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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR


INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

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

TO Mr. Azouz Ennifar
A Acting Special Representative of the Secretary-General
UNMEE

DATE: 11 April 2008

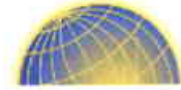
REFERENCE: IAD: 08- 01215

FROM 
Dagfinn Knutsen, Director
DE/ Internal Audit Division, OIOS

SUBJECT: **Assignment No. AP2007/624/07 - Audit of the Local Committee on Contracts in UNMEE**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 3, 4, 5 and 6 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1 and 2 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Maurice Critchley, Chief of Mission Support, UNMEE
Mr. Gamini Palihawadana, Senior Administrative Officer, LCC Chairperson, UNMEE
Mr. Borut Zebre, Chief Procurement Officer, UNMEE
Ms. Maria Gomez Troncoso, Officer-in-Charge, JIU Secretariat
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the Local Committee on Contracts in UNMEE

11 April 2008

Assignment No. AP2007/624/07

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the Local Committee on Contracts in UNMEE

OIOS conducted an audit of the Local Committee on Contracts (LCC) in the United Nations Mission in Ethiopia and Eritrea (UNMEE) in October 2007. The overall objective of the audit was to assess the effectiveness of the LCC as an internal control over procurement. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the UNMEE LCC was not fully effective as an internal control over the procurement process and that it needed to significantly improve operations in the following areas:

- In one procurement case reviewed, the requisitioner attended and voted on the procurement action as a member of the LCC;
- Not all members of the LCC, including alternates, complied with ST/SGB/2006/6 on financial disclosure and declaration of interest statements;
- The Procurement Section performed the functions of the LCC Secretary, contrary to the Procurement Manual provisions. Moreover, the LCC Secretary was not performing all of his/her responsibilities as detailed in the Procurement Manual, including the timely distribution of meeting minutes and the appropriate maintenance of complete LCC case files;
- The Procurement Officer did not always submit sufficient detail to enable the LCC to obtain an accurate and complete description of the procurement actions taken and the basis of the proposed award. The LCC did not always request additional supporting documentation;
- The Procurement Officer did not always ascertain whether there was an existing system contract in place for the provision of the required good or service prior to commencing the procurement action. The LCC did not recommend the use of a system contract when it was aware of its existence; and
- The Procurement Officer did not always submit to the LCC proposed amendments or modifications of a contractual instrument previously reviewed by them when such amendment significantly affected the procurement process.

OIOS issued six recommendations to address the deficiencies identified during the audit.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts (LCC) in the United Nations Mission in Ethiopia and Eritrea (UNMEE) in October 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. According to Section 2.5.1.(1) of the Procurement Manual, the LCC shall review and provide advice to the Chief of Mission Support (CMS), or other officials duly authorized under Financial Rule 105.13, on whether proposed procurement actions, including contracts that generate income to the Organization, are in accordance with the Financial Regulations and Rules (FRRs), Secretary-General's Bulletins (SGBs), Administrative Instructions (AIs) and other procurement policies. The Headquarters Committee on Contracts (HCC) is proposing that the current financial limit of \$200,000, delegated to peacekeeping missions to enter into contracts for the procurement of goods and services, be raised to \$500,000.
3. Comments made by UNMEE are shown in *italics*.

II. AUDIT OBJECTIVES

4. The major objective of the audit was to assess the effectiveness of the LCC as an internal control. Specifically, the audit assessed whether:
 - (a) The composition of the LCC allows it to function independently and competently;
 - (b) The LCC is receiving relevant documents needed to properly review procurement actions; and
 - (c) The LCC is effectively identifying procurement issues that violate the relevant FRRs, SGBs, AIs and other procurement policies on the fairness, integrity and transparency of proposed procurement actions.

III. AUDIT SCOPE AND METHODOLOGY

5. The audit covered procurement transactions processed in fiscal year 2006/07, including reviews of files and the minutes of LCC meetings, analytical tests and interviews with relevant Mission personnel. The provisions of the Procurement Manual issued August 2006 (Rev 003) were used as the criteria for this assignment.
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Independence and competency of the LCC

Independence of the LCC members

6. As indicated in Section 2.5.2.(4) of the Procurement Manual, if deemed necessary by the CMS, any department/office initiating a procurement action may attend, in a non-voting capacity, the LCC review and consideration of said procurement action.

7. OIOS' review of the LCC minutes for procurement case LCC/07/383, relating to a contract extension for services, observed that the LCC recommended the extension of the contract based on a satisfactory vendor performance report. The Senior Administrative Officer, from the requisitioning office, had signed the vendor performance report and also participated as an LCC member on the case. To ensure independence and compliance with established procedures, the members of the LCC should not vote on procurement cases for which they are requisitioner.

Recommendation 1

(1) The UNMEE Mission Support should ensure that members of the Local Committee on Contracts are not allowed to vote on procurement cases for which they are the requisitioner.

8. *The UNMEE Mission Support accepted recommendation 1 and stated that it will ensure that members of the LCC do not vote on any LCC case presentations where they are requisitioners.* Recommendation 1 remains open pending receipt of a copy from the Mission of a written instruction to LCC members to ensure they are fully informed of their responsibilities and to ensure no future conflict of interest situations arise.

Compliance with the financial disclosure requirement

9. LCC members are required to make financial disclosures as per Section 2.1.(d) of ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements. OIOS found that as of 18 October 2007, only 38 per cent of the LCC members and alternates filed financial disclosure forms with the United Nations Ethics Office. Non-compliance with the disclosure requirement could hamper the timely detection and resolution of any actual or potential financial conflict of interest that could arise.

Recommendation 2

(2) The UNMEE Mission Support should ensure that all members of the Local Committee on Contracts comply with

ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements.

10. *The UNMEE Mission Support accepted recommendation 2 and stated that it will remind all LCC members to submit their financial disclosure forms to the United Nations Ethics Office before the deadline. A reminder was sent to all concerned to complete the FDF on 19 March 2008. Recommendation 2 remains open pending confirmation by the Mission of the submission of all financial disclosure and declaration of independence statements to the United Nations Ethics Office.*

B. Function and responsibilities of the LCC Secretary

Function of the LCC Secretary

11. Section 2.5.4 of the Procurement Manual states that the LCC Secretary is to be a staff member from an office outside of the procurement function. Additionally, in accordance with Section 2.5.4 of the manual, the LCC Secretary has the same responsibilities as the HCC Secretary. These responsibilities include, but are not limited to, liaising with the Procurement Section and requisitioning offices, drafting the minutes of the meetings, maintaining a permanent record of all LCC meeting minutes/recommendations and case presentations reviewed, and ensuring timely and efficient distribution of documents.

12. For three months during the period reviewed, the LCC Secretary was a staff member of the Procurement Section (PS). In July 2007, a new LCC Secretary was nominated who did not work in PS; however, all of the LCC files continued to be maintained in PS. It was also found that the new LCC Secretary did not assume the responsibilities of the function, with PS continuing to liaise with the requisitioning offices on LCC procedures, requesting additional information or clarifications to presentations and any inquiries raised by the LCC members regarding the procurement presentations under review.

Distribution of LCC meeting minutes

13. Section 12.1.6(3) of the Procurement Manual states that a copy of the approved recommendations and meeting minutes shall be distributed within 10 business days after conclusion of the meeting to the following individuals:

- CMS or the Director of Mission Support;
- Members of the LCC;
- Chief Procurement Officer;
- Requisitioning offices; and
- OIOS.

14. In several cases the recommendations and meeting minutes were not forwarded to all the appropriate individuals within the time required. The LCC Secretary indicated she was unaware of her responsibility with regard to the distribution of the final documentation.

Completeness of LCC files

15. As previously indicated, one of the responsibilities of the LCC Secretary is to maintain a permanent record of all LCC meeting minutes/recommendations and case presentations reviewed by it. As the location of the LCC members is divided between Eritrea and Ethiopia, it is necessary for the members to deliberate, clarify and provide comments through e-mail. OIOS could not find documentation of such communications in any of the LCC case files reviewed. As this documentation serves to support the final recommendation made by the LCC, these documents should be obtained and filed accordingly by the LCC Secretary.

16. In one contract extension case reviewed, with a cumulative contract amount of \$106,481, none of the supporting documentation used by the LCC to come to a decision was maintained in the case file. Through review of the related LCC meeting minutes, OIOS noted the decision was made based on review of the bidding which took place in March 2003 and May 2006, as well as the satisfactory performance report. None of these supporting documents were found in the file.

Recommendation 3

(3) The UNMEE Mission Support should ensure that: (i) the Local Committee on Contracts (LCC) Secretary performs all functions as detailed in the Procurement Manual, including the timely distribution of meeting minutes and the appropriate maintenance of complete LCC case files; and (ii) the LCC Chairperson monitors the Secretary's performance.

17. *The UNMEE Mission Support accepted recommendation 3 and stated that since the appointment of the new LCC Secretary on 1 February 2008, the LCC Chairperson has been closely monitoring the performance of LCC Secretary to ensure that he understands his responsibility and performs all necessary functions.* Based on the action taken by UNMEE, recommendation 3 has been closed.

C. Submission and review of procurement cases

Submission of sufficient documentation

18. Section 10.4. of the Procurement Manual states that if proposals or bids are received after the opening date, the Chief, PS or the Chief Procurement Officer (CPO) may exceptionally, in the interest of the Organization, accept the late delivery provided the issuer proves the submission was sent in ample time prior to the bid closure and the delay in delivery could not be reasonably foreseen. The Chief, PS or CPO should document the decision in writing and include such documentation in the procurement case file.

19. In June 2007, the LCC reviewed a procurement case presentation related to the repatriation of contingent owned equipment to Kenya, India and Jordan. Two proposals were submitted in response to the Request for Proposal (RFP). A third proposal was submitted after the opening of the technical proposals. The Procurement Section decided to allow the submission, but the decision was not properly documented. The LCC recommended the vendor whose proposal was submitted late without requiring any additional documentation from PS regarding this issue.

Recommendation 4

(4) The UNMEE Mission Support should ensure: (i) Procurement Officers submit sufficient detail to enable the Local Committee on Contracts (LCC) to obtain an accurate and complete description of procurement actions taken and the basis of the proposed award; and (ii) the LCC requests additional supporting documentation when the submission is not sufficient.

20. *The UNMEE Mission Support accepted recommendation 4 and stated that in the future, it will ensure that the Procurement Officer submits full and detailed documents for the LCC presentations.* Based on the assurances provided by UNMEE, recommendation 4 has been closed.

Award of contracts to vendors

21. Prior to commencing a procurement action, the Procurement Officer should ascertain whether there is a current system contract in place for the provision of the required good or service. Additionally, in accordance with Section 12.1.2 of the Procurement Manual, the LCC shall render written recommendation to the CMS on any proposed amendment or modification of a contractual instrument previously reviewed by the LCC when such amendment may significantly affect the procurement process.

22. OIOS reviewed a procurement case (LCC/07/373) for the provision of IT spare parts which was submitted to the LCC. The solicitation document was issued on 26 January 2007 and the closing date of the bidding exercise was 12 February 2007. During this period, the requisitioning office notified the Procurement Officer that there was a pre-existing system contract for the goods requested. As a result, the Procurement Officer decided to request the system contract vendor to submit a bid, which the vendor did by the closing date. This information was presented to the LCC during their meeting on 28 February 2007. After completing the procurement process, this vendor was not awarded the contract.

23. In March 2007, the Chief Procurement Officer (CPO) drafted a note to the procurement case file explaining that the awarded vendor was unwilling to comply with the delivery terms. As a result, the bidding process was canceled and the existing system contract would be used. This decision was made without consulting the LCC. The Procurement Officer should have identified and used

the existing system contract instead of going through the entire procurement exercise. Additionally, the LCC should have recommended the use of the system contract as the Committee was aware of its existence at the time of deliberation. Lastly, the LCC should have been consulted on the decision to use the existing system contract after learning the awarded vendor was unable to perform.

Recommendations 5 and 6

(5) The UNMEE Mission Support should ensure: (i) Procurement Officers ascertain whether there is a current system contract in place for the provision of the required goods or services prior to commencing a procurement action; and (ii) the Local Committee on Contracts recommends the use of system contracts if the Committee is aware of their existence.

(6) The UNMEE Mission Support should ensure that Procurement Officers submit to the Local Committee on Contracts (LCC) any proposed amendment or modification of a contractual instrument previously reviewed by the LCC when such amendment may significantly affect the procurement process.

24. *The UNMEE Mission Support accepted recommendation 5 and stated that it had noted it for future action. Based on the assurances provided by UNMEE, recommendation 5 has been closed.*

25. *The UNMEE Mission Support accepted recommendation 6 and stated that it will ensure that Procurement Officers notify LCC members of any amendment to any cases that have previously been reviewed by LCC. Based on the assurances provided and the action taken by UNMEE, recommendation 6 has been closed.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Submission to OIOS of a copy a copy of a written instruction to the LCC members to ensure they are fully informed of their responsibilities and to ensure no future conflict of interest situations.	Immediate
2	O	Submission to OIOS of documentation showing the submission of the financial disclosures forms to the Ethics Office as per the deadline	March 2008
3	C	Action completed	Implemented
4	C	Action completed	Implemented
5	C	Action completed	Implemented
6	C	Action completed	Implemented

¹ C = closed, O = open

² Date provided by UNMEE in response to recommendations