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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: Major-General Ian Gordon
A Chief of Staff
United Nations Truce Supervision Organization

DATE: 13 June 2008

REFERENCE: IAD: 08- 01422

for William Petersen
FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AP2007/674/01 – Audit of procurement activities in UNTSO**

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 1 and 3 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendation, 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 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Cecilia McGill, Chief of Mission Support
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Tilchand Acharya, Chief Resident Auditor, MERAQ, 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 procurement activities in UNTSO

The Office of Internal Oversight Services (OIOS) conducted an audit of procurement activities in the United Nations Truce Supervision Organization (UNTSO). The overall objective of the audit was to assess: (a) the adequacy and effectiveness of internal controls over procurement activities; and (b) whether goods and services were procured in a cost-effective and timely manner. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UNTSO provides procurement services to the UN Special Coordinator for the Middle East Peace Process (UNSCO) under the Letter of Understanding (LOU) between the two. In 2006-2007 UNTSO processed 267 procurement cases totaling \$1.06 million on behalf of UNSCO, which represents about 33 per cent of UNTSO's total procurement volume.

OIOS found that while internal controls over UNTSO's procurement process were generally adequate, the delegation of procurement authority to the Mission was not properly exercised and the Local Committee on Contracts' (LCC) deliberations were not adequately documented:

- The Chief Procurement Officer (CPO), who is at the FS-6 level and whose individual procurement authority is \$50,000, has been delegated, under the Letter of Understanding between UNTSO and UNSCO, to sign UNSCO purchase orders and contracts up to \$75,000. This is contrary to the maximum procurement authority level of up to \$50,000 established for Procurement Officers at the FS-6 level. UNTSO Management should align the level of procurement authority delegated to UNTSO CPO for UNSCO procurement actions with the level of procurement authority for UNTSO procurement.
- Until late 2007, the LCC did not keep records of its deliberations and did not render written advice with recommendations on procurement actions. Instead, the LCC members and the Chief of Mission Support signed the procurement case presentations prepared by the Procurement Section to indicate their approval. UNTSO LCC did not follow the requirements of the Procurement Manual on the frequency of LCC meetings. There were no LCC meetings in 2006 although there were at least five procurement cases warranting LCC review.
- In 2006-2007, the Procurement Section did not submit to the LCC at least 58 related requisitions exceeding the CPO's delegated procurement authority. These requisitions covered 15 vendors and totaled \$1.34 million, which represented about 24 per cent of all UNTSO procurement. The Procurement Section should present these cases to the LCC, as *ex post facto* cases.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement activities in the United Nations Truce Supervision Organization (UNTSO) in November and December 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. UNTSO's proposed programme budget for the 2006-2007 biennium (A/62/6 Sect. 5) totaled \$62.2 million, including \$18.9 million for operational requirements. The Procurement Section (PS) is responsible for procuring 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. Additionally, PS provides procurement services to the Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO). PS' authorized staffing table consists of: one FS-6 post for the CPO; one FS-4 post; and three General Service (National) posts.

3. UNTSO provides procurement services to the UN Special Coordinator for the Middle East Peace Process (UNSCO) under the Letter of Understanding (LOU) between the two. In 2006-2007 UNTSO processed 267 procurement cases totaling \$1.06 million on behalf of UNSCO, which represents about 33 per cent of UNTSO's total procurement volume. The LOU does not provide for cost-sharing of procurement services.

4. In 2006 – 2007 UNTSO had placed 819 purchase orders totaling \$5.5 million, as shown in Table 1:

Table 1: UNTSO procurement activities for 2006 – 2007

	2006		2007	
	Number of purchase orders	Amount (\$)	Number of purchase orders	Amount (\$)
UNTSO	275	1,994,000	277	2,479,000
On behalf of UNSCO	149	538,000	118	527,000
Total:	424	2,532,000	395	3,006,000

5. Comments made by UNTSO are shown in *italics*.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to assess:

(a) The adequacy and effectiveness of internal controls over procurement activities; and

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- (b) Whether the procurement of goods and services was performed in a cost-effective and timely manner.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on UNTSO's procurement activities covering the period from 1 January 2006 to 31 October 2007. OIOS reviewed key processes within the procurement cycle, including requisitioning and ordering, the Local Committee on Contracts (LCC) functions and their deliberations, receiving and inspection, and payments. The audit also included: an examination of systems, processes and procedures used to record, track and manage procurement activities; review of available procurement and related records; and interviews of staff responsible for supervising and managing procurement activities to gain an understanding of risk areas and potential control weaknesses. OIOS also reviewed procurement activities performed by UNTSO on behalf of UNSCO.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Delegation of procurement authority

CPO's financial limit of procurement authority

8. Procurement authority is delegated to the UNTSO Chief of Mission Support (CMS) from the Assistant Secretary-General, Department of Field Support (ASG/DFS). As per the Procurement Manual, delegations of procurement authority and the financial levels of authority to make commitments on behalf of the Organization are granted in writing by the CMS directly to the CPO and to individual procurement officers or procurement assistants on an individual basis. In his 4 October 2007 memorandum, the CMS delegated the procurement authority for UNTSO procurement activities up to \$50,000 to the CPO, which was in compliance with Annex B to the delegation of procurement authority from the ASG/DFS to UNTSO CMS.

Table 2: Maximum levels of procurement authority

Grade	Maximum of
Senior Procurement Officer, (CPO) P-5	\$75,000
Procurement Officer, P-4/FS-7	\$75,000
Procurement Officer, P-3/FS-6	\$50,000
Associate Procurement Officer, P-2/FS-5	\$25,000
Procurement Assistants, G-5 and above or FS4/3	\$7,500

9. Although the UNTSO CPO is at the FS-6 level, she was granted, under the Letter of Understanding between UNTSO and UNSCO, the authority to sign UNSCO purchase orders and contracts up to \$75,000.

Recommendation 1

(1) The UNTSO Chief of Mission Support should align the level of procurement authority delegated to the UNTSO Chief Procurement Officer and the procurement officers at the P-4/FS-7 level for UNSCO procurement actions with the level of procurement authority for UNTSO procurement, in order to comply with the delegation of procurement authority from the Assistant Secretary-General for Field Support to the UNTSO Chief of Mission Support.

10. *UNTSO accepted recommendation 1, stating that the required amendment was made in the Letter of Understanding (LoU) between UNTSO and UNSCO on 8 April 2008. Based on the action taken and OIOS' review of the amendment to the LoU, recommendation 1 has been closed in the OIOS recommendations database.*

B. Documentation of LCC deliberations

11. The delegation of procurement authority requires LCC to render written advice on procurement actions to the CMS. OIOS' review of LCC cases for 2005 and 2007 showed that the LCC did not keep records of its deliberations and did not provide written advice to the CMS until late 2007. Instead, the LCC members and the CMS signed off on procurement case presentations prepared by the Procurement Section to indicate their approval. This is contrary to the general practice of the Organization where the LCC and Headquarters Committee on Contracts (HCC) write the minutes of their meetings where their comments and recommendations on procurement case presentations are documented.

12. Since UNTSO has already started the practice of keeping formal minutes of LCC meetings in late 2007, OIOS has not made a recommendation for this purpose.

C. Purchasing function

No procurement cases presented to LCC in 2006

13. Section 12.1.6.1 of the Procurement Manual provides for regular LCC meetings at a minimum frequency of once a week. Contrary to this provision, there were no LCC meetings in 2006.

Procurement cases exceeding the CPO's delegated authority

14. According to the Procurement Manual and the delegation of procurement authority to the UNTSO CMS, the LCC shall advise the CMS on all contracts to be entered into which involve commitments to a single contractor in respect of a single requisition or a series of related requisitions for expendable and non-expendable items, rental agreements and service contracts in excess of \$75,000 or the CPO's delegated procurement authority, whichever is less. Currently the financial level of delegated authority of UNTSO CPO is established at \$50,000.

15. OIOS' review revealed several procurement actions in respect of a series of related requisitions in excess of the CPO's financial level of delegated authority that did not go through the LCC's review in 2007, as shown in Table 3.

Table 3: 2007 procurement cases exceeding \$50,000 not reviewed by the LCC

Vendor	No of purchase orders	Cumulative amount in 2007 (\$)
C.M.C. Computer Media Center Ltd.	12	135,054
Cisco Systems, Inc.	5	122,916
FG Wilson (Eng.) Ltd.	1	90,139
Link-com Telecom Ltd.	4	115,291
R. Surganyan	1	126,072
Motorola, Inc.	4	62,205
Sematron UK Ltd.	2	59,844
Some's World-wide Uniforms	4	55,071
TOTAL	33	766,592

16. As shown in the table above, in 2007, the procurement actions in excess of \$50,000 that were not reviewed by LCC amounted to \$766,592 which represented about 25 per cent of all UNTSO procurement in 2007 (approximately \$3 million). UNTSO explained that 16 purchase orders in the amount of \$418,300 will be presented *ex-post facto* to the UNTSO LCC, while the other 17 purchase orders in the amount of \$348,292, in the opinion of UNTSO, were not subject to LCC review as they pertain to purchases under the UN Procurement Division system contracts.

17. In 2006, under the former CPO whose delegated procurement authority was \$75,000, there were three cases of procurement in excess of \$75,000 not reviewed by the LCC, as well as two cases exceeding the established NTE amounts by over 20 per cent for fuel contracts (Paz Oil Co. and Delec), as follows:

Table 4: 2006 procurement cases in excess of \$75,000 not reviewed by the LCC

Vendor	No of purchase orders	Cumulative amount in 2006 (\$)
Bynet Data Communications Ltd.	3	111,667
Iss Ashmoret Ltd	2	110,829
Karat Israel Ltd.	11	98,740
Paz Oil Co.	7	146,022
Delec	2	106,066
TOTAL	25	573,324

18. OIOS was informed that, contrary to the requirements of the delegation of procurement authority, procurement actions in excess of individual CPOs' procurement authority but below the general LCC threshold of \$75,000 were routinely signed by the UNTSO CMS without being reviewed by the LCC. OIOS' review also noted that procurement cases involving a series of related requisitions to the same vendor were not duly tracked to alert the Procurement

Section when the LCC review threshold was reached. Due to the lack of LCC scrutiny over high-dollar value cases, there was no assurance that these procurement actions were based on fairness, integrity and transparency, as required by Section 2.5 of the Procurement Manual.

Recommendation 2

(2) The UNTSO Chief of Mission Support should review the 2007 procurement actions in excess of the delegated authority of the UNTSO Chief Procurement Officer and present them for the Local Committee on Contract's consideration as *ex post facto* cases.

19. *UNTSO accepted recommendation 2, stating that it will implement the recommendation by 30 June 2008.* Recommendation 2 remains open pending receipt of documentation showing that all related procurement cases approved beyond the authority delegated to the UNTSO Chief Procurement Officer have been presented to the LCC for consideration on an *ex post facto* basis.

Work on behalf of UNSCO

20. Under the LoU between UNTSO and UNSCO, UNTSO provides all procurement services to UNSCO, including the processing of UNSCO requisitions, contacting prospective vendors, raising purchase orders (POs) and contracts, monitoring delivery of goods and services, and assisting in the preparation of an annual procurement plan. The UNTSO CPO is delegated an authority to sign UNSCO POs and contracts up to \$75,000 and the UNTSO CMS is delegated an authority to sign contracts and POs up to \$200,000. In 2006-2007 the volume of UNTSO procurement activities done on behalf of UNSCO was as follows:

Table 5: Volume of purchase orders processed by UNTSO on behalf of UNSCO

	POs processed on behalf of UNSCO		All POs processed by UNTSO		% UNSCO POs of total	
	#	Amount (\$)	#	Amount (\$)	#	Amount
2006	149	538,000	424	2,532,000	35%	21%
2007	118	527,000	395	3,006,000	30%	17%
Total	267	1,065,000	819	5,538,000	33%	19%

21. As shown in Table 5, procurement activities on behalf of UNSCO comprise 33 per cent of the number of UNTSO's procurement activities and 19 per cent of their value. Despite the significant percentage of transactions UNTSO is processing for UNSCO, there was no provision in the LoU between UNTSO and UNSCO regarding the cost-sharing of the services provided.

Recommendation 3

(3) The UNTSO Chief of Mission Support should negotiate a cost-sharing arrangement with UNSCO for the provision by UNTSO of procurement transaction processing to UNSCO.

22. *UNTSO accepted recommendation 3, stating that arrangements have been made between the UNTSO and UNSCO whereby UNTSO will receive reimbursements from UNSCO for procurement services rendered to it. Based on the action taken and OIOS' review of the subject arrangement, recommendation 3 has been closed in the OIOS recommendations database.*

V. ACKNOWLEDGEMENT

23. We wish to express our appreciation to the Management and staff of UNTSO 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	C	Action complete	8 April 2008
2	O	Submission to OIOS of documentation showing that all related procurement cases approved beyond the authority delegated to the UNTSO Chief Procurement Officer have been presented to the LCC for consideration on an <i>ex post facto</i> basis	30 June 2008
3	C	Action complete	May 2008

¹. C = closed, O = open

². Date provided by UNTSO in response to recommendation



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Procurement activities in UNTSO

13 June 2008

Assignment No. AP2007/674/01
