



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Local Committee on Contracts in UNAMA

7 July 2008

Assignment No. AP2007/630/06

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. Kai Eide
A: Special Representative of the Secretary General
UNAMA

DATE: 7 July 2008

REFERENCE: IAD: 08- 01491

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



SUBJECT: **Assignment No. AP2007/630/06 – Audit of the Local Committee on Contracts in UNAMA**
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 recommendations 1 and 2 in our database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also as 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 3 and 6), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Neve Donalds, Chief of Mission Support, UNAMA
Mr. Martin Bentz, Chief of Administrative Services, UNAMA
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. Seth Adza., Operations Review Officer, DFS
Mr. Byung-Kun Min, Programme Officer, OIOS

INTERNAL AUDIT DIVISION

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

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

OIOS found that the UNAMA LCC was generally an effective procurement internal control. However, OIOS identified a number of areas where internal controls should be strengthened as follows:

- In some procurement cases, the requisitioner attended and voted on the procurement action as a member of the LCC;
- In a few instances, the Officer-in-Charge for Mission Support was not properly designated as an alternate to the LCC before approving the meeting minutes;
- Not all members of the LCC, including the Secretary and alternates, complied with ST/SGB/2006/6 on financial disclosure and declaration of interest statements;
- The LCC Secretary was not performing all of his/her responsibilities as detailed in the Procurement Manual, including the establishment of a tracking system to follow-up on pending procurement cases;
- The Procurement Officer did not always submit sufficient detail to enable the LCC to obtain an accurate and complete description of the procurement actions taken and the basis of the proposed award. The LCC did not always request additional supporting documentation.

OIOS issued a number of recommendations aimed at improving internal controls.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts (LCC) in the United Nations Assistance Mission to Afghanistan (UNAMA). 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 UNAMA are shown in *italics*.

II. AUDIT OBJECTIVES

4. The main objectives of the audit were to assess whether:
 - (a) The composition of the LCC allowed 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 violated 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. It included reviews of LCC meeting minutes, procurement case files, and record-keeping in the LCC secretariat; analytical tests of facts and statistics and interviews with relevant Mission personnel.
 6. OIOS reviewed the minutes of 26 of the 46 LCC meetings during the year. Additionally, the audit reviewed 26 non-core procurement case files and 11 case files pertaining to leased properties. The provisions of the Procurement Manual issued August 2006 (Rev 003) were used as the criteria for this assignment.
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Composition and independence of the LCC

LCC composition and member presence

7. OIOS found in all cases reviewed that there was always a quorum of three and that the financial threshold of \$200,000, as indicated in the delegated authority, was complied with. The composition of the LCC complied with Section 2.5.2. of the Procurement Manual (PM). However, some of the LCC members were not present in the LCC meetings. For example, in all cases, the Legal Officer was not present, and the Chief of Finance attended only 16 of the 26 meetings reviewed. As the role of the LCC is critical in ensuring proposed procurement actions are in accordance with relevant Financial Regulations and Rules, Secretary General Bulletins, Administrative Instructions, and procurement policies, it is important that two of the main members of the LCC are present in the deliberations as often as possible.

Recommendation 1

(1) The UNAMA Administration should ensure that the Legal Officer and the Chief of Finance participate regularly in Local Committee on Contracts meetings.

8. *The UNAMA Administration did not accept recommendation 1, indicating that legal representation is now present at every LCC meeting and, as of February 2008, the OIC of Finance has been the Chairperson. Additionally, in 2007, the Chairperson was either the Chief Finance Officer or the Chief of General Services.* OIOS wishes to point out that although UNAMA originally disagreed, it appears that the Mission has effectively addressed the recommendation. Therefore, OIOS will close this recommendation in its database.

Delegation of authority to the Officer-in-Charge of Administration

9. Of the 26 LCC case files reviewed, there were two cases (AMA7-50 and AMA7-119) where the Chief of Transport, the then acting Officer-in-Charge (OIC) of Mission Support, approved awards on behalf of the OIC of Mission Support. The Delegation of Procurement Authority specifies that the delegation is personal and not by virtue of office. An alternate may be designated to exercise the authority vested in them. However, the assignment of an alternate must be in writing with a signed copy promptly provided to the Assistant-Secretary General of the Office of Central Support Services (OCSS). OIOS could not find any document showing that the procurement authority was further delegated to the Chief of Transport, acting OIC of Mission Support.

Recommendation 2

(2) The UNAMA Administration should ensure the Officer-in-Charge of Mission Support has been properly designated under the delegation of authority as an alternate to the Local Committee on Contracts before approving awards and/or meeting minutes.

10. *The UNAMA Administration accepted recommendation 2, and stated that as of September 2007, the OIC of Mission Support has been given the designated approval authority in writing when the CMS is absent from the mission.* Based on the action taken by the UNAMA Administration, OIOS will close this recommendation in its database.

Financial statement disclosure

11. LCC members are required to make financial disclosures as per Section 2.1. (d) of ST/SGB/2006/6, Financial disclosure and declaration of interest statements. Not all LCC members or alternates filed financial disclosure forms with the United Nations Ethics Office. The CMSs/DMSs of all DPKO missions were requested to send an updated list of their LCC members for inclusion in the new on-line Financial Disclosure Programme. UNAMA sent the list of LCC members, including the secretary and alternates, on 22 July 2007. However, only the Chairperson and the Vice-Chairperson received an email requesting them to file their annual financial disclosure statement. As a result, the other committee members were not aware of their obligation to file. Non-compliance with the disclosure requirement could hamper the timely detection and resolution of any actual or potential financial conflicts of interest that could arise from their holdings (e.g. assets and/or liabilities) and/or activities.

Recommendation 3

(3) The UNAMA Administration should ensure that all members of the Local Committee on Contracts comply with ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements.

12. *The UNAMA Administration accepted recommendation 3, stating that the recommendation had been implemented as of the end of March 2008.* OIOS will close this recommendation in its database upon receipt of documentation showing that all members of the LCC are complying with the provisions of ST/SGB/2006/6.

B. Function and responsibilities of the LCC Secretary

13. In accordance with Section 2.5.4. of the PM, the LCC Secretary has the same responsibilities as the HCC Secretary. These responsibilities include but are not limited to coordinating the meetings, drafting the minutes of the meetings, preparing correspondence, and ensuring timely and efficient distribution of

documents. Section 2.5.4 also states that the Secretary is to be a staff member from an office outside the procurement function. OIOS noted that the majority of the LCC Secretary's responsibilities are being performed by the Procurement Section. The Secretary is only inviting the members and/or alternates to the meetings and drafting the meeting minutes.

14. The LCC Secretary should also maintain a permanent record of all LCC minutes/recommendations and case presentations reviewed by the Committee. She/he should indicate the date on which submissions are received from the Procurement Section. Additionally, there should be a tracking system for the Secretary to follow-up on pending actions that need to be taken by the Procurement Officer or requisitioner, as raised by the LCC during its deliberations, as well as those raised by the CMS before he/she approves the LCC recommendation. OIOS noted there was no sound tracking or filing mechanism in place. The LCC Secretary maintained two files, one for the LCC and one for the HCC. The files appeared to be incomplete. Records such as complete meeting minutes signed by the CMS, were not maintained. Additionally, it was impossible to determine whether procurement cases were submitted within two working days prior to the LCC meeting as stated in Section 12.1.3.(3) of the PM.

15. Also, Section 12.1.6.(3) of the PM states that a copy of the approved recommendations and meeting minutes shall be distributed within 10 business days after conclusion of the meeting to the following individuals:

- CMS or DMS;
- Members of the LCC;
- Chief Procurement Officer;
- Requisitioning offices; and
- OIOS.

16. The recommendations and meeting minutes were not forwarded to OIOS as required, and OIOS was unable to determine whether they were appropriately distributed. LCC deliberations/recommendations and case presentations were not appropriately controlled and monitored.

Recommendations 4 and 5

(4) The UNAMA Administration should ensure that the Local Committee on Contracts (LCC) Secretary performs all of his/her functions as detailed in the Procurement Manual, including the establishment of a tracking system to follow-up on pending procurement cases. The LCC Chairperson should monitor the Secretary's performance.

(5) The UNAMA Administration should ensure that the Local Committee on Contracts Secretary is approving the meeting minutes and distributing them timely in compliance with the provisions of the Procurement Manual.

17. *The UNAMA Administration accepted recommendation 4, and stated that as of March 2008, a tracking system had been established and the LCC Chairperson has been monitoring the LCC Secretary's performance.* OIOS will close this recommendation in its database upon receipt of documentation showing that the new tracking system has been implemented and the LCC Secretary's performance is being monitored.

18. *The UNAMA Administration accepted recommendation 5, stating that the recommendation had been implemented in March 2008.* OIOS will close this recommendation in its database upon receipt of documentation showing that the LCC meeting minutes are being properly approved and distributed.

C. Submission and review of procurement cases

19. Procurement Officers must ensure that submissions are sufficiently detailed to enable the LCC to obtain an accurate and complete description of procurement actions taken and the basis of the proposed award, as indicated in Section 12.1.3.(4) of the PM. In some cases, the Procurement Officers did not furnish adequate information and documentation to the LCC directly related to substantive and determinative issues of the procurement case. OIOS also noted that the LCC did not always request additional documentation when necessary. Making decisions based on missing information or on information supporting procurement procedures that were not correctly performed may result in the LCC making inappropriate recommendations. The UNAMA Administration needs to develop a checklist to be used by the Procurement Officers and the LCC to ensure that all necessary documentation has been provided.

General supporting documentation

20. In cases AMA7-119(2) and AMA7-50(1), which pertained to the extension of contracts for accommodations and related services for UNAMA aircrew (AN-24) in Kabul, Afghanistan and Dubai, U.A.E. respectively, a copy of the original contract, made at Headquarters on behalf of UNAMA, was not attached to the case presentation submitted to the LCC. The LCC recommended the cases as presented and, as a result, UNAMA paid for the meals of eight crew members when the original contract indicated they were to provide accommodations only.

21. In another case (AMA7-471), for the supply and delivery of fuel storage tanks, the lowest bidder was not awarded the contract as the vendor required a 100 per cent advance payment. There was no evidence attached to the procurement case submission indicating the vendor's demand for advance payment. However, the case was processed by the LCC and another vendor was recommended for approval, without requiring further evidence.

22. The LCC recommended a case (AMA7-349), for the supply and delivery of spare parts for generators, for approval on the condition that spare parts could not be provided by the United Nations Logistic Base (UNLB) or by other United Nations' missions. The Chief of the Engineering Section (ES) sent an email to the Chief of the Procurement Section (PS) stating that ES were unable to locate

another mission which had the same size and make of generators. Therefore, the Chief, ES advised the Chief, PS to proceed with the purchase. OIOS was unable to review documentation supporting the search performed by the Chief of ES. Also, the only supporting documentation provided to the LCC was a copy of the related email.

Vendor performance reports

23. Section 7.11.1. of the PM states that requisitioners are responsible for the timely evaluation of vendor performance. These evaluations should be included in the procurement case submissions from the Procurement Officer (PO) to the LCC. OIOS noted that vendor performance reports were provided to the LCC in only 4 of 14 cases reviewed. The other 12 cases involved new vendors and, therefore, did not require such submissions. The main reason why the vendor performance reports were not submitted was the requisitioners had not prepared them. According to Section 7.11.2.(4) of the PM, the PO is required to indicate, in writing, to the Local Vendor Database Officer any relevant information regarding non-compliance and poor-performance of registered vendors. The PO should follow-up with the requisitioner to ensure the vendor performance evaluations are prepared timely and included in their submissions to the LCC. The LCC should require this essential information prior to making any recommendations on procurement cases presented to them.

Minimum Operating Security Standards compliance of leased properties

24. OIOS' review of 11 property leases from fiscal year 2006/07 revealed that in 3 cases (AMA7-208, AMA7-536 & AMA7-667), there was no assurance given to the LCC members that the properties were in compliance with Minimum Operating Security Standards (MOSS). MOSS compliance was not mentioned in the Procurement Officer's presentation or in the LCC meeting minutes related to these cases. The remaining eight cases related to property lease extensions. The LCC members extended the contracts in each case without reviewing previous documentation to ensure MOSS compliance of the leased properties. In OIOS' opinion, assurances should be included in the procurement case presentations submitted to the LCC that the leased properties, whether new property leases or extensions, are MOSS compliant. If such assurances are not presented, the LCC members should request additional documentation. In cases where the property is not MOSS compliant, the Safety and Security Section should provide an assurance which explains the measures taken to compensate for the non-compliance. MOSS compliance is critical to the safety and security of the UNAMA staff.

Publicly opened bids

25. In its report on the audit of compliance with bid opening procedures at UNAMA, dated 21 May 2007, OIOS recommended that the UNAMA Procurement Section insert a clause in each Invitation to Bid (ITB) and Request for Proposal (RFP) stating that the bids will be opened publicly at the specified date and time, and that interested bidders or their authorized representatives

should be present during the bid opening in accordance with Section 11.8 of the PM. UNAMA had implemented this recommendation.

26. However, in all the cases reviewed, applicable to this requirement, public bid openings were not conducted. In 3 of the 26 cases reviewed, public bid openings were not required as they were related to contract extensions. The procurement case submissions from the Procurement Officer to the LCC did not mention why a public bid opening was not performed and the LCC did not make any inquiries.

Minimum number of invitees

27. Section 9.3.4.(1) of the PM suggests that if the acquisition is estimated to be between \$30,000 and \$200,000, the minimum number of invited vendors is ten. However, in procurement case #AMA7-187 only eight vendors were invited. The LCC did not inquire as to why the minimum number of vendors suggested was not invited.

Generic technical specifications

28. Section 8.2.1. of the PM states that the requisitioner should use generic technical specifications to develop the requisition, which are the basis for preparing of the solicitation document. General technical specifications are defined to be specifications that are performance oriented and do not specify brand names, the products of one company, or features which are unique to the products of a particular company. In 4 of the 26 cases reviewed, the technical specifications were not generic but specified make, model, brand name or country, which, without sufficient justification can give rise to questions about favoring certain vendors. The Procurement Officer should have required the requisitioner to use more generic technical specifications. The LCC did not question these procurement cases regarding the specifications used.

Recommendation 6

(6) The UNAMA Administration should ensure that the Procurement Officer submits sufficient detail, including vendor performance reports and documents on MOSS compliance, to enable the Local Committee on Contracts (LCC) to obtain an accurate and complete description of procurement actions taken and the basis of the proposed award. The UNAMA Administration should also ensure that the LCC requests additional supporting documentation when the submission is not sufficient.

29. *The UNAMA Administration accepted recommendation 6, stating that training has been provided on procurement and LCC activities in April 2008. Additionally, details of MOSS compliance are included in the LCC presentation. OIOS will close this recommendation in its database upon receipt of documentation showing that sufficient details, including information on Moss compliance and vendor performance reports, are included by the Procurement*

Officer in submissions to the LCC, and that when the submission is not sufficiently detailed the LCC requests additional supporting documentation.

Ex post facto procurement cases

30. There were only two partial *ex post facto* procurement cases processed during fiscal year 2006/2007 representing approximately 10 per cent of the total amount of cases reviewed. Partial *ex post facto* cases are defined as procurement actions in which deliverables have commenced and been furnished in part prior to obtaining the advice of the LCC. The justification presented by Procurement Section (PS) for the cases was genuine and in line with Section 12.1.8. of the Procurement Manual.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	C	Action completed	Implemented
2	C	Action completed	Implemented
3	O	Submission to OIOS of documentation supporting compliance with ST/SGB/2006/6, Financial Disclosure and Declaration of Interest Statements.	March 2008
4	O	Submission to OIOS of documentation supporting the implementation of the new tracking system and evidence of that the LCC Secretary's performance is being monitored.	March 2008
5	O	Submission to OIOS of documentation supporting the appropriate approval and distribution of LCC meeting minutes.	March 2008
6	O	Submission to OIOS of documentation showing that sufficient details, including information on MOSS compliance and vendor performance reports, are included by the PO in the submission to LCC, and when the submission is not sufficiently detailed, the LCC requests additional documentation.	January 2008

1. C = closed, O = open

2. Date provided by the UNAMA Administration in response to recommendations.