



INTERNAL AUDIT DIVISION

AUDIT REPORT

**Audit of the execution of the
delegation of authority to UNMIT to
procure core requirements**

2 June 2008

Assignment No. AP2007/682/04

United Nations  Nations Unies

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. Atul Khare
A: Special Representative of the Secretary-General
UNMIT

DATE: 2 June 2008

REFERENCE: IAD: 08-01366

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



SUBJECT: **Assignment No. AP2007/682/04 – Audit of the execution of the delegation of authority to**
OBJET: **UNMIT to procure core requirements**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 2, 4 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 3, 5 and 6) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Colin Stewart, Acting Chief of Staff, UNMIT
Mr. Hubert H. Price, Chief of Mission Support, UNMIT
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Philip Cooper, Director, Department of Field Support
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Byung-Kun Min, Programme Officer, OIOS

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 execution of the delegation of authority to UNMIT to procure core requirements

OIOS conducted an audit of the execution of the delegation of authority to UNMIT to procure core requirements. The overall objectives of the audit were to assess whether adequate and effective internal controls had been established within UNMIT to execute the delegation of authority to procure core requirements up to \$1 million locally. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

In general, adequate and effective internal controls existed within UNMIT to execute the delegation of authority to procure core requirements. However, there were areas where internal controls should be strengthened including the need to ensure that: (a) comprehensive, factually accurate, and clear information is always presented to the Local Committee on Contracts (LCC); (b) case presentations are submitted in a timely manner to LCC members; (c) market surveys are done systematically; and (d) commercial evaluations are not performed prior to the technical evaluation. Care should also be taken at all times to avoid potential conflict of interest.

OIOS issued six recommendations aimed at strengthening controls and improving procedures.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the execution of the delegation of authority to UNMIT to procure core requirements. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The audit was carried out at the request of the UN Controller to obtain assurance that there were adequate and effective internal controls in place over the delegated authority to procure core requirements locally. At present, peacekeeping operations have a delegated authority to procure core requirements locally up to \$1 million.
3. During fiscal year 2006/07, a total of 539 procurement cases valued at \$31.5 million were processed; of which 235 with a total value of \$9.3 million were considered as core requirements, representing 30 per cent of the total value of procurement cases.
4. Comments made by UNMIT are shown in *italics*.

II. AUDIT OBJECTIVES

5. The major objective of the audit was to assess whether adequate and effective controls were established by the Mission to execute the delegation of authority to procure core requirements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered transactions relating to the procurement of core requirements processed in fiscal year 2006/07 and included file reviews, analytical tests, interviews with relevant Mission personnel, and other procedures deemed appropriate by the auditors.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Local Committee on Contracts

Inadequate supporting documentation

7. Section 12.1.3(4) of the United Nations Procurement Manual (PM) requires procurement officers to ensure that submissions to the Local Committee on Contracts (LCC) are comprehensive, factually accurate, and clear in order to facilitate the review of the procurement action.

8. A procurement case relating to core requirements (PO #7MIT-207092) for civil works rehabilitation at the old transport compound was presented to the LCC without the proposal from one of the vendors, Sun Construction. The
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technical evaluation by the Engineering Section indicated that Sun Construction was not technically acceptable, although no details were provided to the LCC as to why this vendor failed to meet technical specifications. Despite the missing information, the LCC recommended award to another vendor. In its deliberations, the LCC requested the Engineering Section to provide explanations as to why the proposal from Sun Construction was not technically acceptable. This led to the Procurement Section's case presentation to the LCC being revised and the missing information provided to the LCC at its next meeting. The revised technical evaluation from the Engineering Section showed that Sun Construction was in fact technically acceptable.

9. The failure to provide accurate and complete information to the LCC may result in incorrect decisions and possibly the perception of a lack of objectivity by the other vendors.

Recommendation 1

(1) The UNMIT Office of Mission Support should implement a system to ensure that case presentations submitted to the Local Committee on Contracts (LCC) contain all the pertinent information needed for LCC members to arrive at informed decisions.

10. *UNMIT accepted recommendation 1 and acknowledged that there was an omission, but noted this was an exception which has not reoccurred. The Procurement Section has ensured that technical evaluation reports with missing information are returned, corrected or revised before presentation to the LCC. This has been reinforced in various meetings, through training and issuance of instructions. Also, regarding Invitations to Bid (ITBs), Procurement will require requisitioners/certifying officers to indicate why certain bids are technically accepted and to specify why lower price bids are rejected. For Requests for Proposals (RFPs), Procurement will attach a technical evaluation matrix as a guide for requisitioners and/or certifying officers in preparing technical evaluation reports. Recommendation 1 remains open pending receipt and review of the technical evaluation matrix being developed by UNMIT.*

Delays in submitting procurement cases to the LCC

11. Section 12.1.3(3) of the Procurement Manual stipulates that case submissions to the LCC shall be submitted no later than two working days prior to the LCC meeting in which the procurement action is presented for consideration, the only exceptions being emergency situations.

12. OIOS sampled 15 cases involving core requirements of which four had been submitted to LCC members one day before the meeting. In three other cases, it was not evident in the LCC meeting files when they had been submitted to LCC members.

13. Failure to submit the procurement cases to the LCC sufficiently in advance may result in the cases not being adequately reviewed by members before the meeting leading to incorrect decision making.

Recommendation 2

(2) The UNMIT Office of Mission Support should implement and document procedures to ensure the timely submission of the procurement cases to the Local Committee on Contracts.

14. *UNMIT accepted recommendation 2 and stated that the four cases noted in the audit were all immediate operational requirements submitted to the LCC one day before its meeting. These were exceptions to normal practice that arose during the Mission's start-up phase. The two-day minimum LCC submission period is normally observed. To provide an audit trail on submissions, the LCC Secretary date stamps cases received from Procurement, notifies LCC members and attendees of the meeting date and distributes the hard copies of the case documents to the LCC members, who should acknowledge receipt in writing. Based on the action taken by UNMIT, recommendation 2 has been closed.*

Non-compliance with existing guidelines on attendance at LCC meetings

15. Section 2.5.2(4) of the Procurement Manual provides that where deemed necessary by the Chief Administrative Officer (now Chief of Mission Support), any department/office initiating a procurement action that requires LCC review shall attend, in a non-voting capacity during the LCC review and consideration of the said procurement action.

16. The Certifying Officer for the requisition for procurement case PO #7MIT-207241 relating to core requirements, was a member of the LCC. The officer participated in LCC meeting number 07/10 convened to review the case, and there was no evidence that this individual had declared a potential conflict of interest even after the Chairperson's request for such a declaration.

17. The failure to declare the potential conflict of interest in LCC case deliberations may hamper the integrity of the case review process.

Recommendation 3

(3) The UNMIT Office of Mission Support should enforce compliance with existing guidelines on attendance at Local Committee on Contracts meetings to ensure that persons initiating procurement actions only attend such meetings in a non-voting capacity.

18. *UNMIT accepted recommendation 3 and stated that since November 2006 it is standard practice, before the start of LCC meetings for the Chairman to formally ask members if they have a conflict of interest with the case. Those members who do have a conflict excuse themselves, which is noted in the LCC*

minutes. The Chief of Mission Support provides LCC members, alternates and ex-officios a briefing consisting of the TOR and obligations including a section on conflict of interest. To reinforce the message, CMS will reiterate the instructions and issue a reminder to the LCC members, certifying officers and requisitioners to ensure strict adherence. This reminder memorandum will explain potential instances of conflict of interest and be included in the briefing packet for future LCC designates. The LCC chairperson will follow-up with the LCC members to ensure their understanding and compliance. Recommendation 3 will remain open pending receipt of documentation showing that the CMS reiterated instructions on declaring potential conflict of interest and issued a written reminder to LCC members, certifying officers and requisitioners regarding strict adherence to the rules.

B. Procurement process

Inadequate market survey

19. Section 8.2.4 of the PM places market surveys within the scope of procurement functions and indicates the advantages of such surveys. It is also considered a best practice to conduct such surveys when there is adequate time to ensure that the Mission gets better value for money from its procurement actions.

20. During an LCC meeting (LCC #07/08/02) to deliberate on a procurement action for additional funds under a contract with Seprosetil, a local vendor providing cleaning and security services to UNMIT, the LCC recommended that the Procurement Section conduct a market survey and invite international service companies to bid at the end of the existing contract. However, at the end of the contract with Seprosetil, a procurement action was taken to extend the contract without conducting a market survey to identify potential international service providers. The failure to conduct adequate market surveys may result in inadequate competition of potential vendors.

21. OIOS was informed that the market survey was not conducted due to the low staffing levels in the Procurement Section and because the Statement of Requirements was not received in a timely manner to allow a survey to be conducted before the end of the contract. OIOS notes that the untimely submission of the Statement of Requirements is indicative of inadequate planning, which tends to occur during the usually chaotic start-up stage of missions. UNMIT has since implemented effective acquisition plans in relation to procurement.

Recommendation 4

(4) The UNMIT Office of Mission Support should implement procedures to ensure that market research/surveys are conducted to provide the Mission with adequate competition in its procurement activities.

22. *The UNMIT Office of Mission Support accepted recommendation 4 and stated that as pointed out by the audit, the Statement of Requirement for*

provision of security services to UNMIT offices and locations was not received on time, (received on 26 June 2007), to allow Procurement to undertake the necessary market survey. As the contract was due to expire 30 June 2007, and since it is an immediate operational requirement, UNMIT was left with no other possible recourse but to extend the contract. Since July 2007, as staffing resources in Procurement improved, proper market surveys are undertaken on complex and financially significant requirements. Based on the action taken by UNMIT, recommendation 4 has been closed. OIOS will verify the adequacy action taken during a future audit.

Inadequate internal controls on technical and commercial evaluations

23. Section 10.8.4(4) of the Procurement Manual provides that only the technical proposals from prospective vendors shall be opened at the public opening, while the financial details of the proposal shall remain unopened and the contents shall remain unread, until the Procurement Officer has received the completed technical evaluation. Under exceptional circumstances however as approved by the Chief, Procurement Section, the financial details of the proposals may be opened and evaluated by the Procurement Officer prior to his or her receipt of the technical evaluation, provided that all measures will be taken to ensure the confidentiality of the financial details and that they are not shared with anyone until the receipt of the technical evaluation.

24. OIOS noted three cases relating to core requirements were certified by the procurement officer, although the commercial evaluations were conducted prior to the technical evaluation. There was no evidence on file of any genuine exceptional circumstances warranting this procedure. OIOS also identified two other cases where there was no certification as to the date of completion of the commercial evaluation. It was therefore difficult to determine whether the commercial evaluation had been performed after the receipt of the technical evaluation.

25. The performance of commercial evaluations prior to the finalization of the technical evaluation may influence the objectivity of the technical evaluation process. OIOS' audit of the LCC in UNMIT identified a case where the LCC used the commercial information submitted together with the technical proposal to support the technical evaluation. OIOS was informed that internal controls were being implemented to mitigate this risk.

Recommendations 5

(5) The UNMIT Office of Mission Support should enforce compliance with procurement rules and regulations and implement appropriate internal controls to ensure that commercial evaluations are carried out after the technical evaluations have been received.

26. *UNMIT accepted recommendation 5 stating that prior to 1 July 2007, the two-envelope system for submitting proposals was not clearly defined as*

mandatory and the opening of technical and commercial proposals was not properly delineated. This was rectified in July 2007 when HCC issued a directive. Since then, the Procurement Section has revised its terms and conditions to include the two-envelope system. In conjunction with the Tender Opening Committee (TOC), it also implemented a coordinating mechanism to advise the TOC that a technical evaluation report has been made and prompts it to open the commercial proposals. This ensures that commercial proposals are opened by the TOC and duly evaluated after receipt of the technical evaluation report and documents the process. Requests for technical evaluations for ITBs will require the requisitioners/certifying officers to indicate why certain bids were technically accepted and why lower price bids are rejected. For RFPs, Procurement will attach a technical evaluation matrix as guidance for requisitioners and/or certifying officers in preparing the technical evaluation reports. Recommendation 5 remains open pending receipt and review of the technical evaluation matrix being developed by UNMIT.

Non-compliance with reporting instructions on core requirements purchases exceeding \$200,000.

27. As stipulated in the delegation of authority from the Assistant Secretary General, Department of Field Support (ASG, DFS), the Chief of Mission Support is required to submit a written report to the ASG, DFS and to the Chief, Procurement Division (PD), Department of Management within 30 days after the procurement of a core requirement that exceeds \$200,000. This report should document the description of the commodity purchased, summary of the procurement process, name of selected vendor, duration and value of the contract, approved minutes of the LCC and the financial rule relating to the basis of the award. This authority was further delegated by the Chief of Mission Support to the Chief Procurement Officer (CPO).

28. OIOS noted four cases relating to core requirements where the total procurement value exceeded \$200,000. However, OIOS was unable to obtain any evidence that a written report was submitted to the ASG, DFS and the Chief, PD as stipulated in the delegation of authority. There were no procedures in place to ensure that these reports were submitted as per the delegation of authority.

29. Failure to abide by the provisions of the delegation of authority may result in its withdrawal. There is also a risk that cases which may have otherwise been referred to the HCC on an ex-post facto basis, after review by the ASG DFS, may be missed.

Recommendation 6

(6) The UNMIT Office of Mission Support should implement procedures to ensure that the Procurement Section prepares and submits the report on procurement of core requirements exceeding \$200,000 to the Assistant Secretary-General, Department of Field Support and the Chief, Procurement Division, Department of Management

within the stipulated time frame in the delegation of procurement authority.

30. *The UNMIT Office of Mission Support accepted recommendation 6 and stated that from 31 October 2007, UNMIT has fully complied with this requirement and since then, submits reports in a timely manner on all transactions exceeding \$200,000 to the proper authorities at UN HQ. Based on the action taken by UNMIT, recommendation 6 has been closed. However, OIOS will assess the adequacy of actions taken to address this recommendation in a future audit.*

V. ACKNOWLEDGEMENT

31. We wish to express our appreciation to the Management and staff of UNMIT 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	Provision of technical evaluation matrix to OIOS for review	30 April 2008
2	C	Action complete	Implemented
3	O	Provision of a copy of the guidance issued regarding the declaration potential conflict of interest	-
4	C	Action completed	Implemented
5	O	Provision of technical evaluation matrix to OIOS for review	30 April 2008
6	C	Action completed	Implemented

¹ C = closed, O = open

² Date provided by UNMIT in response to recommendations