



**OIOS**

Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of the Local Committee on Contracts in UNMIT**

**24 April 2008**

**Assignment No. AP2007/682/05**

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

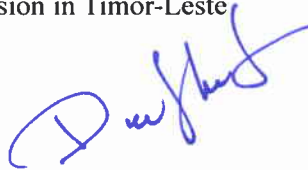
OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. Atul Khare  
A: Special Representative of the Secretary-General  
United Nations Integrated Mission in Timor-Leste

DATE: 24 April 2008

REFERENCE: IAD: 08- 01268

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



SUBJECT: **Assignment No. AP2007/682/05 – Audit of the Local Committee on Contracts in UNMIT**  
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close all but one recommendation in the OIOS recommendations database as indicated in Annex 1. OIOS is reiterating recommendation 8 and requests that you reconsider your initial response concerning this recommendation.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendation 8), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Hubert H. Price, Chief of Mission Support, UNMIT  
Mr. Colin Stewart, Acting Chief of Staff, UNMIT  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat  
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS  
Mr. Laud Botchwey, Chief Resident Auditor, UNMIT

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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**

### **Audit of the Local Committee on Contracts in UNMIT**

The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts in the United Nations Mission in Timor-Leste (UNMIT). The overall objective of the audit was to assess the effectiveness of the Local Committee on Contracts (LCC) as a procurement internal control mechanism. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the UNMIT LCC was generally effective as an internal control over the procurement process, except in the following areas that need improvement:

- The LCC recommended the award of a contract prior to the receipt of all requested information, including a revised technical evaluation. The revised technical evaluation for this case was back-dated, blurring the transaction audit trail. Also, the technical evaluators had access to the commercial evaluation prior to the finalization of the technical evaluation.
- Although the LCC Secretary provided minutes of meetings to the LCC Chairman, the Chief of Mission Support (CMS) and the Chief Procurement Officer for signature within 10 days, the minutes were not circulated to other parties, in accordance with Section 12.1.6 of the Procurement Manual.
- In some instances, LCC recommendations were approved by an officer who did not have the proper delegation of authority from the CMS.
- Some LCC members, alternates and the Secretary have not complied with the financial disclosure requirements.

OIOS issued a number of recommendations to address the above deficiencies and other issues noted in the report.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts in the United Nations Mission in Timor-Leste (UNMIT). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. According to Section 2.5.1.(1) of the Procurement Manual, the LCC shall review and provide advice to the Chief of Mission Support (CMS), or other officials duly authorized under Financial Rule 105.13, on whether proposed procurement actions, including contracts that generate income to the Organization, are in accordance with the Financial Regulations and Rules (FRRs), Secretary-General's Bulletins (SGBs), Administrative Instructions (AIs) and other procurement policies. The Headquarters Committee on Contracts (HCC) is proposing that the current financial limit of \$200,000, delegated to peacekeeping missions to enter into contracts for the procurement of goods and services, be raised to \$500,000.
3. Comments made by UNMIT are shown in *italics*.

## II. AUDIT OBJECTIVES

4. The major objective of the audit was to assess the effectiveness of the LCC as an internal control. Specifically, the audit assessed whether:
  - (a) The composition of the LCC allows it to function independently and competently;
  - (b) The LCC was receiving relevant documents needed to properly review procurement actions; and
  - (c) The LCC was effectively identifying procurement issues that violate the relevant FRRs, SGBs, AIs and other procurement policies on the fairness, integrity and transparency of proposed procurement actions.

## III. AUDIT SCOPE AND METHODOLOGY

5. The audit covered procurement transactions processed in fiscal year 2006/07 and included reviews of files and the minutes of LCC meetings, analytical tests and interviews with relevant Mission personnel. The provisions of the Procurement Manual issued on August 2006 (Rev 003) were used as the criteria for this assignment.
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## **IV. AUDIT FINDINGS AND RECOMMENDATIONS**

### **A. LCC operations**

#### Contract awarded prior to receipt of all requested information

6. Procurement case LCC/07/23/09 relating to the supply of transmitter equipment involved a proposed contract valued at \$142,918. When the LCC deliberated this case, it requested the Public Information Unit to provide a more detailed and comprehensive technical evaluation to the Procurement Section (PS) to ensure transparency. The Committee's request was made on 22 June 2007. However, on the same day, before receiving the information requested, the Committee recommended award of the contract.

7. OIOS reviewed the revised technical evaluation and noted that it was dated 4 June 2007. The revised evaluation had been back-dated to reflect the date of the original evaluation, as if it had been presented at the 22 June 2007 meeting. This is of concern and indicates that although the LCC was diligent in raising questions to ensure transparency in selecting vendors, the Committee did not follow through to ensure that proper procedures were applied, or made informed decisions based on complete information.

8. The back-dating of the revised technical evaluation also blurred the audit trail. OIOS had to review e-mails to determine which evaluation was performed first. The UNMIT Procurement Section is now "date stamping" documents to ensure accurate dating and an adequate audit trail.

9. Additionally, the technical evaluation incorporated commercial information submitted by the vendors apparently in an attempt to justify award of the contract to a particular vendor. As the Committee had already reviewed this case, the commercial information had become available to the technical evaluators and potentially contributed to their decision to qualify the vendor. This practice is not in accordance with Section 10.8.4(4) of the PM, which states that technical evaluators should not have access to commercial information and the evaluation should not be prepared with the knowledge of this information. The revised technical evaluation requested by the Committee should have focused solely on the technical ability of the vendors to provide the equipment/service.

#### **Recommendations 1 to 3**

**The UNMIT Mission Support should ensure that:**

- (1) The Local Committee on Contracts obtains all relevant procurement case documents, including additional requested information, prior to making contract award recommendations;**

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**(2) The Procurement Section properly reviews documents received by the Section and forwarded to the Local Committee on Contracts to detect any back-dating of procurement case documents; and**

**(3) Technical evaluators do not gain access to commercial information prior to finalizing the technical evaluation, as required by the Procurement Manual; and that the Procurement Section reminds technical evaluators of their responsibility not to use commercial information as the basis for qualifying particular vendors.**

10. *The UNMIT Mission Support accepted recommendations 1 to 3 and stated that the revised technical evaluation report was erroneously back-dated to 4 June 2007. To prevent a recurrence, UNMIT PS has, since July 2007, ensured that technical evaluation reports with missing or incorrect information are returned, corrected or revised before being considered for LCC presentation. In addition, all incoming documents received by PS have been date stamped and signed as officially received. However, the award to the vendor in the LCC minutes clearly indicated in bold text “contingent upon receipt of another more detailed and comprehensive technical evaluation from PIO (Public Information Office),” which was duly delivered with the requisite detail. This second technical evaluation had the same vendor selected as the sole technically acceptable bidder, and the contract was awarded to that vendor on the basis of the 29 June 2007 LCC meeting minutes. The Mission also provided more explanation of the additional measures it will implement to strengthen the bid evaluation process, including a training course for all LCC members, alternates and potential members of the LCC from 14 to 18 April 2008, which will greatly enrich the knowledge of participants in the procurement process. Based on the action taken by UNMIT, recommendations 1 to 3 have been closed.*

#### Distribution of LCC minutes

11. Under the provisions of section 12.1.6 of the PM, the approved LCC recommendations and meeting minutes should be distributed within 10 business days after the meeting to the Chief of Mission Support, members of the LCC, Chief Procurement Officer (CPO), requisitioning offices and OIOS. Although the UNMIT LCC Secretary provided the minutes to the Chairman and the CMS within the required 10-day period for signature, and also to the CPO, the minutes were not circulated to other concerned parties such as the LCC members.

#### **Recommendation 4**

**(4) The UNMIT Mission Support should ensure that the Local Committee on Contracts (LCC) Secretary distributes meeting minutes to all LCC members and other staff involved in procurement cases, in accordance with Section 12.1.6 of the Procurement Manual.**



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12. *The UNMIT Mission Support accepted recommendation 4 and stated that the CMS had advised the LCC Secretary to distribute minutes of LCC meetings to all attendees of meetings within 10 business days after LCC meetings. All LCC members, requisitioners and attendees of meetings have also been advised in writing of this rule, and have been encouraged to demand minutes of LCC meetings if not received in a timely fashion as per above. Based on the action taken by UNMIT, recommendation 4 has been closed.*

Tracking system for pending actions

13. It is generally good practice for committee secretaries to maintain an effective tracking system of actions pending from meetings held. OIOS noted that the LCC Secretary relies on the meeting minutes to determine actions pending and does not maintain an “action pending register.”

14. The Secretary tape-records the LCC proceedings. This is a good practice as it provides conclusive evidence of discussions at the LCC in case of litigation. However, the recording equipment was the Secretary’s personal property and the tapes were re-used after a period of about two months due to the lack of new tapes.

**Recommendations 5 and 6**

**The UNMIT Mission Support should:**

**(5) Implement a tracking system by introducing an “action pending register” to enable appropriate follow-up of outstanding issues; and**

**(6) Provide appropriate recording equipment and tapes to the Local Committee on Contracts Secretary to permit the taping of meetings to enhance the integrity of information included in the meeting minutes.**

15. *The UNMIT Office of Mission Support accepted recommendation 5 and stated that the LCC Chairman and Secretary have been tasked to prepare an “Action Pending Register,” which will be attached to LCC meeting minutes for CMS’ review. The LCC Chairman has been assigned the responsibility of ensuring that pending items are promptly acted upon and reported to the CMS. Matters pending on the register for more than one month are to be noted and reported to the CMS in writing, stating reasons why they are pending. Based on the action taken by UNMIT, recommendation 5 has been closed.*

16. *The UNMIT Office of Mission Support accepted recommendation 6 and stated that the LCC Secretary has recently obtained an audio digital recorder from the Supply Section. This would adequately cover the requirements of the LCC Secretary to record official LCC meetings, and can be used as a source of reference. Additionally, recordings can be transferred for computer storage and held indefinitely. Based on the action taken by UNMIT, recommendation 6 has been closed.*

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### Approval of LCC recommendations

17. The LCC minutes indicated that for LCC meeting number 07/10 held on 9 March 2007, 07/21 held on 8 June 2007, and 07/22 held on 15 June 2007, which included the review of cases totaling \$1,780,580, \$230,663 and \$617,133, respectively, the CMS was out of the Mission area. In his absence, the Officer-in-Charge (OIC) of the Office of Mission Support approved the documents.

18. The delegation of authority provided to the CMS is personal in nature; therefore, the authority is not possessed by virtue of his office. The delegation of authority provides for the CMS to assign, in writing, an alternate to exercise the authority described but remain accountable for the appropriate use of the authority. The document also provides a sample assignment memorandum. There had not been an assignment of authority. The OIC believed he had authority under his financial delegation to approve the transactions.

#### **Recommendation 7**

**(7) The UNMIT Mission Support should ensure that the delegation of authority to approve Local Committee on Contracts documents is properly transferred to the Officer-in-Charge when the Chief of Mission Support (CMS) is away from the Mission area. This assignment can be time-bound so it automatically expires when the CMS returns.**

19. *The UNMIT Office of Mission Support accepted recommendation 7 and stated that the CMS will transfer, in writing, his authority to sign off on LCC recommendations to the OIC of Mission Support before his departure from the Mission area. This authority will be time-bound to expire after the return of the CMS to the mission area.* Based on the action taken by UNMIT, recommendation 7 has been closed.

### **B. Financial disclosure**

20. Secretary-General's Bulletin ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements, requires all staff members whose direct access to confidential procurement or investment information warrants the filing of a financial disclosure statement to do so annually. Most members of the UNMIT LCC indicated that they had filed their statements. Some of them could not provide OIOS with sufficient evidence that the statements had indeed been filed with and received by the United Nations Ethics Office as they had not kept the emails received from the service provider. Also, OIOS could not confirm whether the alternate secretary and the Chairperson had filed their statements as they were not around during the period of the audit. One alternate member and the LCC Secretary had not yet filed their statements.

21. The alternate member explained that he had been trying to file his statement but that due to technical difficulties with the information system, the transmission had not been successful despite several attempts. The LCC

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Secretary indicated that he was not aware of the requirement to file the financial disclosure statement.

#### **Recommendation 8**

**(8) The UNMIT Mission Support should ensure that: (a) all members, alternates and the Secretary of the Local Committee on Contracts comply with the Secretary-General's Bulletin ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements; and (ii) the service provider (for the compilation of financial disclosure statements submitted) is advised of technical difficulties in the information system so that individuals are able to file their financial disclosure statements.**

22. *The UNMIT Mission Support did not accept recommendation 8 and stated that UNMIT has facilitated the filing of financial disclosure of its personnel by identifying personnel involved with financial transactions and has submitted the list to UNHQ. All concerned personnel have been advised and instructed to complete their financial disclosures by 31 March 2008. Instances of technical difficulties in accessing the required information system have been brought to the attention of the Ethics Office in New York in their role as the lead department for the Financial Disclosure Programme. However, UNMIT cannot ensure that all members, alternates and secretary of the LCC file their respective financial disclosures since the mission is not provided access to this confidential information. OIOS wishes to reiterate this recommendation, to ensure that all concerned staff comply with the requirement to disclose financial interests with the ultimate goal of protecting the integrity of the procurement process. OIOS also acknowledges the confidentiality of the financial disclosure statements, but believes that the Mission can confirm with the United Nations Ethics Office whether the concerned Mission staff had already filed the required declarations, without compromising the confidentiality of the filed statements. Recommendation 8 remains open pending the receipt of confirmation from the Mission that all LCC members and alternates have filed the required financial disclosure statements with the United Nations Ethics Office.*

#### **C. LCC membership**

23. Section 2.5.4 of the PM states that the LCC Secretary shall be nominated by the CMS. OIOS noted that the original letter appointing the members of the LCC did not provide for an alternate secretary. As a result, in the absence of the LCC Secretary, a non-appointed person sat in as an interim secretary to the LCC on 27 April 2007. Generally, appointed officers are provided with a level of training relating to the LCC operations and also file financial disclosure statements. The use of a non-appointed person circumvents these requirements and breaches the requirements of the PM.

24. OIOS noted that the Mission management had taken action to rectify this situation by appointing two alternate secretaries to perform the secretarial

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functions in the absence of the LCC Secretary. As a result, no recommendation has been made by OIOS in this report relating to this matter.

## **V. ACKNOWLEDGEMENT**

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

## STATUS OF AUDIT RECOMMENDATIONS

<b>Recom. no.</b>	<b>C/O<sup>1</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>2</sup></b>
1	C	Action completed	Implemented
2	C	Action completed	Implemented
3	C	Action completed	Implemented
4	C	Action completed	Implemented
5	C	Action completed	Implemented
6	C	Action completed	Implemented
7	C	Action completed	Implemented
8	O	Reconsideration by MINUSTAH of its initial response to this recommendation	N/A

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

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