on a written request signed by the ESS Finance manager and addressed to the Chief of Integrated Support Services (CISS) of the Mission (the requisitioner). Also, in August 2004, changes in vendor's bank and account had been requested in a letter signed by both the ESS project manager and project accountant and addressed to Rations Officer. In both cases the Chief Finance Officer was requested to effect the changes in banking instructions by the CISS.
- b) At ONUB, ESS verbally communicated the change in bank information to the requisitioner (ONUB rations cell), which in turn notified the Procurement Section, which informed the Finance Section. Such verbal communication of changes in bank information did not comply with Article 44 of the contract which states that any changes required by the vendor, should be in writing.
- 14. As part of the Comprehensive Management Review of the Department of Peacekeeping Operations Procurement (AP 2005/600/20), OIOS had inquired about the procedure followed to change vendor banking information at Headquarters. The Accounts Division advised that: "In accordance with the standard procedures followed by Accounts Division, the change of a vendor's payment instructions is cleared through Procurement Service (not through the substantive office of the requisitioning department)." OIOS requested from Accounts Division, but did not obtain, a copy of the pertinent standard operating procedure in question. PS advised that changes in vendor's bank information are handled by the Vendor Registration/Roster Unit in PS, which reviews related requests submitted by vendors and is authorized to change bank information in IMIS. PS, however, was unable to locate documents on file authorizing the changes in ESS bank information for any of the contracts. This situation presented the risk that payments could easily be made to illegitimate bank accounts. Moreover, the lack of bank account data, as discussed above would make it very difficult to detect fraudulent payments.

#### Recommendation 3

OIOS recommends that the Department of Management establish a procedure for approving and recording changes to vendor payment details to ensure that changes are authorized and easily traceable in order to mitigate risks of fraudulent payments (AH 2006/511/05/03).

15. The Management of Office of Programme Planning, Budget and Accounts accepted recommendation 3 and indicated that a procedure will be established for approving and recording changes to vendor payment details in consultation with Procurement Service, Accounts Division and Treasury. This procedure is scheduled to be implemented by March 2007 and will be communicated to all Procurement Officers and Assistants. Recommendation 3 remains open pending receipt of documentation showing that procedures for approving and recording changes to vendor payment details have been developed and communicated to Procurement Officers and Assistants.

# V. ACKNOWLEDGEMENT

16. We wish to express our appreciation to the Management and staff of the Missions and the Procurement Service for the assistance and cooperation extended to the auditors during this assignment.

Copy to: Mr. Warren Sach, Assistant Secretary-General, Controller

Ms. J. H. Lute, Assistant Secretary-General, DPKO Mr. Jayantilal Karia, Director Accounts Division Mr. Paul Buades, Chief Procurement Service

## UNITED NATIONS



# **OIOS Client Satisfaction Survey**

# Audit of: Payment of Contracts with Eurest Support Services (AH2006/511/06) 5 3 4 1 2 Excellent Satisfactory Good Very Poor By checking the appropriate box, please rate: Poor 1. The extent to which the audit addressed your concerns as a manager. 2. The audit staff's understanding of your operations and objectives. 3. Professionalism of the audit staff (demeanour, communication and responsiveness). 4. The quality of the Audit Report in terms of: Accuracy and validity of findings and conclusions; Clarity and conciseness; Balance and objectivity; Timeliness. 5. The extent to which the audit recommendations were appropriate and helpful. 6. The extent to which the auditors considered your comments. Your overall satisfaction with the conduct of the audit and its results. Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved. Title: Date: Name:

Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:

Director, Internal Audit Division-1, OIOS

By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA

By fax: (212) 963-3388 By E-mail: iadlsupport@un.org