

Office of Internal Oversight Services Internal Audit Division I



Comprehensive Management Review of the Department of Peacekeeping Operations - Procurement

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Comprehensive Management Review of the Department of Peacekeeping Operations - Procurement (AP2005/600/20)

Executive Summary

The General Assembly requested OIOS to conduct a management audit of DPKO focusing on the identification of risks and exposures to duplication, fraud and abuse of authority. Attributes for regular procurement are set forth in the United Nations Financial Rules and Regulations (FRR), and include the following: contract awards represent best value for money; procurement process is fair and transparent; awards are based on effective competition; and decisions for awards are made in the interest of the United Nations.

The primary objective of the audit was to determine whether there have been significant contraventions of the FRR, and if those resulted from insufficient control design or from lack of implementation of existing controls. OIOS also assessed risks and exposures, and accountability for the lack of controls or the lack of implementation of existing controls in the procurement process.

OIOS specifically reviewed various aspects of 27 contracts totalling about \$1 billion, or 31 percent of the cumulative value of all commercial contracts with value exceeding \$5 million for the period 2000-2005. These contracts covered main commodities procured by peacekeeping missions. In addition, OIOS examined DPKO's practices for the procurement of letters-of-assist (LOAs) with governments and reviewed five such contracts with a cumulative value of about \$21 million.

Main results

It is acknowledged that DPKO has recognized deficiencies as a result of the rapid expansion of peacekeeping operations, and has taken the first steps to address them. However, it is OIOS' conclusion that there is substantial evidence of abuse in procurement for peacekeeping operations leading to financial losses and significant inaccuracies in planning assumptions. It is also of great concern that UN management has not enforced accountability for non-adherence to internal control procedures, FRR and procurement procedures. The main findings are as follows:

The design and maintenance of the controls needed to ensure that the UN procurement complied with the FRR were insufficient. Important controls were lacking while existing ones were often bypassed. OIOS found evidence of the following:

- Lack of proper care and attention by senior officials responsible for the design of procurement related internal controls and for overseeing peacekeeping procurement operations. OIOS is extremely concerned that management has not established and implemented a formal procurement risk management strategy.

- Overrides of major controls designed to ensure that the procurement is competitive and economical. There were instances of (a) splitting of requisitions, (b) direct procurement by requisitioning officers, (c) inadequate or irregular registration of vendors, and (d) insufficient justification of awards to vendors.

OIOS was concerned that in several instances the peacekeeping budget was over-estimated or inflated, which in some cases led to the build-up of a reserve of supplies above the UN peacekeeping operations' actual needs. For example:

- Two contracts for MISSION A (for the period 2005-2006) and MISSION B (2004-2006) respectively were in excess of the requirements by at least \$34 million and \$31 million, respectively.
- MISSION C was not associated with DPKO's decision to raise a \$10.3 million requisition in 2000.
- MISSION D in 2002 received commodities valued at \$2.4 million that are still not being used in 2006.
- MISSION E had no requirement for services under letter-of-assist in the amount of \$10.4 million.

In many instances, UN peacekeeping operations depended on a limited number of vendors, which made the missions vulnerable to over-charge.

Lack of proper care and attention by officials responsible to design and implement internal controls led to resource mismanagement and possibly fraudulent activities. OIOS considers it urgent that UN senior management take steps to strengthen peacekeeping procurement procedures.

The risk of loss can be mitigated to a large extent provided remedial actions to streamline peacekeeping operations' procurement budgets and to strengthen the UN internal control structure are taken without delay.

DPKO management informed OIOS that it has sought to raise standards of integrity across the board through several initiatives including the request for and follow up to a discipline audit with the assistance of OIOS, the forming of conduct and discipline teams at HQ and in the field, and through enhanced cooperation with OIOS. Indeed, some cases discussed in the audit were originally referred to OIOS by DPKO managers. DPKO has also undertaken to put its senior managers on notice of the standards of integrity and performance expected of them and begun training programmes to reinforce these standards.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1-3
II. AUDIT OBJECTIVES	4
III. AUDIT SCOPE AND METHODOLOGY	5
IV. OVERALL ASSESSMENT	8
V. AUDIT FINDINGS AND RECOMMENDATIONS	9-128
Part I – Internal control environment	
A. Risk assessment	9-14
B. Resources provided for procurement operations	15-22
C. UN Procurement Service	23-31
D. Office of Legal Affairs	32-38
E. Headquarters Committee on Contracts	39-45
F. Disclosure of potential conflicts of interests	46-48
G. Procurement needs assessment	49-82
H. Financial management of contracts	83-91
I. Vendor profile	92-94
Part II – Procurement cases	
J. Provision of services for MISSION E under letter-of-assist	95-111
K. Provision of a commodity for MISSION A	112-117
L. Provision of services for MISSION A	118-121
M. Awards for purchase of equipment and services	122-129
VI. ACKNOWLEDGEMENT	130

I. INTRODUCTION

1. OIOS conducted a management audit of the Department of Peacekeeping Operations (DPKO or the Department) – procurement operations and the Department of Management (DM) in September-December 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations Organizations.
2. The General Assembly, in its resolution A/RES/54/296 (Section IV, paragraph 4), requested the Secretary-General "...as a matter of priority, to entrust the Office of Internal Oversight Services (OIOS) with a comprehensive management audit to review the practices of the Department of Peacekeeping Operations and to identify risks and exposures to duplication, fraud and abuse of authority in the following operational areas: finance, including budget preparation; procurement; human resources, including recruitment and training; and information technology, and to report thereon to the General Assembly at its sixtieth session. For 2000-2004, the Procurement Service (PS) estimated the aggregated procurement value for peacekeeping operations at \$3.7 billion, or an average of about \$740 million per year.
3. The comments of the Secretary-General, DPKO, DM and the Office of Legal Affairs (OLA) are indicated by the use of italics.

II. AUDIT OBJECTIVES

4. The General Assembly requested OIOS to conduct a management audit of DPKO and DM focusing on the identification of risks and exposures to duplication, fraud and abuse of authority. Attributes for regular procurement are set forth in the United Nations Financial Rules and Regulations (FRR), and include the following: contract awards represent best value for money; procurement process is fair, integer and transparent; awards are based on effective competition; and decisions for awards are made in the interest of the United Nations. The primary objective of the audit was to determine whether there have been significant contraventions of the FRR, and if those resulted from insufficient control design or from lack of implementation of existing controls. OIOS assessed risks and exposures subsequent to, and accountability for, the lack of controls. When sufficient controls existed but were breached, OIOS ascertained whether the United Nations exercised due diligence in establishing and implementing accountability for the contraventions.

III. AUDIT SCOPE AND METHODOLOGY

5. In conducting the review, OIOS re-examined a number of critical recommendations pertaining to its past audits of DM, DPKO, and the Missions, in order to assess whether management had properly addressed accountability for recurrent and/or serious control deficiencies.

6. The audit covered the various functions related to procurement, including needs assessment, requisitioning, purchasing, contract and asset management and vendor payment functions. Staffing at headquarters and field missions was analyzed in relation to the discharge of procurement related functions and to identify potential conflicts of interests. Although two missions were visited (MISSION D and MISSION A), most of the fieldwork was carried out at headquarters since DPKO assumes requirements planning, requisitioning, vendor proposals' technical evaluation, and some contract and asset management responsibilities for more than 60 percent of the aggregated peacekeeping missions' procurement. The Procurement Service under OCSS/DM assumes purchasing (i.e. vendor registration and identification, tendering, financial evaluation and presentation to the Headquarters Committee on Contracts) for DPKO-initiated procurement, and the Accounts Division under the Office of Programme Planning, Budget and Accounts (OPPBA)/DM processes about 60 percent of vendor payments for peacekeeping operations.

7. The functioning of the Headquarters Committee on Contracts (HCC) was also included in the assessment, since the HCC reviews all proposed awards exceeding \$200,000. The Office of Legal Affairs' input was also assessed in relation to the mitigation of risks of contractual disputes. OIOS reviewed various aspects of 27 contracts totaling about \$1 billion, or 31 percent of the cumulative value of all commercial contracts with value exceeding \$5 million. Contracts reviewed covered main commodities procured by peacekeeping missions. In addition, OIOS examined DPKO's practices for the procurement of letters-of-assist (LOAs) with governments and reviewed five such contracts with a cumulative value of about \$21 million. (See below for scope of contract review.)

Table 1: Scope of contract review

Commodity	Number of contracts reviewed	Aggregated NTE amount of contracts reviewed (\$)
Air transportation	4	41,276,230
Food rations	5	482,943,946
Vehicles and spare parts	7	192,107,731
IT & Communications	6	99,481,522
Fuel	2	132,121,149
Engineering	3	91,932,991
Total commercial contracts	27	1,039,863,569
Long-term air transport	5	20,783,100
Total letter of assist	5	20,783,100
Grand total	32	1,060,646,669

IV. OVERALL ASSESSMENT

8. The design and maintenance of the controls needed to ensure that the UN procurement complied with the FRR were insufficient. Important controls were lacking while existing ones were often bypassed. OIOS noted the systematic erosion over many

years of a fair and competitive source for the UN procurement. OIOS was concerned that it has found several instances where the peacekeeping budget was over-stated or inflated, as this would suggest the build-up of a reserve above the UN peacekeeping operations' actual needs. The UN peacekeeping operations were depending on a limited number of vendors and were vulnerable to over-charge. A lack of enforcement of accountability and a reluctance to investigate mismanagement of resources, fraud and abuse of delegated authority has increased the risk of corrupt practices. The control environment for procurement needs immediate attention from senior management, with the view to strengthening all procurement related functions. To avoid the recurrence of lapses, responsibility for mismanagement of UN resources should be addressed urgently in a timely and systematic fashion.

V. AUDIT FINDINGS AND RECOMMENDATIONS

Part I – Internal control environment

A. Risk assessment

9. Table 2 below analyses the risks and impact of major control overrides (i.e. when controls are intentionally disregarded) and deficiencies (i.e. when controls are not properly designed) found in the course of the audit.

Table 2: Impact of control overrides and deficiencies

Risk/ Control area	Observed conditions ¹	Impact on Organization		Likelihood of reoccurrence
		Rating	Actual implication	
Overall risk management	Not formalized by DPKO and DM senior management Not effective Losses and significant financial risks	Severe ²	Opportunities to engage in irregularities Loss of overall performance Loss of reputation	Almost certain under current conditions
Staffing	Existing controls not implemented Overrides Indicators of abuse of authority	Severe	Opportunities to engage in irregularities	Almost certain under current conditions
Vendor qualifications	Weak existing controls Overrides Strong fraud indicators Possible losses from vendor inadequate performance (not quantified)	Severe	Threats to/ loss of operational performance Possible collusions or formation of monopolies Financial losses	Almost certain under current conditions

¹ Amounts pertaining to losses and financial risks are strictly based on the audit sample

² Description of 'severe' rating:

- Sustained serious loss in operations and reputation
- Events and problems will require legislative bodies and senior management attention
- Substantial loss of multiple functional areas
- Substantial public relations issues

Disclosure of conflict of interest situations	Some controls according to ST/SGB/2005/19 not yet implemented Existing conflicts not detected	Severe	Possible collusions with vendors Loss of reputation	Almost certain under current conditions
Processing of requisitions by PS	Existing supervisory and basic controls not implemented Overrides Strong fraud indicators found in procurement actions totaling \$75.7 million	Severe	Possible collusions with vendors Restriction of competition Loss of reputation Financial losses	Almost certain under current conditions
Review/approval of awards by HCC and management	Ineffective as a control mechanism Management's reluctance to strengthen HCC Overrides through ex post facto and misleading presentations	Severe	Possible collusions with vendors Restriction of competition Loss of reputation Financial losses	Almost certain under current conditions
Management of contractual disputes	Controls not explicit Overrides Fraud indicators Possible losses totaling \$7.3 million	Severe	Possible collusions with vendors Financial losses	Almost certain under current conditions
Definition of requirements	Controls not explicit Overrides Strong fraud indicators Financial risks related to possible over-projections of \$110 million	Severe	Over-projections and build up of reserves over actual needs Opportunities to engage in irregularities	Almost certain under current conditions
Inventory management	Weak existing controls Overrides Losses estimated at \$31 million	Severe	Over-projections and build up of reserves over actual needs Opportunities to engage in irregularities Increased risks of theft and loss of assets	Almost certain under current conditions
Financial management	Existing controls not implemented Fraud indicators Financial risks related to insufficient controls over payments and mismanagement of performance bonds totaling \$41 million	Severe	Opportunities to engage in irregularities Significant exposure	Almost certain under current conditions

10. OIOS stresses the importance of the UN Charter, which explicitly sets out the standards expected of international civil servants. Article 101, paragraph 3 states in part that: "The paramount consideration in the employment of the staff and in the determination of the conditions of service shall be the necessity of securing the highest

standards of efficiency, competence and integrity". It is clear from the findings in this report that there have been serious lapses in adhering to these standards.

11. Furthermore, it is OIOS' view that there is substantial evidence that senior management in DPKO and DM have not taken reasonable care and diligence in discharging their duties and ensuring that adequate internal controls and procedures are in place to ensure safeguard of the assets of the Organization. Moreover, there has been inadequate emphasis to establish a high level of ethical behavior in their departments. Despite numerous recommendations by OIOS in past audit reports, management has failed to establish accountability where irregularities occurred. This has led to a culture of impunity.

Recommendations 1-2

The Secretary-General should remind UN staff of their obligations under the UN Charter, and take action to ensure that staff act under "the highest standard of efficiency, competence and integrity" (AP2005/600/20/01).

The Secretary-General should take action to hold senior management in DPKO and DM accountable for lapses in internal controls and failure to establish a high level of ethical integrity, which has resulted in losses and significant financial risks (AP2005/600/20/02).

12. *Concerning recommendation 1, the Chef de Cabinet on behalf of the Secretary-General responded that the programme of reforms introduced by the Secretary-General in 2005 include five main categories: ensuring ethical conduct, strengthening oversight and accountability, updating the Organization, improving senior management performance, and increasing transparency. In 2005, the Secretary-General launched an effort to improve the breadth and quality of Ethics training, including an awareness-raising initiative of the Standards of Conduct for International Civil Servants that were agreed to by the General Assembly a few years ago. A user-friendly, on-line "ethics test" was posted on i-Seek last fall for completion by UN staff. OHRM is now finalizing a customized brochure for broad dissemination to the staff which will outline the basic elements of the Standards in plain English. Ethics-related modules have been incorporated into a number of training programmes – included those targeted at senior managers. A separate on-line module has been issued just a few weeks ago which aims at sensitizing staff to the issue of sexual harassment and preventing any such instances in the UN workplace. Finally, DM jointly with the newly established Ethics Office approved by the General Assembly in December 2005 will be organizing a 'day of Ethics' training and awareness in May 2006. OIOS is satisfied with this response and has closed recommendation 1.*

13. *Concerning recommendation 2, the Chef de Cabinet on behalf of the Secretary-General responded that as part of the reform programme, the Management Performance*

Board created in 2005 under the Chair of the Secretary-General, in reviewing the performance of senior management in DM and DPKO, would take into account the OIOS audit report as one of the inputs for their assessment. Further, to ensure that audit recommendations are fully addressed, an Oversight Committee has also been established. OIOS notes the Secretary-General's concurrence with this recommendation, which will remain open in the OIOS recommendations database for the purpose of monitoring its implementation.

14. *As an overall comment, DPKO agreed that the report highlights shortcomings in accountability. DPKO stated that it supports the need to improve awareness of fiduciary responsibilities by its managers and reaffirms that all managers should be held accountable for their decisions. In this respect, DPKO has already commenced several initiatives designed to better equip its senior administrators for their posts and provide a sound basis for designation of staff performing significant managerial functions. DPKO thinks it important to note, however, that in making assessments of the adequacy of managers' actions, some account must be taken of the environment in which decisions are taken.*

B. Resources provided for procurement operations

Profile of staff responsible for procurement related functions at missions

15. In order to establish a profile of personnel responsible for procurement, OIOS distributed questionnaires to relevant personnel based at Headquarters and in field missions. OIOS noted that staff members whose permanent duty station was Headquarters had in the past frequently occupied senior administrative posts in missions. OIOS also noted that the matching of academic backgrounds and required qualification standards could not be made because the DPKO Personnel Management Support Services (PMSS) did not maintain complete records, such as staff member curriculum vitae and experience before and with the UN. An examination of the personnel folders in the custody of PMSS also revealed that the clearance process for procurement and finance officers, supposedly done by PS and OPPBA respectively prior to staff selection, was not documented. Furthermore, OIOS found that the selection of Headquarters staff members, for mission posts with important fiduciary responsibilities, was not competitive. These practices indicated insufficient discharge by PMSS of its functions, and suggested abuse of authority in staff selection. (This is further discussed in the OIOS consolidated report, under Human resources, including recruitment and training.)

16. For example, OIOS found that a staff member initially at the FS-5 level was from October 2004 on short-term temporary duty assignment to manage a \$201 million contract in a mission. The staff member was competitively selected for the related post only in May 2005. He encumbered this post up to December 2005 when he abruptly resigned without prior notification. According to a US Congress' investigative report on the Oil-for-Food programme, this staff member was involved in leaking confidential information to a UN supplier. In OIOS' view, this case illustrates that there is significant exposure to the UN when management does not give proper care to ensuring that staff

deployed to missions, especially at the mission early stage, are qualified and capable of upholding the highest standards of integrity.

17. MISSION F ranks second among peacekeeping missions in terms of planned volume of procurement, with \$129 million for 2005-2006. An OIOS audit of MISSION F carried out in 2004³ showed that the procurement staff was generally unaware of basic procurement concepts. For instance, only 33 percent of staff was aware that requisitioning officers cannot recommend vendors; not one of them was aware that the Procurement Section should participate in the procurement and spending plans drawn by the various requisitioning units; and only 25 percent knew the required minimum number of invitees for a bid. Besides these results raising additional concerns about mission staff selection process, they demonstrated that personnel dispatched from Headquarters to the Missions were not always effective at disseminating knowledge of and upholding compliance with FRR in the Missions. In OIOS' view, selection and retention of staff to perform significant functions in the management of financial, human and physical resources should be on the basis of their sufficient knowledge and consistent application of the FRR.

18. The same audit of MISSION F also found a pattern of repeated violations of the FRR committed by senior officers. Purchases of several commodities (for \$1.1 million, \$389 thousand, \$277 thousand and \$280,000 respectively) were split into smaller value requisitions to bypass the reviews by the Local and Headquarters Committees on Contracts. A subsequent OIOS audit of engineering projects in MISSION F found that the practice of acquiring materials did not appear to be economical. This weakness was compounded by the fact that the accounting for materials issued to construction projects did not fully ensure that materials were actually delivered to project sites and applied to the intended purposes.

19. A 2005 audit of procurement at MISSION B⁴ found instances where purchases totaling about \$9 million were made directly by the units requisitioning the goods and services, without the knowledge of the Procurement Section. This was in breach of the delegation of authority for procurement, which is based on the principle of segregation of duties between the requisitioning and procurement functions. The Mission advised that it was unable to identify the international staff responsible for part of this procurement. Allegedly they had since left the mission. OIOS is also concerned by the inadequate personnel-tracking system in PMSS, without which there is no effective accountability system.

Recommendations 3-5

The Department of Peacekeeping Operations and the Department of Management should jointly review current appointments of chief/director of administration, and

³ OIOS audit of MISSION F procurement activities (AP2004/626/03)

⁴ OIOS audit of procurement activities at MISSION B (AP2004/683/02)

section chief with fiduciary responsibility, to ensure that these staff members meet the requisite qualifications and experience to carry out the functions assigned to them (AP2005/600/20/03).

The Department of Management, in conjunction with the Department of Peacekeeping Operations, should ensure that proper care and attention is given to the selection and employment of staff in missions for posts with significant fiduciary responsibilities, especially at mission start-up (AP2005/600/20/04).

The Department of Management and Department of Peacekeeping Operations should address accountability for splitting requisitions and for the direct procurement by officers at MISSION F and MISSION B respectively (AP2005/600/20/05).

20. *DPKO accepted recommendation 3, while requesting OIOS to note that efforts are already underway to comply with the expanded requirements of ST/SGB/2005/7 dated 13 April 2005 on designation of staff members performing significant functions in the management of financial, human and physical resources. OIOS will keep this recommendation open until it is satisfied that appropriate actions have been completed.*

21. OIOS has modified recommendation 4 in light of clarifications DPKO provided and is resubmitting it to DPKO for comments. Until such time, it will be open in OIOS' recommendations database.

22. *Concerning recommendation 5, with regard to MISSION F, DPKO requested that OIOS clarify the status and accuracy of the original audit with the Resident Auditor in MISSION F. OIOS corrected a factual error but did not modify its assessment regarding splitting of requisitions in MISSION F. In respect of MISSION B, DPKO stated that operational circumstances warranted expedient procurement and appropriate action was then taken to regularize the contracts. DPKO believed the interests of the Organization have been safeguarded, but nonetheless suggested that the circumstances leading to direct procurement at MISSION B be reviewed with an eye towards lessons learned and for any appropriate follow on action. OIOS is of the view that procurement, whether expedient or not, should be carried out by personnel given procurement authority in order to ensure discipline in the performance of operations and reduce the risk of uneconomical procurement. OIOS also points out that management has not implemented its earlier recommendation to address accountability for direct procurement in MISSION B. Recommendation 5 is therefore re-submitted for action by DPKO and remains open in OIOS' recommendations database.*

C. UN Procurement Service

23. Over the years, OIOS has pointed out significant weaknesses in the functioning of the Procurement Service (PS), especially in vendor registration and selection processes, and found instances where officials in PS unduly influenced these processes to favour vendors. However, OIOS' observations have not led to noticeable changes in the way the Procurement Service operates, with the result that procurement risks have not been adequately mitigated.

Staffing issues

24. Procurement statistics available on the PS website showed that for the years 2002 to 2004, the UN procured commodities totalled around \$3 billion. Of this total, \$2.5 billion or 82 percent represented peacekeeping missions' purchases. Only 44 percent of the latter was paid at the Missions while 56 percent was paid at UN headquarters. These statistics indicated that PS was employing a total of 36 professional and support staff to process 56 percent of the requirements for peacekeeping missions as compared to 275 mission staff for 44 percent of procurement activities. The disparity between these figures is even greater considering that payments made by Missions also included those for food rations and fuel for example, which are procured by PS. The complexity and number of procurement actions entrusted to PS pose significant challenges. To illustrate, in 2005 one P4 officer handled \$2 billion procurement in fuel and food contracts; two P3 officers handled around \$150 million in new and existing engineering contracts and five officers at the P4 and P3 levels were responsible for \$200 million in ICT contracts. In addition, a P4 with the Field Procurement Section of PS processed 200 local procurement cases for submission to the HCC.

Insufficient control over vendor qualifications

25. PS participates in the Global Marketplace, which is a central registration mechanism that enables prospective vendors to register with the UN system, rather than having to register with each UN organization separately. Vendors thus have the opportunity to introduce their goods and services to many UN organizations and regions simultaneously. Not all UN organizations participate in the Global Marketplace, while others, like PS, may require supplemental information such as articles of incorporation from a registrant to become a fully qualified vendor. As of December 2005, about 2,800 vendor applicants, who had applied through the Global Marketplace, have not submitted the necessary documents to enable PS to review their applications.

26. A major risk in doing business with vendors is the Organization's exposure from the issuance of purchase orders (and the subsequent payment of invoices) to unqualified vendors. During its 2003 audit of the Procurement Service's roster⁵, using statistical sampling and other methods, OIOS reviewed PS' records for 211 vendors listed in the roster as of 22 August 2003, assessed the registration and evaluation process for each vendor, and analyzed the purchases made. The audit sample of 211 vendors represented

⁵ Report of OIOS on the audit of the adequacy of the procurement vendor report (AH2003/513/4)

approximately 2.5 percent of the total vendors in the roster as of 22 August 2003, and their corresponding purchases totaling around \$945.5 million represented approximately 33 percent of all purchase orders issued by PS (approximately \$3 billion) as of the same date. A total of 32 exceptions to the normal registration procedures, representing about \$562 million worth of purchase orders or more than 50 percent of the sample cumulative value, were noted. Examples relevant to peacekeeping procurement are provided below:

- A vendor, which was issued purchase orders totalling about \$39 million, was entered twice in IMIS, under different ID numbers. On 9 April 1999, a director from the vendor's office wrote to a PS staff member discussing an agreement that its registered name be changed to that of its parent company as the latter facilitated the administration and oversight of its UN contracts. The second vendor ID was then created and the vendor listed as approved while the old number was transferred to the unapproved list of vendors in accordance with procedures. However, there was no record of any application being received nor background check being made of the parent company, especially because aside from the contact's name, the bank account and location, address, telephone and facsimile numbers for the latter company were different. OIOS then noted an email request from the contact person on 19 December 2001 that the name be changed again to the original without any explanation, which was acted upon by PS.
- Another vendor, which was awarded approximately \$36 million in contracts, was also entered twice in IMIS, under two names. There was no vendor file in PS, but OIOS found notes in the PS Reality database indicating that these two vendors could be the same because they have similar first names and are in the same city and state. The vendor seemed to have been awarded contracts while its registration was not completed.
- For this other vendor, which was issued purchase orders totalling about \$30 million, OIOS noted that some information was not entered in IMIS and found Reality notes made in May 2002 indicating that the vendor went into receivership. OIOS verified that no purchase order was issued in 2002; however, no documentary evidence existed as to when or why this vendor went into receivership. All documentation concerning vendors' financial status should have been retained because a vendor's approval is affected by its financial stability.
- There was no evidence that this other vendor submitted the application for registration. OIOS noted that its record was only entered in Reality procurement system in January 1998, almost two years after the same record was first entered in March 1996. Also, it appeared to have only been provisionally registered, and its status was blocked as of April 1998. However, OIOS noted that a contract amounting to approximately \$16.6 million was awarded in November 1997. This vendor should have submitted an application before the contract was considered by both PS and the HCC for award, to ensure that the registration procedures were strictly followed.

- The Reality notes dated 16 October 1998 showed that this other vendor's provisional registration had expired; however, since there was no indication of status changes since it was first entered in 1996, the expiration of its provisional registration status might have been earlier than 1998. Still, purchase orders totalling approximately \$13.2 million were issued up to as late as April 2003.

27. Although PS corrected some of the noted weaknesses (for example, PS adopted a new policy in October 2002 of not awarding contracts to a vendor that is provisionally registered unless exceptionally approved by the Chief of PS, and proceeded to block a number of vendors improperly registered), as of year 2005, the vendor roster was still not fully reliable as a tool to ensure that (a) only qualified vendors were allowed to participate to bids and (b) no undue restriction of competition existed. The registration case discussed in subsequent paragraphs illustrates that the PS vendor registration procedure is still vulnerable to manipulation by procurement officials in order to favour vendors.

28. This company was for the first time registered in the UN vendor roster in June 2001. It submitted its certificate of incorporation for the year 1998. Inquiries made by PS in 2002 revealed that the company's incorporation status in the United States was revoked for the years 2000, 2001 and for January-October 2002 because it had failed and/or refused to file reports. The company subsequently provided PS with documents showing that it restored its incorporation status as of 18 October 2002, but it could not provide acceptable justification for its failure to file the reports required for its incorporation.

29. According to the Procurement Manual, a prospective vendor who fails to submit either its audited financial statements or income tax returns should not be registered in the UN vendor roster. The company submitted un-audited financial statements by its own accountant, which was the basis upon which the PS vendor database officer approved the company's registration. OIOS found PS' checks of the company's qualifications to be insufficient, since PS did not request a copy of the income tax returns. *DM commented that the UN accepts a vendor's submission of financial statements certified by Certified Public Accountants if no legal obligations exist in the vendor's country of origin to have audited financial statements. To make the submission of financial statements a requirement for all vendors would be an expensive undertaking and may discourage vendors from applying for registration with the UN, especially those from developing countries.* OIOS did not recommend such a procedure but is of the view that the nature of the information submitted by this specific vendor and the way the registration process was handled by PS warranted more diligence than is the norm. A specific OIOS report (pls. see Footnote #13) dealt with irregularities found in connection with an award to this company and pointed to the possibility that the company's submission presented inaccuracies, and the registration and award processes were influenced by procurement officials.

Lack of an effective quality assurance system

30. OIOS' examination of the management of PS also showed that policy changes in the area of procurement, for example those relating to the vendor selection based on the best value for money principle, were not always effectively disseminated, possibly leading to the inconsistent awarding of contracts. The large volume of procurement coupled with resource constraints in PS meant that staff rotation could not be managed in order to both ensure competent and continuous performance of operations, and to maintain buyer familiarization with vendors within appropriate limits. The resource constraints allowed neither the constitution of teams to process complex requisitions, nor the implementation of a peer review system over the processing of major contracts. Also, supervision over buyers was minimal. Risks of bypassing necessary controls in order to meet deadlines were significant, and discretion left to individual buyers increased the risks of conflicts of interests and collusion with vendors. OIOS found that the management of a requirement estimated at over a \$1 billion was left to staff members at the P-5 level in PS and LSD, with little or no oversight by senior management. In OIOS' view, the working conditions of PS clearly illustrated DM's failure to manage procurement risks through adequacy of structure and human resources.

Recommendation 6

The Department of Management should ensure a significant reinforcement of the Procurement Service's resources to allow:

- (a) A sufficient number of qualified officers to carry out the Service's functions and corresponding training resources, which will also enable a managed reassignment of buyers within the Procurement Service as well as outside the Procurement Service;
- (b) Processing of significant procurement through teamwork rather than by individual buyers;
- (c) Peer review of all major bidding by a Section other than the Section processing it; and
- (d) Strengthening of the vendor registration process (AP2005/600/20/6).

31. *DM commented that PS is dependent on the approval of posts requested under the support account for peacekeeping operations. PS currently does not have sufficient resources to implement (a), (b) and (d). Concerning (c), PS believed that the current review hierarchy including the review by the Headquarters Committee on Contracts would sufficiently address the OIOS concern if additional staffing resources are made available. OIOS takes note of DM's comment concerning (c) but wishes to stress that a*

peer review procedure to ascertain that all required procurement steps were taken would strengthen quality control within PS. Recommendation 8 is therefore re-submitted for consideration by DM. OIOS considers that DM accepted recommendation (c) in principle. The recommendation will be kept open in OIOS' recommendation database for monitoring purposes.

D. Office of Legal Affairs

Lack of adherence to contract terms and conditions

32. OIOS did not review specific inputs of the Office of Legal Affairs (OLA) in procurement activities. However, in OIOS' view, both the weak internal controls and the high risks of irregular procurement discussed in this report greatly increased the risks of disputes with vendors. All UN contracts contain a standard clause providing that contract disputes, unless settled amicably, shall be referred by either party to arbitration in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law, as recommended in General Assembly resolution 31/98 of 15 December 1976. Historically, major UN contracts have been entered into with a limited number of vendors. In OIOS' view, the contracts with those vendors were frequent enough to have allowed full clarification over time of contract requirements, rights and obligations. Therefore, disputes arising from interpretation of contract terms should have been quasi-inexistent. However, OIOS found that such disputes and the potential for significant arbitration existed because contracts may not have been written in a way to unambiguously set forth the characteristics of goods and services purchased and the rights and obligations of the UN and the vendor.

33. *OLA commented that the Secretary-General, in his report to the General Assembly on procurement-related arbitration (A/54/458 dated 14 October 1999) which was based on a prior report by OIOS, pointed out that most contract disputes involve operational issues, rather than questions of contract interpretation of strictly legal issues. The report also states that a major factor leading to such disputes is inadequate contract administration, and that other factors include lack of experience on the part of programme managers and operational units responsible for handling major contracts, delays inherent in the Headquarters/field relationship and unclear contract terms and non-compliance with rules and procedures by mission staff. OLA was of the view that it cannot be concluded from the frequency of entering into contracts of certain types or with particular contractors that the commercial or operational terms in such contracts will not give rise to disputes.*

34. OIOS' audit of a commodity contract for MISSION E/ MISSION G⁶ found that the contract provisions are apparently not clear enough regarding whether the contractor or the UN should bear certain costs while, on the other hand, the contract clearly lists items and services to be provided by the contractor. The lack of clarity in the contract appeared to have resulted in the mission paying the contractor a total of \$7.3 million in excess of the contract value, based on the contractor's periodic invoices which included

⁶ OIOS review of supply of commodity for MISSION E / MISSION G (AP2005/682/06)

costs not specified in the contract. The Mission did not request the PS and OLA review of the contract in relation to those payments. Furthermore, there were no corresponding amendment of the initial contract to reflect the significant change in terms and no submission of the proposed amendment to the HCC for review.

35. OIOS is concerned that deviations from contract terms and conditions might have been settled at the DPKO and Mission levels without the knowledge of, and review by OLA when appropriate. This could be to the advantage of vendors (or UN staff members) willing to exploit loopholes in contracts. Claims settlements by contract managers that deviate from contract terms and conditions, without the advice of OLA as to any legal issues involved, such as questions of contract interpretation or the legal rights and obligations of the parties, increase the risks of undue costs being incurred by the UN and improper settlements by UN staff. The aforementioned case highlights the seriousness of control overrides in the handling of a conflict with vendor.

36. Because DPKO, DM and Missions all have procurement responsibilities, overlapping functions and conflicting decisions may exist⁷. OIOS found that the UN did not have a procedure to unify its position on a contract and therefore its strategy may not be effective in case of dispute with the vendor. OIOS identified potential for such disputes. *OLA agreed that it is within the purview of OLA to develop a common position of the Organization in the settlement of claims when there are differences among Secretariat units as to the legal rights and obligations of the parties under a contract.*

Recommendations 7-9

The Department of Management, the Office of Legal Affairs and the Department of Peacekeeping Operations should consult to review the adequacy of procedures within the Secretariat for handling disputes with vendors, including the respective roles of the Secretariat units concerned, and implement any necessary clarifications or changes (AP2005/600/20/07).

In respect of the contract for supply of commodity in MISSION E/ MISSION G, the Department of Management and the Department of Peacekeeping Operations should address accountability for paying the contractor a total of \$7.3 million in excess of the contract value based on the contractor's periodic invoices which included costs not specified in the contract, without the concurrence of the Procurement Service and in the absence of a contract amendment (AP2005/600/20/08).

The Department of Management and the Department of Peacekeeping Operations should consult to establish a

⁷ OIOS audit of MISSION F procurement activities (AP2004/626/03)

mechanism to coordinate operational actions by Secretariat units within their Departments in dealing with claims, and, in consultation with the Office of Legal Affairs, to ensure that the advice of the Office of Legal Affairs is sought with regard to any claims involving legal issues or questions of contract interpretation (AP2005/600/20/09).

37. OIOS has modified recommendations 7 and 9 as suggested by OLA and OIOS therefore assumes that OLA concurs with them. Recommendations 7 and 9 are submitted to DM and DPKO for comments, and in the meantime will remain open in OIOS' recommendations database.

38. OIOS has also modified recommendation 8 to reflect a concern expressed by OLA, and to address it also to DPKO as suggested by DM management. DM's response however did not specifically address the recommendation. *In response to recommendation 8, DPKO stated that it has no objection to DM examining this issue further, but believes strongly that the mission officers concerned should not in any way be held responsible for any basic flaw in the wording of the contract.* OIOS will keep recommendation 8 open until it is satisfied that DM and DPKO have taken appropriate action to address it.

E. Headquarters Committee on Contracts

Inadequate HCC review of contracts not addressed

39. In a previous review⁸, OIOS observed that the HCC did not develop sufficient tools to ensure that its recommendations for awards were based on a thorough and objective evaluation of cases, and added value to the procurement process. OIOS also questioned the sufficiency of the review time available for cases with high monetary value, and recommended that the threshold amount of procurement cases for HCC action should be increased from \$200,000 to \$500,000 or \$1,000,000. With an increase to \$1 million, OIOS estimated that the HCC's case workload would decrease by about 66 percent in number, but only 11 percent in value, thus allowing more efficient and effective case reviews. This recommendation was consistent with the following statement contained in the Report of the Secretary-General on the implementation of procurement reform in the United Nations Secretariat (A/C.5/50/13/Rev.1): "It is intended [...] that the Committee will review approximately the top 20 percent of contracts by value, with emphasis placed on the quality of the decision-making, rather than the quantity." OIOS found no progress on this issue.

40. The HCC workload and structure did still not permit proper case review, i.e. both ascertain compliance with procurement rules and procedures and consider business risks (e.g. monopolistic trends exhibited by vendors or risks of influence by UN officials or vendors over the procurement process). In 2004-05, non-regular presentations (i.e.

⁸ Report of OIOS on the review of the functioning of the HCC (AN2001/6212)

specially requested, late received and walks-in) totaled about \$821 million. The Committee had less than two days before the meetings to review most of these cases.

Misleading information by DM and DPKO to HCC

41. In order to further assess the conditions in which the HCC operates, OIOS examined the minutes of a special meeting held on 30 December 2004. This meeting was selected because it deliberated on awards with a cumulative value around half a billion dollar, among which figured a \$201 million proposed award for the provision of a commodity to the predecessor mission of MISSION A. There were 12 agenda items for this special meeting out of which 10 were related to peacekeeping procurement as follows:

Table 4: HCC/04/87 – proposed awards for peacekeeping missions

Recipient mission	Amount (\$)	Decision
MISSION A	3,117,200	Recommended for award
MISSION K	21,616,000	Recommended for award
MISSION J	1,723,387	Recommended for award
MISSION D	7,186,608	Decision deferred for faulty presentation
MISSION D	6,279,503	Decision deferred for faulty presentation
MISSION D	76,961,357	Decision deferred for faulty presentation
MISSION D	41,921,806	Decision deferred for faulty presentation
MISSION P	207,378	Recommended for award
MISSION C	673,320	Recommended for award
MISSION A	201,560,104	Recommended for award
Total	361,246,663	

It should be noted that the Committee’s full membership was not present at this meeting. The Chairperson was absent and replaced by the alternate member from OPPBA. Concerning the major agenda item, i.e. the proposed award of \$201 million for MISSION A, OIOS noted that the deliberations, according to the minutes, seemed to have been dominated by the PS representative. For example, to the Committee’s query whether any guarantees were requested from the parent company of the prospective vendor, PS responded that there was no need for such guarantee and did not further address the crucial business risk identified by the Committee. The HCC minutes report no further concern from the Committee on this matter.

42. While reviewing another contract for MISSION A (not-to-exceed amount of about \$86 million), OIOS also examined the minutes of the HCC meeting pertaining to that requirement. The minutes state that to a Committee’s query, “PS responded that, in the event that the vendor is unable to fulfill its contracted requirements, the performance bond in the amount of \$5 million will be enough for the UN to enter into a new contract

and at the same time, it is also a substantial amount of money for a company to lose, hence, [the bond] provides assurance to the UN that the vendor will fulfill its contractual obligations.” According to the minutes, PS also presented the option of seeking the support of another close mission that had a similar contract in place.

43. Concerning the assurance given by PS on the performance bond, the contract signed between the UN and the supplier included provision to that effect: the vendor was to submit within 10 days of signature of the contract, a bond in the amount of \$8.6 million (10 percent of the contract value). However, OIOS found that the vendor had not honoured its obligation as of December 2005. OIOS also queried with LSD whether the other back-up option was a reasonable one and was informed that it was an “unsustainable option apart from emergency use.” OIOS is aware that it is impossible for the HCC to assure that management properly addresses all its concerns, unless the HCC follows-up on all issues raised during the meetings. However, this case again proved that the presentations made by PS and DPKO were sometimes misleading, and that the HCC did not really add value to the procurement as a control mechanism.

44. The HCC and DM were unresponsive to OIOS’ recommendation to increase the review time allowed the HCC and to raise the \$200,000 threshold. OIOS views management’s unresponsiveness as another failure to manage procurement risks.

Recommendation 10

The Department of Management should restructure the Headquarters Committee on Contracts to allow competent review of the cases. OIOS’ previous recommendations to that effect should be implemented (AP2005/600/20/10).

45. DM did not address recommendation 10, which will remain open until comments are received.

F. Disclosure of potential conflicts of interests

46. For most of the period under review, there was no requirement for staff members to disclose conflicts of interest that could affect procurement in conformity with FRR. Staff members carrying out procurement related functions were not requested to inform DM whether they or close relatives were previously employed with a UN vendor or its affiliate, or whether they or close relatives were seeking employment with a UN vendor or its affiliate. However, the Secretary-General has since issued ST/SGB/2005/19 dated 25 November 2005 on financial disclosure and declaration of interest statements. OIOS is of the view that DM should proceed without delay on its implementation for all staff members of DM and DPKO with procurement-related responsibility. Furthermore, based on the cases discussed below, OIOS believes that conflict of interest risks should also be managed as part of the contracting process, by requesting prospective vendors to disclose recruitment of former UN staff in order to be eligible for an award.

UN staff members' links to vendor companies

47. The following cases should be reviewed by DM to devise a sound risk management strategy to avoid conflict of interest situations:

- *Case 1* - This former UN staff member occupied several important positions in OLA and also in DM in procurement-related functions. He is currently listed as Vice President of a UN vendor company. He was solely negotiating, on behalf of the UN, an important arbitration case, which resulted in favour of the vendor. Allegedly, during his UN employment, this staff member favoured a vendor linked to his present company. After his separation from the UN, this staff member was also acting as representative of a Government, negotiating payments for a Letter-of-Assist.
- *Case 2* – This former DPKO staff member was also involved in the aforementioned arbitration case. He is currently listed as Managing Director of the company mentioned in Case 1.
- *Case 3* – This former senior Procurement Officer is currently an employee of a company that bids on major UN contracts.
- *Case 4* – According to a DPKO staff member, this former senior DPKO staff member is currently a representative of the vendor mentioned in cases 1 and 2.
- *Case 5* – This DPKO staff member was until 2001 an employee of an UN-registered vendor, which had business ties with the same company as in cases 1, 2 and 4. As documented in a note to file, this staff member was subject to pressure from the latter company to disqualify a competitor.
- *Case 6* – This former senior officer in DPKO is an employee of a company which has been awarded more than \$30 million in UN contracts.
- *Case 7* – This former DPKO officer is currently an employee of the company which was awarded a \$34 million contract as a result of a flawed technical evaluation that the staff member conducted⁹.
- *Case 8* – This staff member is a former employee of a major supplier for peacekeeping missions. He is currently responsible for procurement activities in a peacekeeping mission.

Recommendation 11

The Department of Management should manage conflict of interest risks as part of the contracting process requesting

⁹ OIOS audit of a services contract in MISSION D (A/56/906)

prospective vendors to disclose recruitment of former UN staff in order to be eligible for an award. Also, Procurement Service staff should certify their obligation to avoid actual and apparent situations of conflict of interest (AP2005/600/20/11).

48. DM did not address recommendation 11, which is kept open in OIOS' recommendations database pending receipt of DM's related comments.

G. Procurement needs assessment

49. OIOS found evidence that the peacekeeping operations budget has been overstated or inflated in several instances, allowing for procurement beyond justifiable needs. Examples of issues to illustrate this situation are discussed in the following paragraphs.

Mission assessment team

50. The needs assessment for the establishment of MISSION A, which resulted in a procurement budget of \$822 million for 2004-2006, was not a formal and reliable exercise. The criteria for the nomination of the five LSD members of the mission assessment team were not documented, nor were the competence of the team for a mission of this importance proven. (The team members were at the P-5 to P-3 levels.) Documentation related to the assessment process was not comprehensively available, and review and approval of procurement assumptions by successive layers of management up to the USG level was not made. Either excessive discretion was left to the Service and Section Chiefs in LSD for organizing and performing needs assessments, or planning activities were implemented with verbal approval only from senior management. OIOS also found that the same staff members who performed the assessment mission and drafted the requirements for the mission Sudan were later posted to MISSION A and implemented the budget. Their posting in managerial positions at MISSION A with substantial fiduciary responsibility, like their nomination as member of the assessment team, was found not to have been the result of a formal selection process, nor was it documented or convincing explanation provided. These conditions strongly suggested conflicts of interests, abuse of authority in staff selection and insufficient validation of the mission budget.

Recommendations 12-13

The Department of Peacekeeping Operations should:

- (i) Commission an independent review of all significant procurement assumptions for MISSION A (AP2005/600/20/12); and

- (ii) Provide justification for the posting to MISSION A of members of the MISSION A assessment team (AP2005/600/20/13).

51. *DPKO requested that recommendation 12 be deleted, stating that planning of mission requirements at start up must of necessity be based on assumptions.* This response, in OIOS' view, does not address the recommendation and related finding discussed in paragraph 50. OIOS therefore will keep recommendation 12 open until DPKO provides additional comments addressing the recommendation.

52. *Concerning recommendation 13, DPKO commented that the selection of each staff member for the assessment/advance team follows an internal review of existing staff with the required skill set and competencies. DPKO added that three of the five HQ staff members assigned to the MISSION A assessment team and subsequently deployed to the Mission to occupy posts with substantially fiduciary responsibility were selected through a competitive process and the two of three were approved by the DPKO Office of Mission Support Succession Planning Panel. The selection of the other two staff members involved a less formal comparison of potential candidates.* OIOS has requested and obtained from DPKO additional clarification in respect of the OMS Succession Planning Panel. OIOS found that the establishment of the Panel was not formally approved as of January 2006 and therefore the selection of the staff members concerned was not the result of a formal selection process. Based on DPKO's response, OIOS has closed recommendation 13 but sees the need for OIOS to further assess the DPKO selection process for mission staff by DM.

DPKO requisitions on behalf of Missions for non-required materials

53. A 2002 audit of the requisitioning function for peacekeeping missions¹⁰ showed that DPKO did not sufficiently inform the field missions about requisitions done on their behalf, and did not involve the missions in subsequent procurement and contract management phases. There was evidence that high value items procured without missions' concurrence were in fact not needed, inefficiently utilized or unknown by the missions. For example:

- MISSION C was not associated with DPKO's decision to raise a \$10.3 million requisition for services in 2000;
- Equipment idle at MISSION C represented a waste of \$880,000; and
- MISSION H and MISSION E had no records pertaining to several requisitions valued at about \$17 million.

OIOS issued a number of recommendations, including DPKO investigating the conditions for these discrepancies and regularizing recordkeeping. However, DPKO management did not take decisive action to address the risks of fraud and waste in these

¹⁰ OIOS report on the requisitioning function in selected UN departments and offices (AN2002/45/1)

cases. Still in 2005, similar contraventions to FRR existed. For example, MISSION D in 2002 received seven pieces of equipment valued at \$2.4 million which it had not used to date.

Recommendation 14

The Department of Peacekeeping Operations should prepare adequate plans with formal inputs from peacekeeping missions based on actual needs. The Procurement Service, Department of Management, should be given the opportunity to review the acquisitions plans in a timely manner and should monitor their implementation by DPKO and the missions (AP2005/600/20/14).

54. *DPKO requested that recommendation 14 and related paragraph be deleted or the information provided by DPKO be added to the report and the recommendation closed. DPKO stated that there is a clear delineation of responsibilities between Headquarters and the field for the procurement of goods and services to support missions. The acquisition of fleet vehicles, aviation assets and transport services in support of troops' emplacement is delegated to UNHQ. This separation of responsibilities serves as the basis for the allocation of budgetary appropriations between HQ and field missions. When the budget is approved and the allotment issued, DPKO does not then require a formal request from the field missions to proceed with an acquisition. OIOS in its 2002 audit of the requisitioning function for peacekeeping missions recommended that DPKO establish a uniform methodology to ensure that responsible officers in the field concur with the requirements as defined in requisitions originating from DPKO. DPKO in its subsequent response assured that, in future, it would act on the requisitions on the missions' behalf only following receipt of mission confirmation that requisitions are based on updated requirements. OIOS therefore notes with concern that DPKO not only did not implement OIOS' recommendation but does not see the need for validating further with the missions the requirements as included in the budget. DM suggested that recommendation 14 focus on the issue of planning and the review by PS of the acquisition plan. OIOS has accepted the suggestion and modified recommendation 14 accordingly. OIOS therefore assumes that DM agrees with the recommendation, which is submitted as revised to DPKO for comments. In the meantime, this recommendation will be open in OIOS' recommendations database.*

Engineering Company deployment in MISSION A

55. The revised deployment schedule for MISSION A dated 1 April 2005, prepared by DPKO's Logistics Support Division (LSD), called for the engineering platoons to be deployed from 23 April 2005, as a matter of priority. The advance deployment of the Engineering Company started on 28 May 2005. The UN procured air transportation services (for \$1.3 million) to transport the Company and its equipment between the country of origin and the mission designated port of entry. The move from the port of entry to the Company's final destination was via ground transportation. According to

LSD, the decision to airlift the Engineering Company's contingent-owned equipment (COE) was justified by the operational needs of MISSION A. However, OIOS found that, due to logistics reasons, the Company could not be deployed to its final destination as planned and had to stay in the mission port of entry for several months. As of October 2005, only 60 percent of the advance team of the Engineering Company had been relocated to its final destination. OIOS is of the view that some of the delay was predictable and a decision should have been made to move cargo by sea, thereby saving the organization \$1.1 million. (On average, air transport was seven times more expensive than sealift.)

56. Furthermore, OIOS found that while the advance team of the Engineering Company could not be positioned to its final destination and was therefore stationed in the port of entry, the COE of the main body of the Company was air-shipped to the port of entry following the mission's request of 27 July to "airlift as soon as possible the Engineer Company COE". On 13-24 September, nine flights were procured (for \$3.3 million) to airlift the COE from the country of origin to the port of entry. According to MISSION A officials, on 5 December 2005, 43 percent of the main Engineering Contingent COE was still in the port of entry, waiting for the final positioning. The remaining 57 percent had been moved to the final destination and other locations between 15 September and 17 November 2005. The use of airlift for the COE was therefore not justified at all in this case, since the organization had more than five months (from the date of the revised deployment schedule 1 April 2005 to the date the COE arrived in the port of entry) to arrange for alternative ways of transport. A saving of \$2.8 million could have been realized.

57. The MISSION A 2004-2005 COE airlift cost amounted to \$7.5 million. With a total waste of resources estimated at \$3.9 million (i.e. \$1.1 million plus \$2.8 million as established in paragraphs above), the percentage of waste was therefore 52 percent of total COE airlift cost. LSD informed OIOS that the total cost for the transport of COE and Troops to respective peacekeeping missions in the financial period 2004-2005 was \$208 million. Based on the analysis of the use of air and sealift of COE and Troops at MISSION D, MISSION I and MISSION A for the period (see Table 5 below), OIOS estimated that 65 percent of total cost corresponded to the airlift of COE. This represented an expenditure of \$135 million. Assuming LSD made also wrong planning assumptions for other missions, the loss is likely to be very high. (If the MISSION A 52 percent waste is applied, the UN would have wasted about \$70 million in airlifting COE instead of using sea or other alternative ways of transport.)

Table 5: Cost for the transportation of COE and troops in MISSION D, MISSION I and MISSION A for financial period 2004/2005 (\$ million)

Mission	COE via air	COE via naval	Troops via air	Total
MISSION D	48.5	1.4	20.7	70.6
MISSION I	8.5	2.7	5.1	16.3
MISSION A	7.5	4.3	0.9	12.7
Total (\$ million)	64.5	8.4	26.7	99.6
As percentage	65%	8%	27%	100%

Recommendations 15-16

The Department of Peacekeeping Operations, in conjunction with missions, should develop procurement plans for the airlift of contingent owned equipment, based on realistic deployments assumptions and clearly identifying potential savings (AP2005/600/20/15).

The Department of Management, in conjunction with the Department of Peacekeeping Operations, should address responsibility for the waste of \$3.9 million in the procurement of airlift for MISSION A (AP2005/600/20/16).

58. *DPKO agreed with recommendation 15 in substance, and stated that it believes current practice reflects what OIOS recommended. OIOS will keep recommendation 15 open for the purpose of monitoring its implementation.*

59. *Concerning recommendation 16, DM stated that it should be addressed to DPKO since the responsibility to define the requirements rest with DPKO. DPKO disagreed with the need for the action prescribed in recommendation 16, stating that DPKO would only airlift COE when surface movements would fail to meet the operational timelines for deployment established in conjunction with the missions. DPKO maintained that it does procure airlift for COE based on the most accurate and up to date deployment assumptions and in the case quoted there was no waste of \$3.9 million in the procurement of airlift for the mission COE. OIOS is of view that conditions described in paragraphs 55-56 contradict DPKO's assertion, in that especially for the movement of the remaining COE (see paragraph 56), ample time was afforded for surface transport. The conditions evidence lack of proper planning and care in using UN resources, and highlight the potential for saving in the area of COE movement. OIOS therefore maintains its recommendation, which will remain open in OIOS' recommendations database.*

There were indications that MISSION A commodity requirements were inflated

60. The commodity contract for MISSION A was entered into for a NTE amount of \$85.9 million to cover the requirements for a nine-month period from mission inception. LSD established these requirements at 10 million units per month, which was not a realistic assumption. Up to October 2005, MISSION A had used only 22 percent of the contract, or 2.2 million units in total for the seven months of the contract. Therefore, based on the highest monthly usage (\$4.1 million in September 2005 for a 40 percent deployment) applied to the last two months covered by the contract, OIOS calculated that LSD overestimated the requirements for this commodity by \$53 million. OIOS subsequently revised this figure at \$34 million, after DPKO remarked that the contract included only equipment and other costs. It should be noted however that the contract infrastructure component, budgeted at \$29 million, was based on the projected

consumption level and could also have been over-projected. OIOS is of the view that funds were committed based on inflated requirements while they could have been otherwise used for valid purposes. This procurement budget inflation also presented the risk that vendor might dispute the loss of significant revenue at the end of the contract period, even if there are general provisions in the contract to cover such eventuality. The risk of this occurring was significant.

Recommendation 17

The Department of Management, in conjunction with the Department of Peacekeeping Operations, should address responsibility for poor planning and inflated requirements in the procurement of a commodity contract for MISSION A-(AP2005/600/20/17).

61. *DM stated that recommendation 17 should be addressed to DPKO since the responsibility to define the requirements rest with DPKO. OIOS has revised its recommendation to address it also to DPKO. DPKO disagreed with recommendation 17 on the basis that it had to base its assessment of requirements on the anticipated troop deployment schedule. DPKO however acknowledged that actual consumption has yet to achieve planning assumptions. As of October 2005, only 25 percent of the expected troops forecast in October 2004 had arrived. However, DPKO saw some value in reviewing the provision of this commodity to the mission, but this review should be done jointly by DPKO and DM. OIOS has already recommended in this report that all significant procurement assumptions for MISSION A be reviewed (recommendation 12). OIOS is still of the view that the variance between the planning assumptions and actual consumption under this contract is too important to be solely explained by a protracted troop deployment. OIOS therefore maintains recommendation 17, which will remain open pending a review by DM and DPKO of the process and responsibility for determination of commodity requirements for MISSION A.*

There were indications that MISSION B commodity requirements were inflated

62. LSD overestimated the requirements for MISSION B commodity. These were, according to LSD, established at \$38 million for 2004-06, while MISSION B indicated peak consumption as of October 2005 only as 19 percent of the procurement assumptions. The contracts were likely to have been over budgeted by \$31 million.

Recommendations 18-19

The Department of Peacekeeping Operations and the mission should revise the commodity procurement assumptions for MISSION B (AP2005/600/20/18).

The Department of Management in conjunction with the Department of Peacekeeping Operations, should address

responsibility for poor planning and inflated requirements in the procurement of the commodity for MISSION B (AP2005/600/20/19).

63. *DPKO requested that OIOS verify its data, and if not verifiable, OIOS withdraw the discussion of requirements for MISSION B commodity and recommendations 18 and 19. OIOS has revised its draft report to incorporate the data provided by LSD, but this correction did not affect the recommendation 18 and related finding. DM stated that recommendation 19 should be addressed to DPKO since the responsibility to define the requirements rest with DPKO. OIOS has revised recommendation 19 to address it also to DPKO. Both recommendations 18 and 19 will be kept open pending evidence that they have been implemented.*

Over-budgeting for vehicle spare parts requirements

64. As of October 2005, OIOS found that the value of spare parts inventory in 12 missions was in excess of the 2004-05 requirements by \$15 million (see Table 6). The Vehicle Spare parts Management Systems Review Report (dated December 2003), which LSD commissioned, recommended central management of the administration of direct procurement activities for vehicles, training, warranties and spare parts to control procurement of items already available in other missions. The Report noted that in year 2002 at least \$16 million worth of spare parts was written-off for closed-down missions. The Report also stressed the need to improve the Galaxy and Mercury computerized systems' capability to forecast demand and to track status of items requisitions until delivery.

65. OIOS found that these recommendations were not implemented. As of 13 October 2005, the \$30 million aggregate purchase value of the existing spare parts inventory in 12 missions was in excess of those missions' spare parts budgetary requirements by at least \$15 million. Moreover, based on consumption rates reflected in the missions' budgets, it would take one to three years for the current stocks to be used up. The costs of holding and future disposal of these stocks need to be added to the wasted procurement. The mismanagement of spare parts also increased the risk of theft.

Table 6: Analysis for spare part 2004-2005 budget for 12 missions

MISSION	Approved budget 2004-2005	Value of spare parts as of 13 October 2005	Estimated stock in years
MISSION J	\$420,000.00	1,619,851.02	4
MISSION B	\$466,300.00	836,179.17	2
MISSION D	\$2,603,170.00	4,321,050.57	2
MISSION I	\$537,700.00	691,476.40	1
MISSION K	\$633,800.00	1,190,724.38	2
MISSION C	\$516,000.00	635,723.35	1
MISSION L	\$773,800.00	2,143,209.45	3
MISSION M	\$2,080,400.00	6,423,266.81	6
MISSION H	\$1,507,200.00	4,081,002.08	3

MISSION N	\$1,433,000.00	3,959,247.39	3
MISSION F	\$3,099,100.00	2,944,610.96	1
MISSION O	\$729,000.00	1,314,698.40	2
Total	\$14,799,470.00	30,161,039.98	3

66. *DPKO commented that the \$30 million value of the existing spare parts inventory represents only approximately 10 percent of the current fleet inventory value for the 12 sample missions. This, in DPKO's view, is not an excessive holding considering the challenging conditions in which missions operate. Nevertheless, DPKO agreed with OIOS that there is room for improvement in management of the spare parts inventory and that some missions have excessive stocks of spare parts.*

67. OIOS reviewed the spare parts inventory situation for MISSION D. The MISSION D allotment for spare parts – ground transportation is on average \$2 million per financial year. However, the Store Unit/Transport Section/MISSION D informed the auditors that based on the records in the computerized database (FACS), the total consumption of spare parts barely reached half of the budget (about \$350 thousand, \$650 thousand and \$1.2 million for 2003, 2004 and 2005 respectively). Furthermore, OIOS could not reconcile the total amount of spare parts in stock in MISSION D because while the Store Unit reported a stock value of \$7.3 million, the Fleet Support Unit of LSD indicated the stock level of spare parts in MISSION D as only \$4.3 million. *DPKO advised that the figure of \$7.3 million was a result of a duplication of inventory data during migration of data from FACS to Galileo. The problem has been rectified and the correct value of MISSION D spare parts is \$4.3 million.*

Freight service for spare parts

68. For 2004, total procurement of freight forwarding and delivery services amounted to \$158 million representing 12 percent of total procurement cost. Freight costs were generally not included in contracts for commodities such as vehicles. The Vehicle Spare parts Management Systems Review Report noted that this practice has resulted in spare parts delivery time ranging from 146 to 212 days instead of the acceptable 40 to 90 days, with losses valued at \$15 million. This value is equivalent to the cost of delivering items which may no longer be required upon receipt and would subsequently be considered for write-off.

69. It was also noted that 127 of 135 or 94 percent of shipments from the period January to September 2005 for short-term sea movements and freight forwarding were under the Ex-works and Free Carrier (FCA) terms. Under these terms, title and risk pass to buyers including transportation and insurance cost when items are delivered for shipment. The accountability implications of the preferred INCOTERMS, and the opportunity of using money for other immediate purposes were not considered: (a) missions cannot reject the items as unacceptable since these are already considered UN properties and have been paid for; and (b) receiving and inspection activities done in the missions serve no purpose other than for claiming insurance in case damage is found.

Recommendations 20-21

The Department of Peacekeeping Operations, in conjunction with missions, should review the needs for spare parts and revise current budget estimates and prepare a detailed procurement plan for the procurement (AP2005/600/20/20).

The Department of Management, in conjunction with the Department of Peacekeeping Operations, should address responsibility for poor procurement planning and management of spare parts and related losses (AP2005/600/20/21).

70. *DPKO agreed with recommendation 20 and stated that it would further study how spare parts management can be improved. Recommendation 20 will remain open until OIOS is satisfied that appropriate action has been completed.*

71. *Concerning recommendation 21, DPKO also indicated that it will address responsibility for poor procurement planning with DM as recommended by OIOS, although it disagreed losses occurred. DM stated that recommendation 19 should be jointly addressed to DPKO and DM. OIOS has revised recommendation 21 to address it also to DPKO, and will keep it open pending evidence that it has been implemented.*

Requisitions for vehicles

72. Requisitions for vehicles for missions are supposed to be evaluated by the DPKO Surface Transport Unit (STU) on the basis of the following:

- a. Mission vehicle acquisition plan to ensure that quantity ordered is in accordance with limitations set;
- b. Recommendation of the Mission's Vehicle Evaluation Committee (VEC) for the purchase of additional light vehicles;
- c. A check on whether the vehicles are for replacing SDS vehicles and whether these vehicles are due for replacement; and
- d. A check on whether vehicles of the required specifications are available in the Global mission surplus or reserve.

73. Evaluation of selected vehicle requisitions from various missions showed that the above requisition checks could not possibly have been performed. Requests emailed from missions indicated vehicle type, quantity and technical specifications but were not supported by a needs assessment. Similarly, apart from some exchanges to ascertain funds availability, the files did not evidence checks of propriety and reasonableness of requisitions performed by LSD. The MISSION D, MISSION F and MISSION A files did not include acquisition plans showing the period when vehicles were required, or Vehicle

Evaluation Committee deliberations. This situation compounded the lack of reliability of the Galileo system.

Inadequate control of vehicle inventories

74. In 2004, the UN purchased \$127 million worth of transport vehicles mainly for DPKO operations, usually on systems contracts with various manufacturers and dealers under the FCA Incoterm. Under this term, assets are considered UN's liability once delivered by the manufacturers to the UN-designated freight forwarders for shipment to the missions or the UNLB.

75. OIOS requested direct confirmation from the vehicle suppliers as to number of vehicles and delivery dates for specific purchase orders. Comparison of this data with the Galileo inputs showed that the deliveries were recognized as additions to the UN inventory only 2 to 9 months after shipment. This is because, at the mission level, the Galileo system recognizes ownership and accountability for these vehicles only upon inspection and acceptance. Moreover, vehicles supposed to be shipped to UNLB as part of the Strategic Development Stocks (SDS) were instead shipped to other missions. These movements were not immediately tracked by the Surface Transport Unit resulting in probable approval of requisitions for stock replenishments which may actually have been unnecessary because SDS vehicles were forthcoming. In the case of one supplier, vendor-recorded deliveries were less than the quantities recorded in the Galileo. STU explained this discrepancy as being due to the Missions' recording as separate assets, costly accessories or attachments to vehicles. The discrepancies have been referred to the Unit for reconciliation and standardization of the procedure.

76. Therefore, Galileo was not a reliable basis to decide whether requests for additional vehicles from specific missions should be approved. In fact, MISSION A users questioned the reliability of Galileo and their lack of access to it. In some cases, although assets were physically on the ground, the Galileo indicated otherwise. For instance, only two vehicles were reported in the Galileo as located in Juba, South of Sudan, whereas 83 vehicles were physically accounted for.

77. These discrepancies pointed to the need to improve the UN's tracking mechanism for vehicles purchased. The lack of such mechanism rendered it impossible for DPKO to establish at any given point the actual number of vehicles actually owned by the UN for specific missions, where these vehicles were, when orders would be delivered, and the requirements for new vehicles. Inadequate tracking of vehicles made it also difficult to establish vehicle losses and who should be held liable.

Recommendations 22-23

The Department of Peacekeeping Operations, in conjunction with the Department of Management, should:

(i) Commission an independent global inventory of missions' vehicles and ensure the maintenance of accurate inventory data; implement a suitable information management system for vehicle management; and improve the current procedure for the purchase of vehicles (AP2005/600/20/22); and

(ii) Address responsibility for mismanagement of procurement of vehicles for missions, including failure of the inventory management system and Galileo (AP2005/600/20/23).

78. *Concerning recommendation 22, DPKO stated that it strongly believes that a need exists for a global asset tracking and management system, and there should be a call to examine and implement a suitable global asset tracking and management system to meet peacekeeping operational needs. An overarching review of the procedures for the purchase of vehicles by DM would be supported by DPKO.* OIOS has revised the recommendation as included in the draft report to reflect DPKO's comment. Recommendation 22 remains open in OIOS' database pending completion of the global inventory of vehicles.

79. *With regard to recommendation 23, DPKO however did not accept that there has been mismanagement of procurement of vehicles for missions and requested recommendation 23 to be deleted.* OIOS maintains that there has been mismanagement since the inadequate tracking of vehicles causes justification for procurement to be insufficient and increases the risks of theft since accountability is difficult to establish. Recommendation 23 therefore remains open in OIOS' recommendations database.

Procurement through letter-of-assist

80. OIOS reviewed LSD's input for procurement under letter of assist (LOA). In 2001 and 2002, OIOS had assessed this procurement method¹¹ and found that no formal authority had been given to LSD's predecessor, the Field Administrative and Logistics Division (FALD), to enter into agreements with governments. Furthermore, although the LOA contracts were generally for high value procurement, FALD did not use competition to invite governments to offer goods and services. In many cases, LOAs were uneconomical, and generally there was the risk that FALD officers might have preferred a specific country. In addition, OIOS noted that in some instances LOAs were actually executed by governments through commercial vendors, which negated the whole exercise and created an opportunity for certain commercial vendors to bypass competition. Based on these factors, OIOS recommended limiting the use of LOAs to requirements of a strictly military nature.

¹¹ OIOS audit of procurement through the use of LOA (AP2002/55/9), and OIOS follow-up audit of procurement through the use of LOA (AP2004/600/11)

81. During the current review, OIOS found that DPKO was still processing a significant number of LOAs: 64 contracts with a cumulative value of \$200 million for the period 2003-5. OIOS selected a sample of five LOAs totaling \$20.8 million and found that invitation to Member States for those LOAs was documented in only one case. Furthermore, it was not clear which office within DPKO was responsible for selecting the government and maintaining related documentation.

Recommendation 24

The Department of Management and the Department of Peacekeeping Operations should strengthen the procedure for procurement under letter-of-assist and ensure that the selection of government is competitive and documented (AP2005/600/20/24).

82. *DPKO accepted the recommendation. DM did not provide comments.* Recommendation 24 is open in OIOS' database pending receipt of DM's comments.

H. Financial management of contracts

Need to strengthen internal controls over payment of vendor invoices

83. Selected payment transactions related to movement control and air transport operations were examined to determine the validity and propriety of payments made in 2003-2005. OIOS found that eight invoices, out of the 102 sampled, were received directly by one staff member in LSD, who re-routed them to the DM Accounts Division. These invoices were not original copies and contained a wire transfer instruction stating that the beneficiary was a pay agent.

84. FRR 105.6 prescribes that: "OPPBA' s Accounts Division is responsible for approving the making of the payments once they have ensured that they are properly due, confirming that the necessary services, supplies or equipment have been received in accordance with the contract, agreement, purchase orders or other form of undertaking by which they were ordered. Accounts Division must maintain detailed records and must be prepared to submit any supporting documents, explanation and justification requested by the Under-Secretary-General for DM." However, OIOS found that the Accounts Division did not implement these controls, which contributed to weakening the internal controls for peacekeeping procurement. In 79 cases (or 77 percent), no documentation was transmitted to Accounts Division evidencing that the missions received the services for which payment was requested. *Accounts Division advised that the certification is currently obtained in two forms – electronically through the "receipt" and "inspection" action of the related obligation in IMIS and as a signed attestation on the invoice itself or an attachment to the invoice. This certification attests to the fact that appropriate documentary evidence is available to support payment request. The evidence itself (R&I reports, air utilization logs, field confirmations and related documents) remains in the custody of the substantive office of the requisitioning department.* OIOS believes that the

current practice is not sufficient to satisfy the requirements of FRR 105.6 and should be reviewed by DM with the view to ensuring that the risk of unjustified payment is kept to a minimum.

85. Duplicate invoices were approved for payment in 25 cases out of 102 (25 percent). In addition, OIOS noted that there was no single recipient office for receiving vendor invoices. Accounts Division received some invoices, while others were received by LSD and re-routed to Accounts Division, sometimes as duplicate, as discussed above. There was no evidence that Accounts Division instructed LSD to correct these problems. OIOS is concerned that the failure to enforce basic internal control procedures over the payment process may have resulted in improper payment to vendors.

Recommendations 25-26

The Department of Management should strengthen the invoice payment approval function, to ensure full compliance with the Financial Rules and Regulations (AP2005/600/20/25).

An investigation should be initiated to clarify the conditions under which a staff member processed eight invoices, which were directly sent to him in duplicate form in contravention of UN vendor payment procedures (AP2005/600/20/26).

86. *Accounts Division advised that payments against copies of invoices have been made in the very exceptional cases when it is clear that the original documents were not received because they were lost in the mail or between the Accounts Division and the certifying office. The Accounts Division has functioned in full compliance with the FRR with respect to the invoice payment approval function. OIOS is of the view that the number of duplicate invoices found in the sample is abnormal and DM should ensure that payments based on duplicate invoices are truly exceptional and authorized at a senior level. OIOS has however revised recommendation 25 to take into account comments provided by DM and DPKO, and will keep the recommendation open until OIOS is satisfied that appropriate action has been completed.*

87. *According to Accounts Division, the original invoices were sent to the Mission for which the services were provided in accordance with the contract. Accounts Division noted that this was not a normal practice. DPKO commented that because systems were not fully in place to make payments at the Mission, Accounts Division had withdrawn support previously given for this change, in order to ensure compliance with FRR. Four of the eight invoices were considerably overdue payment and rather than use the Pouch, the invoices were faxed to LSD to enable processing in New York. DPKO reiterated that the provision of invoices to the mission or LSD without initially going through Accounts Division was a DM decision aimed at improving the system. In light of the comments made by DM, recommendation 26 is withdrawn.*

Control over performance bonds is not adequate

88. OIOS reviewed the processing and security of performance bonds the UN received from vendors for various contracts. A performance bond is a guarantee issued by a financial institution to guarantee the satisfactory completion of a project by a contractor. A performance bond augments the vendor's cash obligations and limits its potential to bid for other contracts. It can therefore be traded as cash. In the UN procurement process, vendor performance bond is made part of the development of solicitation documents. The Procurement Manual states that: "... the value of the performance bond shall be determined by the nature of the industry and the deliverables required, and the extent of financial risk to the UN. The bond shall represent a percentage of the contract price, normally in the range of 10 to 30 percent."

89. OIOS found that the management of bonds was inadequate primarily because there were insufficient controls over their security. Performance Bonds were kept physically at PS, in a locked room with access by two PS staff. They were filed by expiration date. All bonds have to be searched for when looking for those provided for particular contracts. An acknowledgement form indicating the receipt of a performance bond is kept on file; however, OIOS found that no log exists to enter the receipt of a bond. The lack of controls over performance bonds created risks that PS staff may not request them from contractors, or return them before contract expiration periods in exchange for cash or favours.

90. Furthermore, OIOS found that for nine sampled contracts valued at approximately \$313 million, the bonds received ranged between none to about 7.6 percent, or an average of approximately 1.4 percent of the total contract value, way below the minimum suggested rate of 10 percent. In OIOS' opinion, the Organization is not adequately protected in case of non-compliance with the contracts.

Table 7: Compliance with the provision by vendors of performance bonds

<i>Contract</i>	<i>Contract Amount \$</i>	<i>Performance Bond</i>	<i>Bond Amount \$</i>	<i>%</i>
1	61,434,541	NOT FOUND	--	--
2	32,964,557	FOUND	228,192	0.7
3	8,076,468	NOT FOUND	--	--
4	13,385,652	FOUND	262,230	2.0
5	7,830,320	FOUND	596,250	7.6
6	7,756,308	FOUND	396,800	5.1
7	12,619,700	FOUND	629,035	5.0
8	98,416,942	FOUND	2,119,124	2.2
9	70,596,000	NOT FOUND	--	--
9	81,900,000	NOT FOUND	--	--
TOTAL	394,980,488		3,238,581	0.8

91. DM did not have policies and procedures for the return or cancellation of performance bonds. When three such bonds were returned to the PS procurement officer for contracts 5 and 6 shown in Table 7, there was no indication whether the bonds were sent back to the vendors, cancelled, or updated if a contract has not yet ended. Concerning contract 1, the vendor provided the required bond of \$3.7 million corresponding to the initial contract value (\$37.3 million) but did not provide additional bonds when the contract was amended twice, reflecting increases of \$13 million and \$11 million respectively. In addition, the PS buyer returned the \$3.7 million performance bond in October 2004, while the contract ended in June 2005. This was in contravention of Section 17 of the contract which states that “the performance bond shall remain in force for 60 days after the last delivery under this contract.” Since performance bonds are financial instruments, they should be kept by the Controller who should also release them on the basis provided for in the contract.

Recommendations 27-28

The Department of Management should strengthen the procedure for obtaining and maintaining performance bonds. In particular, physical maintenance of bonds should be transferred from the Procurement Service to the Controller (AP2005/600/20/27).

The Department of Management should initiate an exhaustive inventory of performance bonds currently held by the Procurement Service and identify all instances where bonds are not in compliance with contract requirements, for follow up with vendors and to address accountability (AP2005/600/20/28).

92. DM did not address recommendations 27 and 28, which are therefore kept open in OIOS’ recommendations database pending receipt of DM’s comments.

I. Vendor profile

93. The UN does not have a strategy to prevent the establishment of vendor monopolies and the occurrence of bid rigging, despite the fact that the FRR require procurement to be competitive, to the extent possible. There was no analysis by PS and the HCC of cumulative awards to a vendor as part of procurement risks management. Both PS and HCC rejected an OIOS recommendation in that regard¹². OIOS specifically remarked about the limited competition in the area of air transportation services. The current audit found that the risks that vendors create direct or indirect partnership in order to augment their chances to win UN bids were great. OIOS found two examples of such partnerships, with aggregate awards made to members of these partnerships totaling about \$90 million and \$260 million respectively for 2000-2005.

¹² OIOS follow-up audit on procurement reform (AH1999/1/3)

94. The risk that the UN was dealing with suppliers involved in bid rigging for the provision of goods and services to peacekeeping missions was high. Such a scenario would place the UN in situation of extreme dependency, with peacekeeping operation performance and budget significantly controlled by parties outside the UN. The risk of corruption of UN officials is also high under such a scenario.

Recommendation 29

The Department of Management should monitor cumulative awards to each vendor and develop a vendor risk profile accordingly. The profiles should be used to develop a strategy for procurement of major commodities, which should protect the UN from threats of interruption of its peacekeeping operations as well as from uneconomical and corrupt procurement practices (AP2005/600/20/29).

95. DM did not address recommendation 29, which is therefore kept open in OIOS' recommendations database pending receipt of DM's comments.

PART II - Procurement cases

J. Provision of services for MISSION E under letter of assist (LOA)

Background

96. The LOA was to provide MISSION E with certain services from 11 May 2000 to April 2001. Maximum ceiling price was \$10,491,000. The LOA was awarded on the basis that "competitive bidding does not give satisfactory results", and was signed on 4 April 2000. MISSION E had not requested the procurement of the services. In January 2001, the Government initiated a criminal investigation challenging the authorization and payment for the supply of services to the UN. The investigation concluded that (i) the agreement with the UN was entered into illegally, and (ii) the UN payments under the LOA had been subsequently transferred illegally to a European bank account under the name of a commercial company (a non-UN registered vendor), hereafter the Company.

97. OIOS' objectives in reviewing this contract were to ascertain whether DPKO and DM established accountability for the procurement. OIOS included in its review the examination of two bids related to the provision of the same services to MISSION E, for the purposes of comparing vendor participation and price as well as to assess the DPKO and DM inputs in the contracting.

Audit findings

98. The file pertaining to the LOA includes a note to file dated 23 August 2001 from an official of the Transport Section, DPKO, which alleges that a senior Procurement Officer informed DPKO that the Government was interested in providing the services to

Mission C. The note also states that a representative from the Government, who was referred by the Chief of the Procurement Division, began communicating with DPKO from that point on. OIOS found an exchange of written communications between a senior officer of the Field Administration and Logistics Division (FALD) and the representative of the Government. OIOS also found a note dated 14 September 2000 from a DPKO senior officer to the Director of FALD explaining that he met with officials of the Company (which implemented the LOA) on matters pertaining to performance under the contract and not on commercial matters. It should be noted that the Government investigation reported that the services were purchased from an illegal arms dealer who was a representative of the Company.

99. On the question of UN officials' contacts with government and vendor representatives, OIOS believes that a procedure should be established to documenting such contacts and ensuring that they do not result in any conflicts of interests.

100. Three procurement actions were undertaken for the provision of the services to MISSION E, as follows:

Table 8: Bid results for the provision of services to MISSION E

<i>ITB of January 2000</i>	<i>LOA</i>	<i>ITB of April 2001</i>
23 invitees	One invitee	37 invitees
2 bids received	Offer from Government	6 bids received
Cancelled on the basis that "competitive bidding does not give satisfactory results"	Contract awarded to Government on the basis of "competitive bidding did not give satisfactory results"	Contract awarded pursuant to FR 110.21, rejection of bids received and enter into a negotiated contract

101. ITB of January 2000 allowed seven days only from the date the ITB documents were dispatched to short-listed prospective vendors, to the submission of bids to the Procurement Division. This was unduly short as no emergency was noted for this requirement. According to the related HCC minutes, the ITB was cancelled because the financial bids were too high. FALD then decided to resort to an LOA on the basis that the negotiated price with the Government was much cheaper than the financial bids for ITB of January 2000. In OIOS' opinion, there was no justification for this course of action since similar services were commercially contracted during that time. For example, the same services were commercially contracted for MISSION C at an average price of \$7.8 million.

102. Contacts by FALD officials with the representatives of the Government and the Company started immediately after the cancellation of ITB of January 2000. However, the DPKO file does not include a formal invitation to the Government to bid for the services. In fact, the file contains only one invitation letter dated 4 February 2000 faxed to another Government.

103. An official Government document approving the provision of the services to the UN indicated a total cost of \$2.4 million for twice the requirement for MISSION C. On that basis, the LOA cost should have been around \$1.6 million (i.e. \$1.2 million plus

\$350,000 in additional costs as included in other similar contracts). The results of the Government's investigation seem to confirm that at some point during the negotiation of this LOA, a surcharge to the UN of about \$8.8 million occurred. It is OIOS' view that senior UN officials were cognizant of the initial offer by the Government, and of the subsequent surcharge in the LOA. The fact that the files reviewed by OIOS in 2001 did not include this initial offer and the failure by UN officials to document their contacts with the individuals who negotiated the LOA are fraud indicators.

104. In April 2000, the HCC reviewed the proposed award to the Government. A senior officer of FALD represented that: "In terms of cost, this arrangement with the Government is the most cost-effective means of satisfying MISSION E requirement [...]. Cost comparisons, between this LOA and commercial contracts providing similar types of [services], reveal that commercial arrangements would be more expensive overall than this LOA arrangement." No mention was made to the HCC that a senior officer of FALD had already signed the LOA for \$10,491,000 in April 2000. Further, the presentation did not make reference to an initial offer by the Government of \$2.4 million for twice the requirement for MISSION E. Similarly, no information was provided on how the arrangement with the Government was made. The Committee recommended the award based on F.R. 110.19(h), competitive bidding will not give satisfactory results – Letter of Assist. The related HCC minutes do not indicate that HCC members raised any particular concerns as to the basis for the arrangement with the Government. In this case as in a number of other cases identified by OIOS, the HCC did not ask the right questions and proved dysfunctional as an internal control mechanism.

105. The initial and subsequent invitations respectively seeking commercial bids for the provision of the services to MISSION E generated limited interest: two responses out of 23 in the first case and six out of 37 in the second case. (See Table 9 below.)

Table 9: Bidders and bid amounts for the provision of the services for MISSION E

<i>ITB of January 2000</i>		<i>ITB of April 2001</i>		<i>LOA</i>	
<i>Vendor</i>	<i>Bid amount (\$ million)</i>	<i>Vendor</i>	<i>Bid amount (\$ million)</i>	<i>Country</i>	<i>Bid amount (\$ million)</i>
Vendor 1	14.9	Vendor 1	6.5		
Vendor 2	12.0	Vendor 2	8.2		
		Vendor 3	9.0		
		Vendor 4	7.2		
		Vendor 5	8.2		
		Vendor 6	7.9	Government with private company	10.4

Vendor 1 and Vendor 2 reduced their prices by \$6.7 million and \$5.5 million respectively from the first bid to the second. The fact that initial prices were relatively close and the proportional subsequent price reductions indicate the possibility that both these vendors may have benefited from inside information in order to adjust their bids in April 2001.

106. Furthermore, there are indications that bid rigging may have occurred in ITB of January 2000 in order to negate the ITB exercise and make the recourse to a LOA justifiable. First, an analysis of Vendor 1's bids amounts for the services show that the bid price for ITB of January 2000 may have been deliberately inflated (See Table 10 below.)

Table 10: Analysis of bid rigging indicators in bids related to the provision of the services for MISSION E

<i>Bid</i>	<i>ITB of December 1999 for another mission</i>	<i>ITB of January 2000 for MISSION E</i>	<i>ITB of April 2001 for MISSION E</i>
Bid amount	\$8.2	\$14.9	\$6.5
Bid result	Won	Cancelled	Won
Number of bid competitors	1	1 (Vendor 2)	5

At about the same time ITB of January 2000 was conducted, Vendor 1 offered for the same requirement \$8.2 million, or \$6.7 million less. Vendor 2 was registered as an UN vendor a week before ITB of January 2000 was issued. Since then, Vendor 2 has never been awarded a UN contract.

107. OIOS obtained documents evidencing that the Company, in implementing the LOA at MISSION E, employed the staff of another vendor (Vendor X), which was short-listed for the first ITB but did not submit an offer. It is highly likely that Vendor X and the Company represented the same interests.

108. In connection with their review of another procurement case, OIOS found a memo signed by the ASG, OCSS stating that "it is understood that the CEO of Vendor X has repeatedly contacted PD telephonically during the procurement exercise to raise issues on behalf of Vendor 1. One such contact was made with senior Procurement Officer during the related HCC session." Also, a former Procurement Officer informed OIOS that Vendor X frequently contacted Procurement Officers on behalf of a number of air transport services contractors. These findings seem to confirm the existence of business ties among Vendor X, the Company involved in the LOA, Vendor 1 and possibly Vendor 2.

109. In addition to the services discussed in this section, FALD initiated during the same period a separate LOA with the same Government for the provision of other services. The related LOA was subsequently cancelled because, according to DPKO file, the Government could not guarantee equipment availability for those other services. However, the replacement for that LOA was a commercial contract awarded to Vendor 1 in January 2000.

110. OIOS noted that while DPKO was negotiating a potential LOA with the representatives of the Government for the services and other services (as discussed in paragraph 109 above), MISSION E repeatedly expressed its opposition to this procurement, which it found to be excessive. The Mission however was only partly successful. The services discussed in paragraphs above was requisitioned, but when

deployed to MISSION E, was used for less than a third of the requirements stipulated in the LOA. OIOS was informed that a DPKO staff member involved in establishing the requirement referred to “a decision beyond him” to explain the procurement of the services for MISSION E. In OIOS’ view, the evidence that officials at FALD influenced the procurement of this LOA is indisputable. It is also clear that this procurement represented a substantial waste of UN resources.

111. The LOA indicated that payment should be made to the bank account of the Company in Europe, instead of to a bank account of the Government, as is normal under an LOA. While the first invoice was being processed, an approving officer expressed concerns regarding the unusual payment instruction, which prompted the change from the European bank account to a United States bank account of the Government’s Permanent Mission to the UN. Up to the time the results of the Government’s criminal investigation were made public (they incriminated all persons who had negotiated the contract with the UN), the UN made three payments totaling about \$3 million to the United States bank account. Five additional payments totaling about \$2.2 million were also made to the United States bank account from April to August 2001, while the last payment of \$1.1 million was sent via wire transfer to an account of the Government in February 2002. Regarding the six payments which were made following public knowledge of the Government’s investigation, there was no indication on file that FALD attempted to ascertain whether the amounts paid actually reached an account authorized by the Government. This was despite the fact that there were allegations that payments made to the United States bank account had been re-routed to the bank account of the Company in Europe. In OIOS’ view, assurance should be obtained from the Government that the last six payments effected for the LOA were received in a regular bank account of the Government.

Recommendation 30

The Department of Management should initiate an investigation to address accountability for the procurement under letter-of-assist of the services for MISSION E. In particular, the Department of Management should take action immediately in order to: (a) address accountability for unnecessary procurement; (b) address accountability for the surcharge of \$8.8 million included in the LOA; (c) clarify the business relationships of all vendors having participated in ITB of January 2000 and ITB of April 2001 for the provision of the services to MISSION E; and (d) determine from the Government awarded the letter-of assist as to the amount of payments under the LOA actually received (AP2005/600/20/30).

112. *DPKO requested is recommendation be recast to reflect the additional information provided and strongly refuted the notion that there was no requirement for the services during the start-up phase of the Mission. The requirement for such services*

was confirmed by MISSION E. The requirement for these services gradually diminished, as the Mission finalized its deployment. There was no loss of funds due to under utilization as the UN paid for actual usage. OIOS has reviewed the response DPKO provided but does not consider it a sufficient basis for recasting recommendation 30, which will remain open in OIOS' recommendations database. Furthermore, the documents examined by OIOS do not support DPKO's contention that the services were required by the Mission.

K. Provision of a commodity for MISSION A

Background

113. Vendor X was awarded the contract for the provision of a commodity to MISSION A in a total NTE amount of \$85.9 million. This contract was to provide the commodity to MISSION A for 9 to 18 months prior to the Mission establishing a six-year long-term contract. The request for expression of interest posted on the PS website at the end of December 2003 generated responses from eight companies. The request for proposal (RFP) was sent out on 19 January 2004 with a deadline for submission of offers on 9 March 2004. Three companies submitted bids. LSD's Supply Section completed the technical evaluation on 14 March 2004, concluding that Vendor X was the only technically qualified bidder. However, the mandate for the UN mission was repeatedly delayed. OIOS found a DPKO correspondence between senior officers of LSD and PS respectively that stated that: "the timeline and areas of deployment have been changing since the development of RFP. Therefore, the technical evaluation was held back pending confirmation from the mission advance team that the commodity requirements are valid and can be still met within the terms of the current RFP."

Audit findings

114. LSD, MISSION A and PS officials met in New York on 20 July 2004 to reconfirm the technical and logistics requirements. The minutes of the meeting held on 20 July 2004, between PS, the Mission and LSD indicated the identity of the only technically qualified vendor (Vendor X). This information given to non-members of the LSD technical evaluation team for the RFP was in contravention of the principle of objectivity in procurement, which requires staff members involved in technical evaluation of bids to maintain the results confidential. Moreover, OIOS found that, after the name of the only technically qualified vendor was known, two staff members increased the commodity requirements from 6.5 million units to 10 million units per month (or a 45 percent increase).

115. The first increase was on 3 August 2004, when still as a senior staff of the UN Advance Mission, one of the two staff members aforementioned requested the LSD officer specifically responsible for vendor technical evaluation for the Mission commodity contract, to add 765,390 units per month to the estimates under the RFP. The LSD officer's reply indicated "surprise" regarding the request, but stated that he would implement it. (He was subsequently posted at MISSION A to oversee implementation of

the contract by Vendor X. He resigned abruptly in December 2005.) The second increase up to 9.6 million units was shown in the best and final offer (BAFO) document in November 2004. Early 2005, the estimate finally rose to 10 million units per month. However, OIOS found that actual consumption from May 2005 to October 2005 was well below the projections, evidencing gross overestimation of the commodity requirements (also discussed in paragraph 60).

116. To confirm the validity of Vendor X proposal submitted on March 2004 and to confirm if Vendor X could meet the 45 percent increase in requirements, PS requested an updated proposal from Vendor X, which was submitted on 10 September. No other vendors were asked to submit an updated proposal, although the change in requirements was substantial enough to have warranted re-bidding. On 15 November 2004, PS requested from Vendor X its BAFO mainly to clarify technical issues and prices for the equipment to be provided by a subcontractor of Vendor X, an active UN systems contract vendor. (Vendor X had bid a higher price for the subcontract than offered under the systems contract.) Vendor X finally agreed with the same price on the systems contract. Both the updated proposal and the BAFO were conducted before submitting the case to the HCC's review on 14 December 2004. As discussed in paragraph 26, the HCC review was only a perfunctory exercise in that it did not follow up on some important concerns raised by members.

Recommendations 31-32

The Department of Management should:

- (i) Conduct an investigation to establish whether staff members in MISSION A, LSD and PS colluded to award Vendor X the contract for the provision of a commodity to MISSION A in the amount of \$85.9 million (AP2005/600/20/31); and
- (ii) Address accountability for irregular procurement of a commodity for MISSION A in the amount of \$85.9 million, unjustified inflation of the related requirements, and lack of proper managerial care by the Department of Peacekeeping Operations and the Department of Management senior management in this instance (AP2005/600/20/32).

117. *Concerning recommendation 31, DPKO stated that it welcomes an investigation. DM did not address the recommendation which remains open in OIOS' recommendations database.*

118. *Concerning recommendation 32, DPKO commented that the changes in the planning for the commodity in MISSION A stem from a Security Council resolution to increase contingency planning. This was reflected in revised DPKO planning*

assumptions and led to an increase in the commodity projections for the mission. DPKO supported the decision not to re-bid the increased requirements from an operational perspective, as solicitation of such complex services takes substantial time and resources, and this time was not available to the mission. OIOS noted that the Security Council resolution mentioned by DPKO was published only a few days before the staff member mentioned in paragraph 114 requested that an increase in the commodity requirements be included in the ongoing RFP. OIOS does not have evidence that this request was reviewed by DPKO senior management as part of a complete contingency planning exercise for Darfur, and formally authorized. OIOS will follow-up on this issue and, in the meantime, will keep recommendation 32 open.

L. Provision of services for MISSION A

119. OIOS reviewed MISSION A's submission to the LCC for the provision of services for a contingent deployment for the period July to September 2005, in the amount of \$1.1 million. The requirement was to be normally processed from Headquarters by LSD. Due to time constraints, LSD authorized MISSION A to make its own arrangements.

120. Previously MISSION A had a standby arrangement with a company for the provision of the services. Expenditure was through a procurement card with an upper spending limit of \$45,000. Around \$20,000 had already been used on this arrangement. OIOS found that two senior officers at MISSION A arranged for the deployment with the company without involving MISSION A Procurement Section and without the required reviews by the LCC and HCC. Total payment obligations reached \$1.1 million. An official in MISSION A raised related requisitions. OIOS is concerned that MISSION A's officials informed OIOS that LSD had approved this procurement, whereas LSD only gave approval for the use of available funds. It is LSD's view that MISSION A should not have initiated the procurement. OIOS believes that senior administrative personnel at MISSION A had sufficient experience of the UN procurement rules and procedures for the procurement of these services to know that initiating the provision of services from MISSION A was irregular.

121. Furthermore, there was no competitive bidding conducted, which contravened FRR. OIOS found that a senior officer at MISSION A subsequently instructed the Chief Finance Officer to process the payment to the company. The case was submitted ex post facto to the LCC's review. In accordance with FRR, as emphasized in the Controller's memorandum dated 15 September 2005, the responsible officers at MISSION A should be held personally accountable for disregarding of FRR leading to an ex-post facto submission to the HCC.

Recommendation 33

The Department of Management, in conjunction with the Department of Peacekeeping Operations, should establish accountability for irregular procurement of the services for

MISSION A in the amount of \$1.1 million and ex post facto submission to the Local and Headquarters Committees on Contracts (AP2005/600/20/33).

122. *DPKO agreed with recommendation 33.*

M. Awards for purchase of equipment and services

Background

123. OIOS reviewed five procurement cases awarded to Vendor Y, to identify and analyze patterns of fraud indicators. All of these cases involved a senior officer of PD who was also a frequent Officer-in-Charge for PD, and a PD officer. The total value of these five cases was \$48.6 million. These findings were included in a separate audit report transmitted to DM, which included a recommendation to address accountability¹³.

Table 11: Awards to Vendor Y with fraud indicators

Case No	Fraud Indicator	Amount (Million)	Year
1	Yes	\$1.9	1999
2	Yes	\$3.5	2000
3	Yes	\$34.4	2000
4	Yes	\$3.5	2000
5	Yes	\$5.3	2002
		\$48.6	

Audit findings

(i) Bid submission scheme – cancellation of bids

124. For cases 1, 2, 3, 4 and 5 (Table 11), bid openings on the designated closing dates showed that Vendor Y was not the lowest bidder and hence should not have been awarded the contracts. Although the contracts should have been awarded to the lowest bidders, the senior officer of PD cancelled these bids without sufficient justification and called for replacement bids, which Vendor Y won.

125. In canceling these bids and calling for replacement bids, there were indications that the senior officer of PD had manipulated the procurement process to enable Vendor Y to win the replacement bids by overriding the procurement procedures that are largely general and leave considerable room for PD's judgment. The following summarizes this pattern for cases 1 through 5.

¹³ Review of selected peacekeeping procurement cases – analysis of patterns of fraud indicators (AP2004/600/14)

- Case 1: A vendor other than Vendor Y submitted the lowest bid by the closing date. Citing the need to incorporate into the bid a requisition that PD received 2 weeks after the initial bid closing date, the senior officer of PD nullified the bid result and decided to re-bid. Furthermore, for the re-bid, the senior officer of PD limited the invitation only to Vendor Y and the initial lowest bidder. He unduly restricted the bid closing date which discouraged the lowest bidder and caused him to abstain from the re-bid. In addition, the senior officer of PD misled the Headquarters Committee on Contracts (HCC) as to the reason for this vendor's abstention from the re-bid. Vendor Y won the replacement bid as the sole bidder.
- Case 2: As in Case 1, a vendor other than Vendor Y submitted the lowest bid by the bid closing date. Again citing the need to incorporate a requisition that PD received after the initial bid closing date, the senior officer of PD nullified the bid result and decided to re-bid. The re-bid yielded a split award between Vendor Y and the lowest bidder.
- Case 3: Based on a technical matter relating to contractual terms, the senior officer of PD disqualified the lowest bidder to whom the HCC had already awarded the bid. Vendor Y, the second lowest bidder, was then awarded the bid for the same equipment that the disqualified lowest bidder offered. As a result, the Organization had to pay 16 per cent or \$480,990 more for the same equipment.
- Case 4: When the Department of Peacekeeping Operations (DPKO) technically rejected all proposals received for the initial bid, the senior officer of PD arranged for DPKO officials to meet with Vendor Y representatives to explain the detailed technical specifications. According to the DPKO officials, this special arrangement (only for Vendor Y) enabled Vendor Y to submit a technically acceptable proposal for the replacement bid, which it won.
- Case 5: There were indications that a PD officer distorted communication to DPKO for the purpose of canceling the initial bid where Vendor Y was not the lowest bidder, and the brand of equipment offered by Vendor Y was not going to be selected as a standardized brand. Vendor Y won the replacement bid.

(ii) Altering of Vendor Y bid prices

126. The audit revealed that, with regard to Cases 2 and 4, the bid prices offered by Vendor Y were altered after the bid closing date.

- Case 2: After it was clear that a vendor other than Vendor Y submitted the lowest price for this bid by the bid closing date, a PD officer and the senior officer of PD claimed that they had found a facsimile message from Vendor Y offering a discount, which matched the price offered by the lowest bidder. The PD officer and the senior officer of PD stated that the message was included in the Vendor Y proposal but was not found when the bid was opened.

- Case 4: After the initial bid, the senior officer of PD called for a best and final offer (BAFO) where the vendors were invited to offer their final price, which resulted in Vendor Y becoming the lowest bidder. During the HCC presentation, the Committee found that the BAFO offered by Vendor Y had been altered twice to reflect lower prices after it was submitted, while no other bidders were allowed to do so. Although the senior officer of PD admitted that he altered the BAFO offered by Vendor Y, his supervisor took no action to reprimand him.

(iii) Breach of impartiality – indication favouritism towards Vendor Y

127. There were indications that the senior officer of PD had showed unwarranted favouritism towards Vendor Y, which was clearly evident in Cases 1 and 4.

- Case 1: The senior officer of PD called for a re-bid between Vendor Y and another vendor on 31 December 1999 with a firm deadline of 6 January 2000, which left little time (Christmas/New Year season). The re-bid included a new requirement for the vendors to specify separate prices for the main items and spare parts. It appears that this new requirement was directed only to another vendor because Vendor Y had already submitted separate prices for the main items and spare parts while the other vendor had not. The other vendor abstained from the re-bid and its managing director mentioned to OIOS that the reason for abstention was the rigid timeline which did not allow enough time.
- Case 4: Although four other vendors submitted proposals, the senior officer of PD arranged for DPKO officials to meet only Vendor Y in order for DPKO officials to explain the specifications of the equipment in detail to Vendor Y, which enabled Vendor Y to submit a technically acceptable bid for the next bid.

(iv) Time constraints used as a reason to make award to Vendor Y

128. In some instances, instead of exploring other options such as calling a new bid, the HCC and DPKO had to accept the senior officer of PD's recommendation that Vendor Y be awarded the bids because the related funding was expiring or because the equipment was an urgent operational requirement.

- Case 1: The HCC awarded this case to Vendor Y based on exigency.
- Case 3: DPKO learned that the contract with the lowest bidder was not finalized four months after the HCC award. When the senior officer of PD through OLA disqualified this lowest bidder and awarded Vendor Y instead, DPKO could not call for a new bid because further procurement process would cause the funds, already expired and sustained with a limited extension, to be taken away.
- Case 5: The HCC awarded this case to Vendor Y as a one-time exception due to "imminent loss of funds".

129. OIOS recommended to DM in audit report AP2004/600/14 that DM take appropriate action to address the identified irregularities in this case.

VI. ACKNOWLEDGEMENT

130. I take this opportunity to thank the management and staff of DPKO for the assistance and cooperation provided to the auditors in connection with this assignment.

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