



## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Procurement and contracts management in UNMEE**

**18 January 2008**

**Assignment No. AP2007/624/05**

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

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

TO: Mr. Azouz Ennifar  
A: Acting Special Representative of the Secretary-General  
United Nations Mission in Ethiopia and Eritrea

DATE: 18 January 2008

REFERENCE: AUD-7-5:21 (08- 00888 )

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



SUBJECT: **Assignment No. AP2007/624/05: Audit of procurement and contracts**  
OBJET: **management in UNMEE**

1. I am pleased to present the report on the above-mentioned audit, which was conducted from March to June 2007.

2. Based on your comments, all recommendations will remain open in the OIOS recommendations database as indicated in Annex 1. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1 and 3), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Philip Cooper, Director, DFS  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

*“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).*

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## **EXECUTIVE SUMMARY**

### **Procurement and contracts management in UNMEE**

OIOS conducted an audit of procurement and contract management at the United Nations Mission in Ethiopia and Eritrea (UNMEE) in February and March 2007. The main objective of the audit was to obtain reasonable assurance that the provisions of selected system contracts were complied with by both the UN and the contractors. The audit covered contracts undertaken in the period July 2006 to 2007 and also included earlier contracts when deemed necessary for comparison, but excluded fuel contracts as these were subject to testing in a 2006 audit. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the responsibilities of the Contract Management Section (CMS) and the requisitioning units are not clearly defined. Additionally, contract provisions are not reviewed prior to finalization. While CMS had previously been assigned the responsibility it is no longer forwarded copies of the contracts for review and is therefore not performing this function. The organizational and operational status of CMS needs to be formally clarified and its responsibilities delineated. To strengthen internal controls, OIOS recommended that local system contracts be systematically reviewed prior to finalization to ensure the effectiveness and efficiency of services and to avoid disputes.

Contract files did not always include critical documentation regarding the vendor's ability to perform the service. Of the 11 local system contract files reviewed OIOS found that in two cases, vendors were awarded contracts without having provided the appropriate proof of registration/license supporting their ability to perform the service being procured. OIOS recommended that every effort be made to maintain updated documentation in the contract files to verify the vendor's ability to perform and provide the quality of the service being procured.

Contract performance is not consistently monitored. The requisitioning units failed to ensure that contractors performed satisfactorily and in accordance with the terms and conditions of the contract, and contract provisions are not always enforced. OIOS recommended that both the vendor's performance and the Mission's fulfillment of obligations with regard to the related contract be consistently monitored and provisions in the contract be enforced or amended to reflect current requirements to ensure the most effective use of UN assets.

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## I. INTRODUCTION

1. During the period July 2005 to March 2007, a total of \$39.1 million was recorded in the Mercury system as purchases made under contracts. This total included approximately \$34.4 million (88 per cent) in purchases made under system contracts and approximately \$4.7 million (12 per cent) in non-contract purchases.
2. Of the purchases made under system contracts, 62 per cent were made under local system contracts and 38 per cent were made under United Nations Headquarters system contracts. Of the United Nations Headquarters system contract purchases, most involved the Mission's, now suspended, food rations contractor. The majority of the local system contract purchases related to fuel.
3. The Procurement Section is responsible for several functions including vendor database management, contractor selection and procurement progress monitoring. After the contract has been signed, contract implementation is the responsibility of both the contractor and the respective requisitioning unit. The requisitioning unit also, in addition to the Contract Management Section (CMS), is responsible for monitoring and overseeing the contracts.
4. Comments made by UNMEE are shown in *italics*.

## II. AUDIT OBJECTIVES

5. The main objective of the audit was to obtain reasonable assurance that the provisions of selected system contracts were complied with by both the Organization and contractors.

## III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered contracts undertaken during the period July 2006 to March 2007 and included earlier contracts when deemed necessary for comparison, but excluded fuel contracts as these were subject to testing in a 2006 audit. The audit involved a review of important contract provisions, verification of compliance with such provisions and inspection of project sites.

## IV. AUDIT FINDINGS AND RECOMMENDATIONS

### A. Contract management

#### Activities of the CMS

7. CMS was to be abolished in early 2006 as its activities supposedly duplicated those of the requisitioning units. As a result, the section has no chief and only one staff member, and its responsibilities have not been clearly defined. In the absence of any formal directive addressing the organizational status of
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CMS, its performance monitoring of contracts has been limited. While CMS had previously been assigned the responsibility of reviewing contracts before they were finalized, the review process had not been systematically done. The former Chief of the Contract Management Section explained in the Proposal for Operational Policy of CMS dated February 2005 that contracts had not been evaluated by CMS as they were not forwarded to the Section for review. This was confirmed by OIOS review of 39 contracts which showed that none of them had been forwarded to CMS for review. This indicated that the requisitioning units were of the opinion that CMS should not be “supervising” the units.

8. OIOS’ examination of selected contracts showed the need for a more thorough review of certain provisions before contracts are finalized. The results are detailed as follows:

- For catering services – The Contracts Manager noted that UNMEE had not repaired equipment such as food warmers, bain marie and water dispensers in the restaurants. The contract is not clear as to who is responsible for initiating and paying for repairs and maintenance. This may have been the cause of the Mission’s failure to repair the equipment. To ensure the effectiveness and efficiency of service, these details should be explicitly stated in the contract.
- For security services – The present contract, CON/06/020/2, has a total cost of \$816,000 for the service period May 2006 to December 2007. Contract evaluation showed the absence of any provision holding the company liable for losses of UN property as a result of theft in locations secured by the security company. The Officer-in-Charge of the Security Section of UNMEE, however, noted that the security company had been made to pay the Mission for the loss incurred as a result of fuel oil thefts valued at \$20,499 at the Adiguadad Fuel Farm on 22 March 2006. The security company’s guards had allowed a non-UN vehicle, driven by a non-UN employee, to enter the fuel installation and to take the fuel oil. While the company paid for the loss, a provision should be explicitly stated in the contract regarding this issue to avoid any disputes.

#### **Recommendations 1 and 2**

**The UNMEE Administration should ensure that:**

- (1) The organizational and operational status of the Contracts Management Section is formally clarified. In the event that this section is retained, its responsibilities and those of the requisitioning units, as far as contract management is concerned, should be delineated; and**
- (2) Reviews are performed on local system contracts prior to their finalization to verify that all obligations are clearly detailed.**

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9. *The UNMEE Administration accepted recommendation 1 and stated that it recognizes the importance of separating the roles of the CMS and the requisitioning sections. The CMS therefore continues to be retained as a separate section reporting to the Chief of Integrated Support Service. While the daily administration of contracts is done by the requisitioning sections/units, the monitoring of contractor performance and the settlement of disputes are the responsibility of the CMS. Job descriptions and work plans have been prepared, providing the required delineation of responsibilities for CMS and the requisitioning sections. The process of segregating CMS and requisitioning sections' duties will be finalized by 31 January 2008. Recommendation 1 remains open pending receipt of copies of CMS and requisitioning sections' job descriptions specifying their contract management responsibilities.*

10. *The UNMEE Administration accepted recommendation 2 and stated that the Procurement Section will work closely with the Mission's Legal Office to ensure that this recommendation implemented. Recommendation 2 remains open pending OIOS' verification that a process has been implemented to ensure that local contracts are systematically reviewed by the Legal Office prior to their finalization.*

#### Contract file maintenance

11. OIOS' review of the completeness of 11 local system contract files showed that at least 2 of the files were not properly maintained:

- **Cleaning Services** – The company's registration/license for sanitation, sewage disposal and gardening services was valid only until 31 May 2006. Despite this, the company had been invited and/or won bids in 2007 for the provision of services with no updated documentation obtained and filed of its registration/license to provide these services.
- **Catering Services** – The company's registration to provide restaurant services and retail ice cream had expired on 31 December 2004. It has since transacted business with the Mission through another company whose registration as provider of wholesale edibles and cleaning materials and for the import/export of goods expired on 31 May 2006. Both entities were invited and/or won bids in 2006 and 2007 to operate the Mission's water plant, to supervise the water plant, to provide catering services for the Mission's Staff officers Camp (SOC) restaurant and to provide janitorial services. No updated documentation of its registration to provide these services was obtained and filed. OIOS also noted that this contractor does not have any office outside of the Mission, indicating that UNMEE is its only client.

#### **Recommendation 3**

**(3) The UNMEE Procurement Section should ensure that updated documentation, specifically those relating to licenses/registration, is obtained and maintained in the**



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**contract files to verify the vendor's ability to perform and the quality of the service being procured.**

12. *The UNMEE Administration accepted recommendation 3.* Recommendation 3 remains open pending OIOS' verification that documentation pertaining to vendor registration, such as licenses/registration, is being maintained.

## **B. Monitoring vendor performance and contract enforcement**

### Monitoring vendor performance

13. Section 13.5 (7) of the Procurement Manual indicates that "systems contracts require intensive monitoring and administrative support, primarily by the requisitioning unit to ensure that contractors perform satisfactorily and in accordance with the terms and conditions of the contract." The requisitioning units failed to comply with this requirement due to four factors: (a) the lack of clarity as to which activities are that of the requisitioning units and that of the CMS; (b) requisitioning units not always having a copy of the contract and/or the contract extension; (c) difficulty of Addis Ababa supervisors to oversee Asmara operations; and (d) the Procurement Section's failure to emphasize the importance of performance evaluations as the basis as to whether the contractors' services should be extended. Support for these four factors is as follows:

- As discussed in paragraphs 6 and 7 above, the CMS' responsibilities have not been clearly defined. The division of activities between CMS and the requisitioning units is unclear.
- Neither the procurement section nor the requisitioning units maintain an updated database of system contracts. Contract extensions are not always detailed in the Mercury system, albeit the requisitioning units had knowledge and some documentation relating to them. However, in many cases, the requisitioning units do not even have a copy of the contract extension.
- Most of the local system contracts requiring constant interaction with contractors are administered by the Supply Section: food rations, catering, water distribution and warehousing, among others. The Supply Section's ability to oversee contractors' performance is severely hampered by the fact that the Chief, Supply Section and the Head, Food Rations Cell are based in Addis Ababa and are not allowed by the Eritrean government to work in Asmara as both are European. Contract administration by the local staff is limited to conferring with the food rations contractor (not with other contractors) and to checking contractors' billings. Results of Asmara activities are then emailed to Addis Ababa as the basis for action.
- There is a lack of importance placed on performance evaluations as the basis for contract extensions. Contract extensions granted to a

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catering service company (5 extensions), cleaning services (6 extensions) and a third company were not based on performance evaluations.

14. As a result of these factors, system contracts are not being consistently monitored to ensure that contractors perform satisfactorily and in accordance with the terms and conditions of the contract.

#### **Recommendation 4**

**(4) The UNMEE Administration should ensure that contract performance is properly monitored based on the quality assurance/performance monitoring criteria contained in the related contract.**

15. *The UNMEE Administration accepted recommendation 4 and stated that it has been implemented, with the delineation of responsibilities for contract management between CMS and self-accounting units.* Recommendation 4 remains open pending OIOS' verification that contractors' performance is systematically monitored in accordance with contract terms.

#### Contract enforcement – vendor performance

16. OIOS' review of selected contracts and the related assessed level of performance indicated the following observations in the areas of restaurant and catering services, cleaning services, and water production and supply:

##### (a) Restaurant and catering services

17. Under contract number CON/07/003 for restaurant and catering services, enforceable for the period July 2006 to June 2007, the contractor shall provide food catering and cafeteria staff at the SOC in two restaurants (international and halal) for \$10,622 per month.

18. The contract stipulates that “in the event there is a significant variance due to strength of UNMEE personnel, number or nature of daily required meals, etc., from that outlined within the RFP (outside 10 per cent of the statement of work numbers), the variance will be deducted or added to this contract amount in the form of a written contract amendment.” Verification revealed that the Contract Manager and the Camp Administrator do not keep track of variations to the number of staff officers and UNMEE personnel availing of the catered food. In the absence of a deliberate effort to keep track of the number of restaurant customers, there is no way for the Mission to establish possible reductions in contractors' billings.

##### (b) Cleaning services

19. The present cleaning services contract, CON/06/011, has a total cost of \$118,130 for the period January 2006 to June 2007 and requires the contractor to “accomplish general office and area cleaning in Asmara for the Green Building, Integrated Warehouse Facility, Staff Officers' Camp, 5-Star Camp,

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Communications Village and UNMEE Air Terminal at Asmara International Airport.”

20. Sections 4.0 to 4.4 of the contract’s statement of work relate to performance monitoring and define the acceptable quality level. They indicate that UNMEE will use a statistical process of random sampling to ensure quality assurance. Additionally, these contract provisions state that underperformance against the acceptable quality level will result in the deduction of an amount of up to 4 per cent of the monthly value of the annual contract against the contractor’s invoice, if such underperformance is clearly the fault of the contractor. The performance monitoring process will be carried out by a quality assurance evaluator acting on behalf of UNMEE. The contracts states the acceptable quality level will be 93 per cent, representing the minimum level of service considered acceptable.

21. OIOS’ spot inspections in the Green Building, Staff Officers’ Camp and the Adiguadad Warehouse Facility showed that toilets are not kept clean at all times. The Engineering Section’s quality assurance officers, who contend that physical checks are being done regularly, do not perform the agreed upon quality assurance process.

(c) Water production and supply

22. The Mission produces its own purified drinking and cooking water for the contingents through two production plants using water drawn from a well. The catering services company, under contracts CON/05/002 and CON/07/017/2, operates the water plants under the supervision of the Engineering Section and maintains the water stocks under the supervision of the Supply Section. Water is distributed to the various contingents by another company under contract CON/06/014 while spare parts and water materials are supplied by a third company under a HQ system contractor. The Engineering Section notes that one 1.5 liter bottle has an average unit cost of \$0.344, considering the reduced troop strength of 1,700.

23. OIOS’ review showed that Sections 3 and 8.5 of the related water production contract should be amended to reflect a more accurate assessment of requirements, which would result in a reduction in contract costs. According to the Engineering Section, water production is based on troop strength, as reflected in water requisitions by the Supply Section, and not on the quantities indicated in Section 3 of the contract, which represented troop strengths before downsizing.

<b>Contract</b>	<b>Section 3 requirement (A)</b>	<b>Actual production reported (B)</b>	<b>Underproduction (A) – (B)</b>
Original contract provision	A <u>minimum</u> required quantity of 24,000 liters of purified water is bottled per working day. January 2006 –	January 2006 – 149,298 bottles or	January 2006 – 124,053 liters

	16 working days, which equates to 348,000 liters (16 x 24,000) February 2006 – 21 working days, which equates to 504,000 liters (21 x 24,000)	223,947 liters  February 2006 – 158,406 bottles or 237,609 liters	February 2006 – 266,391 liters
Amended contract effective year 2007	A <u>maximum</u> quantity of 12,000 liters of purified water per working day is bottled.	21 March 2007 – 5,466 bottles were produced or 8,199 liters	21 March 2007 – 3,801 liters for one day

24. As indicated above, Section 3 of the contract required the contractor to ensure compliance with minimum or maximum quantities specified. In the event of non-compliance, Section 8.5 states that in the case of monthly underproduction of less than 20,000 liters due to the contractor’s failure to meet contractual obligations, there will be no dispute of that monthly invoice if at the end of the following month, the invoice covers the difference. If there still is a difference, an amount will be proportionately deducted from the contractor’s invoice. Based on the analysis above, the contractor’s billings should have been adjusted as a result of the underproduction.

Contract enforcement – Mission obligations

25. OIOS’ review of selected contracts and the related assessed level of performance of Mission obligations detailed in the contracts showed several instances where the Mission had not fulfilled its contractual obligation to the vendor.

26. Section 6 of contract CON/07/003 for catering services, requires that UNMEE furnish the contractor a list of UN-owned equipment, which shall be returned to the Mission in the same quantity and condition at the end of the contract period. This had not been done by the Mission at the time of the audit. Also, Section 13 of contract CON/05/002, also for catering services, requires the contractor to be “responsible and accountable to UNMEE for equipment and property provided by UNMEE or purchased with funds provided or to be reimbursed by UNMEE.” A certified listing of UNMEE equipment has also not been furnished to the contractor in relation to this contract.

27. Based on these observations, OIOS concluded that both the vendor’s performance and the Mission’s fulfillment of obligations with regard to the contracts are not being consistently monitored and provisions in the contract are not being enforced.

**Recommendation 5**

**(5) The UNMEE Administration should ensure that both the vendor’s performance and the Mission’s fulfillment of obligations with regard to the related contract are**

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**consistently monitored and that the provisions in the contract are enforced or amended to reflect current requirements.**

28. *The UNMEE Administration accepted recommendation 5 and stated that SAUs monitor performance reports. With the ongoing formalization of CMS' responsibilities, there will be consistent and well-coordinated monitoring to cover all contracts.* Recommendation 5 remains open pending OIOS' verification that the monitoring of vendor's performance and the Mission's fulfillment of its contractual obligations is being performed.

## **V. ACKNOWLEDGEMENT**

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

## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	O	Submission to OIOS of copies of CMS and requisitioning sections' job descriptions specifying their contract management responsibilities	31 January 2008
2	O	OIOS' verification that a process has been implemented to ensure that local contracts are systematically reviewed by the Legal Office prior to their finalization	To be implemented
3	O	OIOS' verification that documentation pertaining to vendor registration, such as licenses/registration, is being maintained	Implemented
4	O	OIOS' verification that contractors' performance is being monitored in accordance with contract terms	Implemented
5	O	OIOS' verification that the monitoring of vendor's performance and the Mission's fulfillment of its contractual obligations is being performed	Ongoing

<sup>1</sup> C = closed, O = open

<sup>2</sup> Date provided by UNMEE in response to recommendations