



INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. William Lacy Swing
A: Special Representative of the Secretary-General
MONUC

DATE: 17 March 2005

REFERENCE: AUD-7-5:7 (2) 15/05

THROUGH:

S/C DE:

FROM: Patricia Azarias, Director,
DE: Internal Audit Division-1, OIOS

A handwritten signature in cursive script that reads "P. Azarias".

SUBJECT:

OBJET: **OIOS Audit No. AP2004/620/09: Administration of the MONUC Rations Contract**

1. I am pleased to present herewith our final report on the subject audit, which was conducted during April to June 2004.
2. We note from your response to the draft report that MONUC has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed Recommendations 1, 4 and 5 in the OIOS recommendations database. In order for us to close out the remaining recommendations (2, 3 and 6), we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status.
3. IAD is assessing the overall quality of its audit process and kindly request that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

4. The United Nations provides rations to troops deployed in support of MONUC in accordance with the Memorandum of Understanding (MOU) signed with troop contributing countries. OIOS' previous audit report (AP2003/620/02) had made 14 recommendations to improve contract management and enhance contingents' satisfaction with the quality of rations supplied. The previous audit pertained to contract no. PD/C0249/00 with ES-KO International and covered the period from March 2001 to November 2003. As of 8 October 2004 MONUC Administration had implemented twelve recommendations, and two were pending implementation.

5. The United Nations entered into a new contract (PD/C0300/03) with ES-KO International for a three-year period from 13 March 2004 to 12 March 2007 for a not-to-exceed amount of \$63,573,711. The two contracts were comparable except for the following:

- (i) The new contract was based on a troop strength assumption of 10,040 with a percentage change in prices in the event of a change in troop strength;
- (ii) The Ceiling Man-day Rate (CMR) was fixed based on the warehouse locations at Entebbe, Kinshasa and Kigoma;
- (iii) Supplementary food items specifically requested by certain contingents were added to the UN Ration Scale; and
- (iv) A Seasonality Chart was included, detailing availability of fresh food at different locations as a reference to facilitate the requisitioning process.

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

II. AUDIT OBJECTIVES

7. The primary objectives of the audit were to:

- (i) assess the guidance and support provided by MONUC Contracts Management and Chief Rations to Contingent Food Officers and other mission personnel related to the provision of rations to minimize wastage of resources.
- (ii) assess the adequacy of internal controls for managing and administering rations orders, delivery and payment process;
- (iii) evaluate the contractor's performance based on agreed performance indicators; and
- (iv) follow-up on OIOS' previous recommendations on the same subject (AP2003/620/02).

III. AUDIT SCOPE AND METHODOLOGY

8. The audit was conducted during May-June 2004 and focused on the rations supplied during the period January to June 2004, including a review of final invoices relating to the previous contract. Due to political disturbances in the country between 2 and 7 June 2004, audit visits to contingent sites and the warehouse at Entebbe had to be cancelled. Furthermore, all hard copy records as well as electronic data maintained by the Rations Section and Supply Section were destroyed during looting of the IVECO facility. It was, therefore, decided to

reduce the scope of this audit and limit it to information gathered from Kinshasa and from Contingent Food Officers' responses to the questionnaires sent to them.

IV. OVERALL ASSESSMENT

9. OIOS concluded that although the delivery of food rations to contingents was generally satisfactory, yet support to contingent food officers needs to be strengthened. MONUC needs to review the monthly stock reports of rations held in the contractor's warehouses to ensure that the minimum reserve stock is always maintained. The Mission also needs to take proactive steps to avail it of prompt payment discounts.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Support to Contingent Food Officers

10. The Mission supplies food rations to troops from 18 countries stationed at 11 geographical locations in the Democratic Republic of the Congo (DRC). Rations are distributed from the contractor's warehouses in Entebbe, Kigoma and Kinshasa. The warehouse in Entebbe, which opened in January 2004, is responsible for supplying rations to 5,858 troops in Bunia, Kisangani and Mahagi; the warehouse in Kigoma is responsible for 2,728 troops in Bukavu, Uvira, Goma, Kalemie, Kindu and Lubero, and the warehouse in Kinshasa is responsible for 1,440 troops in Kinshasa, Kananga and Mbandaka.

11. There are thirty-one Contingent Food Officers (CFOs) responsible for requisitioning, receiving, issuing, storing and accounting of UN supplied food to their contingents. The CFOs are required to liaise on a regular basis with the Food Cell, Supply Section and appraise them by the quickest possible means of any problems that may arise.

12. OIOS sent out a questionnaire to 31 CFOs to determine whether they were fully aware of their responsibilities to generate food orders suited to contingents' national tastes, and up to the maximum dollar value allowed within each commodity group to ensure a balanced diet with minimum wastage of resources. Fifteen CFOs (or 48 per cent) responded. The survey revealed the following with regard to coordination between MONUC and CFOs:

(i) Although seven CFOs were in position for more than six months, only two had attended the Food Officers Workshop in October 2003. (Three other CFOs who did not respond to the questionnaire had also attended).

(ii) Five CFOs had not received any instructions or guidance from MONUC staff on how to properly fill in a food order.

13. Some of the concerns raised by CFOs showed their unfamiliarity with the provisions of the new rations contract. For instance, the Bunia Nepalese Contingent did not know that Basmati rice was included in the ration scale as per the Supplementary Food Items in Annex D-4 of the new contract. They also were not aware of the Seasonality Chart in the new contract for

fresh fruits etc. OIOS is of the view that the Mission needs to provide more effective guidance to CFOs in order to improve rations management.

Recommendations 1, 2 and 3

OIOS recommends that the MONUC Administration:

- (a) hold periodical meetings with Food Officers and the contractor to ensure that all Food Officers get an opportunity to clarify their doubts about the requisitioning process, voice their concerns and find solutions to their problems (AP2004/620/09/001).
- (b) prepare an induction package for new Food Officers and send it to the contingents prior to their arrival in the mission area so that they can familiarize themselves with the UN rations regulations (AP2004/620/09/002).
- (c) finalize the draft Standard Operating Procedures (SOP) for contingents, incorporating updated procedures for provisioning of rations (AP2004/620/09/003).

14. *MONUC accepted recommendation 1 and clarified that a Food Conference would be held in January 2005 during which all problems and concerns would be addressed. This conference has since taken place, and based on the action taken by the Mission, OIOS has closed recommendation 1. With regard to recommendation 2, MONUC commented that during the January 2005 Food Conference, a survey will be conducted to identify all additional problems on which the existing operational support manual and SOP do not provide adequate guidance. Recommendation 2 remains open pending receipt of documentation from the Mission on the survey results. MONUC accepted recommendation 3 and stated that revision of the SOP is being finalized. Recommendation 3 remains open pending receipt of the final version of the SOP.*

B. Reserve stock at ES-KO warehouses

15. OIOS recognizes the efforts by the Rations Unit and the contractor to ensure deliveries are made to the contingents even under volatile situations, and with the troops constantly in movement. However, given the prevailing unstable situation in the DRC and the possibility of expansion in the Mission's troop strength, MONUC should strengthen its rationing process to accommodate any fluctuations in requisitioning or deliveries due to unforeseen circumstances.

16. To ensure that ration deliveries are diverted in the event of changes in troop deployment, the G4 (Military Officer in charge of Logistics), through the Joint Logistics Operations Center (JLOC), is required to provide timely advice to the Supply Section whenever the Force Commander plans to deploy/re-deploy troops. Supply Section, in turn, liaises with the contractor to ensure that the rations reach the new locations. The contractor is required to have adequate reserve stocks in the warehouse to fulfill his contractual obligations.

17. OIOS' analysis of ES-KO's stock report for June 2004 (attached as Annex 1) revealed that while the overall "end of period" stock balance appeared to be more than adequate (with categories like "Meat and Alternatives" showing total stock reserve for 104 days and "Potatoes and Alternatives" showing 61 days), the actual stock reserve for individual items was not adequate. There was only one item under "Meat and Alternatives" that had a stock reserve for over 7 days and 2 items under "Potatoes and Alternatives" with a stock reserve of over 7 days. The CMR for the 73 items under "Meat and Alternatives" were added together to arrive at a total CMR of 104, but 64 items had a reserve of less than 3 days.

18. In OIOS' opinion, MONUC, along with the contractor, needs to review the "Monthly Stock Reports" of all three ES-KO warehouses taking into consideration contingents' responses to item 1.8 of the Department of Peacekeeping Operations (DPKO) questionnaire¹ and ensure that the warehouses are adequately stocked with at least 14 days' reserve within each commodity group for the total troop strength.

Recommendation 4

OIOS recommends that the MONUC Chief, Rations, review the monthly stock reports and ensure that rations warehouses are adequately stocked with reserve stock for at least 14 days for the entire troop strength (AP2004/620/09/004).

19. *MONUC accepted recommendation 4 and stated that the Mission will continue to ensure that the contractor holds an average of 14 days' reserve stock within each commodity group.* Based on the Mission's response, OIOS has closed recommendation 4.

C. Invoice processing

20. The new rations contract provides for a prompt payment discount of 0.15 per cent if the invoice is paid within 30 days of receipt. OIOS reviewed all invoices presented by the contractor during the month of April 2004. Four were from Kigoma and three from Kinshasa. Invoices from Kinshasa took from 27 to 37 days to process, while invoices from Kigoma took from 60 to 91 days. At present, the contractor presents the invoices to MONUC at the warehouse locations, i.e. at Kigoma, Entebbe and Kinshasa. The Contracts Management Unit (CMU) in Kinshasa receives them after they are reconciled with the delivery notes at the location. Four invoices from Kigoma and Kinshasa took 5 to 9 days to reach CMU. The invoices that took 73 and 91 days to process had no stamp of receipt by CMU, but OIOS deduced that they took approximately 32 and 57 days respectively. All the invoices reviewed showed that they were presented one month after the consumption period. In order to avail of the prompt payment discounts, which would be substantial in view of the proposed increase in the Mission's troop strength, CMU needs to be proactive and consider having an invoice processing officer to visit the locations to expedite the processing of invoices immediately on receipt.

¹ DPKO's Supply Section sent the questionnaire to contingents in September 2003. Item 1.8 asked contingents to list the items that were needed to be held in reserve stock.

Recommendation 5

OIOS recommends that the MONUC Contracts Management Unit consider deputing an invoice processing officer to Entebbe and Kigoma for expediting the invoice processing process to enable MONUC to avail itself of prompt payment discounts (AP2004/620/09/005).

21. *MONUC accepted recommendation 5 and stated that appropriate measures have been taken to implement payment of invoices within 30 days to take advantage of prompt payment discount.* Based on the Mission's response, OIOS has closed Recommendation 5.

D. Performance monitoring/evaluation

22. The Statement of Work for the new contract lays out the "Performance Assessment Criteria and Method" for evaluating the contractor's performance. The components to be measured are (a) timely delivery; (b) conformity with orders; (c) quality of products; and (d) submission of accurate documentation. The new contract was effective March 2004 and approximately \$5.8 million was paid to ES-KO International in the months of May and June. CMU indicated that they were in the process of finalizing the performance assessment for ES-KO International, which was delayed due to the destruction of records and computer equipment in the Supply Section during the recent riots.

23. In his memo of 9 February 2004 on "Guidelines for Contract Management and Contract Administration", the MONUC Director of Administration emphasized the need for a real-time process to gauge and register the contractor's attainments against established performance indicators. OIOS reiterates the need for this process to be developed in the form of a database so that at the end of each consumption period, an assessment can be made by all parties concerned and CMU can then extract the information needed to produce a quarterly or bi-annual performance report on the contractor.

Recommendation 6

OIOS recommends that the MONUC Contracts Management Unit develop a real-time process to input the performance of the contractor in a database to facilitate the analysis and reporting of the contractor's performance in a timely manner (AP2004/620/09/006).

24. *MONUC accepted recommendation 6 and stated that the Contract Management Unit is maintaining a real-time comprehensive system of performance measurement that utilizes a 100% sampling method to analyze and report on the contractor's performance.* Recommendation 6 remains open pending receipt of documentation from MONUC showing the reports generated from the performance measurement database.

E. Status of previous OIOS recommendations

25. In June 2004, the MONUC Administration provided a status of implementation of OIOS' previous recommendations. Based on the actions taken by MONUC, OIOS was able to close all the previous recommendations except two recommendations which are still outstanding. Details are shown in Annex 2.

VI. ACKNOWLEDGEMENT

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

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Ms. Hazel Scott, Director, ASD/DPKO
Mr. Marcel Savard, Director of Administration, MONUC
UN Board of Auditors
Programme Officer, OIOS
Mr. Muhammad Akram Khan, Chief Resident Auditor, MONUC

ES-KO Stock Report for June 2004

	Categories	Current KG in working stock	Expected Man days at end of Period (Total of items)	No. of items in category	No. of items in stock for more than 7 days
1	TOTAL MEAT & ALTERNATIVES	23,185.58	103.78	73	1
2	TOTAL EGGS	453.60	-479.49	1	NA
3	TOTAL BREAD & ALTERNATIVES	11,796.62	43.65	39	1 :includes fresh
4	TOTAL FATS,OIL & ALTERNATIVES	4,394.57	63.19	17	2
5	TOTAL MILK ,CHEESE & ALTERNATIVES	42,238.42	87.22	27	3
6	TOTAL COCOA & ALTERNATIVES	1,114.38	58.34	2	2
7	TOTAL COFFEE & ALTERNATIVES	396.02	55.10	7	5
8	TOTAL CONDIMENTS	2,226.03	99.73	20	3
9	TOTAL FRUITS	13,397.90	70.09	47	4: includes fresh
10	TOTAL JAM AND ALTERNATIVES	3,474.78	75.31	10	6
11	TOTAL SUGAR	8,172.90	80.06	4	2
12	TOTAL JUICE AND ALTERNATIVES	2,459.72	82.19	21	3
13	TOTAL VEGETABLES -FRESH- CANNED -FROZEN	13,196.65	70.01	65	3: includes fresh
14	TOTAL ONIONS	0.00	-8.29	4	0
15	TOTAL VEGETABLES DRIED	1,182.20	49.22	9	3
16	TOTAL DESERT MIX	2,491.56	62.68	14	4
17	TOTAL POTATOES AND ALTERNATIVES	13,742.22	60.75	16	2
18	TOTAL SOUP	139.44	50.67	10	2
19	TOTAL SPICES	2,079.90	11,664.63	54	49

**Outstanding OIOS recommendations
AP2003/620/2 – Audit of Rations Contract**

Annex 2

Recommendation No.	OIOS Recommendation	Required evidence of implementation	Status of implementation	OIOS comments
AP2003/620/2/002	<p>The Chief, Rations should</p> <p>(i) Obtain monthly inventory reports from contingents clearly identifying excessive and unwanted food items; (ii) Identify ways to redistribute the excess food items to other contingents to avoid the need to destroy the unneeded rations; and</p> <p>(iii) Brief the contingents on how to go about ordering rations to prevent the delivery of excess or unwanted food items, and about the need to submit all food orders on a timely basis.</p>	<p>Receipt of inventory reports reflecting normal stock holdings for items listed in table 1, and receipt of confirmation that problems within the South African contingent contributing to excessive supply of rations have been sorted out.</p>	<p>This issue is being addressed with the implementation of the ISS Mission Support Centre where the subject information will be collected daily and transmitted to Supply Section for appropriate action.</p>	<p>OIOS awaits copies of monthly inventory reports and evidence that the excess supplies of food with the South African contingent was re-distributed.</p>
AP2003/620/2/004	<p>The Chief, Rations should revise the requisition schedule for MONUC contingents to allow for requisitions to be submitted to the Contractor 90 days prior</p>	<p>Receipt of revised requisition schedule and the computation of savings achieved for validation by OIOS</p>	<p>Due to continued MONUC troop movements, placing food orders 90 days in advance still cannot be achieved.</p>	<p>Administration's response that due to continued troop movements, placing food orders 90 days in advance cannot be achieved would not be valid for all contingents. Constant troop movements occur only in certain regions and affect</p>

	<p>to the required delivery date in order to take advantage of the 0.25 per cent discount.</p>			<p>only some of the troops. Other troops in Kinshasa etc. have been more permanent. Furthermore, adjustments to requisitions sent to the contractor can be made 7 days prior to delivery. MONUC should therefore endeavour to take advantage of the discount where troops are more stationary and adjust the requisition if the need arises.</p>
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