

United Nations

INTEROFFICE MEMORANDUM



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MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I  
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Pierre Schori  
AT: Special Representative of the Secretary-General  
UNOCI

DATE: 6 June 2006

REFERENCE: AUD-7-5:76 (06-00323)  
(06)

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

A handwritten signature in blue ink, appearing to read 'Dagfinn Knutsen'.

SUBJECT: **OIOS Audit No. AP2005/640/03: Procurement function in UNOCI**

OBJET:

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during February and March 2005.
2. We note from your response to the draft report that UNOCI has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed recommendations 2, 7, 8, 14, 16, 17, 19, 20, 22, 24, 26 to 31 and 33 in the OIOS recommendations database. In order for us to close out the remaining recommendations (i.e., 1, 3 to 6, 9 to 13, 15, 18, 21, 23, 25, 32 and 34), we request that you provide us with additional information as indicated in the text of the report. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status. Please note that OIOS will report on the progress made in implementing its recommendations, particularly those designated as critical (recommendations 2, 3, 4, 12, 13, 18, 19, 20, 22, 32 and 33), 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 that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the management and staff of UNOCI for the assistance and cooperation provided to the auditors in connection with this assignment

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations  
Mr. Philip Cooper, Acting Director, ASD/DPKO  
Mr. Hubert Price, Chief Administrative Officer, UNOCI  
UN Board of Auditors  
Programme Officer, OIOS  
Mr. Terrence Norris, Chief Resident Auditor, UNOCI

# Office of Internal Oversight Services

## Internal Audit Division I



### **Audit of the Procurement Function at UNOCI**

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**Audit no:** AP2005/640/03  
**Report date:** 6 June 2006  
**Audit team:** Terrence Norris, Chief Resident Auditor  
Margaret Gichui, Audit Assistant  
Mariame K. Thiam, Audit Assistant

**EXECUTIVE SUMMARY**  
**Audit of the Procurement function in UNOCI (AP2005/640/03)**

OIOS conducted an audit of the procurement function in the United Nations Operation in Cote D'Ivoire (UNOCI) during February and March 2005. The main objectives of the audit were determine compliance with United Nations procurement policies, procedures and associated United Nations Financial Regulations and Rules with particular attention to the application of the principles of fairness, integrity and transparency in the procurement process.

OIOS' main findings were as follows:

(i) UNOCI did not have a formal acquisition plan for 2004-2005. This contributed to a number of problems discussed in this report, such as *ex post facto* cases, excessive use of "Immediate Operational Requirement" requests, and direct purchases without competitive bidding.

(ii) The Mission did not establish standing committees for bid evaluation and vendor review. These committees are essential to ensure an effective procurement function.

(iii) The Procurement Section had problems with requisitions developed by requisitioners. The Mission needs to ensure that requisitioners prepare generic technical specifications to enhance transparency in procurement.

(iv) Contract awards were being split with a view to avoiding presentation to the Local Committee on Contracts (LCC). This not only violated the delegation of procurement authority but also compromised oversight by the LCC. Internal controls in the area of contract management need to be strengthened to ensure that the contract ceiling is not exceeded without prior authorization.

(v) The Mission needs to review and update its vendor roster based on an assessment of vendor qualifications and capacity. Also, vendor performance needs to be systematically evaluated and documented against criteria such as product quality, timely delivery and general contract compliance.

(vi) The causes for a number of *ex post facto* cases need to be investigated and responsible officials should be held accountable for any lapses. The Mission had also not been enforcing the contract clause pertaining to liquidated damages. In a sample of seven contracts reviewed by OIOS, an estimated \$312,771 was determined as recoverable. UNOCI needs to pursue recovery action in these cases.

(vii) Many of the problems identified by the audit were attributable to the difficulties experienced by the Mission and the Department of Peacekeeping Operations in filling critical posts. The Mission needs to fill all vacancies with regular incumbents rather than prolonging the temporary duty of staff from other missions.

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## I. INTRODUCTION

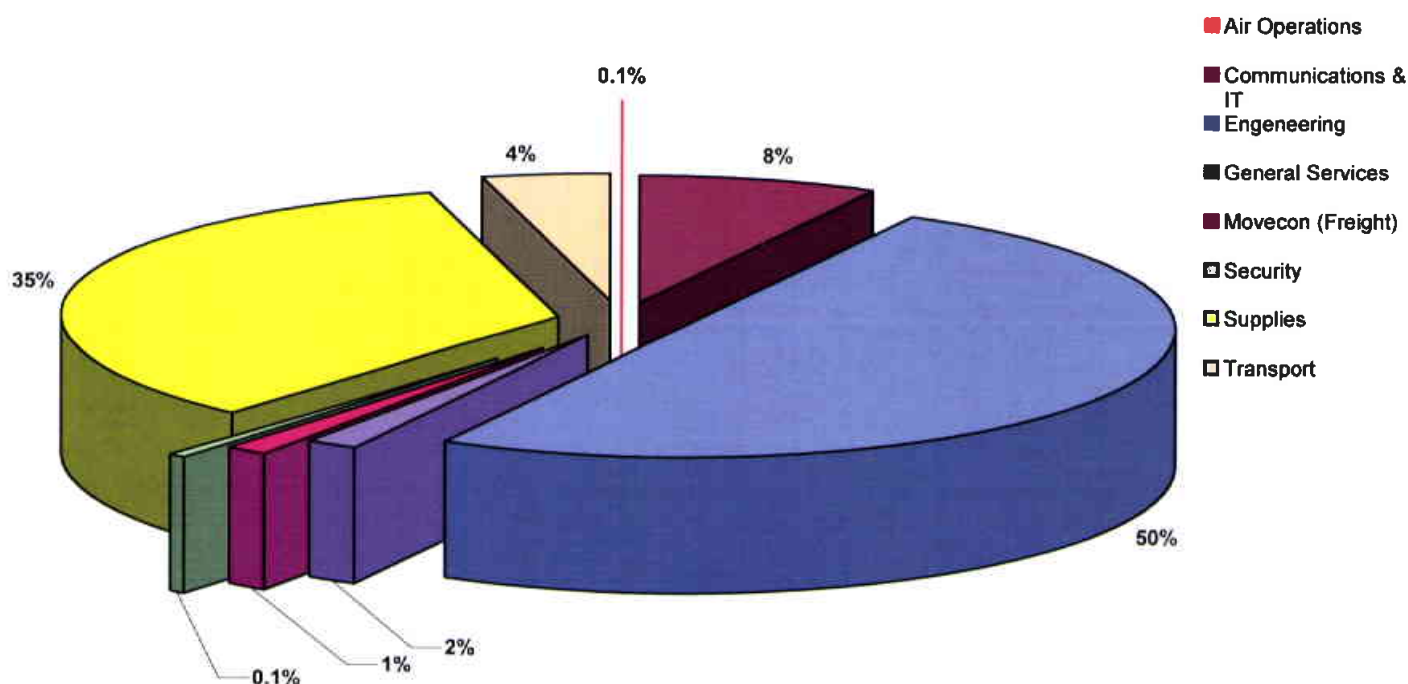
1. OIOS conducted an audit of the Procurement function at the United Nations Operation in Cote d'Ivoire (UNOCI) during the months of February and March 2005. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. UNOCI had an approved budget of \$378.48 million for the period 1 July 2004 to 30 July 2005. Civil unrest in October and November 2004 resulted in the evacuation of all non-essential, international staff to Ghana. Repatriation of staff back to Cote D'Ivoire began gradually in late November and was completed by 23 December 2004. The evacuation interrupted normal procurement activities as well as the local commercial community, with many local businesses closing for all or part of the crisis.

3. Figure 1 provides a breakdown of goods and services procured for the principal requisitioners for the period April 2004 to January 2005.

**Figure 1**

**US\$ Value of Ongoing/Completed Procurement for the period  
April 2004 to January 2005**



4. Four hundred and ninety-eight procurement transactions with a value of \$38.95 million took place from April 2004 to February 2005. The Engineering, Supply, and Communications and Information Technology Sections were the principal requisitioners, accounting for a total of 64 percent of mission purchases. United Nations Systems contracts, local and international vendors and Strategic Deployment Stocks were used as procurement sources.

5. The Procurement Section was not initially staffed to its full strength and it has only recently reached a staff complement of eight international and six national staff. The use of personnel on temporary duty (TDY) to fill the post of Chief Procurement Officer and the incremental staffing of the section has been problematic in terms of capability to meet the Mission's operational demands.

6. The Chief Procurement Officer (CPO) is delegated authority to procure goods and services under \$20,000, and any procurement action exceeding this amount is presented to the Local Committee on Contracts (LCC) for review; if the procurement action exceeds the LCC's delegated authority of \$50,000, then it is referred to the Headquarters Committee on Contracts (HCC) in New York for review. A monetary threshold of \$2,500 has been established for procurement of goods and services within the Mission without applying the formal methods of solicitation.

7. The comments made by the Management of UNOCI on the draft report have been included in the report as appropriate and are shown in italics.

## **II. AUDIT OBJECTIVES**

8. The audit objectives were to determine compliance with United Nations procurement policies, procedures and associated United Nations Financial Regulations and Rules with particular attention to the application of procurement principles of:

- Fairness, integrity and transparency in the procurement process;
- Effective international and or local competition;
- The interest of the United Nations;
- Delivery of goods of the right quality at times and places required by the organization; and
- Effective and efficient maintenance of United Nations systems to record procurement transactions.

## **III. AUDIT SCOPE AND METHODOLOGY**

9. The audit covered procurement transactions recorded in the MERCURY System for the period April 2004 to February 2005. OIOS interviewed responsible UNOCI staff, sampled and tested data extracted from MERCURY, SUN (finance) and the Field Assets Control System, reviewing procurement case files and other relevant documentation. The Procurement Manual, Financial Regulations and Rules and general procurement 'best practices' were used audit reference sources.

10. Traditional and known ‘high risk’ procurement activities, which often give rise to practices that either do not protect the integrity of the procurement function and/or the judicious use of assets entrusted to the organization were examined. A special audit programme was used to determine high risk procurement activities. The audit did not cover procurement of Rations, Petrol Oil and Lubricants and Rental of office premises and accommodations, which will be the subject of separate audits.

#### **IV. OVERALL ASSESSMENT**

11. The lack of a formal acquisition plan for the Mission contributed to a number of problems such as *ex post facto* cases, excessive use of “Immediate Operational Requirement” requests, and direct purchases without competitive bidding. Procurement practices at UNOCI require significant improvement to ensure compliance with the provisions of the Procurement Manual and to strengthen the internal controls in requisitioning, bidding and contract management processes in the Mission.

#### **V. AUDIT FINDINGS AND RECOMMENDATIONS**

##### **A. Requisitioning**

###### Procurement Planning

12. Financial Rule 105.14 requires missions to undertake “(a) Acquisition planning for developing an overall procurement strategy and procurement methodologies”. The Procurement Manual requires that requisitioning officers and the CPO communicate and to the extent feasible, meet on an annual basis with requisitioners to set up spending plans, including procurement plans for the forthcoming budget period (s).

13. The UNOCI Procurement Section did not have a formal acquisition plan for the year 2004-2005. OIOS obtained from the Mission’s Budget Officer a plan document that indicated the goods and services intended to be procured during 2004-05, but this plan was neither specific as to details nor did it include all functional units. The lack of a realistic and reliable acquisition plan contributed to a number of problems discussed in this report. Furthermore, efforts by the Procurement Section to prepare a holistic and rational acquisition plan for 2006-2007 have been impeded because of late responsiveness by some requisitioning sections, in particular the Security Section.

##### **Recommendations 1 and 2**

The UNOCI Administration should:

- (i) Conduct a training session for requisitioners to make them familiar with acquisition planning and to use such plans as an internal control instrument for monitoring their requirements (AP2005/640/03/01); and

- (ii) Prepare a comprehensive mission acquisition plan, reinforce the need for requisitioners to adhere to the approved acquisition plan, and hold them accountable for unjustified deviations (AP2005/640/03/02).

14. *The UNOCI Administration accepted recommendation 1 and stated that the training has been scheduled to be held by end of March 2006. Recommendation 1 remains open pending confirmation by UNOCI that the training programme was held as scheduled. The UNOCI Administration also accepted recommendation 2 and stated that necessary mechanisms are already in place. Quarterly reports were being submitted to Headquarters and all deviations were being reported. Based on the Mission's comments, recommendation 2 has been closed.*

#### Inventory records

15. Since FACS is not updated regularly, it was difficult to ascertain stock movements and balances. This also contributes to additional work for the Procurement Section because of repetitive purchases. A comparative table of items in use with stock levels above 50% was provided to UNOCI Administration by OIOS for review.

#### **Recommendation 3**

The UNOCI Administration should ensure that FACS users update their records promptly so that the data in the system is accurate and reliable (AP2005/640/03/03).

16. *The UNOCI Administration accepted recommendation 3 and stated that due to the relocation of the warehouse to Koumassi, some vouchers had not been updated at the time, and the Mission would endeavour to update them. Recommendation 3 remains open pending confirmation by UNOCI that the FACS records have been updated accordingly.*

### **B. Bidding**

#### Product/service specifications

17. The Procurement Section was encountering serious difficulties with the product and service specifications prepared by requisitioners. In several contract files, poor specifications and/or the absence of information to bidders on what should be submitted with their bids had led to disagreements between requisitioners and the Procurement Section's buyers.

18. Some requisitioners were reluctant to abide by set procurement procedures on drafting generic specifications. There was evidence of a general weakness in drafting specifications, choosing product specifications that are specific to local suppliers. This practice is unfair and is overtly biased towards specific suppliers and products.

19. As one example, one major tender for the acquisition of 11 special armories for the Disarmament, Demobilization and Reintegration (DDR) programme was cancelled because



several international bidders complained that the product specification was not of international standards. Upon further examination, it was determined that the product specification was specific to a local supplier, from whom one armory had been procured a month earlier.

20. The timing of the second order for 11 armories, one month after the initial purchase, and the use of the same specifications raises serious questions of integrity of the process. The commercial value of the proposed 11 armories is estimated at approximately 600,000 Euro. The tender has been withdrawn pending a rewrite of the specifications to international standards. This procurement proposal is also the subject of a review by OIOS' Investigations Division.

21. A second example illustrates similar indifference to defining generic specifications for services, customs and inland freight services during the initial start-up operations. The Mission failed to adequately research the market and define the scope of works (SOW) for its customs and inland freight services. It perpetuated two contracts for these services, without clearly defining the probable scope of the Mission's requirements, thereby creating a monopolistic situation. This not only created a 'favoured vendor' situation but also contravened all the procurement and financial regulations and rules by exceeding the contract value (see section C below).

22. Objectivity in drafting product specifications is something that the Procurement Section is pursuing but their efforts are again undermined by requisitioners who submit the specifications at the last moment. The result is that it can and does discourage international vendors from competing. Short delivery schedules on grounds of urgency of the requirement also results in creating an unfair advantage for local vendors and compromises the process. Requisitioners are not held accountable for actions, which further embolden them to continue with their practices.

#### **Recommendations 4, 5 and 6**

The UNOCI Administration should:

- (i) Reinforce the requirement that requisitioners must prepare specifications for goods and services that are not vendor specific but generic in nature. The Procurement Section should return requisitions that are not generic (AP2005/640/03/04);
- (ii) Consider establishing reasonable benchmarks for each step in the procurement process as a reference for requisitioners and to monitor the performance of the Procurement Section (AP2005/640/03/05); and
- (iii) Consult with other missions and obtain their expertise in preparing generic specifications, wherever needed (AP2005/640/03/06).

23. *The UNOCI Administration accepted recommendation 4 and stated that requisitioners should be accountable for the specifications they develop. Procurement Section cannot*

*necessarily detect purposefully disguised specifications of a particular brand. The CAO's Office will notify all SAUs to reinforce the message. Recommendation 4 remains open pending receipt of documentation from UNOCI showing that it has been implemented.*

24. *The UNOCI Administration accepted recommendation 5 and stated that the Procurement Section requested assistance from the Information Technology Unit for a new reporting system to be in place by end of February 2006. Other missions were already using this feature (called "Business Objects") and UNOCI would implement it shortly. Recommendation 5 remains open pending confirmation by UNOCI that it has been fully implemented.*

25. *The UNOCI Administration also accepted recommendation 6 and stated that the Mission engages in consultations with other missions and Headquarters, wherever possible. The Mission understands that the Department of Peacekeeping Operations (DPKO) has developed a set of generic specifications for use by missions, and the promulgation of these specifications would contribute to effective implementation of this recommendation. Recommendation 6 remains open pending receipt of documentation from UNOCI showing that it has been fully implemented.*

#### Tender opening

26. The Procurement Manual states, "...all submissions sent by mail, courier service, or hand delivered shall be received by the Tender Opening Committee shall be placed in a secure area, until the stated opening date and time". Also, according to Financial Rule 105.14, the competition process shall, as necessary, include public bid openings.

27. From the sample reviewed, OIOS found three instances where bids were received by Procurement personnel and opened as they arrived. The receipt date was stamped on the bid. Furthermore, two other bids that were supposed to be opened by the Tender Opening Committee (TOC) on 27 April 2004 were opened on 16 April 2004 in a different bid opening. When the mistake was realized, a special date was set to re-open the two bids on 4 May 2004. Such errors in the control of bid documents indicate inattentiveness to the procedure and can seriously undermine the credibility of the bidding process.

28. Due to the lack of facilities, the Mission does not have a practice of public opening of bids, as required by Section 18 of the Procurement Manual. The relocation to the new Seboko HQs in December 2005 should allow for the implementation of public bid openings.

#### **Recommendations 7 and 8**

The UNOCI Administration should:

- (i) Ensure that bid documents are physically secured and opened only after the official bid closing date (AP2005/640/03/07); and

- (ii) Identify the appropriate location in the Sebroko HQ facility for public opening of bids (AP2005/640/03/08).

29. *The UNOCI Administration accepted recommendation 7 and stated that a dedicated fax number was available for receiving bids, and bids are opened by convening the Tender Opening Committee. The UNOCI Administration also accepted recommendation 8 and stated that it had been implemented. Based on the Mission's response, recommendations 7 and 8 have been closed.*

#### Technical and commercial evaluations

30. The Procurement Manual states that "The technical assessment (of a bid) shall be in writing (and is independent of the commercial evaluations), and shall be performed without prior knowledge of cost". The Manual also provides a template that can be used for technical evaluations.

31. OIOS found that technical evaluations were often not based on a prescribed template for bid submissions. Some technical evaluation results were communicated to the CPO via internal memorandum providing a narrative description only, without a percentage or points' value based on weights.

32. However, it was also apparent from requisitioners' correspondence that many requisitioners have tried repeatedly to impose their views on the selection of a product and/or supplier on buyers and the CPO. This raises concerns of a possible conflict of interest and can give rise to negative perceptions and complaints by disaffected vendors. Examples of overzealousness and negative comments by some requisitioners against the Procurement Section and its staff were noted.

33. Furthermore, in a 'two envelope' bid process where vendors' technical and commercial bid documents are submitted in separate envelopes, the confidentiality of bid documents must be maintained during the overall evaluation process and LCC review. OIOS is concerned that there was laxity in the maintenance of confidentiality in the procurement process. There are indications that some suppliers were aware of their specific status during and after the technical and/or financial evaluation process. The most obvious example of this was in the events leading up to the award of the Security Services contract whereby a contractor offered to lower his price within hours after the LCC discussed and agreed to defer the submission to a future meeting. The vendor's knowledge of his situation, i.e. that he was placed second in the competitive process at that time, indicated an internal control weakness that compromised the integrity of the procurement process and increased the risk of complaints against the Mission.

#### **Recommendations 9, 10 and 11**

The UNOCI Administration should:

(i) Provide technical evaluation templates to all requisitioners that are in accordance with the United Nations Procurement Manual (AP2005/640/03/09);

(ii) Issue an Administrative Circular reminding Section Chiefs of the inherent risks to the image of the United Nations and to the integrity of their personnel, by third party accusations of malpractice arising from non-compliance with established procurement procedures (AP2005/640/03/10); and

(iii) Remind buyers and requisitioners to ensure confidentiality of the bid process, and the administrative ramifications of violating this requirement (AP2005/640/03/11).

34. *The UNOCI Administration accepted recommendation 9 and stated that it was already being implemented as and when required, however, a more general instruction would be issued by the CAO to all requisitioners. Recommendation 9 remains open pending receipt of documentation showing that it has been implemented.*

35. *The UNOCI Administration accepted recommendation 10 and stated that the Procurement Section has asked that the CAO provide guidance to all UNOCI staff on ethics. Recommendation 10 remains open pending receipt of documentation from UNOCI showing that it has been implemented.*

36. *The UNOCI Administration also accepted recommendation 11 and stated that the Procurement Section constantly reinforces the need to ensure confidentiality of the bid process, and the CAO would issue another instruction to all concerned. Recommendation 11 remains open pending receipt of documentation from UNOCI showing that it has been implemented.*

#### Bid evaluation Committee

37. Section 11.6.6 of the Procurement Manual establishes the evaluation procedures for requests for proposals with an estimated value of goods and services of \$200,000 or more. The central part of the procedure is the establishment of a Bid Evaluation Committee, consisting of at least three members, two of whom are from the requisitioning office with the third member usually the Procurement Officer handling the procurement action.

38. The Mission has not been using a Bid Evaluation Committee for major contract evaluations. In some instances, the technical evaluations were carried out exclusively by the requisitioner.

39. The CPO receives the technical evaluation and then opens the commercial bid envelopes to complete the best price/technical assessment, which may be made using the 'best value formula'. This process is flawed in that there have been instances where in the absence of a Bid Evaluation Committee, recommendations made to the LCC had to be withdrawn in light of the concerns of LCC members about the incompleteness of the case presentation.

## **Recommendation 12**

The UNOCI Administration should adopt the practice of using Bid Evaluation Committees for contracts with a potential award of \$200,000 or more and apply the criteria for performing evaluations as set out in the Procurement Manual (AP2005/640/03/12).

40. *The UNOCI Administration accepted recommendation 12 and stated that it has been implemented.* Recommendation 12 remains open pending receipt of documentation from UNOCI showing the specific instances in which evaluations were conducted using Bid Evaluation Committees.

### Split bids and underbidding

41. OIOS' analysis of data extracted from the MERCURY System indicated that the Procurement Section gave split awards and thereby avoided presenting cases to the LCC. A 'split bid' award is a common scheme to avoid oversight by the LCC. It also risks the selection of less competitive suppliers and/or creating a situation of favoured vendors.

42. There were also examples where contracts were entered into within the CPO's delegated authority of \$50,000 but subsequently, the contract value was exceeded with the delivery of substantially more goods. The absence of controls over the actual receipt of goods, often requisitioned under Material Release Orders without the knowledge of the CPO by requisitioners to suppliers, created ex post facto cases and/or contract extensions. These types of activities are viewed either one indicator of a potential fraud scheme or poor management, for which managers should be held accountable.

43. In one example, a contract in the amount of \$25,000 for aggregate/cement was exceeded by \$40,000 as a result of the requisitioner using a Material Release Order form. Complicating the process was the practice of requisitioners submitting invoices directly to the Finance Section. Details of this incident and others were provided to the CPO to determine accountability for the over-expenditure. Because the final amount exceeded the CPO's authority, an *ex post facto* LCC submission was required.

## **Recommendations 13 and 14**

The UNOCI Administration should:

- (i) Impose controls over the use of 'split bid' purchases, which should include the approval of the Chief Administrative Officer (AP2005/640/03/13);
- (ii) Control the use of Material Release Order Forms so as to not exceed the authorized contract amount (AP2005/640/03/14).

44. *The UNOCI Administration did not accept recommendation 13, stating that the Procurement Section does not accept the practice of splitting requisitions. Split awards are only made on the basis of lowest bidder/lowest acceptable bidder when it is in the best interests of the United Nations.* OIOS is unable to accept the Mission's response, since the audit identified instances where cumulative purchases exceeded the authority delegated to the CPO. OIOS therefore reiterates recommendation 13, which will remain open pending receipt of documentation from UNOCI showing that it has been implemented.

45. *The UNOCI Administration accepted recommendation 14 and stated that it has already been implemented.* Based on the Mission's response, recommendation 14 has been closed.

#### Immediate Operational Requirements (IOR) and Direct Expenditures

46. The United Nations Financial Regulations and Rules allow certain exceptions to the use of formal methods of solicitations e.g., Immediate Operational Requirement (IOR) and direct expenditures. However, the procurement method used must ensure that awards are based on competition. 46 IORs were raised with a total value of \$3.2 million during the Mission's initial 11 months.

47. OIOS found that over 50% of the procurement actions executed during the initial 11 months of operation had not been subjected to bidding for various reasons such as the absence of a comprehensive vendor database, inadequate acquisition planning, and vacancies in the Procurement Section.

48. The time required to establish a vendor database and research the market for suppliers was not pursued in the initial stages of the Mission, causing IORs and direct expenditures to become a common rather than exceptional practice, particularly in the case of Engineering and Supply Sections. While genuine exigencies may warrant the use of these two procurement instruments, it is equally clear that sections have taken advantage of the Mission start-up phase and excessively used IORs and direct expenditures. Requisitioners have not provided and continue to not provide the Procurement Section with reasonable lead times to conduct the procurement process.

49. The most recent example for an IOR procurement was for armories, intended for the dual purpose of securing mission security equipment (guns and ammunition), and for DDR exercise. In the initial purchase of one armory, an IOR was used; it was later found that the suppliers' specifications had been used instead of generic specifications. It was also noted that the product did not meet the requirements but it was accepted and the vendor was paid. The armory remains empty three months after its purchase, pending internal alterations/enhancements by the Engineering Section so it can be used for the purpose intended.

50. The method of direct purchases for amounts under \$2,500 was also frequently used, especially for electrical and mechanical items. There were some indicators that while quotations were obtained to establish the best/lowest price, the initial requirements were insufficient and had to be reordered; in some instances, the quantity of supplies ordered were increased after the

vendor was selected. Such practices are indicators of poor planning or intent to create a favoured vendor.

### **Recommendation 15**

The UNOCI Administration should restrict the use of IOR requests to exceptional situations and only be authorized by the Chief Administrative Officer based on documented justification. This should be communicated to all sections in an internal Administrative Circular (AP2005/640/03/15).

51. *The UNOCI Administration accepted recommendation 15 and stated that it had already been implemented. However, the CPO will prepare an administrative circular for the CAO's signature and issuance to all Section Chiefs involved in the procurement process. Recommendation 15 remains open pending receipt of a copy of the circular issued by the UNOCI CAO.*

### **Recommendation 16**

The UNOCI Administration should advise all Sections that direct purchases for small value items must have the advance approval of the Chief Finance Officer (AP2005/640/03/16).

52. *The UNOCI Administration accepted recommendation 16 and stated that the Budget Section will approve all requests prior to direct purchases. Based on the Mission's response, recommendation 16 has been closed.*

### **Recommendation 17**

The UNOCI Administration should review the list of IOR and identify major items which could have been drawn for UN systems contracts, and items which could be considered as essential and included in the Strategic Deployment Stocks (AP2005/640/03/17).

53. *The UNOCI Administration accepted recommendation 17 and stated that the Procurement Section encourages all Sections to plan efficiently to avoid IORs and other unplanned purchases. Systems contracts are used wherever available. Based on the Mission's response, recommendation 17 has been closed.*

### **Recommendation 18**

The UNOCI Administration should establish the full facts behind the purchase of the armory, and subsequent efforts to procure 11 more of the same, which has since been stopped by the Chief Procurement Officer (AP2005/640/03/18).

54. *The UNOCI Administration accepted recommendation 18 and stated that this matter had been communicated to the new Chief Security Adviser. The Security Section is working on all outstanding issues regarding the purchase of equipment. Recommendation 18 remains open pending receipt of documentation from UNOCI showing that it has been fully implemented.*

#### Vendor registration, selection and performance

55. The Procurement Manual requires missions to seek vendors from the Procurement Service's database, local register of potential vendors and the United Nations Global Marketplace.

56. With the migration of MINUCI operations and several procurement staff to UNOCI, some local vendors were known and therefore, these vendors were automatic and immediate sources for UNOCI purchases during the Mission's start-up phase. However, as useful as this was in the early stages of mission operations, the registration of vendors through market search and the development of a comprehensive vendor database continue to be problematic.

57. In the succeeding months, the Mission has not had the resources to review vendor qualifications and build a reliable local vendor database. A systematic approach to building a comprehensive database has only recently been initiated by the Procurement Section. This exercise has not moved forward with any noticeable success because of poor response to UNOCI letters to vendors to register their companies. Concurrently, some vendors currently on the original MINUCI vendor roster have not submitted the basic documentary requirements to confirm their eligibility to be in the database.

58. In addition, there are indications that some vendors are acting as agents for products they do not necessarily sell as stock items. Such vendors were either subcontracting to another company or purchasing items for resale to UNOCI. This significantly increased the risk of overcharging the Mission for items that could be purchased directly from the manufacturer at lower prices.

#### **Recommendations 19, 20 and 21**

The UNOCI Administration should:

(i) Appoint a Vendor Database Officer within the Procurement Section to develop and maintain a comprehensive vendor database. The need to re-evaluate the credentials of vendors who migrated from MINUCI should be given a high priority (AP2005/640/03/19);

(ii) Establish a Vendor Review Committee in accordance with the Procurement Manual, which will have the responsibility to review proposals from the Vendor Database Officer, and where



appropriate approve their inclusion in the database (AP2005/640/03/20); and

(iii) Introduce the practice of conducting vendor performance assessments in accordance with the Procurement Manual (AP2005/640/03/21).

59. The UNOCI Administration accepted recommendations 19, 20 and 21 and stated that these recommendations had been implemented in October 2004. Based on the Mission's response, recommendations 19 and 20 have been closed. Recommendation 21 remains open pending receipt of samples of vendor performance assessments conducted by UNOCI.

### **C. Post Contract Award**

#### Ex post facto contract awards

60. Delays in recruiting staff for the Procurement Section, in particular the position of CPO, caused multiple problems in establishing an effective procurement operation in UNOCI. While some of structural and process improvements are being addressed by the Procurement Section, the failure of some requisitioners in adhering to established procurement planning procedures and effective management of the receipt of goods and services procured within their authority has contributed to numerous incidents of *ex post facto* submissions to the LCC and the HCC. There were 14 *ex post facto* cases to the LCC / HCC with a value of \$6.2 million for leases, fuel supplies, customs clearance, security and in-land freight services.

61. The HCC expressed concern in one of the cases presented to it (customs clearance services), as this was the second time the HCC was asked to approve an *ex post facto* submission for the same company/services. The HCC recommended that the CAO undertake a review of procurement and contract management functions in the Mission with a view to avoid repetition of such cases. To date, there has been no evidence to show that the Mission has addressed the HCC's concerns.

62. Three specific cases warrant reporting due to their importance to Mission operations, the amounts involved, and the need to hold Section Chiefs accountable for their actions.

#### Case No.1: Security Services contract

63. The Security Section directly acquired security protection services for the UNOCI spokesperson without entering into either a new contract or amending the existing Mission-wide security services contract. The requirement for the services was not based on a continuous threat assessment. Alternative options to private security services were available internally but had not been explored until the costs had escalated. Thereafter, a military guard was assigned to provide security protection.

64. From a procurement perspective, it was not until the Security contractor complained that his invoices were not paid did the subject get Management attention. The Procurement Section

was not fully aware of the condition of security arrangements; invoices for the services were accumulating elsewhere in the Mission. By 10 September 2004, the invoiced amount of protection security charges had reached \$106,000; this was approved in an *ex post facto* submission (LCC- /05/0062). OIOS believes this was a serious waste of the Mission's resources.

#### Case No.2: Customs Clearance Contract

65. The need for a comprehensive acquisition plan was highlighted by this second example of an *ex post facto* submission to LCC and HCC. A convergence of many factors contributed to a submission of \$1,502,750 of which \$591,774 was *ex post facto* (LCC-OCI/05/0041) and the remaining \$910,976 for an amendment of the current contract, pending award of a new contract. This was the second *ex post facto* submission for customs clearance. Previously, there was an *ex post facto* submission (LCC-OIC04/0030) for the same vendor in the amount of \$127,750.

66. The genesis of the payments was clearly stated in the LCC submission as; "owing to the absence of a detailed procurement / acquisition plan, the volume of incoming shipments was grossly underestimated and the actual expenditures had far exceed the anticipated usage". In addition, the minutes also noted that "when a PO was raised to (vendor)" estimates were not provided. The absence of a systems contract, appropriately tendered, during the beginning of the mission and a more exacting requirements estimate would have mitigated the mission's exposure to a budget inadequacy and perceptible high service charges. In effect the mission, General Services Section, did not effectively monitor escalating charges accruing to the mission.

#### Case No.3: Inland freight services

67. Inland freight services contract was tendered for an initial six months, as part of a split contract; customs clearance part awarded to the vendor of reference in Case No 2. As in the customs clearance example, there was substantial underestimating for the in-land freight services costs, which resulted in a \$365,315 *ex post facto* submission (LCC- 05/05/0020). The LCC commented that the requirement for the inland transportation was not comprehensively defined in the first Statement of Work. Furthermore, the *ex post facto* submission was only two months after the original contract was signed (six month contract), by which time Movement Control Section (MOVCON) was aware that the contract ceiling had been exceeded. MOVCON issued tasking orders for the services and therefore had a basis for monitoring the volume of services requested. However, it failed to perform this responsibility diligently.

68. OIOS found that in both the customs clearance and inland freight cases, the *ex post facto* submissions were also part of contract extensions to both companies, pending the completion of a new bidding exercise for these services. The Mission's action tends to undermine fair competition and gives the impression of favouring the vendors. Furthermore, it is inconceivable that managers responsible for the contracts could not have been cognizant of the significant and progressive increase in the contract amounts in all the three examples above.

### **Recommendations 22 and 23**

The UNOCI Administration should:

- (i) Act on the HCC recommendation to review its internal procedures for contracts management with a view to preventing the recurrence of *ex post facto* cases (AP2005/640/03/22); and
- (ii) Determine the causes for the *ex post facto* cases and hold the responsible officials accountable for their lapses (AP2005/640/03/23).

69. The UNOCI Administration accepted recommendation 22 and stated that a number of measures have been implemented to address contracts management and *ex post facto* expenditures including CAO instructions and the establishment of a Contracts Management Unit within the Supply Section. Based on the Mission's response, recommendation 22 has been closed. The UNOCI Administration also accepted recommendation 23 and stated that its implementation is ongoing. Recommendation 23 remains open pending receipt of documentation from UNOCI showing that it has been fully implemented.

#### Functioning of the LCC

70. The LCC consists of four members: Section Chiefs of General Services, Finance, Transport and Legal Affairs. In reviewing procurement activities during the past year, there are a number of issues that Management needs to consider to strengthen the LCC's effectiveness:

- Procurement submissions to the LCC have often been criticized by LCC members as being incomplete in specifics; lacking clear and full details relevant to the presentation. This is most evident when cases have been presented for discussion, only to be withdrawn and represented after all the facts were included. Members of the LCC invariably are satisfied with the final submission and recommend approval.
- The LCC membership does not get procurement submissions with sufficient advance notice of meetings to allow for all parties to consider the details before the meeting, especially in complex cases with significant budgetary implications. This has its origin in the ineffective forward planning by requisitioners.
- LCC members have not signed a declaration for confidentiality. Situations of conflict of interest should be included in the LCC minutes, if the circumstances dictate.
- *Ex post facto* cases presented to the LCC and HCC have not adequately documented the accountability of Mission officials responsible for the financial impact of the cases. A review of *ex post facto* cases (security services, customs and inland freight) by the CAO would provide evidence to hold line managers accountable under Financial Rule 101.2.

- The LCC Chairman is the Chief General Services, which places him in a conflict of interest situation for procurement submissions from operational sections that fall within his organization. LCC members and the Chairman should declare possible conflict of interest situations when submissions come before the LCC and accordingly request their alternates to attend the meeting.

### **Recommendations 24 and 25**

The UNOCI Administration should:

- (i) Address the weaknesses identified in the minutes of LCC meetings during the past 11 months and take corrective action (AP2005/64/03/24); and
- (ii) Ensure that all LCC members and their alternates sign confidentiality statements that also include their responsibility to declare possible conflict of interest situations (AP2005/640/03/25).

71. *The UNOCI Administration accepted recommendation 24 and stated that LCC presentation templates had been standardized to incorporate the modifications requested by the Committee. The Procurement Section has now been receiving positive feedback from the LCC members, although the Section feels that the Committee members still seek too much information. Based on the Mission's response, recommendation 24 has been closed.*

72. *The UNOCI Administration also accepted recommendation 25 and stated that action has to be taken by the LCC Chairman. Recommendation 25 remains open pending receipt of documentation from UNOCI showing that it has been fully implemented.*

### Change in contractor for the same commodity

73. The UN Procurement Manual states, "Systems Contracts are used when it is determined based on previous experience and project needs, that deliverables to be procured are required on a recurring basis, for an extended period of time. They facilitate prompt processing of procurement requirements. Furthermore, the time-consuming and repetitive solicitation processes for the same items is minimized and the unit price should be lower due to consolidated volumes."

74. Data extracted from the MERCURY System revealed that several vendors had been engaged for provision of the same commodity within very short durations. Furthermore, several commodity codes were established for the same commodity, thus increasing the number of vendors contracted. Some of these contracts were sole sourced because of stated exigencies of start up, absence of a vendor data base etc. This is an inefficient approach to procurement and does not ensure that the Mission obtains the most economical prices for high turnover supplies. As UNOCI is now well beyond the start-up phase, it should look to procurement alternatives permitted under the Procurement Manual.

## **Recommendation 26**

The UNOCI Administration should identify commodities that were procured frequently with a view to establishing systems contracts for such items as apart of the Mission's procurement planning for 2005-2006 (AP2005/640/03/26).

75. *The UNOCI Administration accepted recommendation 26 and stated that it has already been implemented wherever possible. Based on the Mission's response, recommendation 26 has been closed.*

### Product substitution

76. The UN Procurement Manual states, "...Vendor that does not carry supply of materials on hand can be required to prove availability of dependable source of supply prior to consideration of its submission. Likewise, a manufacturer can be required to submit proof of its ability to manufacture or produce the required material within the required time frame."

77. UNOCI ordered 10 generators with Volvo engine against a systems contract. After receipt of the purchase order, the contractor requested UNOCI to accept a product substitution (Perkins engines) on the argument that Volvo had received a large order from the United Nations Mission in Liberia, and would not be able to deliver to UNOCI before 6-8 months, whereas generators with Perkins engines could be delivered in 40 days. Based on this, UNOCI accepted the change. However, substituted goods had not arrived in the Mission at the time of the audit, six months from the date of order. Acceptance of a substitute product, and the subsequent late delivery of that product, raises serious questions about the supplier's capability to perform in accordance with the contract. Also, liquidated damages are applicable for delay in delivery but it did not appear from the records that the Mission would charge liquidated damages.

## **Recommendation 27**

The UNOCI Administration should monitor all product substitution cases and evaluate product performance as part of documenting vendor performance. Non-performing vendors should be excluded from future solicitations (AP2005/640/03/27).

78. *The UNOCI Administration accepted recommendation 27 and stated that this practice was being followed since the establishment of the Supplier Review Committee in October 2004. Based on the Mission's response, recommendation 27 has been closed.*

## D. Payments

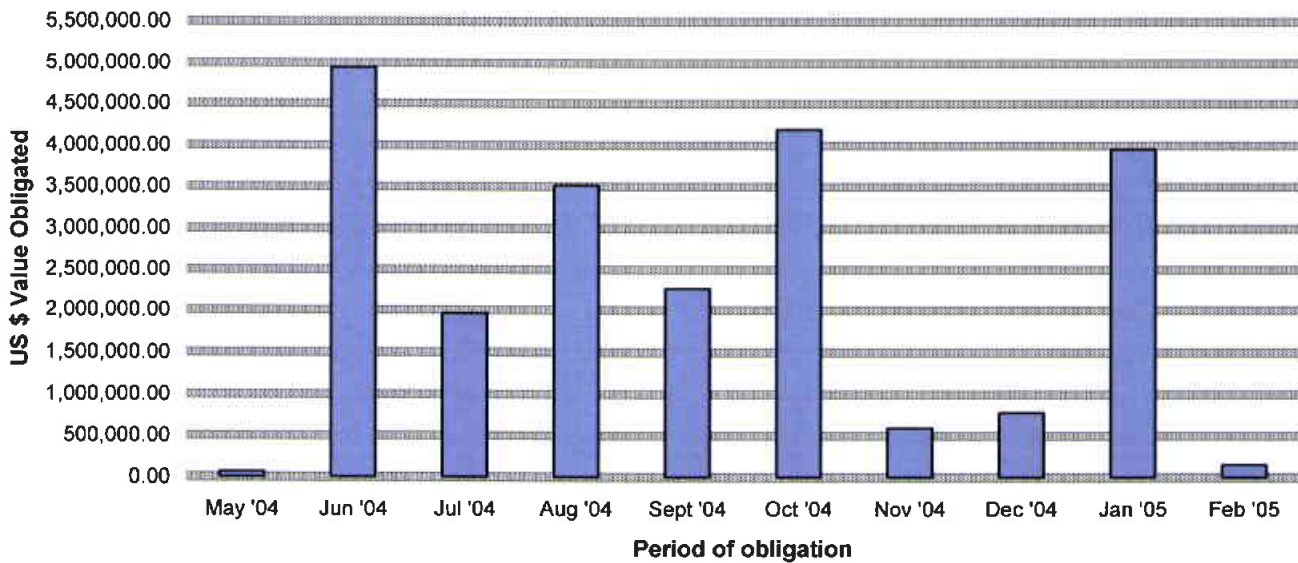
### Unliquidated obligations

79. Figure 2 depicts the monthly pattern of obligations recorded for the purchase of goods and services. Such obligations are recorded upon the issuance of purchase orders. As shown in Figure 2, the Mission issued purchase orders amounting to \$5 million during June 2004 alone, and these had still not been liquidated. This raises questions as to the need for the ordered goods and services, and also whether these year-end purchase orders were issued to prevent surrender of funds.

80. OIOS found that while the total obligations for procurement of goods and services for the period April 2004 to January 2005 was \$38.95 million, only \$19.18 million had been disbursed for the period February 2004 to February 2005. Funds for purchase of goods and services had been held in SUN System since May 2004 amounting to \$22.42 million as reflected in Figure 2. It is noteworthy that approximately 40 per cent of the year end obligations pertained to general supplies.

**Figure 2**

### **US\$ Value of Obligated Funds for Operations as at 12 February 2005**



81. The fact that some goods and services ordered have not yet been delivered, well past the scheduled date of delivery, also raises the issue of contractual non-performance, i.e., possible accumulated liquidated damages claims by UNOCI against the contractor(s). It was also noted that the Finance Section does not receive copies of contracts for reference purposes.



### **Recommendation 28**

The UNOCI Administration should ensure that the Budget Section, in concert with Section Chiefs, monitors purchasing patterns and obligations in order to facilitate review and liquidation of obligations in an efficient manner (AP2005/640/03/28).

82. *The UNOCI Administration accepted recommendation 28 and stated that the Budget Section along with the concerned Section Chiefs has been monitoring both purchasing patterns and obligations, and facilitating the review and liquidation of obligations.* Based on the Mission's response, recommendation 28 has been closed.

### **Recommendation 29**

The UNOCI Administration should monitor long outstanding obligations and clear them from the accounts so that the Mission accounts accurately reflect the financial position (AP2005/640/03/29).

83. *The UNOCI Administration accepted recommendation 29 and stated that the Procurement and Finance Sections are working towards the liquidation of outstanding obligations on a periodical basis.* Based on the Mission's response, recommendation 29 has been closed.

### **Recommendation 30**

The UNOCI Administration should ensure that a copy of each contract is forwarded to the Finance Section for their reference when making payments (AP2005/640/03/30).

84. *The UNOCI Administration accepted recommendation 30 and stated that copies of all contracts, including contract amendments, are being promptly forwarded to the Finance Section.* Based on the Mission's response, recommendation 30 has been closed.

### **Liquidated damages for delayed deliveries**

85. The UN Procurement Manual states, "An appropriate liquidated damages clause is issued as a protection against failure of the contractor to perform, complete the work or deliver goods and services on time. A reasonable amount per day shall be established in the contract up to a ceiling, normally 10% of his contract value."

86. OIOS noted eight instances where the contractor did not perform as per contract agreement (see Table 1 below for details). Seven of these cases had a liquidated damages clause in the systems contracts indicating a charge of 0.5% per week of delay or 0.1% per day of delay for delivered goods up to 10% of order value. The eighth case did not have a penalty clause, thus resulting in non-chargeable losses to the Organization of approximately \$19,280. For the

other seven cases, OIOS determined an amount of approximately \$312,771 as recoverable, and provided the analysis worksheet to the Chief Procurement Officer for follow-up action.

**Table 1**  
**Estimated liquidated damages as at 14 February 2005**

Purchase Order	PO Amount in DDK	PO Amount in EUR	PO Amount in USD	Delay by weeks	Liquidated damages recoverable in USD <sup>1</sup>
4OCI-300071	2,863,174.50		503,194.11	9	30,191.65
5OCI-300111		81,000.00	105,882.35	9	4,764.71
		81,000.00	105,882.35	18	9,529.41
		243,000.00	317,647.06	14	4,447.06
		170,100.00	222,352.94	13	2,890.59
5OCI-300277		121,500.00	158,823.53	6	4,764.71
		121,500.00	158,823.53	4	635.29
		186,300.00	243,529.41	2	487.06
4OCI-300085		643,594.00	841,299.35	19	79,923.44
4OCI-300078		1,016,000.00	1,328,104.58	9	59,764.71
4OCI-300084			560,133.00	19	53,212.64
4OCI-300082			621,600.00	21	62,160.00
<b>Totals</b>			<b>5,167,272.21</b>		<b>312,771.25</b>

<sup>1</sup> Up to 10% of PO amount

**Note:** The information presented above come from a limited sample

87. Legal counsel was lacking in the earlier contracts entered into at the inception of the Mission, and had at the time of the audit not been corrected to include legal clauses. This limits the Mission's ability to ensure that the contractor performance is satisfactory to the Organization.

### **Recommendations 31 and 32**

The UNOCI Administration should:

- (i) Refer the standard mission contract to the Legal Adviser for his opinion and recommendations on the inclusion of appropriate clauses to protect the Mission's interests in the event non-performance of contractual obligations by the contractor (AP2005/640/03/31); and
- (ii) Recover liquidated damages as appropriate from the contractors in the seven instances identified by OIOS (AP2005/640/03/32).

88. *The UNOCI Administration accepted recommendation 31 and stated that till recently, since the Mission had only one legal adviser, only major contracts were forwarded for his review. With the expansion of the Legal Office, the Procurement Section will ensure that all*



*non-standard contracts are submitted for review by the Legal Adviser. Based on the Mission's response, recommendation 31 has been closed.*

89. *The UNOCI Administration also accepted recommendation 32 and stated that the Procurement Section will review these cases on a case-by-case basis and take corrective action with the Procurement Service in New York with reference to all late deliveries relating to system contracts. Recommendation 32 remains open pending receipt of documentation from UNOCI showing the recoveries of liquidated damages from the concerned vendors.*

## **E. Other Matters**

### Staffing of the Procurement Section

90. Most of the problems identified during this audit, particularly those relating to the Mission's start-up phase, were attributable to the difficulties experienced by the Mission and DPKO in filling critical posts.

91. The post of CPO was not filled on a regular basis until August 2004, five months after UNOCI start-up. This post was staffed with two personnel on temporary duty, of whom one was present in the Mission for two months, and the other for approximately three more months.

92. Figure 3 illustrates the number of personnel who held delegated procurement authority of the CPO during the migration of MINUCI to UNOCI and the procurement actions of each OIC/CPO. Blue colour indicates the occupancy of the staff member (regular staff and staff on temporary duty), and red indicates periods during which the incumbent of the post had delegated procurement authority. The number of purchase orders issued under each of the procuring officer's tenure and the number of bid overrides i.e., sole source purchasing, are also indicated. The Procurements Section continues to have problems with its staffing in other positions: the Deputy CPO (P-3) post is still vacant and the Section is operating with two staff on TDY from other missions.

**Figure 3**  
**Occupancy CPO and Principal Buyers and respective purchasing decisions**

Procuring Officer		Occupancy of Post & Dates PO's Approved											Value of PO's (US\$) Authorized	Vol.	No. of Bid Overrides																																																																																																																																																																													
		Duration of:	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04				Dec-04	Jan-05																																																																																																																																																																											
Buyer 1	Occupancy														43,720.68	2	1																																																																																																																																																																											
	Approval																	CPO 1	Occupancy														67,819.72	6	6	Approval														CPO 2	Occupancy														14,119,882.06	161	86	Approval														CPO 3	Occupancy														20,706,251.06	247	131	Approval														Buyer 2	Occupancy														586,925.28	35	15	Approval														Buyer 3	Occupancy														17,290.90	1	1	Approval																								
CPO 1	Occupancy														67,819.72	6	6																																																																																																																																																																											
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**Recommendation 33**

The UNOCI Administration should take urgent action to fill all posts in the Procurement Section on a regular basis without further prolonging the use of staff on temporary assignment from other missions (AP2005/640/03/33).

93. The UNOCI Administration accepted recommendation 33 and stated that all vacant posts in the Procurement Section had been filled. Based on the Mission's response, recommendation 33 has been closed.

Rotation of staff in the Procurement Section

94. It is a good business practice in functions where staff members are responsible for multiple activities or where they have significant interactions with third parties, such as vendors, to periodically rotate the staff. The rotation principle mitigates the risk to the staff member and the Organization of becoming, intentionally or unintentionally, too close to third parties (vendors, in this case). A rotation policy can help to mitigate false allegations of collusion and favoritism with vendors.

95. Based on OIOS' findings in this report, efforts to protect the staff member and the Organization from these risks are critical. While the CPO has recently undertaken some restructuring within the Procurement Section, which will contribute to the efficiency of operations, it does not address the rotation of buyers/procurement officers.

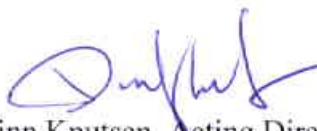
#### **Recommendation 34**

The UNOCI Administration should introduce a policy regarding rotation of staff to various responsibilities and functions within the Procurement Section (AP2005/640/03/34).

96. *The UNOCI Administration did not accept recommendation 34, stating that procurement staff members possess skills of a very specific nature, and it would be dangerous for the mission to rotate these staff into other sections and lose the skills base. However, staff will be rotated to other teams within the Procurement Section at some point in the 2006-07 Budget period.* OIOS has revised its recommendation to clarify that the procurement staff should be rotated to various functions within the Procurement Section. Recommendation 34 remains open pending receipt of documentation from UNOCI showing that it has been implemented.

## **VI. ACKNOWLEDGEMENT**

97. We wish to express our appreciation for the assistance and cooperation extended to the auditors by the Administration of UNOCI during their audit.



Dagfinn Knutsen, Acting Director  
Internal Audit Division-I, OIOS

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Procurement Function in UNOCI

(AP2005/640/03)

	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"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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"/>
<b>Your overall satisfaction with the conduct of the audit and its results.</b>	<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: \_\_\_\_\_

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*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 mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA  
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