



## INTERNAL AUDIT DIVISION

# AUDIT REPORT

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### Catering services in UNFICYP

Ineffective internal controls over management of catering contracts increased the risk that the interests of the Mission were not properly safeguarded

7 October 2010

Assignment No. AP2010/654/01

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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. Lisa M. Buttenheim  
A: Special Representative of the Secretary-General and the  
Head of Mission  
United Nations Peacekeeping Force in Cyprus

DATE: 7 October 2010

REFERENCE: IAD: 10-00852

FROM: Fatoumata Ndiaye, Director  
DE: Internal Audit Division, OIOS

*Fatoumata*

SUBJECT: **Assignment No. AP2010/654/01 - Audit of catering services in UNFICYP**  
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 to 3, 6 and 10 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. Pursuant to General Assembly resolution 64/263 that requires OIOS to include as an annex the complete response of management, please find attached your complete response to the draft 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, 4 and 5), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Paul Aghadjanian, Chief of Mission Support, UNFICYP  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management  
Mr. Seth Adza, Audit Response Team, Department of Field Support  
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS  
Ms. Eleanor Burns, Chief, Peacekeeping Audit Service, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

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

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## EXECUTIVE SUMMARY

### Audit of catering services in UNFICYP

OIOS conducted an audit of catering services in the United Nations Peacekeeping Force in Cyprus (UNFICYP). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over the management of contracts for the delivery of catering services. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Ineffective internal controls over the management of the two catering contracts covered by the audit increased the risk that the interests of the Mission were not properly safeguarded, as follows:

- The Mission awarded a catering contract of \$144,000 to a company in 2008 without competitive bidding. The Mission subsequently amended the contract on four occasions increasing the contract value to \$789,000. Awarding contracts without competitive bidding does not assure best value for money.
- The Mission did not initiate the procurement process to replace contracts in a timely manner resulting in the existing catering contracts being repeatedly extended. Moreover, in July 2010, a contractor provided catering services without a valid contract. Repeated extension of contracts beyond the approved contractual term may prove uneconomical and increase the risk of catering services being interrupted should the contractor refuse to extend its services.
- Due to the lack of due care, there were errors in contract amendments, which could potentially lead to unnecessary legal disputes between the contractor and the Mission.
- The Mission did not appoint an official to manage the catering contracts resulting in inadequate and ineffective contract monitoring.
- The levels of the quality of services provided by the contractor were not assessed and customers' satisfaction surveys were not undertaken as stipulated in the contracts. As a result, the Mission could not exercise the right to adjust invoices, should the contractors fail to deliver services to acceptable levels.

OIOS made a number of recommendations to strengthen the administration and management of the catering contracts including their compliance with the United Nations Procurement Manual. OIOS is pleased to note that the Mission has fully implemented five recommendations and has initiated actions to implement the remaining recommendations.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of catering services in the United Nations Peacekeeping Force in Cyprus (UNFICYP). The audit was requested by the Mission based on concerns expressed by the Headquarters Committee on Contracts (HCC) on the management of the catering contracts for Sectors 1, 2 and 4 of the Mission. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The following table provides details on the contracts reviewed.

**Table 1: Contracts for the provision of catering services**

<b>Contract number</b>	<b>Contractor (Note 1)</b>	<b>Contract period</b>	<b>Sectors</b>	<b>Contract Value \$'000 (Note 2)</b>
CON/CYP/06-17	Company X	1 July 2006 to 30 June 2009	1 & 2	1,723
CON/CYP/08-033 (Note 3)	Company Y	1 October 2008 to 30 June 2010	1, 2, 4	789
<b>Total</b>				<b>2,512</b>

Note 1: Company Y is a wholly owned subsidiary of Company X.  
Note 2: Exchange rates used were the rate as of June 2009 of \$1 = €0.711 and exchange rate of June 2010 i.e. \$1 = €0.819.  
Note 3: Contract covered catering services for Sector 4 from 1 October 2008 to 30 June 2009 and Sector 1.2 and 4 from 1 October 2009 to 30 June 2010.

3. Comments made by UNFICYP are shown in *italics*.

## II. AUDIT OBJECTIVES

4. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over the management of contracts for the delivery of catering services.

## III. AUDIT SCOPE AND METHODOLOGY

5. The audit focused on catering services provided under contracts CON/CYP/06-17 and CON/CYP/08-33 between 1 July 2006 and 30 June 2010. The audit did not include the catering services provided under other contracts.

6. The audit methodology included interviews with the Mission and contractor's personnel, analysis of relevant records and documents and field visits to Camp Saint Martin (Sector 1), Ledra Palace (Sector 2), and Athienou (Sector 4).

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## IV. AUDIT FINDINGS AND RECOMMENDATIONS

### A. Contract administration

#### Award of contract without competition

7. In June 2008, Company Z declined to extend the contract for the provision of catering services to Sector 4. Instead of conducting a new competitive bidding exercise, the Mission selected Company X using a proposal previously received from them in 2006 but Company X was then the second best bidder and did not win the award. However, Company X did not accept the selection in 2008 but requested that the contract [valued at about \$144,000 (€98,351)] be awarded to Company Y, the wholly owned subsidiary of X. The Mission justified the award by stating that it was in compliance with the Financial Rule 105.15(b) regarding the responsiveness and qualification of proposals. Since no new solicitation exercise was performed in 2008, there was no assurance that Company Y submitted the most qualified responsive proposal.

8. The Mission explained that it did not consider a new bidding exercise because it had planned to consolidate catering services at all sectors after the existing catering contracts expired in 30 June 2009. Furthermore, the Mission wrongly understood that responses from past solicitations were valid exemptions to formal solicitations for similar services. The award of the contract without competition contravenes the general principle of procurement as per Financial Regulation 5.12, and as a result there was no assurance that the Mission was getting the required services at a competitive price.

#### **Recommendation 1**

**(1) The UNFICYP Office of Mission Support should request the Procurement Division, Department of Management to provide training for its Chief Procurement Officer in order to ensure that there is a clear understanding of the established procedures and provisions of the United Nations Procurement Manual.**

9. *The UNFICYP Management accepted recommendation 1 and stated that this was a high risk area due to the lack of training of procurement staff. As at 27 August 2010, all UNFICYP personnel involved in the procurement process have undertaken the Fundamentals of Procurement on-line training course available in the Procurement Training Campus. The Mission also transmitted the audit recommendation to the Procurement Division for action as required. Based on the action taken, recommendation 1 has been closed.*

#### Inadequate review prior to contract amendments

10. There were inadequate justifications supporting contract amendments. For example, the Mission amended contract (CON/CYP/06-017) twice by

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changing the scope of the contract to include additional floor space for cleaning services resulting in an increase of the contract price by seven per cent. The Mission issued the first and second amendments within a period of two months and one year respectively. Neither the procurement officials nor the requisitioner had adequately reviewed the contract provisions to ensure the validity of the claims by Company X for increasing the contract price for the additional cleaning services provided.

### **Recommendation 2**

**(2) The UNFICYP Office of Mission Support should ensure that all requests for contract amendments are adequately reviewed for validity in order to protect the interests of the Organization and minimize price increases.**

11. *The UNFICYP Management accepted recommendation 2 and stated that all requests for contract amendments should be adequately reviewed. In this case, both contract amendments were requested to fulfill operational requirements that were not originally foreseen and were outside the original scope of work. Therefore, an increase of contract price was justified. UNFICYP further clarified that it is normal practice for the Procurement Section to scrutinize all requests for contract amendment but the requisitioner did not bring it to the Procurement Section's attention. The Chief of Mission Support (CMS) has now instructed all self-accounting units and requisitioners to ensure requests for contract amendments are properly reviewed. Based on the action taken, recommendation 2 has been closed.*

### Ex-post facto submissions and retroactive amendments

12. The Mission also made one partial ex-post facto submission to the Local Committee on Contracts (LCC) in July 2009 and signed two contract amendments in October 2006 and July 2009 providing for retroactive changes to the contract terms. Although the LCC took note of the partial ex-post facto case, the reasons for delays in submitting the cases for review were not documented.

### **Recommendation 3**

**(3) The UNFICYP Office of Mission Support should require the Procurement Section in its presentation to the Local Committee on Contracts (LCC) to provide the reasons for delays in presenting cases to the LCC.**

13. *The UNFICYP Management accepted recommendation 3 and stated that a circular has been submitted to the LCC and to the procurement staff to ensure that the appropriate action is taken. Based on the action taken, recommendation 3 has been closed.*

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### Repeated extension of contract beyond the approved term

14. Although the Mission planned to consolidate catering services at all four sectors under one contract after the existing contracts expired on 30 June 2009, the Mission had repeatedly extended existing catering contracts beyond 30 June 2009. This occurred because the Mission did not complete the procurement process to replace the existing catering contracts in a timely manner. For example, at the time of audit in April 2010, the Mission had extended contract CON/CYP/08-033 with Company Y on four occasions. The latest request for contract amendment was to extend the contract until 30 June 2010. Consequently, the total value of contract CON/CYP/08-033 increased from \$144,000 (€8,351) in October 2008 to \$789,000 (€45,812) in June 2010.

15. The Mission initiated the procurement process in December 2008, six months before the expiry dates of the contracts. However, in May 2009, the LCC did not endorse the CPO's and the requisitioner's proposal to consolidate all services provided in the Mission's compound into one contract for camp services that included catering services. The LCC recommended that the procurement of camp services be re-bid to provide the possibility for splitting the awards by functions and by geographical locations. Therefore, as at June 2010, the procurement process was not completed and Company Y continued to provide catering services in Sectors 1 and 2, as well as Sector 4.

16. The repeated extension of contracts beyond the approved contractual term may prove uneconomical and increase the risk of catering services being interrupted should Company Y refuse to extend its services.

### **Recommendation 4**

**(4) The UNFICYP Office of Mission Support should establish a system to ensure that the procurement process is organized properly and initiated in a timely manner to avoid continually extending contracts and to mitigate the risk of interruption of services.**

17. *The UNFICYP Management accepted recommendation 4 and stated that in this case, the process had been initiated in a timely manner, but it was not endorsed by the LCC. The need to re-bid arises in rare occasions. To improve the process, as of 1 August 2010, the Procurement Section is maintaining a contracts register to monitor contract expiry dates and follow-up actions to be undertaken. Recommendation 4 remains open pending receipt of evidence that a contract register is being maintained.*

### Errors in contract and contract amendments

18. There were errors in contract amendments including conflicting statements of the contractual periods for Sectors 1 and 2 in Amendment 2 of contract CON/CYP/08-033 and conflicting "Not to Exceed" (NTE) amounts in Amendment 4 of the same contract. This occurred because the Procurement Section did not exercise due care in the preparation of the contract and its

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amendments, and the Legal Advisor did not review the documents. Representatives of the vendor and of the Mission signed contract amendments without noticing these errors.

19. Also, contrary to the normal legal practice, the Procurement Section did not ensure that the contracting parties initialed all pages of the contractual documents to ensure that the contracts are authentic. As a result, there is an increased risk that pages of the contracts and contract amendments can be replaced without detection. These errors can potentially lead to unnecessary legal disputes between the contractor and the Mission.

#### **Recommendations 5 and 6**

**The UNFICYP Office of Mission Support should ensure that:**

**(5) Contracts and contract amendments are properly prepared and reviewed by the Chief Procurement Officer and/or the Legal Advisor; and**

**(6) Each page of contractual documents is signed to mitigate the risk of the documents being altered without detection.**

20. *The UNFICYP Management accepted recommendation 5 and stated that the CMS has instructed the Procurement Section to ensure that contracts and their amendments are properly prepared, reviewed and checked for accuracy before the actual award. Wherever required, the contract documents would also be reviewed by the Legal Advisor and/or the Office of Legal Affairs at Headquarters pursuant to Articles 13.7 and 13.8 of the Procurement Manual. Recommendation 5 remains open pending receipt of the list of contracts reviewed by the Chief Procurement Officer and the Legal Advisor as of August 2010.*

21. *The UNFICYP Management accepted recommendation 6 and stated that the Procurement Section, through the CMS' Note dated 19 July 2010, has been instructed to ensure that each page of the contractual documents is initialed by both the contractor and the Mission. Based on the assurances provided by management, recommendation 6 has been closed.*

#### Early payment discount clause

22. The Mission as a general practice includes an early payment discount clause in its contracts. However, this clause was not included in the catering contracts. The Mission was therefore unable to benefit from early payment discounts.

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## Recommendation 7

**(7) The UNFICYP Office of Mission Support should include an early payment discount clause in future catering contracts to ensure that the Mission benefits from discounts for early settlement of invoices.**

23. *The UNFICYP Management accepted recommendation 7 and stated that it will include an early payment discount clause as a standard requirement. Recommendation 7 remains open pending the receipt of evidence that an early payment discount clause has been included in future catering contracts.*

### Performance bond

24. Contrary to Section 8.1 of the catering contract, Company Y did not always renew its performance bond when the contract was extended. Despite frequent follow-ups by the Procurement Section, the contractor had not provided a performance bond for the period from 3 November 2009 to 31 March 2010.

25. The absence of a performance bond exposes the Mission to risk of financial loss with no recourse in the event of the contractor's failure to perform its obligations under the contract.

## Recommendation 8

**(8) The UNFICYP Office of Mission Support should ensure that performance bonds are renewed at the time of the extension of the contract.**

26. *The UNFICYP Management accepted recommendation 8 and stated that they will ensure performance bonds are renewed at the time of the contract extension. Procurement Case Officers have been asked to undertake special follow-up actions. Recommendation 8 remains open pending the receipt of a list of all valid contracts including the value, amount of performance bonds and expiry date of such bonds.*

## B. Contract management

### Appointment of designated official

27. Sections 4.1 of the catering contracts require the Mission to designate an official for the management of contracts but the Mission did not comply with this requirement. As a result there was inadequate management oversight of contracts. For instance, the Mission did not hold performance evaluation meetings with contractors and, as a result, contractors did not always fulfill their contractual obligations, such as their reporting requirements, holding of regular staff trainings, and health checks.

28. The official overseeing the Contract Management Unit (CMU) acknowledged that there was insufficient monitoring and stated that the

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responsibility for managing contracts normally is with the requisitioner, which in this case was the Force Supply Officer and Chief of the Supply Section. Based on OIOS' observations, the Mission introduced a procedure to more closely monitor contractors' performance by the Supply and Procurement Sections and the CMU.

29. The Mission assigned the Force Supply Officer as the Chief of Supply Section. Such functions need to be assigned to a civilian staff member. A military officer is subject to rotation and according to Chapter 1 of the 2010 United Nations Procurement Manual, should not assume requisitioning functions.

### **Recommendation 9**

**(9) The UNFICYP Office of Mission Support should assign a civilian staff member to assume the responsibilities of managing the supply function in the Mission.**

30. *The UNFICYP Management accepted recommendation 9 and stated that they will conduct a review of the Supply Unit structure in line with the audit recommendation. A proposal will be included in the Mission's budget submission for review by the respective legislative bodies.* Recommendation 9 remains open pending confirmation from the Mission that a civilian staff member had assumed the responsibilities of managing the supply function in the Mission.

### Assessment of services provided

31. According to Sections 6.5 and 6.7 of Annex B of contract CON/CYP/08-033, the acceptable quality level of the service should be at least 93 per cent of the routine inspections conducted and the acceptable level of customer satisfaction should be at least 75 per cent of the customers surveyed. For any quality or satisfaction level that is lower than the acceptable levels, the Mission may withhold a percentage of the monthly invoice amount. These standards are intended to ensure that contractors deliver high quality services subject to the Mission implementing appropriate procedures to objectively evaluate the services provided.

32. The Mission did not implement adequate procedures for evaluating the services provided by the contractors, as a survey to customers was not done. Therefore it was not possible for the Mission to establish the contractor's performance met expectations and to withhold any amounts when the contractor's performance did not meet the acceptable percentage performance indicators.

### **Recommendation 10**

**(10) The UNFICYP Office of Mission Support should establish proper procedures for evaluating the services provided by catering contractors and take appropriate action in the event the established standards are not achieved.**

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33. *The UNFICYP Management accepted recommendation 10 and stated that in addition to existing contractor performance control mechanisms, as of 1 July 2010, the Mission has introduced an amended Monthly Evaluation Report template to be used by all stakeholders involved in the administration and management of contracts. The form in reference includes a list of requirements to ensure that a thorough and objective evaluation of services is provided to the Mission. Based on the action taken, recommendation 10 has been closed.*

#### Health and hygiene standards

34. According to Section 6.6 of the catering contracts, the contractors should report their compliance with health and hygiene standards on a monthly basis. Although the Force Hygiene Officer inspected the hygiene conditions of catering facilities, it was only done once a year. Also, the inspection carried out did not verify whether the catering facilities standards of hygiene were in compliance with those stipulated in the contract. This was because the Mission had not shared the contracts with the Force Hygiene Officer who should use the hygiene standards contained therein as benchmarks when conducting the inspection exercise. Consequently, there were no procedures in place to ensure the contractors complied with the required hygiene standards. This impacted on the ability of the Mission to adjust invoices if the contractor's performance indicators were not met.

#### **Recommendation 11**

**(11) The UNFICYP Office of Mission Support should ensure that the Force Hygiene Officer responsible for conducting inspections of catering facilities is properly informed on the relevant catering contractual provisions. This will improve the effectiveness of contract management including the monitoring of hygiene standards at catering facilities.**

35. *The UNFICYP Management accepted recommendation 11 and stated that the periodic inspection should be conducted for hygiene compliance. In this regard, the requisitioner/project manager has been requested to closely liaise with the Force Hygiene Officer and schedule inspections as per the contractual provisions. Recommendation 11 remains open pending the receipt of the schedule of hygiene inspections.*

## V. ACKNOWLEDGEMENT

36. 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**

<b>Recom. no.</b>	<b>Recommendation</b>	<b>Risk category</b>	<b>Risk rating</b>	<b>C/O<sup>1</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>2</sup></b>
1	The UNFICYP Office of Mission Support should request Procurement Division to provide training for its Chief Procurement Officer in order to ensure that there is a clear understanding of the established procedures and provisions of the United Nations Procurement Manual.	Operational	High	C	Action taken.	Implemented
2	The UNFICYP Office of Mission Support should ensure that all requests for contract amendments are adequately reviewed for validity in order to protect the interests of the Organization and minimize price increases.	Operational	Medium	C	Action taken.	Implemented
3	The UNFICYP Office of Mission Support should require the Procurement Section in its presentation to the Local Committee on Contracts (LCC) provide the reasons for delays in presenting cases to the LCC.	Compliance	Medium	C	Action taken.	Implemented
4	The UNFICYP Office of Mission Support should establish a system to ensure that the procurement process is organized and initiated in a timely manner to avoid continually extending contracts and to mitigate the risk of interruption of services.	Operational	High	O	Receipt of documentation showing that contract register is maintained.	September 2010
5	The UNFICYP Office of Mission Support should ensure that contracts and contracts amendments are properly prepared and reviewed by the Chief Procurement Officer and/or the Legal Advisor.	Operational	High	O	Receipt of the list of contracts reviewed by the Chief Procurement Officer and the Legal Advisor as of August 2010.	September 2010
6	The UNFICYP Office of Mission Support should ensure that each page of contractual documents is signed to mitigate the risk of	Operational	Medium	C	Action taken.	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
	the documents being altered without detection.					
7	The UNFICYP Office of Mission Support should include an early payment discount clause in future catering contracts to ensure that the Mission benefits from discounts for early settlement of invoices.	Financial	Medium	O	Receipt of evidence that an early payment discount clause has been included in future catering contracts.	September 2010
8	The UNFICYP Office of Mission Support should ensure that the performance bonds are renewed at the time of the extension of the contract.	Compliance	Medium	O	Receipt of a list of all valid contracts including the value, amount of performance bonds and expiry date of such bonds.	September 2010
9	The UNFICYP Office of Mission Support should assign a civilian staff member to assume the responsibilities of managing the supply function in the Mission.	Compliance	Medium	O	Confirmation from the Mission that a civilian staff member had assumed the responsibilities of managing the supply function in the Mission.	2011-2012 Budgeted period
10	The UNFICYP Office of Mission Support should establish proper procedures for evaluating the services provided by the catering contractors and taking appropriate action in the event the established standards are not achieved.	Operational	Medium	C	Action taken.	Implemented
11	The UNFICYP Office of Mission Support should ensure that the Force Hygiene Officer responsible for conducting inspections of catering facilities is properly informed on the relevant catering contractual provisions. This will improve the effectiveness of contract management including the monitoring of hygiene standards at catering facilities.	Operational	Medium	O	Receipt of the actual and scheduled hygiene inspections after July 2010, as in accordance with the provisions in the catering contracts.	September 2010

1. C = closed, O = open

2. Date provided by the UNFICYP in response to recommendations.