



INTERNAL AUDIT DIVISION

AUDIT REPORT

Horizontal audit of the procurement of core requirements in peacekeeping missions

**Improvements needed to ensure peacekeeping
missions comply more consistently with key
elements of the delegation of authority to
purchase core requirements**

18 November 2008

Assignment No. AP2007/600/07

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

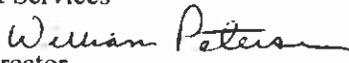
OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Ms. Susana Malcorra, Under-Secretary-General
A for Mission Support

DATE 18 November 2008

Mr. Warren Sach, Assistant Secretary-General
for Central Support Services

REFERENCE IAD: 08- 01459

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

SUBJECT **Assignment No. AP2007/600/07 – Horizontal audit of the procurement of core requirements**
OBJET **in peacekeeping missions**

1. I am pleased to present the report on the above-mentioned audit.
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. Your response indicated that you did not accept recommendation 1. In OIOS' opinion however, this recommendation seeks to address a significant risk area. We are therefore reiterating it and requesting that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 to 3), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Jun Yamazaki, Assistant Secretary-General, Controller
Mr. Paul Buades, Director, Procurement Division, Department of Management
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Seth Adza, Operations Review Officer, Department of Field Support
Ms. Christina Post, Oversight Support Unit, Department of Management
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

Horizontal audit of the procurement of core requirements in peacekeeping missions

At the request of the United Nations Controller, OIOS conducted audits of the execution of the delegation of authority to procure core requirements in ten peacekeeping missions. The overall objective of these audits was to assess whether adequate and effective internal controls had been established within the missions to execute this delegation of authority. The audits were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The current report summarizes the results of OIOS' mission audits and identifies several matters for management's consideration.

The field audits found that peacekeeping missions had generally established adequate controls over the procurement of core requirements. However, several areas required corrective action as discussed below:

- Monitoring the procurement of core requirements was challenging because it was difficult to differentiate core requirements purchases from other procurement. Also, the Mercury procurement system did not distinguish between core requirements purchases and general procurement.
- Some missions had not reported the procurement of core requirements exceeding \$200,000 to the Assistant Secretary-General, Department of Mission Support and the Chief, United Nations Procurement Division as required by the delegation of authority.
- In most missions, there was no evidence that the required determinations had been made as to whether goods and services being procured as core requirements were available in headquarters systems contracts.
- Some procurement case files did not contain all relevant information and documents such as vendor proposals and justifications, which may result in incorrect decisions by the Local Committees on Contracts members.
- In some instances commercial evaluations were conducted before the technical evaluations, and the minimum number of vendors as suggested in the Procurement Manual was not invited to bid.

OIOS issued recommendations for corrective action to each of the missions. The current report contains recommendations to the Department of Field Support and the UN Procurement Division concerning systemic issues affecting the execution of the delegated authority for the procurement of core requirements.

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I. INTRODUCTION

1. The United Nations Controller requested the Office of Internal Oversight Services (OIOS) to conduct an audit of the adequacy of controls in peacekeeping missions to execute the delegation of authority to procure core requirements up to \$1 million locally.¹ Core requirements are essential goods and services which lend themselves to local procurement and are not available through United Nations Headquarters (UNHQ) systems contracts. The audit was conducted in the nine peacekeeping missions shown below. The audit was also carried out in the United Nations Mission in Cote d'Ivoire (UNOCI). However, that audit has not been finalized, and its results are therefore not included in the current report.

2. Table 1 shows the estimated number and value of procurement cases and core requirements purchases for fiscal year 2006/07 in the peacekeeping missions included in the audit.

Table 1: Estimated number and value (in \$ million) of procurement cases and core requirements purchases (fiscal year 2006/07)

Mission	Procurement cases		Core requirements cases ²		% of core requirements to total procurement
	Number	Value	Number	Value	
UNMIT	539	32	235	9	28
UNMIS	1240	331	411	59	18
MONUC	859	191	602	115	60
MINUSTAH	83	44	4	1	2
UNMIK	345	17	23	11	63
UNAMA	399	6	236	3	50
UNAMI	81	23	30	16	70
UNIFIL	993	87	15	8	9
UNMIL	987	93	480	48	52

3. Comments made by the Department of Field Support (DFS) are shown in *italics*.

¹ The following missions were included in the audit: United Nations Integrated Mission in Timor-Leste (UNMIT), United Nations Mission in the Sudan (UNMIS), United Nations Organization Mission in the Democratic Republic of the Congo (MONUC), United Nations Stabilization Mission in Haiti (MINUSTAH), United Nations Interim Administration Mission in Kosovo (UNMIK), United Nations Assistance Mission in Afghanistan (UNAMA), United Nations Assistance Mission in Iraq (UNAMI), United Nations Interim Force in Lebanon (UNIFIL), United Nations Mission in Liberia (UNMIL).

² The core requirements amounts in all missions are estimates as they were generally compiled manually from the Local Committee on Contracts minutes and include amounts equal to or greater than \$75,000.

II. AUDIT OBJECTIVES

4. The objective of the audit was to determine whether adequate and effective controls were established at peacekeeping missions to execute the delegation of authority to procure core requirements up to \$1,000,000 locally.

III. AUDIT SCOPE AND METHODOLOGY

5. The audit covered transactions relating to the procurement of core requirements processed in fiscal year 2006/07, and included file reviews, analytical tests and interviews of responsible personnel at nine peacekeeping missions.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Non-classification of core requirements in the procurement system

6. The Mercury system is a web-based application designed to record and facilitate the procurement activities in peacekeeping missions. However, purchases involving core requirements were not always classified or easily identifiable in the system, which did not have a feature for uniquely identifying such procurements. Furthermore, mission procurement sections did not always maintain comprehensive lists of all core requirement purchases.

7. Although some missions, such as UNMIK and UNMIT, were able to provide data concerning the number and value of core requirements cases, in most missions such data was not readily available. Generally, information regarding the procurement of core requirements was compiled through a lengthy and time-consuming manual process, which can lead to errors as was the case in UNAMI, where 7 of the 37 listed were not actually core requirements. In MONUC, the Procurement Section (PS) compiled listings of core requirements from those case files that were presented to the Local Committee on Contracts (LCC). However, such classifications were not completed for transactions below \$75,000 because the identification and classification process of core requirements in these transactions would have required a lengthy detailed review of individual procurement case files.

8. Similarly, PS staff in UNMIS, UNAMI, and UNMIL, had to identify the core requirements cases manually which was a very time-consuming exercise. In UNIFIL, the PS had no system in place to differentiate core requirements cases from other purchases. PS staff noted that while it was possible to identify core requirements cases, doing so would entail a great deal of work. However, due to staff shortages, PS was not able to undertake such a review. As a result, OIOS compiled this information.

9. UNAMA is seeking to address the shortcomings of the Mercury system by implementing a manual system for identifying and monitoring core requirements cases. However, such determinations may not produce reliable and objective results which can be prone to error as several hundred transactions have to be reviewed and classified in a relatively short period. Furthermore, in OIOS' view, interpreting what constitutes a core requirement is left to the judgment of the individuals performing the classification. In this regard, it is essential that a uniform, centralized system be developed.

10. The absence of a system for correctly identifying and classifying core requirements at the point of raising the purchase orders may lead to incorrect recording and the inability to assess compliance with the provisions of the delegated authority including relevant reporting requirements discussed below. In this regard, UNMIL officials advised that they had discussed the shortcomings of the Mercury system at the March 2008 Mercury conference at the United Nations Logistics Base. OIOS was informed that there was general agreement on the need to address the issue of identifying core requirements.

Recommendation 1

(1) The Department of Field Support, in coordination with the United Nations Procurement Division, should ensure that the Mercury system is modified to permit the specific identification and tracking of the purchase of core requirements in order to more effectively monitor the implementation of the delegation of authority to missions for the procurement of such items.

11. *DFS did not accept recommendation 1, stating that it has been overtaken by events. DFS added that while there is a definite need to modify the Mercury System, in view of the ongoing Enterprise Resource Planning project, it will not be prudent to commit the resources of the Organization to such an investment. OIOS acknowledges DFS' response but wishes to explain that the recommendation is intended to provide a management tool to efficiently monitor the procurement of core requirements. Such management tool is necessary to be put in place urgently and, in OIOS' view, would not require significant modification of the current system. OIOS is reiterating this recommendation and requests that DFS reconsider its initial response to the recommendation. Recommendation 1 therefore remains open pending confirmation that the procurement of core requirements is specifically identified and tracked.*

B. Reporting of core requirements purchases exceeding \$200,000

12. According to the delegation of authority on core requirements, the Chief of Mission Support is required to submit a written report to the Assistant Secretary-General, DFS and to the Chief, Procurement Division (PD), Department of Management within 30 days after the procurement of a core requirement exceeding \$200,000. This report should document the description of the commodity purchased; summarize the procurement process; and identify the

selected vendor, the duration and value of the contract, the approved minutes of the LCC and the financial rule relating to the basis of the award.

13. The extent of compliance with this requirement was mixed. Some missions such as UNMIL, UNMIS, UNAMA generally complied with the reporting requirement. However, several other missions, including MONUC, UNMIT, UNIFIL, MINUSTAH and UNMIK did not fully comply.

14. MINUSTAH submitted a report to PD and to the Assistant Secretary-General, DFS relating to four core requirements cases exceeding \$200,000 included in OIOS' sample, but its report was late. OIOS recommended that the Mission ensure that such reports are filed in a timely manner. MINUSTAH agreed to implement this recommendation. In UNMIT, OIOS identified several core requirements purchases where the value exceeded \$200,000, but there was no evidence that the required report was submitted. Also, there were no procedures in place to ensure that these reports were submitted in accordance with the delegation of authority. OIOS recommended that the Mission ensure that such reports are filed in a timely manner. UNMIT accepted this recommendation and was taking corrective action.

15. In UNIFIL, there was no evidence of compliance with this requirement in 10 out of the 15 core requirements procurement case files sampled. While the outgoing faxes maintained by PS showed instances of reports being submitted to UNHQ, they were not filed in individual procurement case files. As a result, there was no assurance that the Mission had fully complied with the provision of the delegation of authority. OIOS recommended that UNIFIL prepare, submit and file the required reports. UNIFIL has implemented this recommendation. Recommendations calling for improved reporting were also issued to MONUC and UNMIK, which have taken appropriate corrective action.

16. OIOS has issued recommendations to several missions calling for improved reporting of core requirements purchases exceeding \$200,000. Although these missions are taking corrective action, in OIOS' view, there is a continuing need for UNHQ oversight of compliance with these reporting provisions.

Recommendation 2

(2) The Department of Field Support, in coordination with the United Nations Procurement Division, should follow up with peacekeeping mission management to ensure that missions are complying with the requirement for prompt reporting of core requirement purchases exceeding \$200,000.

17. *DFS accepted recommendation 2, explaining that the non-compliance with the reporting on core requirement purchases (referred to in paragraph 7) was relating to MONUC, UNMIT, UNIFIL, MINUSTAH and UNMIK. All five missions have implemented the recommendation, which was confirmed by OIOS as closed in each of its respective reports. Nevertheless, DFS will stress to all missions the importance of strict compliance with the established procedures*

relating to the reporting on purchases of core requirements exceeding \$200,000. Recommendation 2 remains open pending OIOS' verification of compliance by all missions with the requirement for prompt reporting of core requirement purchases exceeding \$200,000.

C. Need to ensure that core requirements procured in missions are not available in UNHQ systems contracts

18. The 23 February 2007 revision of the delegation of authority on core requirements states that if goods or services requested are available through already established UNHQ systems contracts, these contracts should be used. Prior to its deliberations, the LCC, as adviser to the Director of Mission Support, or his/her delegate should ensure such goods and services are not available in systems contracts.

19. The audit results were mixed and showed that while several missions had conducted such reviews, three missions, i.e., UNMIL, MONUC and UNMIT, had not. OIOS issued recommendations calling on the mission Office of Mission Support to ensure that the LCCs, before approving the award of core requirements goods and services, confirm that these items were not available in a systems contract. The missions accepted these recommendations. Although OIOS' audits showed that several missions were generally complying with the requirement, there is a need to ensure that these determinations are being made. Failure to determine if core requirements goods and services are available in existing systems contracts could result in substantial inefficiencies and over expenditures.

Recommendation 3

(3) The Department of Field Support, in coordination with the United Nations Procurement Division, should follow up with peacekeeping mission management to ensure that missions are conducting the required reviews to determine whether core requirements are available in existing UNHQ systems contracts before purchasing these items locally.

20. *DFS accepted recommendation 3 and stated that its implementation is underway. While MONUC has implemented the recommendation, UNMIT and UNMIL have now put in place appropriate measures to verify that core requirements are not available in existing UNHQ systems contracts before local procurement actions are initiated. DFS will remind all missions to ensure that the Local Committees on Contracts, before approving the award of core requirements, confirm that these items are not available in UNHQ systems contracts. Recommendation 3 remains open pending OIOS' verification of compliance by all missions with the requirement to review existing UNHQ systems contracts before purchasing items locally.*

D. Market surveys need to be improved

21. Section 8.2.4 of the Procurement Manual requires that market surveys be conducted as they help to achieve best value for money. OIOS' audits conducted in UNMIT, MONUC and UNAMA raised questions about the adequacy of market surveys relating to the procurement of core requirements.

22. The UNMIT LCC recommended that PS conduct a market survey and invite international service companies to bid at the end of the existing cleaning and security services contract awarded to a local vendor. However, upon expiration of the contract, it was extended without a market survey to identify potential international service providers. UNMIT staff advised that the market survey was not conducted due to staffing constraints. OIOS recommended that UNMIT conduct market surveys to ensure adequate competition in the procurement process. The Mission accepted this recommendation, and stated that it is now conducting these surveys.

23. At UNAMA, there was no evidence in the procurement files showing that market surveys had been conducted for any of the 22 core requirements procurement cases reviewed. OIOS recommended and the Mission agreed to implement procedures to ensure that market surveys are conducted.

24. In MONUC, market surveys were not systematically carried out according to plan. For example, no market survey had been conducted in connection with the modification of a contract for building materials totaling \$240,000. The Chief Procurement Officer informed OIOS that although PS had conducted market surveys in some locations, due to competing priorities and the time-consuming nature of the surveys, some surveys could not be completed. MONUC accepted OIOS' recommendation that such market surveys be conducted to ensure best value for money.

Recommendation 4

(4) The Department of Field Support, in coordination with the United Nations Procurement Division, should remind peacekeeping missions about the need to conduct effective market surveys to ensure adequate competition and best value for money in the procurement of core requirements.

25. *DFS accepted recommendation 4 and stated that it will remind all missions of the importance of strict compliance with the provisions of the Procurement Manual, particularly those relating to the procurement of core requirements. Recommendation 4 remains open pending OIOS' verification of compliance by all missions with the requirement to conduct market surveys.*

E. Inadequate supporting documentation in some procurement cases

26. Section 12.1.3 (4) of the United Nations Procurement Manual requires procurement officers to ensure that submissions to the LCC are comprehensive, factually accurate and clear in order to facilitate the review of the procurement action. As discussed below, OIOS identified instances in some missions where supporting documentation was not adequate.

27. In UNMIT, for example, a procurement case for civil works rehabilitation was presented to the LCC without a proposal from one of the vendors. The technical evaluation indicated that this vendor was not technically acceptable, although no details were provided as to why the vendor failed to meet technical specifications. Despite the missing information, the LCC recommended awarding the case to another vendor. OIOS recommended that the Mission ensure that case presentations include all pertinent documentation needed by the LCC. UNMIT accepted the recommendation, but noted that this situation was an exception.

28. In two of the four core requirements cases submitted to the MINUSTAH LCC, the information provided was considered insufficient. In one case, the Committee deferred its decision to allow PS and the requisitioner to submit required justifications. The LCC deemed some of the documentation presented as weak. Based on OIOS' recommendation, the Mission agreed to address this problem, and pointed that it will take such steps as developing a master checklist of documentation to be submitted to the LCC.

29. UNMIS generally maintained adequate records and case files. However, the Statement of Award forms attached to the case files did not always include certain details such as contract numbers, currency and rate of exchange, aggregate obligation details and basic information on amounts and dates of approval by the committees on contracts. UNMIS accepted OIOS' recommendation for corrective action and issued specific guidance to staff.

30. Incomplete information in case files may preclude procurement staff from properly monitoring cases. The failure to provide accurate and complete information to the LCC may result in incorrect decisions and possibly the perception of a lack of objectivity.

Some procurement cases were submitted late

31. Incomplete information in case files may preclude procurement staff from properly monitoring cases. The failure to provide accurate and complete information to the LCC may result in incorrect decisions and possibly the perception of a lack of objectivity.

32. Section 12.1.3 (3) of the Procurement Manual stipulates that cases shall be submitted to the LCC no later than two working days prior to the LCC meeting in which the procurement action is to be considered. Failure to submit the procurement cases to the LCC well in advance may result in the cases not

being adequately reviewed by members before the meeting which may result in incorrect decision making.

33. However, of the 15 core requirements cases sampled in UNMIT, four had been submitted to LCC members only one day before the meeting and it was not evident from the LCC meeting files when three other cases had been submitted. Of the 22 core requirements cases sampled in UNAMA, one had been submitted to the LCC members one day before the meeting. It was not clear when the remaining 21 cases were submitted to the LCC members. OIOS issued recommendations to the two missions which agreed to take corrective action.

Recommendation 5

(5) The Department of Field Support, in coordination with the United Nations Procurement Division, should follow up with peacekeeping mission management to ensure that adequate documentation is maintained in core requirements procurement cases submitted to the Local Committees on Contracts and that these cases are submitted in a timely manner.

34. *DFS accepted recommendation 5 and stated that it will remind all missions of the importance of strict compliance with the provisions of the Procurement Manual, particularly those relating to the procurement of core requirements. DFS also added that of the four missions identified in the draft report, UNMIS and UNAMA had implemented the recommendation and MINUSTAH and UNMIT advised that appropriate measures have been put in place to implement the recommendation. Recommendation 5 remains open pending OIOS' verification that all mission maintain adequate documentation of core requirement procurement cases is maintained.*

F. Technical and commercial evaluations need to be controlled

35. Section 10.8.4 (4) of the Procurement Manual provides that only technical proposals from prospective vendors shall be opened at the public opening, while the financial details of proposals shall remain unopened and unread, until the Procurement Officer has received the completed technical evaluation. However, under exceptional circumstances, the financial details of the proposals may be opened and evaluated by the Procurement Officer prior to receiving the technical evaluation, provided that confidentiality is maintained.

36. In UNMIT, commercial evaluations were conducted prior to the technical evaluations in three core requirements procurement cases, although there was no evidence on file showing genuine exceptional circumstances warranting the exception. In addition, in two other cases, there was no certification of the commercial evaluation completion date. It was therefore difficult to determine whether the commercial evaluation had been performed after the receipt of the technical evaluation. UNMIT management advised that the Mission had taken steps to address this issue. In UNAMI, one vendor's

financial proposal was reviewed on 1 March 2007 while the technical evaluation was conducted on 4 March 2007. OIOS was informed that the procurement action was an exigency, but there was no evidence supporting the urgency of the procurement. UNAMI accepted OIOS' recommendation and agreed to rectify this situation.

Insufficient number of vendors invited to bid

37. The Procurement Manual provides that a sufficient number of vendors should be invited to bid and that vendors be suspended or removed from the vendor database where there is lack of response or acknowledgement to three invitations to submit a bid in line with Section 9.3.8 (1).

38. UNAMI and MONUC did not invite the required minimum number of vendors in some solicitations. For example, in case 7RFP-700008 in UNAMI, only 5 vendors were invited to bid out of a possible minimum of 10 vendors while for 6RFP-600065 only 7 vendors were invited, out of the 15 minimum vendors possible. In MONUC, the responses to the solicitations were as shown below.

Table 2: Solicitations response rates

Number of LCC cases	Number of minutes	Number of invitations to bid sent	Responses	
149	29	11	2	-
8	5	18	2	-
49	11	19	1	-

39. Also, there were insufficient numbers of potential vendors in some cases and no documentation on file to support the deviation from suggested procedures. In some cases, PS sent solicitation requests to vendors who could not be contacted during previous procurement exercises and to vendors who had not responded or expressed an intention to bid within the year. The MONUC Procurement Section had also not updated the vendors list.

40. Failure to maintain a database of eligible and interested vendors may hamper the Mission's capability to conduct a competitive procurement process and achieve best value for money. In this regard, OIOS issued recommendations for corrective action to UNAMI and MONUC. The missions accepted these recommendations which are being implemented.

V. ACKNOWLEDGEMENT

41. We wish to express our appreciation to the management and staff of the peacekeeping missions reviewed for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The Department of Field Support in coordination with the UN Procurement Division should ensure that the Mercury system is modified to permit the specific identification and tracking of core requirement purchases in order to more effectively monitor the implementation of the delegation of authority to missions for the procurement of such items.	Information resources	High		Confirmation that the procurement of core requirements is specifically identified and tracked	Not accepted
2	The Department of Field Support in coordination with the UN Procurement Division should follow-up with peacekeeping mission management to ensure that missions are complying with the requirements of prompt reporting of core requirements purchases exceeding \$200,000.	Compliance	High		OIOS' verification of compliance by all missions with the requirement for prompt reporting of core requirement purchases exceeding \$200,000.	30 November 2008
3	The Department of Field Support in coordination with the UN Procurement Division should follow-up with peacekeeping mission management to ensure that missions are conducting the required reviews to determine whether core requirements are available in existing headquarters systems contracts before purchasing these items locally.	Compliance	High		OIOS' verification of compliance by all missions with the requirement to review existing UNHQ systems contracts before purchasing items locally	30 November 2008
4	The Department of Field Support in coordination with the UN Procurement Division should remind peacekeeping missions about the need to conduct effective market surveys to ensure adequate competition and best value for money in the procurement of core requirements.	Operational	Medium		OIOS' verification of compliance by all missions with the requirement to conduct market surveys	30 November 2008
5	The Department of Field Support in coordination with the UN Procurement	Operational	Medium		OIOS' verification that all mission maintain adequate documentation of core	30 November 2008

Recom. no.	Recommendation	Risk category	Risk rating	C/ O ¹	Actions needed to close recommendation	Implementation date ²
	Division should follow-up with peacekeeping mission management to ensure that adequate documentation is maintained in core requirements procurement cases submitted to the Local Committee on Contracts and that these cases are submitted in a timely manner.				requirement procurement cases is maintained	

¹ C = closed, O = open

² Date provided by DFS in response to recommendations