

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Edmond Mulet
A: Special Representative of the Secretary-General
MINUSTAH

DATE: 27 February 2007

REFERENCE: AUD-7-5:10 (07- 0083)

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



SUBJECT: **OIOS Audit No. AP2006/683/13: Contract for hotel accommodation in MINUSTAH**
OBJET:

1. I am pleased to present herewith our final report on the above-mentioned audit, which was conducted in August and September 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. We note from your response to the draft report that MINUSTAH has not accepted the recommendations. OIOS is reiterating recommendations 1 and 2, 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 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.

I. INTRODUCTION

4. At the request of the Headquarters Committee on Contracts (HCC), OIOS conducted an audit of the MINUSTAH El Rancho Hotel case that was presented *ex post facto* to the HCC at its meeting of 13 June 2006. The hotel services provided were for the period 1 June 2004 through 30 September 2005 in the not-to-exceed (NTE) amount of \$1,692,130.37.

5. In May 2004, an advance preparatory team comprising of 3 UN staff from Headquarters, New York and 45 Military Staff Officers arrived in Haiti to establish MINUSTAH. The Department of Peacekeeping Operations (DPKO) designated the United Nations Development Programme (UNDP) office in Haiti as the initial focal point for administrative and financial support to the advance preparatory team. UNDP assisted with the renting of initial accommodation at the El Rancho Hotel in Port-au-Prince. On 7 June 2004, MINUSTAH took over the administrative and financial arrangements. On 1 October 2005, the Military Staff Officers were relocated to more

permanent facilities at the Le Plaza Hotel. UNDP had disbursed expenditures amounting to \$16,675.97 before MINUSTAH took over the administrative arrangements for the El Rancho Hotel.

6. The HCC considered the El Rancho Hotel case on an *ex post facto* basis and concluded (HCC/06/37) that the Controller should not take note of the *ex post facto* case presentation. Instead, the Committee recommended that the OIOS Resident Auditor at MINUSTAH conduct an audit of this case. Minutes of the HCC meeting record its members' concerns with regard to the manner in which MINUSTAH managed this case, including: (a) the appearance of unexplained differences between the contract terms and the invoices presented by the vendor; (b) ineffective communication between MINUSTAH and the Procurement Service at Headquarters; (c) ambiguity over the admissibility of mission subsistence allowances (MSA) to personnel accommodated in the hotel; and (d) some unexplained differences in the contract period.

II. AUDIT OBJECTIVES

7. The objectives of the audit were to review the HCC *ex post facto* submission pertaining to accommodation at the El Rancho Hotel. Specifically, OIOS reviewed the following:

- (a) The causes for the delay of approximately 24 months in presenting the case to the HCC;
- (b) Compliance with the provisions of the Financial Regulations and Rules, the Procurement Manual, and other administrative issuances, including the instructions governing the payment of MSA;
- (c) Accuracy of the accommodation charges billed by the vendor; and
- (d) Compliance with the agreed terms and conditions for the services.

III. AUDIT SCOPE AND METHODOLOGY

8. OIOS obtained and examined relevant documentation pertaining to this case, including correspondence, electronic mails, and minutes of the meetings of the Committees on Contracts. Interviews were conducted with the Chiefs of the Finance, Procurement, and Engineering Sections as well as the Chief of Administrative Services (CAS). Since some of the Section Chiefs involved with this case had already left the Mission before the audit was requested, they could not be interviewed. However, the CAS provided some continuity of presence throughout the contract period.

IV. OVERALL ASSESSMENT

9. There was a lapse of nearly two years from the time the LCC first reviewed this case, until it was submitted to the HCC for review. Consequently, what should have been a partial *ex post facto* case developed into a full *ex post facto* case. This undue delay was mainly because: (a) MINUSTAH's Procurement and Engineering Sections took nearly nine months to respond to the LCC's request for additional information and explanations concerning this case; (b) there was a lack of management oversight by the CAS/CAO in following up on the matter and providing the requested information and explanations; and (c) the information submitted by the Mission to the

Procurement Service at Headquarters was incomplete and inconsistent. MINUSTAH needs to establish a mechanism for promptly following up on the queries and concerns raised by the LCC, the Procurement Service and the HCC, and assign accountability for the failure to promptly respond to such questions and concerns.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Solicitation of proposals

10. On 3 June 2004, the then Chief Procurement Officer (CPO) sent a solicitation letter to ten local hotels requesting proposals for accommodation for up to 49 personnel. By 7 June 2004, six hotels replied with their bids. Table 1 is a summary that was extracted from the LCC presentation of 21 July 2004. However, only the solicitation request letters and bids pertaining to the El Rancho and Ibo-Le-Le hotels were produced by the Procurement Section in support of the data in Table 1. Related documents in support of bids pertaining to other hotels were not provided for OIOS’ review.

Table 1: Response from surveyed hotels

	Hotel Name	Total/day(US\$)	Total Beds	Average cost per bed (US\$)
1	Adam & Eve	2,205	49	45
2	La Griffonne	1,670	49	34
3	Ideal Villa	1,080	36	30
4	Villa St. Louis	2,140	49	44
5	Ibo Lele	1,500	49	31
6	EL Rancho	2,000	50	40
7	Chateau Host		Did not respond	
8	Habitation		Did not respond	
9	Coconut Villa		Did not respond	
10	Visa Lodge		Did not respond	

Technical assessment

11. On 8 June 2004, in response to the CPO’s request, the Chief of Military Staff conducted a technical assessment of the six hotels from which bids had been received. The technical assessment reports were based on dormitory accommodation for UN Military personnel based on the “Scale of Accommodations and Services in Field Missions”. The technical report recommended that the El Rancho Hotel was acceptable although it did not exactly meet the above-mentioned UN standards. OIOS noted that representatives from Procurement, Security and Engineering Sections (the last mentioned was the requisitioner) did not attend the field technical assessments. However, the Security Section had issued a security assessment report on the six hotels three weeks after the selection of the El Rancho Hotel was approved.

Letter of agreement

12. On 9 June 2004, the then Chief Administrative Officer (CAO) of MINUSTAH informed the Chief of Military Staff that the El Rancho Hotel would provide up to 60 rooms with single and double occupancy for 80 military officers; single versus double occupancy would be based on

military rank and size of the room. On the same day, following a meeting between the CPO and the El Rancho's management, the hotel issued a second letter of offer reflecting the military rank accommodation minimums and requesting a 12-month deposit on account. On 11 June 2004 the CPO issued a letter of agreement stating that advance payments could only be made in three-month periods.

Review by the Local Committee on Contracts (LCC)

13. The LCC met three times before this case was formally referred to the HCC. Annex I indicates the key Section Chiefs and Officers-in-Charge of MINUSTAH who held office during this period. The sequence of events was as follows:

21 July 2004: The case was deferred because one of the LCC members did not receive the case on time, and the proposal was not vetted by the Legal Officer (MIN/2004/03).

10 May 2005: The case was reviewed by the LCC (MIN/30/2005), and the CAO recommended to the Procurement Service at Headquarters that it be submitted *ex post facto* to the HCC. This recommendation was submitted under cover letter of 1 June 2005 to the Chief of Procurement Service. The contract period recommended was from 7 June 2004 to 31 December 2005 in the NTE amount of \$2,269,453.42.

12 July 2005: The CPO, with the approval and knowledge of the CAS (who was also the OIC of Administration at that time), proceeded to formally sign a contract with the El Rancho Hotel in the estimated amount of \$600,000 for the six-month period of 1 April to 1 October 2005. This contract was not consistent with the period (7 June 2004 to 31 December 2005) and amount (\$2,269,453.42) recommended by the LCC on 10 May 2005, and which had been referred to the HCC through the Procurement Service.

13 December 2005: The LCC reconvened in order to re-present the case to the Procurement Service, New York for consideration by the HCC after providing answers to the questions raised by the Procurement Service on the Mission's May 2005 submission. The LCC recommended approval of the proposed contract (*ex post facto*) in the amount of \$1,692,130.37 for the period May 2004 through 30 September 2005.

13 June 2006: The HCC discussed the case at its meeting no. HCC/06/37, but the Committee deferred the case pending OIOS' review.

14. The lead time from the date of the LCC's initial meeting of 21 July 2004 to the HCC meeting of 13 June 2006 is approximately 2 years. Consequently, what should have been a partial *ex post facto* case developed into a full *ex post facto* case. The delay in submitting the case to the HCC was due to the following:

(a) The Procurement and Engineering Sections failed to respond for approximately nine months to the LCC's request for additional information and explanations on the proposed contract with the El Rancho Hotel. There was also a lack of management oversight by the

CAS/CAO in following up on the matter and providing the requested information and explanations to the LCC.

(b) MINUSTAH's presentations were unclear, and this raised questions about the veracity of the information included in the HCC submission. The information submitted by the Procurement Section to the Procurement Service, New York, was incomplete and inconsistent, such as the proposed duration and value of the contract. This also delayed submission of the case to the HCC.

15. In OIOS' opinion, the Mission needs to establish a mechanism for promptly following up on the queries and concerns raised by the LCC, the Procurement Service and the HCC, and assign accountability for the failure to promptly respond to such questions and concerns.

Recommendations 1 and 2

The MINUSTAH Management should:

(i) Establish a mechanism for effectively following up and tracking the queries or concerns raised by the Committees on Contracts and the Procurement Service in order to ensure that the requested information is provided expeditiously (AP2006/683/13/01); and

(ii) Assign accountability for the failure to provide information to the LCC and the Procurement Service in a timely manner in the El Rancho Hotel case (AP2006/683/13/02).

16. *The MINUSTAH Administration did not accept recommendation 1 and provided a detailed account and justification of its actions and the corresponding timelines on this case. The Mission asserted that:*

(a) *There have been no significant lapses on the Mission's response to the queries raised by the Procurement Service. The Mission explained that some delays in the submission of relevant information were due to the lack of staff resources. The Mission added that it was seriously concerned over the delay by UNHQ, stating that it took the Procurement Service more than 12 months after the Mission first submitted the case for further presentation to the HCC;*

(b) *The contract between El Rancho and the Mission for hotel accommodation was an isolated case with unique circumstances and that the creation of a new tracking system will not necessarily add value.*

17. OIOS' audit of other procurement cases in the Mission indicated that there were also delays in finalizing the procurement action for other goods and services. In OIOS' opinion, the establishment of a follow-up and tracking mechanism for the queries and/or concerns raised by the Local and Headquarters Committees on Contracts and the Procurement Service will enable the Mission to monitor the resolution of these concerns and follow up with the appropriate section or office, both at the Mission (requisitioner, Procurement Section, LCC) and at Headquarters

(Procurement Service, HCC, Controller). Therefore, OIOS is reiterating recommendation 1 and requests that MINUSTAH reconsider this recommendation.

18. *The MINUSTAH Administration did not accept recommendation 2, stating that the failures associated with this case were systemic and were not caused by laxity or lack of appreciation for the requirement to regularize the contract. The Mission explained that the volume of correspondence and activities initiated by the Mission in its effort to have this case reviewed by the HCC were proof that the Mission took this matter seriously. The Mission asserted that it had responded promptly to all of the queries of the Procurement Service. The Mission also stated that the continuous deployment of troops and the worsening security situation at that time called for attention to the operationally critical areas including accommodation for troops and facility management services. The scarce resources in the Mission were focused on handling critical areas to support the Mission's operational activities.* OIOS reviewed all of the pertinent documentation regarding this procurement case a second time and found no record of follow-up by Procurement Section during the period from August 2004 to May 2005. OIOS believes that the concerns and queries made by the United Nations Procurement Service were legitimate, and reflected the unclear presentation and replies submitted by MINUSTAH Procurement Section. Therefore, OIOS is reiterating recommendation 2 and requests that MINUSTAH reconsider this recommendation.

B. Payments made to the El Rancho Hotel

Advance payments

19. Financial Rule 105.19 on “Advances or Progress Payments” sets out exceptional conditions for making advance payments to vendors for the procurement of goods and services. It also stipulates that reasons for such advance payments must be documented. Out of 12 disbursement vouchers reviewed during the audit, the Mission was unable to provide documentation in five cases¹ showing the prior approval of these advance payments by the CAO, even though the Chief Finance Officer (CFO) had requested the CPO to obtain the CAO’s authorization. These payments had instead been approved by the CAS.

20. On 11 June 2004, the CPO, while accepting El Rancho Hotel’s price proposal, informed the vendor that advance payment of three months’ charges was acceptable to MINUSTAH, but an advance payment of one year’s charges was not acceptable. Whereas MINUSTAH authorized payments of 3 months’ advances, these payments were consistently being made after a lapse of one to two months, and sometimes, these payments were in arrears.

Reconciliation of charges

21. On 12 December 2005, the El Rancho Hotel submitted 17 invoices for a total amount of \$1,692,197.04 for the period May 2004 through October 2005. Of these, \$1,675,297.04 were paid by MINUSTAH and \$16,675.97 were paid by UNDP (for May 2004). Monthly invoices indicated the name of the military staff accommodated in the hotel. OIOS’ reconciliation (see Table 2) of the invoiced charges with the actual occupancy list found no exceptions, except for an amount of \$224.03 for the month of May 2004 that is still disputed by UNDP.

¹ Disbursement Voucher numbers: 5-30-02188; 5-30-05202; 5-30-06664; 5-30-06103 and; 5-30-09597

22. Furthermore, the estimated NTE amount (\$1,692,130.37) included in the final LCC presentation of 13 December 2005 for the period 21 May 2004 through 30 September 2005 did not include \$66.67 relating to the payment for the month of October 2005.

Table 2: Invoices and payments for the services provided by El Rancho Hotel from May 2004 to October 2005

Invoices		Payments	
May 2004	16,900.00	Paid by UNDP	16,675.97
June 2004 to September 2005	1,675,230.37	Paid by MINUSTAH	1,675,297.04
Subtotal	1,692,130.37	Subtotal	1,691,973.01
October 2005	66.67	Disputed by UNDP	224.03
Grand total	1,692,197.04	Grand total	1,692,197.04

C. MSA payments

23. OIOS' review of records relating to MSA payments made to 1,037 military personnel accommodated at the El Rancho Hotel between June 2004 and September 2005 showed that the accommodation portion of MSA had been deducted from their MSA payments for the months during which they were accommodated at the El Rancho Hotel. Thus, MSA payments had been authorized in accordance with applicable administrative instructions.

VI. ACKNOWLEDGEMENT

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

cc: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
 Mr. Philip Cooper, Director, ASD/DPKO
 Mr. Willi Scholl, Chef Administrative Officer, MINUSTAH
 Mr. Swantantra Goolsarran, Executive Secretary, UN Board of Auditors
 Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
 Mr. Mika Tapio, Programme Officer, OIOS
 Mr. Sami Jezrawi, OIC, Office of the Resident Auditors, MINUSTAH

ANNEX I

Section Chiefs and Officers-in-Charge during the processing of the contract for hotel accommodation

TITLE	STAFF NAME	PERIOD
CPO	Judi Shane	June 2004 to 15 September 2004
CPO - OIC	Simone Trudo	11 to 14 July 2004
CPO - OIC	Vladimir Grechka	20 August 2004 to 3 September 2004
Senior Procurement Officer (20 September 2004 to 2 October 2004) CPO (3 October 2004 to April 2005) CAS (from November 2004)	Amadu Kamara	20 September 2004 to mid-April 2005
CPO - OIC	Pierre Mokbel	16 to 21 October 2004
CPO - OIC	Ronald Pinto	4 to 11 January 2005 and 3 to 6 March 2005
CPO - OIC	Alejandro Arigon	18 April 2005 to 1 May 2005 27 August 2005 to 4 September 2005 2 to 15 October 2005
CPO – OIC (on temporary assignment)	Hasita Wimalachandra	9 May 2005 to 28 June 2005
CPO	Amirthalingam Balakrishnan	June 2005 to date
CFO - OIC	Braima Jamanca	June 2004 to 17 September 2004
CFO	Kaltouma Nguessan	October 2004 to 13 October 2005
CFO - OIC	Carlos Juarez	17 to 30 September 2004 1 to 16 April 2005
Chief Engineer - OIC	Ricardo Sheldon	28 June 2004 to 4 July 2004
Chief Engineer	Chandra Srivastava	July 2004 to date
CAO	Antonio Gomez de la Torre	16 June 2004 to 10 October 2004
CAO - OIC	Wolfgang Weiszegger	10 October 2004 to 27 November 2004
CAO	Willi Scholl	27 November 2004 to date
CAO - OIC	Amadu Kamara	25 to 30 December 2004 11 to 22 February 2005 7 to 11 May 2005 4 to 14 June 2005

			13 July 2005 to 2 August 2005 10 to 16 September 2005 1 to 11 October 2005 24 December 2005 to 3 January 2006
CAO - OIC		Livio Calgario	22 April 2005 to 6 May 2005 29 October 2005 to 6 November 2005
CAS		Amadu Kamara	23 November 2004 to date
CAS -OIC		Wolfgang Weiszegger	4 to 11 January 2005 3 to 6 March 2005
Senior Administrative Officer (SAO)		Wolfgang Weiszegger (Also LCC Chairman)	July 2004 to 30 August 2005
SAO -OIC		Mike Dora	31 October 2004 to 17 November 2004
SAO -OIC		Amadu Kamara	1 to 18 November 2004