



INTERNAL AUDIT DIVISION

AUDIT REPORT

UNFICYP Support Services

Internal controls over the sourcing of travel services and in the management of contracts were weak

18 August 2009

Assignment No. AP2008/654/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

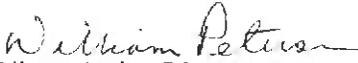
MEMORANDUM INTERIEUR

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

TO Mr. Taye-Brook Zerihoun
A Special Representative of the Secretary-General
United Nations Peacekeeping Force in Cyprus

DATE 18 August 2009

REFERENCE IAD: 09-02767

for 
FROM Fatoumata Ndiaye, Acting Director
DE Internal Audit Division, OIOS

SUBJECT **Assignment No. AP2008/654/01 - Audit of the United Nations Peacekeeping Force in Cyprus**
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 5, 8 and 9 in the OIOS recommendations 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 summarized in Annex 1.
3. Your response indicated that you did not accept recommendation 2. 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., recommendation 2) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Nicolas Von Ruben, Chief of Mission Support, UNFICYP
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, DFS
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Ms. Eleanor T. Burns, Chief, Peacekeeping Audit Service, 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

UNFICYP Support Services

OIOS conducted an audit of the United Nations Peacekeeping Force in Cyprus (UNFICYP) in November 2008. The overall objective of the audit was to assess the adequacy and effectiveness of UNFICYP's internal controls over its support services. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Internal controls over the Mission's support services were generally in place. However, improvement was needed, as follows:

- The procurement of travel services needs to be regularized to ensure that relevant regulations and rules are complied with; and
- There is a need to reduce the number of similar supply and transport contracts to obtain economies of scale and lessen the administrative burden of maintaining a large number of contracts.

OIOS made a number of recommendations to strengthen internal controls and address the weaknesses noted in the report.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Peacekeeping Force in Cyprus (UNFICYP). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UNFICYP was established through United Nations Security Council 186 in 1964 to prevent a recurrence of fighting between the Greek Cypriot and Turkish Cypriot communities and to contribute to the maintenance and restoration of law and order and return to normal conditions. The mandate had been renewed and extended up to 15 December 2009 through Security Council Resolution 1873 dated 29 May 2009.
3. Table 1 shows UNFICYP's total budgets, operational costs and Mission personnel for the financial period from 2006/07 to 2008/09.

**Table 1 - UNFICYP budgets, operational costs and Mission personnel
(in \$'000, except for the Mission personnel numbers)**

	2006/07	2007/08	2008/09
I. Budget	46,393	48,319	56,489
II. Operational costs			
Official travel	145	270	387
Facilities and infrastructure	7,263	6,547	7,822
Ground transportation	3,241	3,048	3,553
Air transportation	1,567	1,589	1,596
Communication	917	959	1,026
Information Technology	580	606	755
Medical	282	305	315
Special equipment	210	12	17
Other supplies	431	502	587
Total costs	14,636	13,838	16,058
III. Mission personnel			
Military contingents	860	860	860
United Nations Police	69	69	69
<i>International staff</i>	42	39	40
National staff	109	110	113
Temporary posts	2	--	--
Total personnel	1,082	1,078	1,082

4. The Office of Mission Support is responsible for providing administrative and logistics support to the Mission.
5. Comments made by UNFICYP are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over the various administrative services provided by the Office of Mission Support.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered the financial period from 1 July 2007 to 30 June 2008 and included the following areas: (a) travel; (b) engineering; (c) supply; (d) transport; (e) finance; and (f) communications and information technology. The audit also included a review of the Force Medical Service.

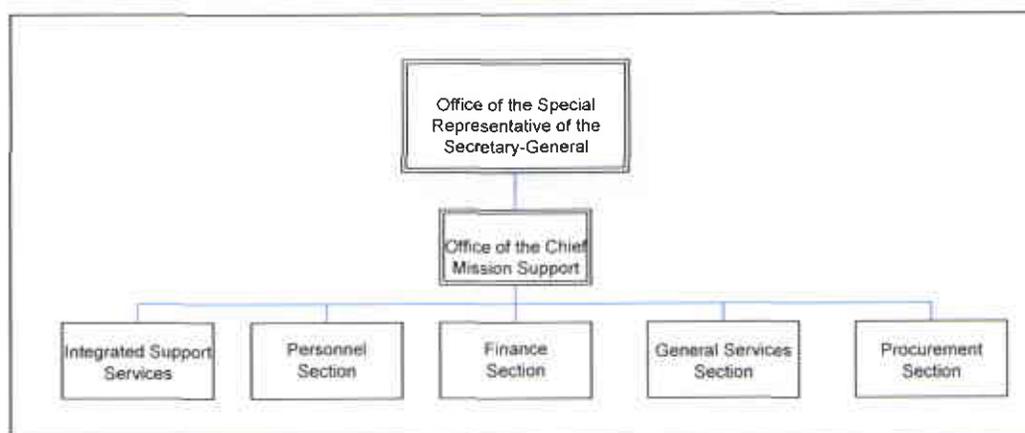
8. The audit methodology comprised a review of relevant documents provided by UNFICYP, interviews with key personnel, data analysis and assessment of internal controls.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Organization structure

9. The Office of Mission Support is headed by a Chief at the D-1 level, who reports directly to the Head of the Mission. The heads of the Integrated Support Services, Personnel, Finance, General Services and Procurement Sections report to the CMS (see Figure 1).

Figure 1 – UNFICYP Mission Support organization structure



10. The administrative structure has not been recently reviewed. OIOS observed that some functions in the Engineering Section and the Finance Section are incompatible with their core responsibilities and the principle of segregation of duties. For instance:

- (a) The Health and Safety Unit and the Fire Unit fall under the responsibility of the Engineering Section. Normally these responsibilities would be with the Medical Services Section and the Safety and Security Section respectively.

(b) A Finance Officer also performs the functions of the Chief Budget Officer, which concentrates authority over the budgeting and disbursement of the Mission's funds to the same official. This situation does not allow for adequate segregation of duties between these functions. To correct this, the Budget Unit could be repositioned to be a part of the Office of the Chief Mission Support; alternatively the Chief Mission Support must exercise stronger supervisory review.

Recommendation 1

(1) The UNFICYP Office of Mission Support should review its organization structure and reposition certain functions, as necessary, to ensure that functions are in line with a unit or section's core functions and that incompatible functions are segregated.

11. *The UNFICYP Office of Mission Support accepted recommendation 1 and stated that the Mission is assessing the benefits of placing the Fire and Health and Safety Units under the Office of the Chief Security Officer. A proposal will be included in the Mission's 2010-2011 budget submission should the assessment result in benefits. However, the creation of a budget officer post was rejected by the Advisory Committee on Administrative and Budgetary Questions; therefore UNFICYP is not in a position to implement this part of the audit recommendation.* Recommendation 1 remains open pending OIOS' review of the results of the assessment done and the action taken to improve the structure of the Office and to strengthen internal controls due to the inadequate separation of duties between the finance and budget function.

B. Travel Unit

12. During the period from April 2007 to September 2008, the Mission conducted four rotations for the Argentine contingents through the use of commercial airlines. The selection of the commercial airline to conduct rotations was not conducted in accordance with the applicable financial and procurement regulations and rules, as follows:

(a) There was no competitive bidding;

(b) Despite the cost of rotations (ranging between \$670,000 and \$800,000), the procurement case was not reviewed by the Local and Headquarters Committees on Contracts;

(c) Contrary to Financial Rule 105.18 (a) no written contract was established with the travel agent even though the procurement of the services provided, over an 18 month period, totaled about \$3 million. Instead, the General Services Section obligated funds under travel requests (PT-8), which are not legal instruments that establish contracts between the United Nations and the vendor; and

(d) In contravention of financial rule 105.19, UNFICYP paid over \$1 million to the travel agent as an advance.

Recommendation 2

(2) The UNFICYP Office of Mission Support should ensure that travel services relating to the rotation of the Argentine troops are selected competitively and in compliance with relevant regulations and rules.

13. *The UNFICYP Office of Mission Support did not accept recommendation 2 and stated that the Mission has realized substantial savings by conducting the rotation of the Argentinean contingent through the purchase of commercial airline tickets. The Mission published an expression of interest in local news papers and on its website, which directs interested travel companies to a web address to complete a questionnaire. The responses were reviewed by a committee responsible for making a recommendation. The timeframe between receiving the rotation dates from Troop Contributing Countries and determining the most responsive offer is far too short to conduct a regular procurement exercise. The alternative is to return to chartered flights at an additional cost of a few million US Dollars per rotation. Advance payment is allowed under Financial Rule 105.19(a), when appropriate.*

14. As per Financial Rule 105.18 written procurement contracts shall be used to formalize every procurement action with a monetary value exceeding \$2,500. UNFICYP expended \$3 million without a written contract and without the involvement of its Procurement Section. The Mission's General Services Section has no designated authority under Financial Rule 105.13(a). Moreover, advance payment to a vendor which has no written contract for the Mission's travel activities violates Financial Rule 105.19(a). OIOS reiterates recommendation 2 and requests the Mission to reconsider its response. Recommendation 2 remains open pending receipt of evidence that the Mission's Procurement Section has established a written contract for travel activities in compliance with the relevant UN regulations and rules.

C. Contract management

Number of service contracts

15. Table 2 shows the number of contracts pertaining to the below services:

Service group	No. of contracts
Catering	4
Cleaning services	2
Conservancy services	4
Rations	6
Medical	12
Supply and services	31
Camp command	2
Transport	29
Total	90

16. There is no strategic approach and hence efficiency in the contracting process. UNFICYP has entered into multiple contracts for similar services. For example, it has four contractors for catering services, six contractors for the supply of food rations and 31 contractors for supply and services. Also, of the 29 transport contracts, 15 pertain to repairs and maintenance and five for the supply of petroleum, oil and lubricants.

17. In OIOS' view, there is an opportunity to obtain economies of scale by consolidating and grouping contracts into a more manageable number. Moreover, the management of a large number of contracts requires time and effort, and is administratively inefficient. OIOS appreciates that since June 2008, the Supply Section has taken steps to consolidate ten catering, cleaning and camp command contracts into a single contract. Similarly, a review of all other supply-related contracts is underway to consolidate them into 24 contracts. While the efforts are commendable, OIOS believes that the number of service contracts could be further reduced particularly in the medical, supply and services and transport.

Recommendation 3

(3) The UNFICYP Office of Mission Support should review further the supply and transport service contracts with the view to reducing the number of contractors and obtaining economies of scale.

18. *The UNFICYP Office of Mission Support accepted recommendation 3 and stated that the Mission is reviewing its transport and supply services contracts in order to reduce their number.* Recommendation 3 remains open pending confirmation that transport and supply services contracts have been consolidated to obtain further economies of scale.

Medical-related contracts

19. Partly as a result of the administrative challenge in managing a large number of contracts, two contracts for medical services (CON/CYP/06/004 and CON/CYP/06-057) were allowed to expire without taking timely action to review them, as follows:

- Contract CON/CYP/06/004 for preventive and corrective maintenance and the periodic calibration and general repair of medical equipment expired on 31 March 2008; and
- Contract CON/CYP/06-057 for services for the treatment of clinical waste and disposal of expired medicines expired on 31 July 2008.

20. As of November 2008, the procurement process to replace the expired contracts had not yet been completed.

21. There was no mechanism established to track contract expiry dates. As a result, UNFICYP was unable to maintain its medical equipment for several months. Similarly, the Mission has had no valid contract for the treatment of

clinical waste and disposal of expired medicines. Expiration of these contracts exposed UNFICYP personnel to medical safety and hygiene risks.

Recommendations 4 and 5

The UNFICYP Office of Mission Support should:

(4) Establish mechanisms to monitor the expiration of contracts to ensure that the supply of essential medical services is not disrupted; and

(5) Take immediate steps to mitigate safety and hygiene risks by procuring the necessary medical services to maintain medical equipment and dispose of clinical waste.

22. *The UNFICYP Office of Mission Support accepted recommendation 4 and stated that the Contracts Management Unit strictly monitors the expiration of contracts in the Mission. Also, contract administrators are individually notified six months prior to the expiration date of the contract. Recommendation 4 remains open pending OIOS' verification of the established monitoring system.*

23. *The UNFICYP Office of Mission Support accepted recommendation 5 and stated that the non-renewal of these contracts was because: (1) the provision of the disposal of clinical waste services was included in the conservancy and waste management services contract; and (2) the maintenance of medical equipment of services was rarely needed. Currently, the provision for these services is processed through direct expenditure on a when and as required basis. Based on the assurances provided by management, recommendation 5 has been closed.*

D. Engineering Section

24. The Mission did not have adequate documentation to support the various stages of the project management cycle. OIOS was unable to trace project documents that were used in prioritizing, monitoring, and evaluating each project. Moreover, the files did not contain records of payments made to project contractors.

25. The Engineering Section provided OIOS with a copy of a draft project management system designed to monitor each engineering project. However, at the time of the audit, the system was not yet implemented. OIOS acknowledges the Mission's effort to design a project management system and has not made a recommendation, but will monitor the system's implementation to ensure that projects are adequately monitored.

E. Finance Section

26. Internal controls over the finance function were generally in place. However, from the sample of 11 expenditure transactions, OIOS found three occasions where the Certifying Officer had not certified invoices received from a vendor prior to their payment. These invoices totaled almost \$250,000.

Recommendation 6

(6) The UNFICYP Finance Section should ensure that all invoices are certified before approving payment.

27. *The UNFICYP Office of Mission Support accepted recommendation 6 and stated that invoices are duly certified by the account holder, however, as a general rule, the provisions of the field finance procedures guidelines prevail. The latter states that payments against a recorded obligation do not require the signature of a certifying officer, unless the obligation amount is not sufficient to cover the actual payments. OIOS does not agree with the response as Financial Regulation 5.8 (b) requires "all payments to be made on the basis of supporting vouchers and other documents which ensure that goods or services have been received and that payments have not previously been made". Recommendation 6 remains open pending receipt of certification by the Mission's substantive office on the vendor invoices that the goods or services have been received against the payment of the sampled invoices totaling \$250,000.*

F. Communication and Information Technology Section

Disaster recovery and business continuity plan

28. The Communication and Information Technology Section (CITS) had not tested its disaster recovery and business continuity plan. Therefore, there is no assurance that the plan will operate smoothly in the event of a disaster. Furthermore, not all of the Mission's self-accounting units had identified critical data that need to be recovered should a disaster occur. This situation could hamper the data recovery process after a disaster.

Recommendation 7

(7) The UNFICYP Office of Mission Support should ensure the readiness of the Communication of Information Technology Services in the event of a disaster by: (a) testing the Mission's information and communication technology disaster recovery and business continuity plan; and (b) making sure that all self-accounting units identify critical data to prioritize recovery.

29. *The UNFICYP Office of Mission Support accepted recommendation 7 and stated that the Mission was not in a position to initiate a disaster recovery and business continuity scenario due to ongoing relocation of current disaster recovery facilities and pending arrival of additional hardware and software. A complete and realistic disaster recovery and business continuity test will be run after the relocation and the implementation of the new technology. Recommendation 7 remains open pending the receipt and review of documents showing that the disaster recovery and business continuity plan has been tested.*

Access rights to information systems

30. There is no procedure to request, approve and grant access to the various information systems used in the Mission. For example, CITS confirmed that users of the Mercury procurement system can be granted multiple access rights such as the requisitioner, section chief, and certifying officer functions. Multiple user access rights could compromise the integrity of the system due to inadequate segregation of duties.

Recommendation 8

(8) The UNFICYP Office of Mission Support should establish a procedure to request, approve and grant access to the various information technology systems used throughout the Mission to ensure adequate segregation of functions and prevent unauthorized access to information systems.

31. *The UNFICYP Office of Mission Support accepted recommendation 8 and stated that the Mission has the procedures in place to ensure that all access to systems has the approval of the responsible stakeholders.* Based on the action taken by UNFICYP, recommendation 8 has been closed.

G. Force Medical Service

Medical supplies

32. The Force Medical Service provided OIOS with a list of 92 consumables and 72 drugs held at 18 November 2008. OIOS selected ten items from consumables and from drugs to verify their existence in the medical store. Due to the lack of a proper inventory system, none of the selected items was found and four types of drugs had already expired.

33. Without an adequate inventory system, there is a risk that drugs will expire in storage resulting in the inefficient use of funds and possibly the lack of critical drugs when required.

Recommendation 9

(9) The UNFICYP Force Medical Officer should implement an inventory management system that includes periodic physical verification of stocks to ensure that medical supplies (e.g., consumables and drugs) are adequately controlled.

34. *The UNFICYP Office of Mission Support accepted recommendation 9 and stated that the inventory management system including monthly physical verification is implemented in all medical centres.* Based on the action taken, recommendation 9 has been closed.

H. Other issues

Accounting of food rations

35. During the audit, OIOS noted an opportunity for the Mission to eliminate the inefficient accounting of food rations. The Mission uses two systems to account for food rations:

(a) The electronic Rations Management and Control System, which records the ordering, receipt and accounting of rations. The receipt information is recorded into the system based on the Receiving and Inspection (R&I) Unit's report on the delivery of rations. The system, however, does not accept discrepancies in R&I reports. While the contractor remedies any shortages, overages or damaged supply within 10 to 15 days after delivery, the system does not record this.

(b) A manual food rations inventory system, which records actual receipts based on R&I reports and also maintains records for movement of food items during the 10 to 15 day period when the contractor remedies the differences in orders. As a result, stock levels of food rations per manual records are often lower than those recorded in the electronic system.

36. Acknowledging the duplication and the resulting inefficiency, the Supply Section provided three options to resolve the issue, including: (a) revising the electronic Rations Management and Control System to allow partial receiving and inspection; (b) revising the MS Excel spreadsheet supported by the Rations Management and Control System to reflect the partial receipt of food rations; or (c) continuing to operate the manual system alongside the Rations Management and Control System. In OIOS' opinion, revising the Rations Management and Control System to allow for partial receiving and inspection is the better option.

Recommendation 10

(10) The UNFICYP Office of Mission Support should revise the Rations Management and Control System to allow for partial receiving and inspection, and discontinue the manual system of maintaining food rations inventory.

37. *The UNFICYP Office of Mission Support accepted recommendation 10 and stated that the Mission is discussing the resolution of the problem with the software developer through an existing maintenance contract. Recommendation 10 remains open pending confirmation that the Rations Management and Control System is updated and the manual system of maintaining food rations inventory is discontinued.*

V. ACKNOWLEDGEMENT

38. We wish to express our appreciation to the Management and staff of UNFICYP 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 UNFICYP Office of Mission Support should review its organization structure and reposition certain functions, as necessary, to ensure that functions are in line with a unit or section's core functions and that incompatible functions are segregated.	Governance	Medium	O	Evidence showing that the Units have been repositioned in the Mission Organizational structure.	2010-2011
2	The UNFICYP Office of Mission Support should ensure that travel services relating to the rotation of the Argentine troops are selected competitively and in compliance with relevant regulations and rules.	Compliance	High	O	Receipt of evidence that the Mission has established a written contract for travel activities by its Procurement Section in compliance with the relevant UN regulations and rules.	Not provided
3	The UNFICYP Office of Mission Support should review further the supply and transport service contracts with the view to reducing the number of contractors and obtaining economies of scale.	Strategy	Medium	O	Evidence showing consolidation of Transport and supply services contracts.	2009-2010
4	The UNFICYP Office of Mission Support should establish mechanisms to monitor the expiration of contracts to ensure that the supply of essential medical services is not disrupted.	Operational	Medium	O	OIOS verification of the established mechanism to monitor the expiration dates of contracts.	Not provided
5	The UNFICYP Office of Mission Support should take immediate steps to mitigate safety and hygiene risks by procuring the necessary medical services to maintain medical equipment and dispose of clinical waste.	Operational	Medium	C	Action taken.	Implemented
6	The UNFICYP Finance Section should ensure that all invoices are certified before approving payment.	Compliance	Medium	O	Receipt of certification by the Mission's Certifying Officer on the vendor invoices that goods or services have been received against the payment of \$250,000.	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
7	The UNFICYP Office of Mission Support should ensure the readiness of the Communication of Information Technology Services in the event of a disaster by: (a) testing the Mission's information and communication technology disaster recovery and business continuity plan; and (b) making sure that all self-accounting units identify critical data to prioritize recovery.	Operational	Medium	O	Evidence showing that the disaster recovery and business continuity plan has been tested.	December 2009
8	The UNFICYP Office of Mission Support should establish a procedure to request, approve and grant access to the various information technology systems used throughout the Mission to ensure adequate segregation of functions and prevent unauthorized access to information systems.	Governance	Medium	C	Action taken.	Implemented
9	The UNFICYP Force Medical Officer should implement an inventory management system that includes periodic physical verification of stocks to ensure that medical supplies (e.g., consumables and drugs) are adequately controlled.	Operational	Medium	C	Action taken.	Implemented.
10	The UNFICYP Office of Mission Support should revise the Rations Management and Control Systems to allow for partial receiving and inspection, and discontinuance the manual system of maintaining food rations inventory.	Information resources	Low	O	Evidence showing that the Rations Management and Control System have been reviewed to eliminate the inefficient accounting of food rations.	2009-2010

1. C = closed, O = open

2. Date provided by UNFICYP in response to recommendations.