

INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Michael Moller
A: Special Representative of the Secretary-General
United Nations Peacekeeping Force in Cyprus

DATE: 7 March 2007

Ms. Alicia Barcena, Under-Secretary-General
for Management

REFERENCE: AUD-7-5:2 (07-00097 a)

THROUGH:

S/C DE:

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



SUBJECT: **OIOS Audit No. AP2006/654/02: Procurement activities in the United Nations Peacekeeping Force in Cyprus (UNFICYP)**
OBJET: **Nations Peacekeeping Force in Cyprus (UNFICYP)**

1. For the reasons discussed below, OIOS is issuing a revised version of the final report on the subject audit:

- In light of the explanations UNFICYP and the Department of Management provided to OIOS in response to the draft report, OIOS had withdrawn three recommendations. However, references to the findings relating to these withdrawn recommendations were not deleted from the Executive Summary, which has been revised to reflect these changes.
- Please note that, in addition to reiterating recommendations 6 to 11, 16, 17 and 18 as noted in the original transmittal memo (dated 5 March 2007), OIOS is also reiterating recommendation 13, as shown in the revised transmittal memo which is attached.

2. We regret any inconvenience and thank you for your continuing cooperation.

cc: Mr. Jean-Marie Guehenno, Under-Secretary-General for Peacekeeping Operations
Ms. Jane Holl Lute, Assistant Secretary-General/OMS, DPKO
Mr. Philip Cooper, Director, ASD/DPKO
Mr. Jonathan Childerley, Oversight Support Unit, Department of Management
Mr. Francis Clancy, Chief Administrative Officer, UNFICYP
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Mika Tapio, Programme Officer, OIOS
Mr. Tilchand Acharya, Chief Resident Auditor, Middle East Region Audit Office

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INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

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OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Michael Moller
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United Nations Peacekeeping Force in Cyprus

DATE: 7 March 2007

Ms. Alicia Barcena, Under-Secretary-General
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FROM: Dagfinn Knutsen, Acting Director
DE: Internal Audit Division, OIOS



SUBJECT: **OIOS Audit No. AP2006/654/02: Procurement activities in the United Nations**
OBJET: **Peacekeeping Force in Cyprus (UNFICYP)**

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during May-July 2006.
2. We note from your response to the draft report that you have accepted 14 of OIOS' 24 recommendations. Based on your response, we are pleased to inform you that we have closed recommendations 5, 14, 15, 19 and 21 in the OIOS recommendations database, and withdrawn three recommendations as discussed in paragraphs 54 to 56 and 59 of this report. In order for us to close out the remaining recommendations (i.e., 1 to 4, 12 and 20), we request that you provide us with the additional information as discussed in the text of the report. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status. OIOS is reiterating recommendations 6 to 11, 13, 16, 17 and 18, and requests that you reconsider your initial response concerning these recommendations. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 6, 7, 10 to 13, 15 and 18), in its annual report to the General Assembly and semi annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests you that you consult with your managers who dealt directly with the auditor and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the management and staff of UNFICYP for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Mr. Jean-Marie Guehenno, Under-Secretary-General for Peacekeeping Operations
Ms. Jane Holl Lute, Assistant Secretary-General/OMS, DPKO
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Office of Internal Oversight Services

Internal Audit Division



Procurement activities in the United Nations Peacekeeping Force in Cyprus (UNFICYP)

Audit no: AP2006/654/02
Report date: 7 March 2007
Audit team: Tilchand Acharya, Chief Resident Auditor
Venkata Bendapudi, Auditor-in-Charge

EXECUTIVE SUMMARY

Procurement activities in UNFICYP (AP2006/654/02)

OIOS conducted an audit of the procurement activities in the United Nations Peacekeeping Force in Cyprus (UNFICYP) during May-July 2006. The main objectives of the audit were to: (a) assess the adequacy and effectiveness of internal controls and compliance with the UN Financial Regulations and Rules and Procurement Manual and related instructions; (b) ascertain whether the procurement of goods and services required by the mission was performed in cost effective and timely manner; and (c) review the reliability of the Mercury system as an electronic tool for procurement.

The audit found a number of deficiencies in the Mission's procurement procedures and practices, including the following:

- Competition among bidders was inadequate, particularly for the procurement of high value items, due to low response rates to solicitations.
- There was a case which showed that certain vendors had received prior information from requisitioners, even before the requisitions in question were received by the Procurement Section. UNFICYP needs to take appropriate measures, including training of requisitioning and procurement staff, to ensure that segregation of duties is maintained, and inappropriate contacts with vendors do not take place. There is also a need for UNFICYP to strengthen access controls to the Mercury system to ensure the confidentiality of sensitive procurement-related information.
- Effective 1 July 2005, the Mission's expenditure on rental of vehicles increased by 15 per cent despite the use of third party insurance coverage as compared to comprehensive coverage used during the prior period. In addition, the Mission's repair and maintenance costs relating to rental vehicles increased by 90 per cent. There were inaccuracies in the cost-benefit analysis concerning the owning or hiring of vehicles. Contrary to the Mission's conclusion that hiring was economical, it appeared that the ownership option was more economical.

Generally, the Mission was not receptive to OIOS' recommendations, and the overall tone of UNFICYP management's written comments on the report appears to reflect a resistance to change in the conduct of procurement.

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I. INTRODUCTION

1. Based on the Chief of Mission's request, OIOS conducted an audit of procurement activities in the United Nations Peacekeeping Force in Cyprus (UNFICYP) during May-July 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. Procurement is one of the important administrative support services provided to UNFICYP to enable the Mission to perform its mandated tasks and operations. UNFICYP's Chief of Mission is responsible for the overall mission direction and management, and the Chief Administrative Officer provides administrative and logistical support to the Mission.
3. The Procurement Section is responsible for the procurement of goods and services required by the Mission in a cost effective and timely manner, and in accordance with the United Nations Financial Regulations and Rules and the Procurement Manual.
4. The principal requisitioners in UNFICYP include the Communications and Information Technology Section (CITS), the Engineering Section, the Supply Section, the Transport Section and the General Services Section. "Mercury" is the computerized procurement system used in field missions. As shown in Table 1, the UNFICYP Procurement Section placed 522 purchase orders totaling \$10.2 million during the period from 1 July 2005 to 30 June 2006.

Table 1: Total number and value of purchase orders from July 2005 to June 2006

Section	Total number of purchase orders	Total value \$
CITS	121	923,350
Engineering	109	1,145,856
General Services Section	29	215,828
Supply	186	4,493,686
Transport	77	3,413,175
Total:	522	\$10,191,895

5. The comments made by the Management of UNFICYP on the draft audit report have been included in the report as appropriate and are shown in italics. OIOS notes, however, that the overall tone of the Management's comments appears to reflect a resistance to change in the conduct of procurement.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to:
 - (i) Assess the adequacy and effectiveness of internal controls and compliance with the UN Financial Regulations and Rules and the provisions of the Procurement Manual and related instructions;

- (ii) Ascertain whether goods and services required by the Mission were procured in a cost effective and timely manner; and
- (iii) Review the reliability of the Mercury system as an electronic procurement tool.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit included a review of key processes within the procurement cycle comprising requisitioning, bidding, ordering, receiving and inspection, and payments. Internal control questionnaires were used to ascertain whether proper internal controls were in place. OIOS conducted detailed tests of procurement transactions for the period from 1 July 2005 to May 2006 and analyzed lead times for various processes in the procurement cycle to determine their efficiency and effectiveness.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Registration of vendors

Incomplete vendor files

8. As of June 2006, the UNFICYP Mercury database had 702 vendors, of whom 532 were active, 167 were temporary and three were awaiting registration. The Procurement Manual stipulates that vendor files should have all supporting documentation in addition to the completed registration form. Our review of a sample of 30 vendor files revealed that:

- Vendor files did not exist for ten (or 33 per cent) of the 30 vendors;
- In 20 out of 30 files (or 67 per cent), vendor registration supporting documents such as financial information were not available;
- The vendor roster in the Lotus Notes-based Mercury system was transferred to the web-based Mercury system without a proper review.

9. The Chief Procurement Officer (CPO) explained that the Section has only two international staff at the professional level (CPO and the Deputy CPO) and six national staff at the general service level. When the invoice-processing function was transferred to the Finance Section, an Administrative Assistant post in the Procurement Section was redeployed to the Finance Section. OIOS was pleased to note that the CPO not only reorganized the structure of the Procurement Section and but also rotated the job responsibilities among the staff members. Due to the current workload of procurement staff, the CPO was unable to assign any one of them with the dedicated responsibility of maintaining and updating the vendor files, and for reviewing the vendor roster. The CPO acknowledged the need for proper maintenance and regular updating of vendor files and stated that he had initiated the process of updating the vendor details.

Recommendations 1 and 2

The UNFICYP Administration should ensure that the Procurement Section conducts a thorough review of the active vendor files and solicits contact details from active vendors to ensure that the vendor roster is complete and supported by relevant documentation (AP2006/654/02/01).

The UNFICYP Administration should also reassess the staffing needs of the Procurement Section and redeploy resources as appropriate to ensure the proper maintenance of vendor files as stipulated in the Section 7.10 of the Procurement Manual (AP2006/654/02/02).

10. *The UNFICYP Administration accepted recommendation 1 and stated that the review of the active vendor files is underway and will be completed upon the arrival of the replacement international staff member by the end of 2006, who will be assigned to update the vendor database. Recommendation 1 will remain open pending receipt of documentation from UNFICYP showing that implementation action has been completed.*

11. *The UNFICYP Administration accepted recommendation 2 and stated that available Procurement Section staff resources will be reallocated (see comments to recommendation no. 1 above) to ensure that this recommendation is implemented. Recommendation 2 will remain open pending receipt of documentation from UNFICYP showing that implementation action has been completed.*

Vendor registration

12. Section 7.9.1 of the Procurement Manual requires that temporary vendors be registered within three months of their provisional registration. If the registration has not been completed within three months from the date of provisional registration, the vendor shall be deleted from the vendor database. OIOS found 210 temporary vendors in the vendor database who were yet to be formally registered, even though they were in the database for more than three months. The CPO indicated that the Mercury system does not allow deletion of vendors from the database. In the absence of a formal registration process with established evaluation criteria, the risk of placing purchase orders with the temporary vendors (whose credentials remain unverified) cannot be ruled out.

Recommendations 3 and 4

The UNFICYP Administration should ensure that the Procurement Section:

- (i) Reviews all temporary vendors and completes the registration of those who are found to be qualified (AP2006/654/02/03); and

(ii) Liaises with the Mercury system administrator in Brindisi to delete from the database any unregistered vendors after three months of their provisional registration (AP2006/654/02/04).

13. *The UNFICYP Administration accepted recommendation 3 and stated that the duties of the new procurement section staff member (Deputy CPO) will include the completion of the registration process for all temporary vendors. Recommendation 3 will remain open pending receipt of documentation from UNFICYP showing that implementation action has been completed.*

14. *The UNFICYP Administration accepted recommendation 4 and stated that the duties of the new procurement section staff member will include the deletion of any unregistered vendors from the vendor database after three months of their provisional registration. This task can be accomplished locally, by the Procurement Section, unless there are unanticipated technical difficulties that require assistance from the Mercury system administrator in Brindisi. Should there be a requirement to contact Brindisi, the Mission will do so expeditiously. Recommendation 4 will remain open pending receipt of documentation from UNFICYP showing that implementation action has been completed.*

B. Requisitioning

Specifications were not generic

15. Section 8.3.1 of the Procurement Manual states that specifications indicated in requisitions should be generic and not refer to brand names, catalogue numbers or types of equipment from a particular manufacturer. OIOS' review indicated that requisitioners did not always ensure that specifications were generic. Four cases (or 10 per cent) of the 40 procurement files examined showed that the requisitioning offices wrote specifications to suit a particular manufacturer. For example, in requisitions ENG 21, 25, 67 and 68, models and manufacturer-specific information were indicated.

16. The purpose of competitive tendering is defeated when specifications are identified with brand names or makes. Therefore, it is important that the requisitioning offices are aware that specifications should be generic in order to ensure a fair and competitive procurement process.

Recommendation 5

The UNFICYP Administration should require all requisitioning offices to prepare requisitions with generic specifications only (AP2006/654/02/05).

17. *The UNFICYP Administration accepted recommendation 4 and stated that requisitioners are regularly reminded of the requirement to provide generic specifications when raising requisitions. When a requisition is received with non-generic specifications they are returned to the requisitioner, requesting justification for the non-generic specifications or alternatively to revise the specification to a more generic level. Based on the Mission's response, recommendation 5 has been closed.*

Multiple requisitioners

18. Access rights in the Mercury system are given to staff members according to their roles in the procurement process. UNFICYP's Mercury database showed 30 staff members with access rights as requisitioners. However, only 21 of them were active users. OIOS found that periodic review of access rights to Mercury was not carried out. The heads of requisitioning offices explained that requisitions are raised by staff members having requisite technical expertise in their area of responsibility. As shown in Table 2, OIOS found that between two and seven staff members in each requisitioning office raised requisitions during the 2005-2006 fiscal year.

Table 2: Number of requisitioners in each section

Requisitioning section	Number of staff members raised requisitions
CITS	7
Engineering	5
Supply	4
Transport	2
Total	18

19. While OIOS recognizes that staff members having specialized technical knowledge should be given access rights as requisitioners, there has to be a periodic review of users who can access the database. Access rights should be selectively given to staff members based on operational needs and bearing in mind the sensitivity and confidential nature of procurement related information. Any unauthorized use of information could tarnish the Mission's reputation. In order to minimize the risk of unauthorized flow of information, it is necessary to appropriately limit access to the Mercury system to designated staff members.

Recommendations 6 and 7

The UNFICYP Administration should:

- (i) Strengthen access controls in the Mercury system taking into consideration the Mission's operational requirements, and limit the access to designated staff members, as appropriate (AP2006/654/02/06); and
- (ii) Periodically review staff members' access rights in the Mercury system to determine their continuing need, in order to protect the confidentiality of procurement-related information (AP2006/654/02/07).

20. *The UNFICYP Administration did not accept recommendation 6, stating that access to the Mercury system is already strictly limited to designated staff whose duties require it and that further limitation of access will impede the work of the sections involved.* OIOS is not convinced

with this explanation given that currently 30 UNFICYP staff members have access rights to the system whereas only 21 of them are active users. Access rights to Mercury should be limited to those staff members who require such access to reduce the risk of abuse of sensitive procurement information contained in the system. Therefore, OIOS is reiterating recommendation 6 and requests that UNFICYP reconsider its initial response to this recommendation.

21. *The UNFICYP Administration also did not accept recommendation 7, stating that the Mercury system focal point periodically reviews the active accounts and updates them accordingly. Due to technical reasons inherent to the Mercury system, requisitioning officers and other users associated with the procurement process cannot be deleted from the system.* However, OIOS was not provided with documentation to show that access rights to the Mercury system were reviewed periodically. In cases where UNFICYP is unable to update the list of staff members having access rights to the Mercury system due to technical problems, it should seek the assistance of the United Nations Logistics Base in Brindisi to resolve the problems. Therefore, OIOS is reiterating recommendation 7, and requests that UNFICYP reconsider its initial response to this recommendation.

Leak of procurement information

22. During the course of this audit, the CAO requested OIOS to look into the CPO's concerns regarding the possible leak of requisitions to vendors from a requisitioning office. A review of the documents provided to OIOS showed that certain vendors had prior information on requisitions before those requisitions were received by the Procurement Section, which was indicative of inappropriate contact between requisitioners and vendors. As a result, such vendors apparently obtained a distinct advantage over others, since they unfairly received advance information even before the Procurement Section sent out solicitations.

23. Only designated procurement officers are authorized to make solicitations/contacts with vendors. In March 2006, the Controller issued instructions regarding contacts between UN officials and vendors on procurement matters. In addition to limiting the number of staff members with access rights to the Mercury system and periodically reviewing the need to continue extend their access rights, it is important that the requisitioning and procurement officials are made aware of their respective roles and the separation of responsibilities in the procurement process.

Recommendation 8

The UNFICYP Administration should provide in-house training to requisitioners and procurement staff emphasizing the segregation of duties between the requisitioning and procurement functions, and the need for requisitioning offices to maintain the integrity of the procurement process by refraining from making contacts with vendors (AP2006/654/02/08).

24. *The UNFICYP Administration did not accept recommendation 8 and stated that all staff involved in the procurement process, both requisitioners and procurement staff, are already*

aware of the levels of segregation of duties and the need to ensure the integrity of the procurement process. The Administration further explained that the need to ensure the integrity of the procurement process has been reiterated in UNFICYP Information Circular No. 2006-32 dated 20 April 2006, which distributed the Controller’s memorandum, entitled “Contact between Vendors and Staff from Requisitioning Offices,” dated 31 March 2006.

25. OIOS is not convinced that the Mission’s explanations have addressed the recommendation. OIOS’ audit showed that, based on UNFICYP’s own records, information on two engineering requisitions was leaked to vendors before those requisitions reached the Procurement Section. Information leaks to vendors from a requisitioning office are clearly improper contacts between vendors and staff from requisitioning office. Therefore, OIOS is reiterating recommendation 8, and requests that UNFICYP reconsider its initial response to this recommendation. Since the source of the information leak is still unresolved and the investigation of potentially fraudulent activities was not within the audit scope, OIOS will refer the matter to its Investigations Division for further review.

C. Bidding

Discrepancy in number of solicitations

26. The Mercury system showed 179 requests for quotation (RFQs) and two invitations to bid (ITBs) for the fiscal year 2005-2006. As shown in Table 3, these figures did not compare with the actual number of solicitations undertaken during the same period.

Table 3: Variance in solicitations undertaken during the 2005-2006 fiscal year

Nature of Solicitation	Actual number of solicitations	Number of solicitations in the Mercury system
RFQ	187	179
ITB	22	2
RFP	23	None

27. Furthermore, the Mercury system did not record any requests for proposal (RFP) whereas 23 RFPs were actually issued during the 2005-2006 fiscal year. OIOS found that a manual system was used (in addition to Mercury) to record the solicitations, and data pertaining to ITBs and RFPs are maintained manually. The CPO indicated that there is no provision in the Mercury system to record data relating to ITBs and RFPs. OIOS is of the view that since Mercury is the official procurement software, the entire procurement process should be documented in the system for completeness and integrity of procurement data.

Recommendation 9

The UNFICYP Administration should seek assistance from the Mercury system administrator in Brindisi to ensure that all solicitations undertaken by the Mission are recorded in the system (AP2006/654/02/09).

28. *The UNFICYP Administration did not accept recommendation 9 and stated that there are instances when a bidding process can commence before the required funds are allocated (before a requisition is raised). This is done in order to ensure sufficient lead-time for the procurement process. Solicitations can commence outside the Mercury System and once the funds are made available and a requisition is raised and entered into Mercury, the results of the bidding process will be used to complete the procurement action. This is a standard practice throughout field missions.* OIOS notes the Mission’s explanation on the standard practices in the procurement process but does not believe it addresses the recommendation, which seeks to enhance the completeness and integrity of data in the Mercury system. Irrespective of the standard practices, efforts should be made to ensure completeness of data in the procurement system. Therefore, OIOS is reiterating recommendation 9, and requests that UNFICYP reconsider its initial response to this recommendation.

Minimum number of solicitations

29. Section 9.3.4 of the Procurement Manual stipulates the minimum number of vendors to be invited, depending on the value of the acquisitions, to maximize competition. For example:

- For acquisitions between \$200,000 and \$1,000,000, a minimum of 15 vendors to be invited; and
- For acquisitions above \$5,000,000 a minimum of 25 vendors should be invited.

30. As shown in Table 4, OIOS found that UNFICYP did not comply with these requirements.

Table 4: Number of invitees to bid

Nature of goods and services	Approximate value (\$)	Number of invitees	Minimum number of invitees recommended
Hiring of vehicles	9,518,896	18	25
Security Enhancement Project (RFP)	462,561	10	15
CCTV Project	393,423	12	15
Hiring of cleaning services	573,230	14	15

Poor response to bids

31. Partly owing to UNFICYP’s non-compliance with the requirement to invite the minimum number of vendors to bid, bidder response was generally poor, especially for high value contracts. For example, in the bidding exercise for hiring of vehicles at an estimated cost of \$9.5 million, out of the 18 invitees, only one responded. Similarly, in response to the RFP for the security enhancement project, only two of the 10 invitees responded. Good bidder response is an indicator of competition in the procurement process. Considering local market conditions and

the availability of a large number of vendors on the roster, the bidder responses elicited by the Mission's solicitations were clearly inadequate to ensure competition.

32. UNFICYP needs to ensure that the minimum number of invitees indicated in the Procurement Manual are invited to bid, and also address the issue of poor bidder response to the Mission's solicitations. In order to improve bidder response, the Mission needs to conduct a proper market survey to identify suitable vendors. During its review of the Mission's budget performance report (A/59/36/Add.6) for the 2005-2006 fiscal year, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) had expressed concern over the competitive bidding process and asked the Mission to review its procurement practices.

Recommendations 10 and 11

The UNFICYP Administration should ensure that the Procurement Section:

- (i) Complies with Section 9.3.4 of the Procurement Manual on the minimum number of vendors to be invited, in order to maximize competition (AP2006/654/02/10); and
- (ii) Conducts a market survey to expand the pool of qualified vendors in order to improve bidder response in future solicitations (AP2006/654/02/11).

33. *The UNFICYP Administration did not accept recommendation 10 and stated that the minimum number of invitees specified in the Procurement Manual Section 9.3.4 is only a recommendation, intended for guidance purposes, and any application thereof depends upon the circumstances and local market conditions. It is the opinion of the Mission that it is a matter of common sense to recognize that it is not always possible to have the Procurement Manual's recommended number of vendors participating in bidding exercises, particularly in the case of Cyprus where there are never more than two or three responses to high value solicitations for the very simple reason that the capacity is not there. However, notwithstanding the above, the Mission will continue to make every effort, as it has been doing in the past, to have as many qualified vendors as possible participate.*

34. *The UNFICYP Administration also did not accept recommendation 11 and stated that the Procurement Section will continue to endeavor to identify as many qualified vendors as possible for every solicitation but it is unaware of how to conduct a survey to identify or to, "...expand the pool of qualified vendors..." Vendors are normally identified according to the requirements of the mission at the time or by their response to solicitation requests sent by the mission according to the goods/services required, and not the other way round.*

35. OIOS wishes to note that recommendations 10 and 11 are complementary, and that the Mission's response stating that it will continue to endeavour to identify as many qualified vendors as possible for every solicitation appears to contradict its rejection of the recommendations. OIOS also notes that the conduct of market survey to expand the pool of qualified vendors is independent of the bidding process. Identification of suitable vendors for

every solicitation is part of the bidding process whereas expanding the pool of qualified vendors using market research is part of the vendor registration process. Therefore, OIOS is reiterating recommendations 10 and 11, and requests that UNFICYP reconsider its initial response to these recommendations.

D. Purchasing

1. Irregular purchase of items under delegated authority for “core requirements”

36. By its 6 June 2005 instruction, DPKO authorized field missions to procure locally, but within the delegated authority of \$200,000, “core requirements” of selected goods and services in order to enhance operational efficiency. Table 5 shows the selected goods and services identified as core requirements.

Table 5: Selected goods and services for local procurement

Fresh Food, if not already included in a rations contract
Building materials and refurbishment services
Waste Disposal Services
Landscaping, janitorial and cleaning services
Laundry and dry cleaning services
Local telecommunication services
Potable water supply
Catering and cooking services
Local utilities services (electricity, water, gas and sewer)
Local maintenance contracts
Local custom clearance and freight forwarding services
Petrol, Oil and Lubricant (POL) contracts

37. The Mission resorted to procuring the following services locally by considering them as “core requirements”, and did not obtain DPKO’s approval for this procurement even though their values exceeded the delegated authority of \$200,000.

- Security enhancement project (Cost: \$437,242)
- Hiring of vehicles (Cost: \$9.5 million)

38. In both cases, the Headquarters Committee on Contracts (HCC) observed that the Mission had resorted to local procurement without obtaining necessary authorization from DPKO. DPKO also advised the Mission to seek its permission for the local procurement of these services since their value exceeded the delegated authority of \$200,000, and reminded the Mission that these services were not listed as core requirements. In OIOS’ opinion, the Mission needs to inquire into the circumstances under which improper use was made of the delegated authority for procurement of core requirements and establish accountability for the irregularity.

Recommendations 12 and 13

The UNFICYP Administration should:

- (i) Ensure that the delegated authority for local procurement of “core requirements” is exercised strictly in accordance with DPKO’s instructions of 6 June 2005 (AP2006/654/02/12); and
- (ii) Inquire into the circumstances under which the delegated authority for procurement of “core requirements” was improperly used to procure goods and services not categorized as such, and establish accountability for the irregularity (AP2006/654/02/13).

39. *The UNFICYP Administration accepted recommendation 12 and stated that the recommendation will be implemented immediately.* Although the Mission accepted this recommendation, it maintained that it acted within established parameters and that it did not bypass any procedural or other requirements in regard to the delegation of authority for core requirements. OIOS’ audit, however, showed that the delegation of authority for core requirements was not exercised properly. Recommendation 12 remains open pending receipt of documentation from UNFICYP showing that implementation action has been completed.

40. *The UNFICYP Administration did not accept recommendation 13 and explained that the Mission considered the construction of the security fence under the security enhancement project as a core requirement based on the acquisition of specifically identified types and quantities of materials, equipment and tools necessary for the construction of the fence.* This explanation does not address OIOS’ concern, which was also the concern of the Headquarters Committee on Contracts and the Procurement Service, regarding the Mission’s contravention of the delegation of authority for the local procurement of core requirements as the security fencing materials are not part of the goods and services identified as core requirements in DPKO’s 6 June 2005 instruction.

41. *Regarding the leasing of vehicles, the Mission asserted that:*

- *While the delegation of authority does not clearly identify leasing of vehicles, it undoubtedly lends itself to local procurement action, citing the 31 July 2003 Fax No. 2003-UNHQ-006186 from Girish Sinah of the Logistics Support Division in DPKO as the basis of this action (Page 3 of this fax under “Local procurements,” “Local ground transportation” is listed under “Core Requirements”);*
- *In further support of this position, the Mission refers OIOS to 18 February 2005 fax from Kiyohiro Mitsui of the Procurement Service under “LCC Case on Rental of Vehicles,” and the related 21 February 2005 fax reply CYP-PROC-1777 from CAO UNFICYP.*

42. OIOS notes that the 31 July 2003 fax no. 2003-UNHQ-006186 was superseded by a 6 June 2005 fax instruction from Ms. Jane Holl Lute, Assistant-Secretary-General for the Office of

Mission Support/DPKO, as discussed in paragraph 36. Moreover, the 6 June 2005 fax instruction did not include “Local Ground Transportation” under “Core Requirements”. Furthermore, the 18 February 2005 fax from Mr. Kiyohiro Mitsui of the Procurement Service regarding “LCC Case on Rental of Vehicles”, in fact, questioned the Mission’s reasoning to resort to local procurement without Headquarters’ approval. In its fax reply to UNFICYP’s 21 February 2005 fax CYP-PROC-1777, the Procurement Service advised the Mission to seek prior approval for such cases in future.

43. OIOS is reiterating recommendation 13, and requests that UNFICYP reconsider its initial response to this recommendation.

2. Irregularities in procurement for the security enhancement project

Inordinate delay in processing project requirements

44. After 18 months since identifying the following requirements in December 2004 for the security enhancement project initially estimated at \$462,561, UNFICYP has not yet completed the project which entails:

- Supply and installation of 17 vehicle gates and four pedestrian gates;
- Renewal of 78 metres of existing fence; and
- Supply of 200 meters of fencing materials including two vehicle gates.

45. As shown in Table 6, UNFICYP started the procurement process for this project in December 2004 by issuing a RFP. The Mission then issued an ITB in September 2005 for this project, and then issued another solicitation in March 2006, this time as requests for quotations (RFQ).

Table 6: Procurement timeline of the security enhancement project

Period	Nature of solicitation	Bid response	Total Value (\$)	Recommended vendor	Remarks
Dec 2004 to July 2005	RFP	2 (out of 10 invitees)	462,561	Stavros Eliades Construction Ltd.	HCC rejected the case
September 2005 to February 2006	ITB	6 (out of 14 invitees)	327,196	Atlas Pantou Co. Ltd.	HCC rejected the case
March 2006 to June 2006	RFQ		372,034	22 piecemeal purchase orders.	18 out of 22 purchase orders were less than \$30,000

46. The HCC twice rejected UNFICYP’s proposal to award the contract locally by citing a number of deficiencies, including the following:

- (i) No official amendment to the RFP was issued to cover changes to the Statement of Work during the vendors’ site visits;
- (ii) No evaluation committee or technical evaluation with relative weights was established;

- (iii) The best and final offer (BAFO) did not permit a comparison between the “original” and “best” offers as it was based on amended requirements;
- (iv) Not giving reasonable opportunity to company B, whose representatives came 25 minutes late to the meeting;
- (v) The Mission’s mistaken reliance on a July 2004 communication from DPKO as authority to consider the requirements of the security enhancement project as a “core requirement” which could be procured locally; and
- (vi) The UN Procurement Service’s view that although the solicitation was an ITB, in some respects it was treated like an RFP solicitation.

47. UNFICYP Administration officials informed OIOS that the security enhancement project is being executed by a military contingent, and that the project is expected to be completed towards the end of 2006. Security and safety of UN personnel is a key risk area in all peacekeeping missions. OIOS is concerned that the safety and security of the Mission has been exposed to risks far too long because of UNFICYP’s non-compliance with the procurement procedures.

Recommendation 14

The UNFICYP Administration should expeditiously implement its security enhancement project by securing the necessary materials and services in compliance with the relevant provisions of the UN Financial Rules and the Procurement Manual (AP2006/654/02/14).

48. *The UNFICYP Administration accepted recommendation 14 and stated that the security fence project is scheduled for completion by the end of December 2006. The Mission considers OIOS’ concern expressed in paragraph 49 of this report regarding the over two-year delay in completing the security fence project as defamatory, contradictory and disingenuous.* OIOS maintains that concerns on safety and security of staff members expressed in this report are based on the fact that Mission took more than two years to complete the fencing project although necessary funds were made available in 2004. Based on the Mission’s response that the security fence project was completed by 31 December 2006, recommendation 14 has been closed from the OIOS recommendations database.

Retroactive requisitioning, procurement, receiving and inspection actions in the Mercury system

49. In December 2004, the Mission issued the RFP for the security enhancement project to ten vendors and recommended Stavros Eliades Construction Ltd. to the HCC for review. On 30 June 2005, the Mission obligated CYP 207,690 (\$437,242) in an internal purchase order CYP4-496 in anticipation of the HCC’s approval of the recommended vendor. According to Section 13.8 (1) of the Procurement Manual, “Internal purchase orders are issued internally within the UN to obligate funds against contracts for future payment of services of goods received under the contract, and are not sent to Vendors”. As at 30 June 2005, there was no contract with

Stavros Eliades Construction Ltd. and in July 2005, the HCC had rejected the Mission's recommendation of this vendor.

50. In contravention of Financial Rules 105.8 and 105.9, the Mission did not liquidate the funds under the obligating document CYP4-496 CYP 207,690 (\$437,242), but instead retained the funds beyond the end of 2004-2005 fiscal year ending on 30 June 2005. However, since the HCC once again rejected the Mission's recommended vendor (Atlas Pantou Co.) in February 2006, the unliquidated obligation under CYP4-496 could not be used and would lapse on 30 June 2006. On 14 March 2006, UNFICYP requested the Controller's approval to liquidate CYP 207,690 (\$437,242) under prior-year obligation CYP4-496 and allow the Mission to re-obligate these funds for the purchase of fencing materials from 22 vendors in order to complete fencing project.

51. On 30 March 2006, anticipating the formal approval from the Controller, the Mission liquidated the 2004-2005 unliquidated obligation of CYP 207,690 (\$437,242). By his 30 March 2006 e-mail, the Chief Finance Officer advised the CPO to reopen the 2004-2005 Lotus Notes-based Mercury I, raise requisitions in April 2006 using the for 2004-2005 fiscal year and to place purchase orders against those requisitions. He also advised in the same e-mail that the Information Technology Unit will reactivate the old Mercury system naming the staff members to take the following actions in Mercury:

- Requisitions – one staff member
- Certification – two staff members
- Approval – two staff members
- Buyers in the Procurement Section – two staff members
- Procurement Approval – two staff members
- Receiving and Inspection – one staff member

52. The Mission's action is not in accordance with the Financial Regulation 5.4, which provides that "any unliquidated obligations" at the end of twelve-month period provided in Financial Regulation 5.3 "shall at that time be cancelled or, where the obligation remains a valid charge, transferred as an obligation against current appropriations", but not be charged to prior-year appropriations. Meanwhile, on 17 April 2006, the Mission received a fax from the Controller giving his approval to liquidate obligation CYP4-496. However, the fax did not authorize the Mission to re-obligate funds for the purchase of items for the security enhancement project.

53. In OIOS' opinion, the Controller's approval is not required to liquidate obligations, since certifying officers have that authority delegated to them. Furthermore, liquidation of prior-year obligations will not restore the liquidated amount to the current year's allotment – on the contrary, the liquidation amount will lapse. As a result, any re-obligation of funds comes out of the Mission's current year allotments. However, the Mission retroactively raised requisitions and placed purchase orders by reactivating the old Mercury system, and forced the 22 split purchase orders to be recorded as having been raised against prior year funds.

54. In its draft report, OIOS recommended that: (i) the UNFICYP Administration should formally report to the Controller the circumstances under which the Mission retroactively performed the requisitioning, procurement, receiving and inspection, and payment processes by reactivating the old Mercury system in order to utilize the 2004-2005 obligation CYP4-496 for CYP 207,690 (\$437,242); and (ii) the Department of Management should review UNFICYP's actions concerning the funds obligated for the security enhancement project and hold the concerned certifying officer accountable for raising an internal purchase order without the existence of a legal contract with the vendor, and not liquidating the 2004-2005 internal purchase order CYP4-496 at the end of the financial year on 30 June 2005 in accordance with Financial Rule 105.8 and 105.9.

55. *The UNFICYP Administration did not accept recommendation (i) and stated that the Controller approved the actions taken by the Mission in his 19 April 2006 fax reply regarding "Request for Authorization in an Obligating Document" to UNFICYP's 14 March 2006 fax CYP-CFO-111. Although the Department of Management accepted recommendation (ii), its review of this procurement case concluded that the response provided by the Mission to this recommendation was correct and that the Mission acted correctly under the circumstances that they faced.*

56. In light of the explanations provided, OIOS has withdrawn these recommendations, but encourages the Mission to draw lessons learned from this procurement case to ensure that procurement activities are performed in accordance with the relevant Financial Regulations and Rules and established procedures.

Split purchase orders totaling \$372,034 were issued to bypass the HCC

57. In a meeting on 9 March 2006, UNFICYP officials comprising the Chief Administrative Officer (CAO), the Chief of Integrated Support Services (CISS), Local Committee on Contracts (LCC) Chairman, the Chief Engineer and the CPO decided to locally procure the security enhancement project requirements. The nature of the project requirements and the need to utilize 2004-2005 funds of CYP 207,690 (\$437,242) obligated under CYP4-496 within the fiscal year ending on 30 June 2006 were used as the basis to come to this decision.

58. UNFICYP placed 22 split purchase orders (see Annex II) locally totaling \$372,034 apparently to circumvent LCC and HCC scrutiny, considering that the HCC had twice rejected the Mission's procurement actions for this project. Furthermore, 18 of the 22 purchase orders totaling \$162,652 were placed with 18 different vendors limiting the value of each purchase order to less than \$30,000 in order to by-pass the requirement for formal solicitation of bids. UNFICYP used requests for quotations (which, according to Section 9.4.2 (2) a. of the Procurement Manual, is an "Informal Method of Solicitation") to obtain prices from these 18 vendors. By placing 22 split purchase orders, the Mission limited the value of individual purchase orders within its delegated authority and effectively eliminated HCC oversight. In OIOS' opinion, HCC review is a critical internal control mechanism to ensure fairness, integrity and transparency in procurement, and bypassing or overriding such a control is considered a serious non-compliance with the Financial Regulations and Rules.

59. In its draft report, OIOS recommended that the Department of Management should inquire into the circumstances in which UNFICYP split purchase orders totaling \$372,034 to avoid the required review by the Headquarters Committee on Contracts in the procurement of goods and services for the security enhancement project and address accountability for the irregularities. *Although the Department of Management accepted this recommendation, its review of this procurement case concluded that the response provided by the Mission to this recommendation was correct and that the Mission acted correctly under the circumstances that they faced.* In light of the explanations provided, OIOS has withdrawn this recommendation, but encourages the Mission to draw lessons learned from this observation.

3. Vehicle hire contract

Cost increase in the new contract with Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd.

60. Effective 1 July 2005, UNFICYP entered into a new three-year contract with a joint venture company (Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd.) with a total not-to-exceed (NTE) amount of CYP4,312,060 or approximately \$9.5 million. The contract has an option to extend under the same terms and conditions for a further period of two years up to 30 June 2010.

61. As shown in Table 7, the vehicle hiring rates have increased by 15 per cent in the new contract when compared with the previous contract that expired on 30 June 2005.

Table 7: Cost comparison of expired and new contracts

Contract period	Duration	Type of insurance	Amount (Annual)		Increase (%)
			CYP	US\$	
2003-2005	Two years (CYP 1,500,094 or \$5,691,919)	Comprehensive coverage (cost of damages to hired cars were borne by vendor)	750,047	1,650,103	
2005-2008	Three years (CYP 2,587,236 or \$5,691,919) with an option to extend for two more years	Third party insurance (cost of damages to the hired cars are to be borne by UN)	862,412	1,897,306	
	Cost increase		112,365	247,203	15

62. The new contract had a provision for third-party insurance for rented vehicles that required the Mission to bear the costs of damage to the hired cars. On the other hand, the previous contract with Astra Self Drive Cars Ltd. that expired on 30 June 2005 provided for a comprehensive insurance coverage of hired vehicles, and the vendor was responsible for costs of damage to the vehicles.

63. As the contract with Astra Self Drive Cars Ltd expired on 30 June 2005, UNFICYP issued a RFP to 18 vendors. By the closing date, the Mission's Tender Committee received three proposals, one from the joint venture firm Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd., and two unsolicited proposals from Lecrimar enterprises Ltd. and Sixty Rent a Car. The two vendors in the joint venture – Astra Self Drive Cars Ltd. and A. Petsas & Sons Ltd - were

competitors in the past, but the contract had been continuously awarded to Astra Self Drive Cars Ltd. since 1992.

64. UNFICYP determined that the joint proposal submitted by Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd was the best offer, and the firms submitted their Best and Final Offer (BAFO) with revised prices, and the case was cleared by the LCC and HCC. However, in its report on the Mission's budget for 2005-2006, the ACABQ expressed concern on the cost increases and related procurement practices, and requested UNFICYP review the practices.

65. In its submission of the budget for 2006-2007 (A/60/592), UNFICYP responded to ACABQ's concern stating that the Mission carried out an exhaustive cost benefit analysis in August 2005, which "concluded that the current outsourcing arrangements are cost-effective". However, OIOS found that the cost benefit analysis did not include the impact arising from the change in the insurance clause in the new contract, and it did not cover the increased rental costs from 1 July 2005. As a result, the annual expenditure for hiring the vehicles was \$2,042,306 whereas the annual expenditure under the ownership option was \$1,981,222. Clearly, it was more economical to own the vehicles rather than hire them. OIOS believes that the Mission should conduct a fresh, reliable cost benefit analysis to demonstrate whether hiring of vehicles is more economical than owning them.

Recommendation 15

The UNFICYP Administration should conduct a fresh cost benefit analysis and price comparison for hiring as opposed to purchasing vehicles based on current conditions to ensure that the more economical option is exercised (AP2006/654/02/15).

66. *The UNFICYP Administration accepted recommendation 15 and stated that following the audit, the Mission conducted a new cost-benefit analysis to ensure that the best interests of the Organization are adequately served. In addition to assessing the latest fleet figures, insurance options, purchase and maintenance costs, the analysis took into consideration the costs of the infrastructure required to support a UN-owned vehicle maintenance and repair facility, including additional personnel, workshop space, equipment and spare parts that are similar to those in all PKO missions. Based on the documented, fresh cost-benefit analysis submitted to OIOS, recommendation 15 has been closed from the OIOS recommendations database.*

Reasonableness of repair and maintenance costs of hired vehicles

67. According to the current vehicle hire contract, the costs of damage to the hired cars are to be borne by the Mission. Section 6.01 of Statement of Works (SOW) annexed to the contract stipulates that when vehicles are damaged beyond reasonable wear and tear, the appointed Technical Inspector or the selected UNFICYP staff member (from the Integrated Support Services Transport Unit) will determine the extent of damage and cost of repair. It is anticipated that when reasonable and customary charges are to be paid by the United Nations, it will be incumbent upon the contractor to provide the "market fairness" in regard to charges for labour and cost of spare parts. Accordingly, the contractor's invoice should specify separately:

- the person-hours expended on repairs;
- the hourly labor charge;
- the cost of spare parts used; and
- a copy of the invoice from the supplier of vehicle spare parts shall be available to UNFICYP for verification.

68. OIOS' review of invoices showed that UNFICYP paid \$109,234 to the contractor for vehicle damage/repair during the financial year 2005-2006. Damage charges in these invoices were not broken down by: (a) the person-hours expended on repairs; (b) the hourly labor charge; and (c) cost of spare parts used. Furthermore, the contractor did not provide a copy of the invoice from the supplier of vehicle spare parts. In the absence of the cost breakdown, it is not possible to determine the reasonableness of the invoiced amount.

69. As shown in Table 8, there is an increasing trend in the repairs and maintenance costs of vehicles. For 2006-2007, the Mission allotted \$145,000 to be expended for repairs and maintenance, which represented an increase of over 100 per cent when compared with 2004-2005 expenditures of \$66,899.

Table 8: Increasing trend in the vehicle repairs and maintenance expenses

Object of Expenditure	2004-2005 \$	2005-2006 \$	2006-2007 \$ (allotment)
4617 - Repairs and maintenance of vehicles Accident damage repairs for hired cars	66,899	109,234	145,000

70. In order to assure that the amounts invoiced for vehicle damage/repair are reasonable, and to realize any potential savings, it is important to include a schedule of labor charges as part of the contract with the vendor.

Recommendations 16 and 17

The UNFICYP Administration should:

- Amend the contract with Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd. to include an approved schedule of hourly labor charges for vehicle repairs (AP2006/654/02/16); and
- Ensure that the Transport Section certifies the invoiced amounts together with a breakdown of repair costs, and that the Finance Section only approves payments that are supported by relevant documents (AP2006/654/02/17).

71. *The UNFICYP Administration did not accept recommendation 16 and stated that the contract with Astra Self Drive Cars Ltd and A. Petsas & Sons Ltd. does not require amendment to include an approved schedule of hourly labor charges for vehicle repairs. Management referred to Section 6.01 of the contract, which states that "when vehicles have been damaged (apart from fair wear and tear) the appointed Technical Inspector or the selected UNFICYP staff*

member (from Integrated Support Services Transport Unit) will determine the cost of repairing the damage. It is anticipated that when reasonable and customary charges are to be paid by the United Nations it will be incumbent upon the Contractor to prove the "market fairness" in regards to charges for labor and cost of spare-parts. The Contractor's invoice shall specify separately: the man-hours expended on repairs; the hourly charge for such labor; and the cost of spare-parts used. A copy of the invoice from the supplier of vehicle spare-parts shall be made available to UNFICYP for verification". In OIOS' opinion, the UNFICYP Technical Inspector must have a schedule of the hourly labor costs agreed with the contractor as part of the contract, together with the ability to independently verify the cost of spare parts, before he can certify the costs as reasonable and customary. Certification of contractor invoices without an agreed schedule of related costs lacks transparency. Therefore, OIOS is reiterating recommendation 16, and requests that UNFICYP reconsider its initial response to this recommendation.

72. The UNFICYP Administration did not accept recommendation 17 and stated that the Finance Section only approves payments for repair costs when there is supporting documentation attached, including the contractor's invoice, which has been certified by the Transport Unit, and the UNFICYP "Vehicle Damage/Discrepancy Report" which records the repair costs agreed upon by the Technical Inspector and contractor and which has been certified by the Transport Unit. OIOS maintains that the reasonableness of the repair costs cannot be ascertained without an agreed schedule of the costs of labor and spare parts. Therefore, OIOS is reiterating recommendation 17, and requests that UNFICYP reconsider its initial response to this recommendation.

4. Travel services

73. Within the General Services Section, the Travel Unit is responsible for making official travel arrangements for Military, Civilian and UN Police personnel in the Mission. As shown in Table 9, a total amount of \$504,836 was expended for official travel during the financial year 2005-2006.

Table 9: Expenditure on travel

Nature of Travel	Travel Expenditure \$
Military	143,375
UN Police	89,506
Travel on Separation	60,533
Travel on transfer	13,716
Travel on Mission assignment	60,871
Travel on training	33,171
Official Travel	103,664
TOTAL	504,836

74. Travel by air is the most common mode of transport. Based on the receipt of approved travel requests, the Travel Unit obtains three quotations from local travel agents. UNFICYP then purchases the tickets from the vendor offering the lowest fare. However, OIOS' review of a sample of quotations disclosed that the Travel Unit generally received only one or two quotations from travel agents. Officials in the Travel Unit explained that responses from travel agents were not always prompt, and that the Unit often received requests with urgent travel itineraries.

75. Unlike most other peacekeeping missions, UNFICYP is located in a European Union member country. Furthermore, Cyprus has a developed and highly competitive tourism industry. Therefore, there is no shortage of travel agents in the Mission area. As UNFICYP's total travel expenditure is significant, it is viable to enter into a comprehensive travel contract to achieve best value for money through a competitive process. Established UN Offices in Geneva and New York have entered into contractual agreement with one travel agency. Given the volume of UNFICYP's travel business, a 10 per cent reduction in airfare costs could result in potential savings.

Recommendation 18

The UNFICYP Administration should enter into a comprehensive travel agreement through a competitive bidding exercise (AP2006/654/02/18).

76. *The UNFICYP Administration did not accept recommendation 18 and clarified that in the financial year 2005-2006, the UNFICYP Travel Unit purchased airline tickets for official travel in the amount of US\$224,283.91 and not US\$504,836. The Mission explained that the reason for often not receiving more quotations is that many travel agents are unable or unwilling to meet the low prices offered by some of their competitors. The fact that only a few travel agents regularly respond to requests for quotations confirms that the Mission is getting the lowest prices available on the local market.*

77. *The Mission maintains that the award of a comprehensive travel agreement entails monitoring of ticket prices with different airlines for which the Mission has no resources, and that since different travel agents have different arrangements with airlines, one price applicable to one travel agent in respect to a specific airline is often not applicable to another. Moreover, as a result of recent price increases across the board in the airline industry due to increases in the price of oil, security measures, airport and other taxes, airline ticket prices continue to fluctuate frequently (often on short notice), thus making it virtually impossible to properly monitor airline ticket prices in order to ensure they are the lowest, most competitive on the local market. The Mission is convinced the current competitive bidding process for airline tickets for official travel gives the best prices available on the local market. Should the experience of the other UN Offices mentioned in the recommendation be anything to go by, the potential 10 per cent savings may very well turn into a 10 per cent (or more) increase in costs.*

78. OIOS notes the Mission's arguments, however, in OIOS' view, fewer travel agents responding to the Mission's price quotations is not an indication that the Mission is getting the lowest prices but rather a reflection of a lack of competition. Competitive bidding would allow the Mission to draw a comprehensive travel agreement with a successful contractor and it would be incumbent on this contractor to monitor the costs of airline tickets so that best fares are offered to UNFICYP. OIOS is also of the opinion that, contrary to the Mission's argument, a comprehensive travel agreement could be more economical to UNFICYP. Therefore, OIOS is reiterating recommendation 18, and requests that UNFICYP reconsider its initial response to this recommendation.

5. Procurement lead time

79. In order to assess the efficiency of procurement operations in the Mission, OIOS conducted a lead-time analysis to determine the time lag between the requisition approval date and the purchase order approval date in a random sample of 40 cases. OIOS found that the lead-time of these cases ranged between 27 and 228 days, and averaged 83 days. Similarly, the average time lag between the approval of requisitions and the completion of receiving and inspection of goods purchased was 200 days.

80. Full compliance with established procurement procedures takes time. However, there is room for improving the efficiency of UNFICYP procurement operations. UNFICYP's procurement for 2005-2006 totaled \$10.2 million, or 22 per cent of its annual budget. Improvements in procurement lead-time will contribute to service improvements in the Mission. Lead-time analysis is also helpful in assessing the workload and distribution of work in the Procurement Section. OIOS found no evidence of periodic lead-time analysis of procurement processes.

Recommendation 19

The UNFICYP Administration should establish benchmarks for the various steps in the procurement process and work to improve the procurement lead-time in the Mission (AP2006/654/02/19).

81. *The UNFICYP Administration accepted the recommendation 19 and stated that procurement staff are already aware of the timeline corresponding to requirements, based on estimated values as per Procurement Manual guidelines. This has been circulated to all staff involved in the acquisition process as per the Chief Administrative Officer's memorandum dated 27 June 2005. Based on the Mission's response, recommendation 19 has been closed.*

E. Training

Training of procurement staff

82. During the financial year 2005-2006, only two staff members attended a training course in Brindisi on procurement functions. UNFICYP's 2006-2007 training plan included the Procurement Section's training proposal for \$35,000 covering courses for nine procurement staff with a total period of 10 days. However, only one training course for two procurement staff costing approximately \$4,600 was approved. While OIOS acknowledges the efforts of the Mission to train procurement staff, the level of training resources allocated to the procurement staff is inadequate. Regular training of procurement staff is crucial to improving the efficiency and effectiveness of the Mission's procurement activities.

Recommendation 20

The UNFICYP Administration should allocate adequate resources for the training of procurement staff (AP2006/654/02/20).

83. *The UNFICYP Administration accepted recommendation 20 and stated that the Mission will continue to request training funds for procurement staff as appropriate. Recommendation 20 will remain open pending receipt of documentation from UNFICYP showing that implementation action has been completed.*

F. Mercury and staffing issues

Discrepancy in object of expenditure description

84. OIOS found discrepancies in the description of objects of expenditure between the Budget Allotment Codes and the Mercury system. Table 10 provides examples of such discrepancies.

Table 10: Discrepancy in object of expenditure description

Budget Allotment code	Budget Allotment Code Description	Mercury Description
2403 CUA 0506 7060 6652	Travel-Military	Radio Broadcast & television receivers
4213 CUA 0506 7060 6652	Petrol, Oil, Lubricants	Legal Specialization
4617 CUA 0506 7060 6652	Repairs and Maintenance	Legal Specialization

85. OIOS did not observe such discrepancies in other peacekeeping missions in the Middle East region. Requisitioning officials expressed concern that different descriptions in Mercury could result in inaccurate requisitions. It is important that the Mercury and the Budget Account Codes should have same description of objects of expenditure.

Recommendation 21

The UNFICYP Administration, in consultation with the Mercury system administrator in Brindisi, should harmonize the descriptions of objects of expenditure between Budget Account Codes and the Mercury system (AP2006/654/02/21).

86. *The UNFICYP Administration accepted the recommendation 21 and stated that the Mercury system administrator in Brindisi was informed accordingly and the discrepancy in the descriptions of objects of expenditure between Budget Account Codes and the Mercury System has been rectified. Based on the Mission's response, recommendation 21 has been closed.*

V. ACKNOWLEDGEMENT

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



Dagfinn Knutsen, Acting Director
Internal Audit Division, OIOS

Annex I

FENCE PROJECT MATERIAL ORDERS

PO NO.	BUYER	COMMODITY	VENDOR/SUPPLIER	PO VALUE	DELIVERY date/complete FOLLOW
CYP4-498	CA	Defence wall gabions	Hesco Bastion Ltd	US\$ 106,671.43	30/05/2006
CYP4-499	CA	Concertine wire Galvanized barbed wire	Stelios Panayiotou & Sons Ltd	CE 8,340.00 US\$ 17,521.03	29/05/2006
CYP4-500	CA	Angle iron pickets	M.S. Constantinides Ltd	CE 12,996.00 US\$ 27,302.52	29/05/2006
CYP4-501	MP	Air compressor	M.S. Constantinides Ltd	CE 7,259.00	01/06/2006
CYP4-502	MP	Bending machine	M.S. Constantinides Ltd	US\$ 15,250.00	01/06/2006
CYP4-502	MP	Welding machine	A. Epiphaniou Industries Ltd	CE 880.00 US\$ 1,848.74	01/06/2006
CYP4-503	MP	Ready mixed concrete	V. & C. Karalouka Bros (Beton) Ltd	CE 2,295.00	01/06/2006
CYP4-504	CA	Gloves, shovels, ladders	M.S. Constantinides Ltd	US\$ 4,821.43	15/05/2006
CYP4-505	CA	Self adhesive film	P.C. Orinos Ltd	CE 1,237.50 US\$ 2,599.79	08/05/2006
CYP4-506	CA	Hexagon bolts, Hexagon nuts	M.S. Constantinides Ltd	CE 3,813.00 US\$ 8,010.50	22/05/2006
CYP4-507	CA	Primer, thinner, hardener	Foodmasters Ltd	CE 1,027.50 US\$ 2,158.61	11/05/2006
CYP4-508	MP	Reinforcing steel bar	D.C. Demetriades Ltd	CE 3,552.00 US\$ 7,462.18	01/06/2006
CYP4-509	MP	Chain link fence	Tsakali Commercial Co. Ltd	CE 5,771.00 US\$ 12,123.95	01/06/2006
CYP4-510	MP	Galvanized pipes with 3 holes	Kenas Ltd	CE 14,455.00 US\$ 30,367.65	01/06/2006
CYP4-511	MP	Galvanized pipe with 76mm diameter wall	Gircotis & Achilleos Ltd	CE 12,364.00 US\$ 26,646.55	01/06/2006
CYP4-512	MP	Hole drilling	Texas Drill Ltd	CE 9,879.95 US\$ 20,756.19	01/06/2006
CYP4-513	MP	Box section: galvanized	M.S. Constantinides Ltd	CE 1,608.00 US\$ 3,378.15	01/06/2006
CYP4-514	MP	Galvanized straight wire	Stelios Panayiotou & Sons Ltd	CE 160.00 US\$ 336.13	01/06/2006

CYP4-515	MP	Dry bound macadam	S. Hadjichristofi Construction Ltd	CE£ 15,640.80 US\$ 33,708.62	09/05/2006
CYP4-516	CA	Pneumatic assembly tool	Officine Maccaferri S.P.A	EUR 4,800.00 US\$ 5,804.11	12/05/2006
CYP4-517	MP	Prefabricated gates	Andreas Ioannou & Son Ltd	CE£ 18,390.00 US\$ 28,534.45	19/06/2006
CYP4-518	CA	Metal chain link tensioner (ratchet puller)	Cyprus Engineering Stores (Nicosia) Ltd	CE£ 56.00 US\$ 117.65	09/05/2006
CYP4-519	CA	Concrete poker	M.S. Constantinides Ltd	CE£ 1,850.00 US\$ 3,987.07	12/05/2006
			TOTAL COST	US\$ 372,034.30	

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Procurement activities in UNFICYP

(AP2006/654/02)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:
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 By fax: (212) 963-3388
 By E-mail: iad1support@un.org