



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

**Execution of the delegation of
authority to UNAMA to procure core
requirements**

17 July 2008

Assignment No. AP2008/630/01

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. Kai Eide
A: Special Representative of the Secretary-General
United Nations Assistance Mission in Afghanistan

DATE: 17 July 2008

REFERENCE: IAD: 08- 01566

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



SUBJECT: **Assignment No. AP2008/630/01 - Audit of the execution of the delegation of authority to**
OBJET: **UNAMA to procure core requirements**

1. I am pleased to present the report on the above-mentioned audit.
2. 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, 2, 3, and 4) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Neva Donalds , Chief of Mission Support, UNAMA
Mr. Takahisa Kawakami, Chief of Staff, UNAMA
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. Seth Adza, Operations Review Officer, Department of Field Support

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

Execution of the delegation of authority to UNAMA to procure core requirements

The Office of Internal Oversight Services (OIOS) conducted an audit of the execution of the delegation of authority to the United Nations Assistance Mission in Afghanistan (UNAMA) to procure core requirements. The overall objective of the audit was to determine whether UNAMA established effective controls to execute the delegation of authority to procure core requirements up to \$1,000,000. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Effective internal controls generally existed within UNAMA to execute the delegation of authority to procure core requirements. However, internal controls and procedures needed to be improved in some areas such as :

- Ensuring core requirements are identified in the procurement system at the time of purchase to enable UNAMA fulfill its reporting requirements;
- Ensuring compliance with requirements of the Procurement Manual on vendor registration;
- Increasing the competitiveness in the solicitation process by ensuring an adequate numbers of bidders are invited to submit an offer;
- Ensuring there is sufficient market research done before procurement; and
- Reducing delays in submitting cases to the Local Committee on Contracts (LCC) and in providing copies of approved LCC recommendations to designated recipients.

Recommendations were issued, which if implemented will help to improve UNAMA operations in executing its delegated authority for the procurement of core requirements.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of execution of the delegation of authority to the United Nations Assistance Mission in Afghanistan (UNAMA) 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 up to \$1 million.
3. The Mission processed 399 procurement cases valued at \$5.9 million during fiscal year 2006/07 of which 236, valued at \$2.9 million, were for core requirements cases. The number and value of core requirements cases processed in the year had decreased significantly as had procurement generally from the prior period as shown in Table 1 below. The decline in procurement was primarily attributable to the Mission's greater use of United Nations Humanitarian Air Services flights resulting in significantly lower costs for items such as aviation fuel.

**Table 1: Number and value of procurement cases for core requirements
Years 2006 and 2007**

Periods	Total procurement cases		Procurement cases labeled as core requirements		% of core requirements to total procurement	
	#	\$	#	\$	#	\$
Year end 2006	468	13,727,990	251	9,235,008	54%	67%
Year end 2007	399	5,932,085	236	2,927,733	59%	49%
% increase (decrease)	(17)%	(131)%	(6)%	(215)%		

4. Comments made by UNAMA are shown in *italics*.

II. AUDIT OBJECTIVES

5. The objective of the audit was to determine whether UNAMA established effective controls to execute the delegation of authority to procure core requirements up to \$1,000,000.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered transactions relating to the procurement of core requirements processed in fiscal year 2006/07. OIOS examined a sample of 22 cases involving the procurement of core requirements to test internal controls. OIOS also reviewed relevant documentation, conducted analytical tests and interviewed key UNAMA personnel.
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Identification of core requirements in the Mercury system

7. The Mercury procurement system contains details of the Mission's procurement cases. OIOS was provided with a listing of core requirements purchases for fiscal year 2006/07, but the UNAMA Procurement Section (PS) could not fully explain why some of these purchases had been classified as core requirements. Core requirements were not easily identifiable in the procurement system at the time of purchase since no special identification was given in the related purchase orders. To address the shortcoming of the Mercury system, UNAMA has implemented a manual system for identifying core requirements procurement cases to enable monitoring and recording of such purchases.

8. The absence of a system for identifying and classifying core requirements at the point of raising the purchase orders may lead to incorrect recording, inappropriate procurement action and non-compliance with the requirements of the delegated authority.

9. As Mercury is a UN-wide system, OIOS will discuss further improvements to the system in its consolidated report on the procurement of core requirements.

B. Vendor registration

10. As part of the registration process, vendors are required to meet certain criteria including financial stability, technical competence and business experience and capacity as set out in Section 7.6.2 of the PM. Applicants are also required to provide a certified copy of the certificate of incorporation or other documents setting forth the legal basis of the entity and information on "paid-up capital" as already provided to the appropriate authorities in the respective member states.

11. For fiscal years 2005/06 and 2006/07, procurement of petrol, oil and lubricants amounted to \$8.2 million and accounted for 80 per cent of total core requirements. In the period 2004 to 2007, Tryco International was the sole supplier of fuel. In 2007, some aviation fuel was provided by another supplier.

12. OIOS established that the award was given to Tryco International under Financial Rule 105.16 (a) (i)-- no competitive market place (monopoly exists). However, there was no documentation on file supporting the vendor's registration. The UNAMA Procurement Section advised that they were not able to comply with the vendor registration process due to staff shortages and a heavy workload. Failure to register vendors in accordance with the criteria set out in the PM may result in the Organization doing business with firms that are not reputable.

Recommendation 1

(1) The UNAMA Office of Mission Support should ensure that appropriate steps are taken to register and maintain on file supporting documentation for the registration of all vendors in accordance with the requirements of Section 7 of the Procurement Manual.

13. *The UNAMA Office of Mission Support accepted recommendation 1 and stated that a National Procurement Officer is being recruited to be responsible for proper registration of vendors and maintenance of vendor database in Mercury. The recruitment and training of the dedicated vendor manager is expected to be completed by 1 October 2008.* Recommendation 1 remains open pending receipt of documentation supporting the introduction of a proper vendor registration system.

C. Delays in submitting procurement cases to the LCC

14. Section 12.1.3 (3) of the PM stipulates that case submissions to the Local Committee on Contracts (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.

15. OIOS sampled 22 core requirements cases including one that had been submitted to LCC members one day before the meeting. For the remaining cases, it was not evident from the LCC files when they had been submitted to Committee members. Sections 12.1.7 (1) and (5) of the PM state that such delays are permissible in cases of operational urgency or emergency situations. No evidence was available to justify the delays in submitting the cases to the LCC members. Failure to submit procurement cases to the LCC sufficiently in advance can result in members not adequately reviewing the cases before the meeting, which can result in incorrect decision making.

Recommendation 2

(2) The UNAMA Office of Mission Support should implement and document procedures to ensure the timely submission of case presentations to the Local Committee on Contracts members to enable them make informed decisions.

16. *The UNAMA Office of Mission Support accepted recommendation 2 and stated that a spreadsheet to track status and movement of LCC cases shall be established.* Recommendation 2 remains open pending receipt of documentation showing that cases are being submitted timely to the LCC.

D. Vendor bidding process

17. Section 9.3.4 (1) of the PM states that as a general rule, for all requirements costing more than \$2,500, for a single award, all registered vendors for particular goods or services should be invited. Whenever the particular

circumstances of the case render this impractical or not feasible, it is suggested that a minimum number of invitees as specified in clause (a) to (e) of Section 9.3.4(1) of the PM be invited.

18. UNAMA apparently did not comply with the applicable procedures to invite the required minimum number of vendors in two solicitations. In Procurement case # AMA7-151, only 4 vendors were invited to bid out of a possible minimum of 10, while in procurement case # AMA7-616, out of the 6 minimum vendors suggested, only 4 were invited. In both cases, the LCC did not inquire as to why the minimum number of invitees was not asked to bid. The Procurement Section cited the existing security situation in Kabul and the lack of registered vendors as the reason for non-compliance with the policy. However, there was no documentation on file to support the deviation from suggested procedures. Failure to solicit bids from the largest possible number of vendors may result in inadequate competition.

Recommendation 3

(3) The UNAMA Office of Mission Support should implement procedures to ensure that the largest possible number of vendors is invited to bid to provide the Mission with adequate competition in its procurement activities.

19. *The UNAMA Office of Mission Support accepted recommendation 3 and stated that a procedure shall be implemented to ensure the largest possible number of vendors is invited to bid.* Recommendation 3 remains open pending receipt of documentation showing adequate competition among vendors in the bidding process by inviting the largest possible number of bidders.

E. Inadequate market survey

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

21. There was no evidence on file to show that market surveys had been conducted for any of the 22 procurement case files reviewed by OIOS. The failure to conduct adequate market surveys may preclude the Mission from obtaining best value for money.

Recommendation 4

(4) The UNAMA Office of Mission Support should implement procedures to ensure that market research/surveys are conducted to provide the Mission with best value for money in its procurement activities.

22. *The UNAMA Office of Mission Support accepted recommendation 4 and stated that greater efforts shall be made to conduct market surveys for*

international vendors through the Internet. Recommendation 4 remains open pending receipt of documentation showing that adequate market research/surveys are conducted.

F. Delays in distributing LCC meetings recommendations

23. Section 12.1.6 (3) of the PM requires the LCC to obtain approval of the recommendations made at its meetings from Chief of Mission Support (CMS). Thereafter, one copy of the approved recommendations and meeting minutes should be distributed within ten business days to the CMS, LCC members, the Chief Procurement Officer (CPO), the requisitioning office and OIOS.

24. In 15 LCC cases of the 22 cases reviewed involving core requirements, approved recommendations and minutes of LCC meetings were not distributed in a timely manner as recommended in the PM, which could lead to procurement delays.

Recommendation 5

(5) The UNAMA Office of Mission Support should ensure that recommendations of the Local Committee on Contracts on procurement cases are distributed to designated recipients within ten business days in accordance with the Procurement Manual.

25. *The UNAMA Office of Mission Support accepted recommendation 5 but stated that the approved LCC minutes of meetings have been distributed to members within 2 to 3 days. OIOS reiterates that there were cases noted where the LCC minutes were not distributed within 10 business days as recommended in the Procurement Manual.* Recommendation 5 remains open pending receipt of evidence supporting the timely distribution of LCC minutes of meetings.

V. ACKNOWLEDGEMENT

25. We wish to express our appreciation to the Management and staff of UNAMA 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	Receipt of documentation supporting the introduction of a proper vendor registration system.	1 October 2008
2	O	Receipt of documentation supporting timely submission of case presentations to the LCC.	1 August 2008
3	O	Receipt of documentation ensuring adequate competition among vendors in the bidding process by inviting the largest number of bidders.	1 September 2008
4	O	Receipt of documentation supporting the conduct of market research/surveys for vendors.	1 September 2008
5	O	Receipt of adequate evidence supporting timely distribution of LCC minutes of meetings.	-

¹ C = closed, O = open

² Date provided by UNAMA in response to recommendation