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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jan Pronk,
A: Special Representative of the Secretary-General, UNMIS

DATE: 23 February 2006

Mr. Christopher Burnham, Under-Secretary-General
for Management

REFERENCE: AUD-7-5:26 /06)
00117

Mr. Jean-Marie Guéhenno, Under-Secretary-General
for Peacekeeping Operations

FROM: Dagfinn Knutsen, Chief,
DE: Peacekeeping Audit Service, Internal Audit Division-I, OIOS



SUBJECT: **OIOS Audit No. AP2005/632/04: Rations Management at UNMIS**
OBJET:

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during November-December 2005.
2. We note from your response to the draft report that most of the recommendations have been accepted. Based on the responses received, we have closed recommendations 3, 9, 21 and 29 in the OIOS recommendations database. Recommendation 24 has been withdrawn. In order to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. OIOS is reiterating recommendations 1, 2, 4 to 7, 10, 18, 19 and 30, and requests that you reconsider your initial response concerning these recommendations. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e. recommendations 1 to 8, 10, 11, 13 to 16, 18 to 21, 25, 27, 28 and 30) in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the Management and staff of UNMIS for the cooperation and assistance extended to the auditors on this assignment.

Copy: Ms. Mary Roth, OIC Administration, UNMIS
Mr. Philip Cooper, Acting Director, ASD/DPKO
UN Board of Auditors
Programme Officer, OIOS
Mr. M. Akram Khan, Chief Resident Auditor, UNMIS

Office of Internal Oversight Services

Internal Audit Division I



Audit of Rations Management at UNMIS

Audit no:	AP2005/632/04
Report date:	23 February 2006
Audit team:	Nawal Yadav, Auditor-in-Charge Satish Ratnam, Auditor Catherine Gatungo-Lewis, Audit Assistant

EXECUTIVE SUMMARY
Rations Management at UNMIS (AP2005/632/04)

OIOS conducted an audit of rations management at UNMIS in November-December 2005. The main objectives of the audit were: to ascertain whether the Mission was managing the rations for military contingents with due regard for economy, efficiency and effectiveness; and to assess the adequacy of internal controls for managing rations and to ensure that the Organization pays for only completed services and delivered goods in accordance with the provisions of the contract.

UNMIS was receiving rations supplies from Eurest Support Service (ESS – a commercial supplier) since May 2005, even though a formal contract had not been signed till the time of this report in December 2005. The not-to-exceed value of the proposed contract is \$201 million for five years, starting from January 2005. The Department of Management's Procurement Service issued a letter of award to the supplier on 31 December 2004 under which the supplier has been making deliveries. OIOS considers that the absence of a formal contract has exposed the Organization to significant risks of possible disputes and disagreements, with resultant financial implications.

OIOS found other issues which require investigation by the Department of Management at Headquarters level and by UNMIS at the Mission level. For example, the Procurement Service's presentation to the Headquarters Committee on Contracts (HCC) appeared to have understated by \$17 million the commitment arising from the contract. Also, the Mission provided UN flights to the supplier during September-October 2005, when there were fuel shortages in Sudan. The Mission's decision resulted in a loss to the Organization of \$296,872. In another case, the delay of four months in testing and certifying the suitability of water produced by the water purification plant of the Bangladesh contingent resulted in avoidable expenditures amounting to \$962,821. In another instance, the Mission paid \$839,349 to the supplier for warehouse operations even while the warehouses were not complete and operational.

The annual cost of bottled water as proposed by the supplier is \$20 million, whereas the cost of other rations is about \$40 million. UNMIS should take urgent steps to explore alternative means of water supply, i.e. setting up its own water purification plants, as stated in the Procurement Service's presentation to the HCC.

Poor storage of composite rations packs obtained from UNMEE and UNLB resulted in a loss of \$104,964, and overpayments of \$33,923 were made to the supplier due to computation errors.

In response to the draft report, UNMIS stated that since the completion of the audit, the Mission has initiated steps to implement the audit recommendations. Procurement Service stated that in view of the current situation the Organization is facing with ESS, who has been suspended from the vendor database, arrangements for food provisioning in UNMIS are considered temporary. Procurement Service has advertised this and other "ESS-related" requirements in the market and is proceeding with issuance of the Request for Proposals shortly upon receipt of the final Statement of Work from DPKO.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 – 6
II. AUDIT OBJECTIVES	7
III. AUDIT SCOPE AND METHODOLOGY	8 – 9
IV. OVERALL ASSESSMENT	10
V. AUDIT FINDINGS AND RECOMMENDATIONS	11 – 84
VI. ACKNOWLEDGEMENT	85

Annex I: Actual cost of water for one year

Annex II: Cost of water as indicated in HCC presentation

LIST OF ACRONYMS

BOI	Board of Inquiry
CISS	Chief Integrated Support Services
CMU	Contract Management Unit
CRP	Composite Ration Packs
DM	Department of Management
ESS	Eurest Support Service (rations supplier)
FMO	Force Medical Officer
GOS	Government of Sudan
HCC	Headquarters Committee on Contracts
JLOC	Joint Logistics Operations Centre
LOA	Letter of Award
LSD	Logistics Support Division
R&I	Receiving and Inspection
RFP	Request for Proposal
RMU	Rations Management Unit
RO	Reverse Osmosis
SAU	Self Accounting Unit
SOW	Statement of Work
TCC	Troop Contributing Countries
UNLB	United Nations Logistics Base
UNMEE	United Nations Mission in Ethiopia and Eritrea
UNMIS	United Nations Mission in the Sudan

I. INTRODUCTION

1. OIOS conducted an audit of rations management in the United Nations Mission in the Sudan (UNMIS) during November to December 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.
2. The Procurement Service at Headquarters, New York issued a letter of award against proposed contract (PD/C008/05) to Eurest Support Service (ESS) (hereafter termed as “the supplier”) for the supply of rations to the military contingents of UNAMIS (subsequently UNMIS) on 31 December 2004. The award was initially given for 3 years with an option to renew it for two more years. The total value of the proposed contract for five years is \$201 million and the contract is in effect since 1 January 2005.
3. When fully staffed, UNMIS will have 9,250 troops located at different parts of the Sudan. The Procurement Service issued the existing award after the procurement proposal had been reviewed by the Headquarters Committee on Contracts (HCC). However, the contract had not been signed till the end of November 2005. The Procurement Service informed that it had suspended ESS from the Procurement Service Vendor Database since October 2005. Therefore, the arrangements for food provisioning in UNMIS are considered temporary. UNPS is in the process of re-award of contract through a competitive process.
4. As at end of October 2005, the actual troop strength in UNMIS was 2,881 as shown below:

Table 1: UNMIS Troop Strength as on 31 October 2005

	Unit	Troop Contributing Country	Troop Strength
1	Juba	Bangladesh	481
2	Malakal	India	60
3	Kadugli	Egypt/India	772
4	Ed Damazin	Pakistan	374
5	Abyei	Zambia	310
6	Khartoum	Italy	244
7	Kassala	Nepal	241
8	El Obeid	Transit camp (Indian TCC)	399
	Total		2,881

5. The Mission had been ordering the supply of rations three weeks in advance but started a four-week cycle from December 2005. The supplier has the responsibility to deliver the rations to all contingents on a weekly basis. The Mission staff inspects deliveries to confirm quality and quantity against orders. Invoicing and payments generally follow a monthly cycle.
6. The comments made by UNMIS, DPKO and the Procurement Service on the draft audit report have been included in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

7. The overall objectives of the audit were to:
- a) Ascertain whether the Mission was managing the rations for military contingents with due regard for economy, efficiency and effectiveness; and
 - b) Assess the adequacy of internal controls for managing rations and to ensure that the Organization pays for only completed services and delivered goods in accordance with the provisions of the contract.

III. AUDIT SCOPE AND METHODOLOGY

8. OIOS focused on transactions relating to the period May to November 2005 and sought to determine the adequacy and effectiveness of internal controls in the various stages of the rations management process, starting from the issue of requisitions to ultimate consumption and/or disposal. OIOS also conducted tests to determine compliance with established procurement procedures, including the United Nations Financial Regulations and Rules, the Procurement Manual, and the Department of Peacekeeping Operations (DPKO) guidelines.
9. OIOS reviewed relevant documentation and interviewed responsible personnel in UNMIS, including the military contingents involved in the rations process. OIOS also visited camps of some contingents to observe the rations delivery system and the records kept by contingents.

IV. OVERALL ASSESSMENT

10. UNMIS was taking delivery of rations based on a letter of award, rather than a formal contract, which exposed the Organization to significant risks. There is already a dispute with the rations supplier involving a substantial amount. The HCC presentation leading to the contract award appeared to have been understated the commitment by \$17 million. There were control weaknesses and failures which caused substantial losses that need to be investigated and responsibilities assigned. The Mission paid substantial warehousing costs even though the supplier had not established the warehouses. The supplier was allowed to airlift food rations based on a faulty cost-benefit analysis which resulted in additional costs to the Mission. The audit also identified overpayments arising from computation errors which have to be recovered from the supplier. In view of the deficiencies found, OIOS has serious concerns about the management of high-value contracts in the Mission, the lack of enforcement of internal controls, and the accountability of the Mission's management.

V. AUDIT FINDINGS AND RECOMMENDATIONS

Absence of a duly signed contract

11. The Procurement Service processed the procurement of rations for UNMIS. The value of the proposed contract is \$201 million for five years, and the work was awarded to Eurest Support Service (ESS) in December 2004, to be effective from January 2005. The Procurement Service

issued a Letter of Award (LOA) to the supplier on 31 December 2004, instructing timely mobilization within 54 days. This work was awarded on a proactive basis so that the troops could be deployed immediately after the approval of Mission's mandate and rations could be provided on their arrival in February 2005. However, the Security Council approved the UNMIS mandate only on 24 March 2005, and troops started arriving by the end of May 2005.

12. The Procurement Service had not signed a formal contract with the supplier till the date of audit (November 2005). During an earlier audit, OIOS learned that the delay in signing the contract was due to delay in approval of the mandate by the Security Council. After 24 March 2005, this reason was no longer valid. However, 8 months have passed since the mandate was approved, but the contract is yet to be signed. UNMIS has been ordering rations, making payments, holding formal meetings with the supplier, and recommending the duty-free importation of rations. Effectively, a contractual relationship has been established and the UN faces the risk of any undue claims by the supplier, given that the contract has not been signed.

13. Already, the Mission has realized that the present text of the proposed contract has some ambiguities which are creating difficulty in the management of rations supply. UNMIS has referred these ambiguities to Headquarters but had not received any response. Examples of the issues raised by the Mission with Headquarters are given below. These questions need to be resolved through a signed contract.

(a) ESS offered a 2.5% decrease in award of work for all three regions (North Regions, South Regions and Darfur Regions). Does this rate apply, even though Darfur Region has not yet been activated?

(b) The proposed troop strength in the request for proposal (RFP) was 11,586. The Security Council mandate has reduced the figure to 10,000 inclusive of UN military observers (UNMOs), making an effective troop strength of 9,250. Should the signed contract not adopt the revised figure, to reduce the rate of mark-up arising due to shortfall between the agreed troop strength and the actual troop strength?

(c) ESS' financial proposal states monthly operational cost of \$104,431 for Central Warehousing Operations in Port Sudan -El Obeid. The supplier asserts that they are two warehouses whereas the language in the RFP suggests that this is one operation. Which interpretation is correct?

(d) Annex D (Price Summary) of ESS' proposal states the cost of water per liter as \$0.17. In the last line it is quoted as \$0.21 per liter to be deducted if/when the UN starts operating its own bottling plant. Which rate is applicable?

(e) There was no rate for rations and water for Kassala and currently it is paid at Port Sudan rate plus transportation. The supplier has quoted a ceiling man-day rate (CMR) which is lower than the Port Sudan rate plus transportation as being paid by the Mission at present. Should not the lower rate quoted by the supplier be adopted immediately and retroactively?

Recommendations 1 – 3

UNMIS Management, in liaison with the Department of Management's Procurement Service, should:

- (i) Urgently obtain the contract document in order to minimize risks to the Organization arising from the absence of a legally binding instrument (AP2005/632/06/01); and
- (ii) Ensure that the contract reflects the revised troop strength of 9,250 instead of 11,586 in order to reduce the rate of mark-up on the approved rate due to percentage of shortfall in the troop strength (AP2005/632/06/02).

The Department of Management should determine the reasons for the Procurement Service's failure to sign the contract with the rations supplier on a timely basis, which has exposed the Organization to a high level of financial risk, and assign accountability to the persons responsible (AP2005/632/06/03).

14. *UNMIS Management did not accept recommendation 1, stating that OIOS should request further clarifications from UN Headquarters. Procurement Service accepted recommendation 1 and stated that the Service was presented with numerous changes of requirements by DPKO and UNMIS. Due to this volatility, negotiations and contract formation took time through mid-summer of 2005. As a result of media revelations about ESS and contractor's admission of wrongdoing, contract negotiations were put on hold. Upon Procurement Service's suggestion, DPKO and OLA agreed in late October 2005 to endeavour signing an interim contract for the duration of the transition to another contractor. At this stage Procurement Service and ESS have agreed to sign a temporary contract, which is being worked out in co-operation with OLA and DPKO. OIOS reiterates its recommendation that UNMIS should obtain a copy of the contract from Procurement Service, when signed. Recommendation 1 remains open pending its full implementation by UNMIS Management.*

15. *UNMIS Management did not accept recommendation 2, stating that the Procurement Service at UN Headquarters is managing the ESS rations contract, and that OIOS should seek comments from UN Headquarters. Procurement Service stated that recommendation 2 is for DPKO, whereas DPKO commented that the issue of whether troop strength can be changed should be commented upon by DM. Procurement Service also indicated it's understanding that updated troop strength will be included as part of the SOW for the new contract. OIOS reiterates its recommendation that UNMIS Management should liaise with Procurement Service on the matter of reflecting the revised troop strength in the contract. Recommendation 2 remains open pending its full implementation by UNMIS Management.*

16. *With regard to recommendation 3, Procurement Service explained that it was presented with numerous changes in requirements by DPKO and UNMIS. Due to this volatility, negotiations and contract formation took time through mid-summer 2005. OIOS is satisfied with this explanation*

and has closed recommendation 3.

Potential liability of \$6 million due to dispute on warehousing charges

17. The supplier has been raising two invoices in the amount of \$104,431 each towards central warehousing charges for the two warehouses at Port Sudan and El Obeid. However, UNMIS considers the central warehouse as a single unit. The Mission's position is that the central warehousing system is a single operation, comprising the main warehouse at Port Sudan and the distribution warehouse at El Obeid. The supplier's bid shows it as "central warehouse operations Port Sudan-al-Obeid." Therefore, despite having two warehouses, the whole operation is a single function or entity and should be paid for only once. However, the supplier's position is that since he is operating two warehouses, one each at Port Sudan and El-Obeid, he should be paid for both of them separately. This has led to a dispute between UNMIS and the supplier.

18. Currently, the Mission is paying \$104,431 for both locations and the monthly invoice of \$104,431 issued separately for El Obeid is being treated as disputed. The total disputed amount for the period 25 February to 30 September is \$751,472. In OIOS' opinion, this is a serious matter because it gives rise to a contingent liability of \$1.248 million per year and a total of \$6 million over 5 years. OIOS agrees with the position taken by the Mission, but believes that UNMIS should seek a legal opinion in this matter to resolve the dispute without delay.

Recommendation 4

UNMIS Management, in consultation with the Department of Management's Procurement Service, DPKO and the Office of Legal Affairs, should urgently resolve the dispute with the rations supplier on warehousing charges and incorporate a clear provision in the contract, which is yet to be signed, to eliminate the possibility of double payment (AP2005/632/06/04).

19. *UNMIS Management did not accept recommendation 4, stating that the question of double payment does not arise.* OIOS finds this response unacceptable, since the issue addressed in the recommendation is not whether there is any double payment, but rather the confirmed fact that there is a dispute with the vendor on this matter that needs to be resolved. *Procurement Service accepted the recommendation and stated that it is well aware of the issues related to the central warehouse, which have been brought to the attention of ESS during negotiations in January. The interim contract will duly confirm the fact that only one central warehouse will be paid for, as detailed in the RFP.* Recommendation 4 remains open in OIOS' database pending receipt of a copy of the interim contract from UNMIS, confirming this position.

Understatement of \$17 million in the HCC presentation

20. The proposed rations contract comprises the supply of food and water, with UNMIS having the option to buy water when it requires. The Procurement Service presented to HCC a comparative cost statement of different bidders that shows price of all rations for five years but the cost of water only for one year. It also shows the cost of rations without water for one year. OIOS found that the

total cost quoted by ESS including water was \$201,560,104.80 and excluding water was \$198,325,003.95, implying that the cost of water was only \$3,235,100.85 for one year. However, OIOS' calculations show that the cost of water comes to \$20,509,295.25 for one year, based on the rate quoted by the supplier for the respective locations, and that the Procurement Service understated the cost of water to the HCC by \$17,274,194.40 (see Annex I and II).

Recommendation 5

The Department of Management should investigate the reasons for understatement of cost of water by \$17 million per year in the Procurement Service's presentation to the HCC for procurement of rations for UNMIS and assign responsibility for any misrepresentation of facts (AP2005/632/06/05).

21. *Procurement Service rejected recommendation 5, stating that it should be removed from the report. Procurement Service contended that the prices for water presented to HCC were based for all three bidders on cost of water excluding transportation to the location, i.e., in case of ESS, \$0.17 per liter for all sectors. At the time when the presentation was made, it was unclear whether UNMIS would use the contractor's services for delivering water, and it was not communicated to Procurement Service whether the water would be needed. Hence provision of water was described as "optional". Based on these assumptions, Procurement Service stated that the total amount of award indicated in the presentation at \$201,560,104.80 is correct. OIOS is not satisfied with this response. The cost of water should have included the transportation cost as well, as quoted by the bidders for each location. The submission to HCC should have disclosed that the cost of water cost did not include the cost of transportation. This was a significant omission, since the cost of transportation is a major element of the cost of water. If the cost of transporting water had been included, the actual cost of rations with water would have been higher by \$17 million for one year in case of ESS' bid. In the case of other bidders, there would have been a similar position. This fact was not reported to the HCC. The document presented by Procurement Service to HCC states only "cost including water" but does not qualify that it is "excluding transportation". Thus, significant cost information was not provided to HCC. OIOS therefore believes that an independent investigation is warranted, and reiterates that such an investigation be conducted by the Department of Management. Recommendation 5 remains open pending receipt of the results of the investigation.*

Avoidable expenditure of \$962,821 on water supplied to the Bangladesh contingent

22. Since bottled water is the most costly component of the rations contract (costing \$20 million a year), UNMIS needs to take the initiative in expeditiously making alternative arrangements for water supply at troop locations to minimize costs. The Engineering Section explained that the UN's responsibility is to provide raw water from the bore well, and contingents are responsible for bringing their own water treatment plants within eight weeks of arrival, for which they are paid separately under "self-sustainment". If a TCC does not bring a water treatment plant, it is not paid for water treatment plants but the Mission has to continue supply of the bottled water, until it sets up its own water purification plants.

23. Contingents use reverse osmosis (RO) plants for this purpose. The source of water is bore

wells or river water. These plants have been installed at only two locations -- Juba and Kassala by Bangladesh and Nepal contingents respectively. OIOS inspected the RO plant at the Bangladesh Engineering contingent at Juba (see Pictures 1 and 2).

Picture 1: Reverse Osmosis plant at Bangladesh Battalion at Juba



Picture 2: Plate affixed on the water purification plant of Bangladesh Contingent



During the inspection, OIOS found that:

- a) The plant was in good working condition and was capable of producing 2,000 liters of water per hour.
- b) The plant was received on 26 July 2005 and installed the very next day. It has since been providing the camp with water for all purposes except drinking. The reason for not using the water for drinking as cited by the camp commander was that the Mission did not test and certify the water for drinking purposes. The camp commander considered that it was the Mission's responsibility to fulfill this requirement, and stated that the contingent would immediately use the water for drinking upon certification, and cease requisitioning bottled water. The camp strength including the Infantry and Medical contingents was authorized at 750, and actual strength was approximately 680. During 1 August to 30 November (four months), the Mission supplied bottled water to this contingent at a cost of \$962,821 (see Table 2). In OIOS' opinion, this expenditure could have been avoided, had the Mission taken prompt action to test and certify the water for drinking purposes.

Table 2: Bottled water supply to the Bangladesh Contingent during August-November 2005

Month	Total person-days	Rate (\$)	Bottled Water Cost (\$)	Total Cost (including 15% additional for lower troop strength) (\$)
August	14,255	11.55	164,645	189,342
September	18,277	11.55	211,099	242,764
October	17,276	11.55	199,537	229,468
November	22,680	11.55	261,954	301,247
Total			837,235	962,821

- c) The Engineering Section informed OIOS that they tested the water only on 19 and 20 November 2005 and confirmed that the quality of treated water was acceptable and fit for drinking. Therefore the delay in water testing caused an avoidable expenditure of \$962,821 for the period August to November 2005 as shown in Table 2.

24. OIOS also learned that a purification plant was installed at the Italian Camp in Khartoum in July 2005 but the Mission did not test the water quality and continued to supply bottled water. The Engineering Section confirmed that they never tested the Italian Camp's purified water. Since the UN is paying cost of bottled water until the purified water is certified fit for drinking, UNMIS should test the purified water immediately after the installation of purification plant and stop supplying bottled water if the purified water is fit for drinking. The cost of water per man-day for the Italian Contingent in Khartoum at \$2.41 for 252 troops comes to \$607.32 per day and monthly cost is \$18,219.60. Therefore, potential savings of \$72,878.40 were foregone during the period August to November 2005.

25. The RO plants have yet to be installed at other TCC camps except Juba and Kassala. In OIOS' opinion, this shows a lack of urgency on an issue that has significant financial implications for the Organization. Bottled water is being purchased as a matter of course. The Mission does not have a standard operating procedure for ensuring that the contingents set up their water treatment

plants within a certain time-frame and that this is followed up with testing and certification of water, and finally with the cessation of bottled water supply. There is no clear procedure to determine who would do what and when in this case.

Recommendations 6 and 7

UNMIS Management should investigate the reasons for the delay in testing the quality of water produced by the Bangladesh contingent, which led to avoidable expenditures of \$962,821, and assign responsibility for the loss (AP2005/632/06/06).

UNMIS' Integrated Support Services Section should formulate a Standard Operating Procedure to improve coordination among contingents, Engineering Section, COE Unit and Rations Management Unit to define their roles, responsibilities and timelines for installation of water purification plants, testing of water and stopping supply of the bottled water (AP2005/632/06/07).

26. *UNMIS Management partially accepted recommendation 6 and stated that none of the laboratories in Sudan perform water testing in accordance with the standards established by WHO. The water testing function for the Bangladesh contingent was to have been provided by their Level II hospital which had not arrived in the mission area until November 2005. This hospital is now under construction and its laboratory will be operational by March 2006. Thereafter, it will be the responsibility of the contingent to test the water. UNMIS also stated that water testing could not be done due to lack of staff and testing kits. The Mission did not agree that the expenditure was avoidable as the contingent had to be continued to be supplied with drinking water till the treated water was proved potable in mid November 2005. OIOS is not convinced with UNMIS Management's contention that the expenditure was unavoidable. Granting that the contingent did not bring the Level II hospital with water-testing facility until November 2005, due diligence on the part of the Mission, in view of significant financial implications to the Organization, should have led it to explore other avenues for testing water, which it ultimately did by finding a testing kit in El-Obeid in September 2005. Inexplicably, the Mission took another two months to use this kit and test the water. OIOS therefore reiterates that the loss of \$962,821 was avoidable, and that UNMIS Management should conduct an objective investigation and assign responsibility for the loss. Recommendation 6 remains open pending receipt of the results of such an investigation.*

27. *DPKO concurred with recommendation 6 and stated that it has already been implemented. DPKO commented that whilst it is not stated in the COE Manual, the onus to prove that the COE water treatment plant is capable of producing potable water is on the contingent. The UNMIS COE Capability Assessment Table includes a condition that the water must meet WHO guidelines for drinking water. Also included is the requirement for a contingent to have basic water quality testing equipment for physical, biological and chemical testing of water samples. DPKO further stated that the UNMIS should seek recovery from the TCC for water delivered for this period. OIOS is of the view that DPKO's response shifts the blame on the contingent and proposes to impose the water supply cost on the TCC. Such action requires an explicit agreement of the TCC before the liability is incurred on its behalf. The United Nations cannot impose liabilities on other entities after the*

event and without their agreement. OIOS also does not consider recommendation 6 as implemented, as indicated by DPKO, since the outcome of UNMIS' efforts to recover the loss from the TCC is as yet unknown.

28. *With regard to recommendation 7, UNMIS Management accepted the recommendation and stated that the Standard Operating Procedures will be prepared by the Mission. DPKO commented that UNMIS will ensure coordination of key activities among relevant sections and will put in place a verification regime to ensure compliance to the guidelines. Recommendation 7 remains open pending receipt of a copy of the standard operating procedures prepared by UNMIS.*

Failure to meet the commitment made to the HCC to phase out bottled water supply

29. While it is the responsibility of the TCCs to bring in the water treatment plants as part of their COE within eight weeks of arrival, the UN remains committed to supply bottled water until such time that the plants are installed. The only other option would be for the UN to install its own plants – an option which was considered in depth even before the contract was awarded. In its submission to the HCC, the Procurement Service stated: “The cost of drinking water included in a 5-year total contract represents a cost of a 12 months’ supply of drinking water, to ensure uninterrupted commencement of the operation. Thereafter, the UN would establish water purification plants to be used to satisfy this requirement, ensuring substantial savings to the Organization.”

30. OIOS examined the Mission’s preparedness to install water purification plants, and was informed by ISS that no plants had been commissioned and fully functioning at any of the locations in UNMIS. There was an attempt to install a plant at Juba, but this plant has not been able to produce water at the required quality standards. The only plants functioning were those belonging to the two contingents discussed above (Bangladesh and Italy).

31. The Mission received its mandate on 24 March 2005. Since then, seven months have elapsed, and UNMIS has not installed its own plants so far. OIOS further noted that there was no evidence that any plans for this purpose were in place (as of December 2005). OIOS concluded that the Mission would have to continue purchasing bottled water at a significantly higher cost, until it shows a sense of urgency to ensure that water purification plants are installed as promised to the HCC at the time of seeking initial approval for the contract.

Recommendation 8

UNMIS Management should take immediate steps to meet the commitment made to the Headquarters Committee on Contracts (HCC) and install its own water plants at camp sites of those contingents who have not brought their plants and have no plans to do so, in order that the supply of bottled water can stop (AP2005/632/06/08).

32. *UNMIS Management accepted recommendation 8 and stated that implementation is ongoing. Five RO plants had recently arrived and these are planned to be installed in five different locations. Also, a requisition has been raised for an additional eight RO plants. DPKO commented that while*

the Mission received its mandate on 24 March 2005, deployment did not commence until much later since access to certain areas was denied or disrupted and as such it was not possible in some cases to conduct basic raw water surveys. Recommendation 8 remains open pending receipt of documentation from UNMIS showing that the plants have been installed, and that the supply of bottled water has ceased.

Lack of an effective system for independent verification of rations received

33. DPKO Rations Guidelines 2004 state that the receiving and inspection (R&I) staff is responsible for counting the quantity of each item received and checking that the product matches the specifications. Section 3.3 of UNMIS' R&I Guideline states that the R&I Unit is responsible for receiving, inspecting, and certifying acceptance or rejection of all items of supplies, equipment and services delivered to or provided in support of UNMIS. Section 3.2 also states that R&I staff shall inspect all items received in accordance with the packing lists, bills of lading and purchase orders specifying the quantities delivered prior to forwarding to the Self Accounting Unit (SAU). Section 3.4 further states that all inspections shall be carried out in conjunction with representatives from the SAU.

34. Currently, the Rations Management Unit sends a memo along with the month's invoices with the Requisition/Delivery Statement to R&I Unit to prepare the R & I report. The R&I Unit prepares a single R&I Report for the total amount and certifies, based on the said memo and states: "Goods received by SAU as per attached memo". The R&I Unit should conduct an independent verification of the goods received. In the absence of that, there is no independent verification as the Rations Management Unit is the unit which approves requisitions, verifies the delivery and also recommends the payment.

35. The R&I function for rations supply is currently carried out by the Rations Management Unit on the assumption that they have better qualified staff to judge the quality of food. However, OIOS believes that this arrangement has compromised an essential internal control, i.e. segregation of duties. The argument that the Rations Management Unit has better qualified staff to check the quality of food is not tenable as this would then apply to everything that is being procured by the Mission.

36. OIOS also noticed that even the Rations Management Unit did not have an adequate number of staff (Quality Assurance and Quality Control) to conduct R & I at every place. No R&I were done at Bentiu, Melute and Abyei. Furthermore, if the Rations Management Unit staff members at Juba, Kadugli, El Obeid and Malakal go on leave, there is nobody to conduct R&I. Similarly there was no staff for Kassala and the Rations Management Unit generally sends staff only once a month to do R&I. In such cases the Mission relies on the supplier and the respective contingent. These factors have created a weak control environment with an increased risk that the Mission might be paying for items not delivered.

37. UNMIS explained that it is not practical to send R&I staff to check rations delivery at all locations considering the size of the Mission and that many units are located at various places where the transportation infrastructure is poor. This would require more number of R&I staff and also create a logistical problem. However, the Mission agreed that an independent verification system

was needed.

Recommendation 9

UNMIS Management should establish a system to independently verify the rations received and ensure that the invoices are certified only after rations have been inspected by the Receiving and Inspection Unit (AP2005/632/06/09).

38. *UNMIS Management did not accept recommendation 9, stating that the current procedure is that at the time of rations delivery to a TCC team site, the Rations Quality Assurance and Quality Control (QAQC) staff verifies the quantity and quality of the product. The current practice does allow for independent checking by the QAQC staff and the TCC, the client, itself. DPKO clarified that given the many disparate locations of TCCs, it would be impractical and very costly to assign R & I officers at each location. DPKO views the use of independent verification system as highly desirable and believes that the current practice does allow for independent checks. Based on these clarifications, OIOS considers that a system of independent verification is in place. Recommendation 9 has been closed.*

Loss of \$104,964 due to negligence in packaging and storing composite rations packs

39. At the Mission's request, the United Nations Mission in Ethiopia and Eritrea (UNMEE) sent 10,560 Composite Rations Packs (CRPs) costing \$83,054 and incurred \$16,275 towards transportation cost. The total cost of the composite rations packs had thus risen to \$99,324. The Mission received these packs on 29 July 2005 but carried out R&I procedures only in November 2005. The OIC Rations Supply Unit inspected the CRPs on 17 November 2005 and found that the CRPs were damaged due to improper storage. The CRPs were kept in two containers at the World Food Programme (WFP) compound in Khartoum which did not have the required cooling system to preserve the food in hot and humid weather conditions. The Mission constituted a BOI to investigate the reasons but the report had not been finalized till the date of audit.

40. UNMIS also received 750 CRPs valued at \$5,635 from the United Nations Logistics Base (UNLB) on an urgent basis as the CRPs received from UNMEE were damaged. Again, when the consignment reached Sudan on 1 March 2005, it was in damaged condition. The Mission informed the Logistics Support Division of DPKO about its decision to immediately return these CRPs to UNLB as those were not packed or shipped in a proper container. In OIOS' opinion, the loss to the Organization could have been avoided if UNLB had dispatched the packs in a proper container. These two consignments of CRPs valued at \$104,964 had to be destroyed because the concerned staff did not take due care to safeguard the assets of the Organization.

Recommendation 10

UNMIS Management should ensure that the Board of Inquiry expeditiously finalizes its report on the spoilage of composite rations packs valued at \$99,324 received from UNMEE and take appropriate

disciplinary action against staff found to be negligent (AP2005/632/06/10).

41. *UNMIS Management partially accepted recommendation 10 and stated that the Board of Inquiry (BOI) had been completed, and the Mission is following up on the recommendations. UNMIS Management did not agree that appropriate disciplinary action was necessary since the BOI has not come to the conclusion that staff had been found negligent.* OIOS has reviewed the BOI report and believes that the recommendations made by the BOI do not address the issue of accountability for the loss. OIOS reiterates that the BOI be asked to review its report for assigning responsibility for the loss caused to the Organization. Recommendation 10 remains open pending receipt of documentation from UNMIS showing that it has been fully implemented.

Unaccounted composite rations packs valued at \$41,462

42. The Mission purchased 61,520 CRPs valued at \$381,256. But the Rations Management Unit did not maintain a detailed record of CRPs and those were sent to various locations. At OIOS' request, the Rations Management Unit collected the number of CRPs stock balance at various locations. OIOS was informed that there were 54,854 CRPs in stock as on 21 October 2005 and the Rations Management Unit was not aware about the details of remaining 6,666 CRPs valued at \$41,462. The Rations Management Unit stated that some of those stocks were consumed at various regions without obtaining its approval. These rations packs were bought for emergency purposes and the contingents consuming them should have reduced their requisitions accordingly. However, OIOS noticed that there was no evidence that any contingent had reduced its requisition because of the CRPs' consumption. These packs were either unauthorizedly consumed and not accounted for, or stolen. The Rations Management Unit neither obtained a CRP status report from the supplier nor from the contingents.

43. The CRPs stored in UNMIS premises were kept in a reefer container with adequate temperature. However, during a visit to the ESS warehouse in Kadugli, OIOS found that CRPs were kept in a container and an air conditioner was installed, but this was not effective to maintain the required temperature (0 to 26 degrees centigrade). Similarly, CRPs were stored in the ESS Rub hall warehouse at El Obeid where temperature could not be maintained at an appropriate level. The Mission is paying monthly rent for the warehouses and it is the supplier's responsibility to ensure proper conditions, failing which the supplier should be held accountable for the lapses.

Recommendations 11, 12 and 13

UNMIS Management should:

- (i) Conduct a Board of Inquiry to investigate the unaccounted for 6,666 composite rations packs valued at \$41,462 and take appropriate action against persons found negligent in safeguarding the assets of the Organization (AP2005/632/06/11).
- (ii) Ensure that the Mission maintains stock records for composite rations packs showing the quantities received, issued and

balance at each location, and that physical verification of these packs are conducted at each location to confirm that actual balances agree with the stock records (AP2005/632/06/12); and

(iii) Take immediate steps to ensure that the rations supplier has made necessary arrangements to store composite ration packs at proper temperatures so that the risk of loss is minimized (AP2005/632/06/13).

44. *UNMIS Management as well as DPKO accepted recommendations 11, 12 and 13 and stated that implementation is under progress.* These recommendations remain open in OIOS' recommendations database pending receipt of documentation from UNMIS showing that they have been fully implemented.

Health risks due to failure to inspect rations warehouses

45. DPKO Rations Guidelines 2004 Chapter 6 state: "The Force Medical Officer (FMO) must visit the warehouses at the outset of a contract to inspect food storage facilities and verify that the storage environment is safe and hygienic and conforms to international norms. At the outset and periodically thereafter, the FMO shall complete the checklist on sanitary compliance for food storage facilities in respect of the contracted facilities." However, OIOS noticed that there were no records of any visits by the FMO of any of the supplier's warehouses.

46. The Rations Management Unit staff had visited warehouses but their reports do not state whether the warehouses were in compliance with international norms, and they have also not submitted any checklist as prescribed in the DPKO Rations Guidelines 2004 regarding sanitary compliance of food storage facilities. OIOS' own inspection of the contractor's warehouse at El-Obeid, for example, showed that sanitary conditions were far from satisfactory.

Recommendation 14

UNMIS' Force Medical Officer should inspect all the warehouses installed by the supplier and confirm compliance with the DPKO Rations Guidelines 2004 with respect to health and hygiene conditions (AP2005/682/06/14).

47. *UNMIS Management accepted recommendation 14 and stated that the Force Medical Officer will be inspecting the ESS warehouse to determine compliance with DPKO Rations Guidelines 2004.* Recommendation 14 remains open pending receipt of documentation from UNMIS showing that it has been fully implemented.

Payment of \$839,349 for warehouses which are not fully operational

48. The Mission started paying warehousing costs to the rations supplier without inspecting the condition of warehouses and, in some cases, even before their completion. Table 3 summarizes the costs paid for various warehouses.

Table 3: Operational costs of warehouses paid to the supplier

Location	Monthly operational cost	Operational costs paid from	RMU inspection date	Status as per ESS letter dated 24 May 2005
Central Warehouse at Port Sudan-El Obeid	\$104,431	24/2/2005	1. Port Sudan – 31/5/2005	Operational since 24/2/2005
			2. El Obeid-26/2/2005 and 25/7/2005	Operational in temporary tented facility
Sector Warehouse-South	\$100,294	24/2/2005	1. Juba-25/4/2005	Operational since 24/2/2005
			2. Wau*	To be completed by end June 2005
			3. El Damazin*	To be completed by end of May 2005
Sector Warehouse-North	\$67,966	24/2/2005	1. Kadugli-21/4/2005 and 22/7/2005	To be completed by end of May 2005
			2. Malakal-20/4/2005	Operational since 24/2/2005

* ESS letter dated 18 June 2005 stated that Wau warehouse is at completion stage; only painting was remaining and Damazin warehouse refurbishment was completed and will be operational after the generator is installed.

49. UNMIS paid monthly charges at the full rate of \$100,294 for Sector Warehouse- South, \$67,966 for Sector Warehouse-North and \$104,431 for Port Sudan and El-Obeid since 24 February 2005 without confirming that all requirements of the technical proposal were met. OIOS found that the Rations Management Unit inspected these warehouses much later than 24 February 2005. The Rations Management Unit’s visit to Kadugli on 21 April 2005 indicated that the warehouse was not complete and only another visit on 22 July 2005 confirmed that the warehouse was ready but was still waiting for another air conditioner. Furthermore, the performance meeting on 25 October 2005 noted that the cold storage and freezer unit had yet to be installed at Port Sudan warehouse. As regards the El-Obeid warehouse, it continued to operate from the temporary tented facility (indicated in Table 3) right up to the time of OIOS’ visit to the warehouse in late November 2005. The new El-Obeid warehouse had just been completed in November 2005 and was going to be occupied.

50. The above instances show that the supplier had not completed all warehouses on 24 February 2005 but was paid at the full rate from that date. There are other indications that some of the warehouses were not fully operational but were paid for, as evident from the following:

(a) The Specialist Support Services/ LSD in its letter of 23 March 2005 stated that the

mobilization for the first three locations was to be completed by 23 February 2005. Therefore, it raises the question of how, when only three locations could be mobilized by 23 February 2005, payment for operational cost could be claimed and justified for all locations from that date.

(b) Furthermore, ESS in its own letter of 24 May 2005 titled “ESS Sudan Mobilization Update” clearly states as follows:

- With regard to Kadugli Sector: “the site is due for final completion by end of May 2005”
- With regard to ED Damazin: “Renovation will be complete by end of May 2005”.

51. It is clear that all warehouses were not complete by 24 February 2005 from which date the Mission has been paying full operational cost. OIOS determined that the payments indicated in Table 4 were in excess of what was due to the supplier.

Table 4: Excess payment of warehousing costs to ESS

Place (relevant warehouse and sector)	Rate (\$) (share of total sector rate)	Months paid	Total paid (\$) [Col.2 x Col.3]	Date of actual completion	Months due	Total due (\$) [Col.2 x Col.6]	Excess paid (\$) [Col.4 – Col. 7]
1	2	3	4	5	6	7	8
Warehouse at El-Obeid (Central warehouse system)*	52,215	9	469,940	End of November 2005	0	0	469,940
Wau (Sector South)**	33,432	9	300,888	End of June 2005	5	167,158	133,730
Ed Damazin (Sector South)**	33,432	9	300,888	End of May 2005	5	167,158	133,730
Kadugli (Sector North)***	33,983	9	305,847	End of May 2005	6	203,898	101,949
Total excess paid							839,349

Notes to Table 4:

* This is one half of the total rate payable for the Central warehousing system which comprises of Juba and El-Obeid warehouses.

** This is one-third of the total sector rate of \$100,294 for the South as the sector has three warehouses.

*** This is one half of the total sector rate of \$67,966 for the North, as the sector has two warehouses.

Col.3: Rate has been paid from 24 February 2005. Total months paid up to end of November 2005 were therefore 9 months (approximately, excluding a few days in February 2005).

Col.5: Date of actual completion obtained from correspondence and minutes of meetings. UNMIS was unable to provide exact dates of completion.

Col.6: Months due have been calculated from date of actual completion to end of November 2005.

Recommendations 15 and 16

UNMIS Management should:

- (i) Calculate the total amount of warehousing charges overpaid so far, and recover the overpayments from the rations supplier. As a first step, the Mission should recover \$839,349 from the supplier, as determined by OIOS (AP2005/682/06/15); and
- (ii) Investigate the circumstances in which the warehousing charges were paid and hold the concerned staff members accountable for the overpayments (AP2005/682/06/16).

52. *UNMIS Management accepted recommendations 15 and 16 and stated that the Mission will reexamine its records to confirm whether the contractor has been overpaid. Recommendations 15 and 16 remain open pending receipt of documentation from UNMIS showing that they have been fully implemented.*

Staff shortages in the Rations Management Unit

53. The Rations Management Unit has eight posts for Khartoum but only three posts had been filled. The Unit has to handle more than \$40 million in contracts annually. It has only five staff for Sectors Headquarters who are also performing the task of camp management in addition to rations. Currently, the Unit is supplying rations at four team sites (Meluit, Torit, Bentui and Abeyi) but could not deploy staff at these places though the posts have been approved for each team site. Furthermore, the Mission is expanding its operations at other new team sites. The Rations Management Unit is facing continued staff shortage while trying to cope with increased workload.

54. Considering its limited strength, the Rations Management Unit is able to focus mainly on ensuring uninterrupted supply of food and processing invoices. It was not able to concentrate on other important functions relating to rations managements such as follows:

- The Unit is unable to send its staff to each contingent location to check delivery, observe stock position and check if necessary adjustments in rations requisitions were done for the stock in hand. In the absence of staff at field locations, it has also to perform certain functions like checking of requisitions, coordinating with contingents etc. The supplier has to be paid within 30 days of invoice, which it could not always do.
- The Unit is also unable to maintain the database relating to rations management, analyze consumption trends, etc.
- It is also unable to collect stock balance reports from the supplier and contingents in a timely manner and review the documentation maintained at the contingent level.

Recommendation 17

UNMIS Management should take immediate steps to fill the vacancies in the Rations Management Unit so that the Unit could perform its functions efficiently and effectively (AP2005/682/06/17).

55. *UNMIS Management accepted recommendation 17 and stated that implementation was under progress.* Recommendation 17 remains open pending confirmation by UNMIS that the vacancies have been filled.

Loss of \$296,872 due to provision of UN flights to the rations supplier

56. The supplier (ESS) was allowed to use UN aircraft for carrying food rations from Port Sudan to Juba and El Obied to Juba during the shortage of fuel supply in Sudan (September-October 2005). The Rations Management Unit, through an email on 22 August 2005 and based on discussions with the supplier, requested the Chief Integrated Support Services' (CISS) approval to provide UN aircraft to ESS to transport stock, who in turn will charge rations cost at the Port Sudan rate instead of the Juba rate. The OIC Rations also stated that by adopting this method, UNMIS will benefit from a net saving of \$50,000 (\$190,000-140,000) per week (\$190,000 being the estimated gross savings between the Juba rate and the Port Sudan rate and \$140,000 being the cost of the flights). The Joint Logistics Operation Centre (JLOC) Chief endorsed the proposal. However, OIC Rations Unit could not substantiate how \$190,000 in gross savings were calculated, and there was no formal approval by CISS to this proposal. Furthermore no alternative options were considered. There could be three options in such a situation:

- a) Provide the aircraft as requested by the supplier but bill him for use of the aircraft, allowing him to charge the Mission for rations at usual rates;
- b) Provide fuel to the supplier on loan, to be returned later as the situation eases in Sudan. (In fact, UNMIS had successfully used this option with the contractor for the Tented Camp Accommodation project); or
- c) Provide the supplier aircraft and the supplier charges the Mission at Port Sudan rate and not the rate of Juba where the rations were to be carried (the option that was actually used).

UNMIS adopted the third option without analyzing the cost or benefits for the other two options.

57. There was no consistency in the data provided to OIOS by various sections of UNMIS for the aircraft provided to the rations supplier. The discrepancy in data is shown in Table 5. During a visit to supplier's warehouse at El Obied, OIOS inquired about the number of flights used for the El Obied -Juba sector by the supplier. It was found the number of flights shown by the supplier were more than those in UNMIS' records.

Table 5: Data of flights provided to the rations supplier during September –October 2005

Sector	Number of flights			
	Requested by RMU	Confirmed by MOVCON Cargo Unit	Confirmed by Aviation Unit	Confirmed by the supplier
Port Sudan-Juba	6	3	1	
El Obeid-Juba	6	5	6	8*
Total	12	8	7	8

* 8 flights for 24 September to 22 October 2005 only, as the data for 1-23 September was not available.

The Mission's Aviation Section did not provide any information to the Rations Management Unit about the actual number of flights used by the supplier, type of aircraft used and the total cost of those flights. OIOS requested Aviation Section to provide the information relating to the dates, number of flights and the type of aircraft used by the supplier. Preliminary figures provided by Aviation Section show a total cost \$789,885 for seven flights which may be only a part of the total number of flights provided to the contractor.

58. The Rations Management Unit provided the information on savings due to the supplier charging a lower rate for rations in lieu of aircraft provided by UNMIS, as shown in Table 6.

Table 6: Cost savings by applying Port Sudan rate to rations transported on UN flights to regions

Month	Week No	Item	Saving (\$)
September	35-38	Food	80,033
September	35-38	Water	207,992
October	39-42	Food	65,115
October	39-41	Water	139,843
Total			492,983

59. Based on the above, the Mission could save only \$492,983 against the estimated flight cost of \$789,855 which shows a loss of \$296,872 to the Organization. The arrangement to provide UN aircraft for the supplier's use was a deviation from existing contractual arrangements with financial implications, which should have been authorized by the Procurement Service. However, no such authorization was sought. Even the UNMIS CAO's authorization was not obtained, although the CAO had overall responsibility for contract administration. OIOS also noted that the permission to allow the supplier to use UN aircraft was granted on the basis of justification that the UN would realize a net cost saving of \$50,000 per week. However, the facts show that the UN incurred a loss of \$296,872 on seven flights. The loss could be higher if the actual flights were more than seven, as OIOS could not obtain correct figures from the Mission.

Recommendations 18 and 19

UNMIS Management should:

- (i) Investigate the decision to provide UN aircraft to the rations supplier without proper authorization or analysis and hold the concerned staff responsible for the loss of \$296,872 caused to the

Organization (AP2005/632/06/18).

(ii) Ensure that UNMIS' Aviation Section improves its record keeping for all flights, showing clearly any flights provided to a third party or other agency with record of costs and authorization (AP2005/632/06/19).

60. *UNMIS Management did not accept recommendation 18 stating that the reason for discrepancy in Table 5 above is that a Cargo Movement Request (CMR) does not necessarily equate to an equal number of actual flights. To move a CMR for 40 MT would require two flights due to payload restrictions. Table 5 was rechecked by the Mission and ESS and it was confirmed that between 4 September 2005 and 22 October 2005, nine CMRs were received by MOVCON from the Supply Section. These nine requests were met by tasking 13 separate flights. Had ESS transported the rations, the Mission would have paid \$516,421. Since the Mission paid ESS the Port Sudan/El Obeid price of rations and water as stated above, UNMIS saved an amount of \$92,941.84, corresponding to the difference in price for these locations. In this process while maintaining an uninterrupted supply of rations to the troops, UNMIS realized an actual saving to the Organization by following option (c) as opposed to option (a). As regards option (b), air safety considerations precluded the Mission from taking fuel back in exchange for the fuel provided by the Mission, except from its own fuel contractor. OIOS was provided a total cost of \$789,885 by the Aviation Section for seven flights and now the Mission has indicated the actual cost as \$423,479 for 13 flights without explaining the reason for this discrepancy which has transformed the loss to the Organization into a saving. In view of the lack of clarity, OIOS reiterates its recommendation for an investigation to confirm that the Mission did not suffer any loss in the above case. Recommendation 18 remains open pending receipt of documentation showing that it has been fully implemented.*

61. *UNMIS Management accepted recommendation 19 and stated that the Mission's Aviation Section kept accurate records of the all flights. Further improvement would be introduced if and when required. OIOS is not satisfied with this response. It is quite clear that the Aviation Section did not keep accurate records since it could not provide requested information in a timely manner. After several follow-ups, the Aviation Section indicated a cost of \$789,885 for seven flights and now it has provided a new figure of \$423,479 for 13 flights, as discussed in the preceding paragraph. OIOS therefore considers that there is a need to improve record-keeping in the Aviation Section and reiterates recommendation 19, which will remain open pending receipt of explanation for the discrepancy in the flights and related costs indicated above, as well as details of specific actions taken by UNMIS Management to improve record-keeping in the Section.*

Disposal of rations worth \$246,165 due to short shelf-life

62. ESS invoiced \$246,165 for expired stock comprising water (\$202,861) and long life milk (\$31,245). The draft contract generally requires the food items to be imported with expiry dates up to 9 months. OIOS noted that the draft contract has a serious omission in that it does not specify the required shelf-life for water (for instance, bottled water generally has a one-year expiry period). Therefore, the supplier imported the goods without adequate shelf-life. The current contractual arrangement started in January 2005 and mobilization of troops was expected from the end of

February 2005, but the supplier reported expired stock in May 2005. It is apparent that the supplier did not import the goods with adequate shelf-life.

63. On 30 May 2005, the supplier reported that it has already destroyed expired stock of \$2,747 (long-life milk and chocolate milk) without getting approval from UNMIS and the Government of Sudan. There is the risk that the supplier may have disposed of those items by sale in the local market and the Mission could be blamed for such misuse.

Recommendation 20

UNMIS Management, in consultation with the Procurement Service, should hold the supplier accountable for importing items with a short expiry date and should not pay for the expired stock items. The contract that is yet to be signed should clearly specify the required shelf-life of water (AP2005/632/06/20).

64. *UNMIS Management accepted recommendation 20 and stated that implementation was in progress. This recommendation was also accepted by DPKO and Procurement Service. OIOS will keep recommendation 20 open pending receipt of documentation from UNMIS showing that it has been fully implemented.*

Reserve stock of 14 days' requirements

65. According to DPKO Rations Guidelines 2004 and the provisions of the proposed contract, the supplier should maintain 14 days' stock as reserve for all critical items, in addition to its operational stock. However, OIOS noticed that the supplier was not submitting stock balance reports regularly to the Rations Management Unit for all locations. Also, in some cases when the supplier did submit stock statements, there was no indication about the time for which the stock in hand could last, depending on the average consumption rate. During visits to the ESS warehouse at Kadugli and El Obeid, OIOS noticed that the supplier did not have adequate stock for 14 days' reserve.

Recommendation 21

UNMIS Management should obtain from the supplier the relevant stock statements, as required by the draft contract, every month and confirm that the supplier is maintaining minimum reserve stock of 14 days for critical items (AP2005/632/06/21).

66. *UNMIS Management accepted recommendation 21 and stated that the Mission has already taken necessary action to get monthly stock statements and ensure that adequate reserve stock is maintained. This was also confirmed by DPKO. Based on these responses, OIOS has closed recommendation 21.*

Lack of adequate information systems

67. The supplier was not regularly submitting import reconciliation and stock statements each month, as required. Whenever it submitted the stock statement, it did not show the quantities imported, issued and balance at each warehouse. In the absence of this information, Rations Management Unit could not assure that all goods imported free of duty were in fact used by the UN.

68. During the audit, OIOS visited contingent camps and found that the Italian contingent at Khartoum, the Bangladesh contingent at Juba, and the Egyptian contingent at Kadugli were not maintaining any Rations Entitlement Register as required by DPKO Rations Guidelines. However, the Bangladesh Engineering contingent at Juba had maintained an inventory ledger but physical verification of stock showed that the physical balance was more than the book balance in all five cases test-checked by OIOS. This indicated stock accumulation which could be misused. It also showed that the contingent was not maintaining its books properly.

Recommendations 22 and 23

UNMIS' Rations Management Unit should:

- (i) Regularly collect stock statements from the supplier showing detailed information of imports, issues and balance stocks to ensure proper control and reconciliation of items imported duty-free, and to ensure the adequacy of reserve stocks (AP2005/632/06/22); and
- (ii) Ensure that contingents maintain proper records of all rations received, consumed and held in stock, and undertake periodical physical verification of rations stocks (AP2005/632/06/23).

69. *UNMIS Management accepted recommendations 22 and 23 and stated that implementation was in progress.* OIOS will keep these recommendations open pending receipt of documentation from UNMIS showing that they have been fully implemented.

Consolidation of requisitions of all troops at one location

70. Troops from different contingents are located at the same locations. However, for the purpose of requisitioning rations, they are treated as separate units. For example, the Bangladesh contingent has Engineering, Infantry and Medical Units at Juba and the Egyptian contingent has three units at Kadugli. UNMIS' practice of raising requisitions for each unit separately has increased the cost to the Mission and also created administrative burden to the contingent and the Rations Management Unit. For instance, according to the contract, the ceiling man-day rate (CMR) is increased by 20% if the troop strength is below 50 and by 10% if it is between 51 and 100. Also, the Rations Management Unit has to process each requisition and invoice separately, which also increases its administrative burden.

Recommendation 24

UNMIS Management, in coordination with the Force Commander, should consider all co-located contingents as a single unit for the purpose of raising rations requisitions and thereby minimize the payment of mark-ups arising from smaller troop strengths at individual contingents (AP2005/632/06/24).

71. *UNMIS Management did not accept recommendation 24 stating that the provision of extra food was as per terms mentioned in the UN Rations Scale in paragraph 24 and also on page 14 of the document under Small Unit Supplement. Based on the Mission's response, OIOS has withdrawn recommendation 24.*

Rate for transporting water to Malakal

72. The supplier had quoted the cost of water at \$2.46 per liter from Port Sudan to Malakal, which seems to be the rate if water is transported by air. Accordingly, while the total food cost per day per person is \$7.36, the water costs \$11.05 for the daily requirement of 4.5 litres per person. OIOS learned that there is road access from Port Sudan to Kosti and barges are available from Kosti to Malakal. UNMIS has not yet started taking delivery of water at Malakal, but it will start doing so in near future. While actually starting this operation, and taking advantage of the fact that the contract is yet to be signed, the Mission should insist that the water to Malakal is charged at road-river transport rates rather than air transport rate. This would lead to significant savings.

Recommendation 25

UNMIS Management, in consultation with the Department of Management's Procurement Service, should revise the rate for supply of water at Malakal based on road-river transportation rather than air transportation before signing the contract (AP2005/632/06/25).

73. *UNMIS Management accepted recommendation 25 and stated that the Mission is taking up the case with UN Headquarters. Recommendation 25 remains open pending receipt of documentation from UNMIS showing that it has been fully implemented.*

Modification of the rations scale without proper authorization

74. The proposed contract provides for the rations scale items within the CMR. The rate of each item is approved by the Procurement Service at the time of approving the bid. OIOS noted that 13 items were included in the rations scale though those were not included in the proposed contract and were not part of the DPKO rations scale. The Rations Management Unit stated that these items (for example: lentils, basmati rice, chapati flour) are included in the rations scale at the Mission level to satisfy the specific needs of certain contingents. The Unit pointed out that despite these additions they continue to remain within the CMR. OIOS noted, however, that there could be financial implications, as the basis on which the rates for the newly added items were fixed is unclear. Furthermore, the rates were fixed at Mission level without the approval of Procurement Service. It

is not clear whether LSD/DPKO was informed about these additions to the rations scale and their respective rates.

Recommendation 26

UNMIS Management should obtain the approval of the Procurement Service for inclusion of any new items to the ration scale at the Mission level, as well as the rates applicable for the new items. UNMIS should inform DPKO of the need to revise the rations scale to accommodate specific requirements (AP2005/632/06/26).

75. *UNMIS Management accepted recommendation 26 and stated that the Mission has requested UN Headquarters to allow contingents to continue to obtain food of their national/ethnic choice. Recommendation 26 remains open pending receipt of documentation from UNMIS showing that it has been fully implemented.*

Overpayments of \$33,923 due to computation errors

76. OIOS found that the Mission applied the El Obeid rate for week # 42 only for food but not for water. Thus, the supplier was paid in excess by \$26,006 (paid \$31,288 at Juba instead of \$5,282 at El Obeid rate). Furthermore, in August 2005, the average troop strength was 1,010 but was taken at only 991 and the 20% additional rate was applied as applicable to troops below 1,000. Since the average troop strength was above 1,000, the 15% mark-up was applicable. This resulted in an excess payment of \$7,917 (5% of \$158,343).

Recommendation 27

UNMIS management should recover the excess payments amounting to \$33,923 from the rations supplier (AP2005/632/06/27).

77. *UNMIS Management accepted the recommendation 27 and stated that the overpayment was made due to an inadvertent error. Supply Section will raise a debit note to ESS to recover the amount overpaid. Recommendation 27 remains open pending receipt of documentation from UNMIS showing that the amount has been recovered from the rations supplier.*

Transportation component of rations rate for Kassala needs downward revision

78. The proposed contract provides itemized prices for 14 major locations of Sudan where the rations were planned to be delivered. Kassala was not included in the list. However, troops were deployed there and the supplier is paid at Port Sudan rate plus transportation charge (\$2.52 per person per day based on the DMR rate applicable for the team site). The goods for Khartoum are transported from Port Sudan via Kassala. However, the transportation component up to Khartoum is only \$1.05. Therefore the rates for Kassala, being mid-way, need to be negotiated and included in the revised contract.

79. The map below shows that the only main road to Khartoum from Port Sudan passes through

Kassala. Kassala is therefore en-route for all traffic from Port Sudan to Khartoum.

Figure 1: Map showing route from Port Sudan to Khartoum and Kassala



Recommendation 28

UNMIS Management, in consultation with the Department of Management’s Procurement Service, should determine the transportation rate for Kassala for inclusion in the contract and also recover the excess amount paid to the supplier based on the revised rate (AP2005/632/06/28).

80. *UNMIS Management accepted recommendation 28 and stated that implementation was in progress.* Recommendation 28 remains open pending receipt of documentation from UNMIS showing that it has been fully implemented.

Internal controls in contract management need to be strengthened

81. The Mission has a Contract Management Unit (CMU) within the Procurement Section. The broad responsibilities of the Unit are to ensure that the supplier fulfills its obligations, and that the Organization’s interests are safeguarded. OIOS noted that the CMU in the Mission, though independent of the Rations Management Unit, is not playing its role effectively. Invoices received by the Rations Management Unit are not processed through CMU. Thus an independent check of the validity of all payments does not exist.

Recommendation 29

UNMIS’ Rations Management Unit should forward invoices to the Contract Management Unit for review before forwarding them to the Finance Section for payment (AP2005/632/06/29).

82. *UNMIS Management accepted recommendation 29 and stated that this has already been implemented.* Based on the Mission's response, OIOS has closed recommendation 29.

Need to determine reasons for overpayments and losses

83. As explained in the preceding paragraphs, there have been significant financial implications to the Organization from the manner in which rations supplies were managed in UNMIS. The aggregate loss from the Mission's failures was in the amount of \$1.6 million, in addition to overpayments totaling at least \$873,272. In OIOS' opinion, DPKO needs to look into these lapses and hold the concerned staff accountable for their actions.

Recommendation 30

DPKO should determine the reasons for UNMIS' failure to implement proper procedures and internal controls that have resulted in significant overpayments and losses to the Organization, and hold the concerned personnel accountable for their actions (AP2005/632/06/30).

84. *DPKO did not accept recommendation 30 stating that it has and will continue to ensure that all staff members respect their fiduciary responsibilities to the Organization. The issues raised and the further investigation requested by OIOS are an ongoing exercise and disciplinary action should only be taken once losses have been substantiated and responsibility has been assigned. In addition, it bears noting that the underlying contract has not been finalized or executed and OIOS is recommending further negotiation with and retrieval of funds paid to the contractor. OIOS takes note of DPKO's comment that further investigation into the issues raised are ongoing, and keeps recommendation 30 open pending the outcome of those investigations and resultant actions to establish accountability for the losses identified by this audit.*

VI. ACKNOWLEDGEMENT

85. We wish to express our appreciation to the management and staff of UNMIS for the assistance and cooperation extended to the auditors during this assignment.



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ESS contract
Actual cost of water for one year

Location	Projected troop strength	CMR per day for water (\$)	Per day cost (\$)	Days	Total water cost (for One Year)
Juba	1,597	11.55	18445.35	365	6,732,552.75
Abeyi	66	10.05	663.30	365	242,104.50
Wao	1,597	1.32	2,108.04	365	769,434.60
Sub Total	3,260		21216.69		7,744,091.85
Malakal	1,797	11.05	19,856.85	365	7,247,750.25
Damazin	1,552	2.26	3,507.52	365	1,280,244.80
Kadugli	1,162	2.35	2,730.70	365	996,705.50
Khartoum	265	2.41	638.65	365	233,107.25
Kosti	230	1.95	448.50	365	163,702.50
Sub Total	5,006		27,182.22		9,921,510.30
Alfasher	1,106	2.34	2,588.04	365	944,634.60
Junayanah	1,107	2.36	2,612.52	365	953,569.80
Nyala	1,107	2.34	2,590.38	365	945,488.70
Sub Total	3,320		7,790.94		2,843,693.10
Grand Total	11,586		56,189.85		20,509,295.25

Source of data: LSD Data Base "UNMIS Rations Contract Annex D-4 of ESS"

ESS Contract
Cost of water as indicated in HCC presentation

1	2	3	4
Region	Cost including water (\$)	Cost excluding water (\$)	Water cost (\$) (Col.2 – Col.3)
Region South	70,221,208.05	69,310,934.55	910,273.50
Region North	77,211,662.00	75,813,861.65	1,397,800.35
Region Darfur	54,127,234.75	53,200,207.75	927,027.00
Grand Total	201,560,104.80	198,325,003.95	3,235,100.85

Actual cost of water (Annex-1)

20,509,295.25

Cost understated by

17,274,194.40