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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

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

TO: Mr. Joachim Rücker
A: Special Representative of the Secretary-General
UNMIK

DATE: 27 May 2008

REFERENCE: IAD: 08- 01339

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



SUBJECT: **Assignment No. AP2007/650/12 - Audit of the Local Committee on Contracts in UNMIK**
OBJET:

1. I am pleased to present the report on the above-mentioned audit which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. In order for us to close recommendations 1 and 2, 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. Your response indicated that you did not accept recommendation 2. In OIOS' opinion however, this recommendation seeks to address significant risk areas. We are therefore reiterating it and request that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1 and 2), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

I. INTRODUCTION

5. The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts (LCC) in the United Nations Interim Administration Mission in Kosovo (UNMIK) in October 2007.
6. According to Section 2.5.1.(1) of the Procurement Manual (PM), the LCC shall review and provide advice to the Chief of Mission Support (CMS), or other officials duly authorized under Financial Rule 105.13, on whether proposed procurement actions, including contracts that generate income to the Organization, are in accordance with the Financial Regulations and Rules (FRRs), Secretary-General's Bulletins (SGBs), Administrative Instructions (AIs) and other procurement policies. OIOS undertook this audit to assess the effectiveness of the LCC in discharging its role as part of the procurement internal control system.
7. Comments made by UNMIK are shown in *italics*.

II. AUDIT OBJECTIVES

8. The main objectives of the audit were to assess the effectiveness of the LCC as an internal control. Specifically, the audit assessed whether:

- (a) The composition of the LCC allows it to function independently and competently;
- (b) The LCC is receiving relevant documents needed to properly review procurement actions; and
- (c) The LCC is effectively identifying procurement issues that violate the relevant FRRs, SGBs, AIs and other procurement policies on the fairness, integrity and transparency of proposed procurement actions.

III. AUDIT SCOPE AND METHODOLOGY

9. The audit covered procurement transactions processed in fiscal year 2006/2007, and included reviews of pertinent documentation, analytical tests and interviews with relevant Mission personnel. OIOS reviewed the minutes of the 12 LCC meetings held in fiscal year ending 30 June 2007 and examined 12 of the non-core procurement files of the 16 cases reviewed by the LCC. The number of non-core procurement cases during the year totaled 322.¹ The provisions of the PM issued August 2006 (Rev 003) were used as the criteria for this assignment. OIOS covered procurement cases related to core requirements in the audit of the execution of the delegation of authority to UNMIK to procure core requirements.

IV. OVERALL ASSESSMENT

10. OIOS found that the LCC was established in accordance with relevant policies and procedures. However, the nominated members, alternates and Secretary were not communicated to the appropriate individuals at UN Headquarters, as required by the PM. Additionally, the LCC members, alternates and Secretary were not fully compliant with the Secretary-General's Bulletin ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements. However, OIOS found case presentations submitted to the LCC were adequate to facilitate effective review and files maintained by the Secretary contained records of all the proceedings.

¹ Core requirements are essential goods and services which lend themselves to local procurement (e.g. fresh food, waste disposal services, potable water supply, etc.). Non-core requirements are all other goods and services.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Composition of the LCC

11. The Chief Procurement Officer and the LCC Secretary attend meetings as ex-officio members in accordance with Section 2.5.2. of the PM.

12. In accordance with 2.5.2.(3) of the PM, the names of members and alternate officers of the LCC should be promptly communicated to the Assistant-Secretary General of the Office of Central Support Services (OCSS) for information purposes. The composition of LCC members as at 17 April 2006 was appropriately communicated on 15 September 2007. The latest composition as from 30 May 2007 had not been communicated.

13. Section 2.5.2.(2) of the PM states that under no circumstances shall a supervisor and a subordinate serve together as members at the same LCC meeting. OIOS' review of the minutes of LCC meetings and found no instances where a supervisor and a subordinate served together.

Recommendation 1

(1) The UNMIK Administration should ensure that the names of the nominated members, as well as alternate members of the Local Committee on Contracts, are communicated to the Assistant-Secretary General of the Office of Central Support Services through the Assistant-Secretary General of the Department of Field Support and the Chief of the United Nations Procurement Division in accordance with the Procurement Manual.

14. *The UNMIK Administration accepted recommendation 1 and stated that in accordance with the Procurement Manual, it is routine procedure for the UNMIK Administration to communicate the names of the nominated members, as well as alternate members of the LCC to the Assistant-Secretary General of the Office of Central Support Services through the Assistant-Secretary General of the Department of Field Support and the Chief of the United Nations Procurement Division for information purposes. The composition of LCC as from May 2007 was unfortunately not communicated by the UNMIK Administration due to oversight. The current composition of the LCC has been communicated. In future, efforts will be made to ensure this is regularly communicated.* Recommendation 1 remains open pending the receipt of evidence that UNMIK Administration has communicated the composition of the LCC to the Assistant-Secretary General of the Office of Central Support Services through the Assistant-Secretary General of the Department of Field Support and the Chief of the United Nations Procurement Division for information purposes.

B. Financial disclosure

15. Secretary-General Bulletin ST/SGB/2006/6, Section 2.1 (d), requires all staff members whose direct access to confidential procurement or investment information warrants the filing of a financial disclosure statement to do so annually. Except for the

Chairperson, the financial disclosure statements were not completed and submitted by the members as required by the Secretary-General's Bulletin.

Recommendation 2

(2) The UNMIK Administration should ensure that the Secretary, all members and alternates of the Local Committee on Contracts comply with the Secretary-General's Bulletin ST/SGB/2006/6, regarding the submission of financial disclosure and declaration of interest statements.

16. *The UNMIK Administration did not accept recommendation 2 and stated that in accordance with the Secretary-General's Bulletin ST/SGB/2006/06, Section 2.2, the UNMIK administration submits annually to the Ethics office, a list of staff who meet the criteria for financial disclosure statements in line with the guidelines issued by the Ethics office. Once the list of staff has been submitted, the ethics office contacts the staff directly to submit their financial disclosure or declaration of interest statements and follow-up with the staff member until completion of the entire process. Due to confidentiality, Section 8 of the Secretary-General's Bulletin ST/SGB/2006/06, the UNMIK Administration at that stage is not involved and therefore unable to confirm if each applicable staff member has filed a financial disclosure or declaration of interest statement. The Ethics office is in a better position to confirm if the financial disclosure statements for all applicable staff members were completed by the time of the Audit.* OIOS wishes to reiterate this recommendation, to ensure that all concerned staff comply with the requirement to disclose financial interests with the ultimate goal of protecting the integrity of the procurement process. OIOS also acknowledges the confidentiality of the financial disclosure statements, but believes that the Mission can confirm with the United Nations Ethics Office whether the concerned Mission staff had filed the required declarations, without compromising the confidentiality of the filed statements. Recommendation 2 remains open pending the receipt of confirmation from the Mission that all LCC members and alternates have filed the required financial disclosure statements with the United Nations Ethics Office.

C. LCC operations

17. The LCC held 12 meetings during fiscal year 2006/07. LCC meetings are scheduled on an "as needed" basis in line with the needs of the procurement process. The value of procurement cases during the 2006/2007 fiscal year totaled \$20 million of which \$14 million was submitted for HCC approval. Procurement cases totaling \$6 million were reviewed locally by the LCC.

18. Procurement Officers must ensure that case submissions are in sufficient detail to enable the LCC to obtain an accurate and complete description of procurement actions taken and the basis of the proposed award, as indicated in Section 12.1.3.(4) of the PM. OIOS found the case presentations submitted to LCC members to be adequate to facilitate an effective review. The submissions contained all pertinent information that allowed the LCC members to arrive at an informed decision on the proposed procurement action. OIOS found that the Procurement Section responded appropriately to the LCC's queries. Also, the Procurement Section followed the procurement procedures as per the relevant UN regulations and rules, policies and procedures, and guidelines as reflected in

the submissions to the LCC. All procurement cases conformed to the LCC financial threshold delegated to the Mission of \$200,000.

19. Additionally, the files maintained by the Secretary of the LCC contain records of all the proceedings, complete with signed copies of minutes of the meetings that were approved by the Chief of Mission Support (CMS). These minutes were distributed in a timely manner to all LCC members and other parties as per the PM. Deliberations of the LCC members were properly recorded in accordance with Section 2.5.4 of the PM. The minutes include a standard confirmation by the LCC Chairman, at the onset of the meeting, that the attending members do not have a conflict of interest in reviewing the cases on the agenda and notes the attendance of a quorum.

D. *Ex-post facto* cases

20. According to Section 12.1.8.(2) of the PM, *ex post facto* cases represent procurement actions in which deliverables have commenced without obtaining the advice of the LCC due to exigency. OIOS' review of such cases during the current audit identified no major deficiencies.

VI. ACKNOWLEDGEMENT

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

cc: Mr. Lucien Chaker, OIC, Division of Mission Support, UNMIK
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
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STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/ O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Receipt of evidence that UNMIK Administration has communicated the composition of the LCC to the Assistant-Secretary General of the Office of Central Support Services through the Assistant-Secretary General of the Department of Field Support and the Chief of the United Nations Procurement Division for information purposes.	30 April 2008
2	O	Receipt of confirmation from the Mission that all LCC members and alternates have filed the required financial disclosure statements with the United Nations Ethics Office.	Not provided

1. C = closed, O = open

2. Date provided by UNMIK in response to recommendations.