



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of procurement management in UNAMA

**Noncompliance with the Procurement Manual
resulted in deficiencies in the procurement
process**

19 June 2009

Assignment No. AP2008/630/03

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. Kai Eide,
A Special Representative of the Secretary General
United Nations Assistance Mission in Afghanistan

DATE: 19 June 2009

REFERENCE IAD: 09-07574

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



SUBJECT **Assignment No. AP2008/630/03 – Audit of procurement management in United Nations**
OBJET **Assistance Mission in Afghanistan**

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 6 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. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 and 6) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Peter Schmitz , Chief of Staff, UNAMA
Ms. Neva Donalds , Chief of Mission Support, UNAMA
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Seth Adza, Audit Response Team, Department of Field Support
Mr. Moses Bamuwanye, 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).

CONTACT INFORMATION

ACTING DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

CHIEF, PEACEKEEPING AUDIT SERVICE:

Eleanor T. Burns: Tel: +1.212.967.2792, Fax: +1.212.963.3388,
e-mail: burnse@un.org

EXECUTIVE SUMMARY

Procurement management in UNAMA

OIOS conducted an audit of procurement management in the United Nations Assistance Mission in Afghanistan (UNAMA). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over procurement. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

There are a number of deficiencies in the procurement process, as follows:

- There was a lack of compliance with the Procurement Manual on vendor pre-requisites and the establishment of the Local Vendor Review Committee;
- The Mission did not evaluate vendor's performance and as a result there is a risk that under-performing vendors remain on the vendor roster and are awarded further contracts;
- Procurement requirements were not adequately defined to ensure proper use of blanket purchase orders;
- Written technical assessments from requisitioners and/or end-users were not submitted to the Procurement Section in a timely manner; and
- UNAMA generally did not enforce the clause relating to liquidated damages; and there was no evidence that the delays in the receipt of goods from suppliers were justified.

OIOS has made a number of recommendations to address the issues identified during the audit.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement management in United Nations Assistance Mission in Afghanistan (UNAMA). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The UNAMA Procurement Section (PS) procures goods and services to support the logistical requirements of the Mission. The objective of PS is to obtain good quality products and services that meet specifications at competitive prices and within the time frame required. The Chief Procurement Officer (CPO) heads the PS and is assisted by three professional staff and national staff.
3. From years 2006 to June 2008, UNAMA processed 1,091 procurement cases valued at \$25.6 million.

Table 1: Number and value of procurement cases for years 2006 to 2008

Period	Total procurement cases		% of number and value of procurement for the fiscal year against the total procurement	
	#	\$' 000	#	\$
2006	467	13,689	43%	44%
2007	397	5,900	36%	19%
1 January to 30 June 2008	227	6,055	21%	19%
Total	1,091	25,644	100%	100%

4. Comments made by UNAMA are shown in *italics*.

II. AUDIT OBJECTIVES

5. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over the procurement process.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from July 2005 to May 2008 and included a review of the procurement areas of planning, vendor evaluation, defining requirements, sourcing, evaluating technical compliance of bids, and contracts management. The audit did not cover contracts administration, delegation of authority on core requirements, Local Committee on Contracts, bid opening procedures and the procurement of fuel, which were covered in previous audits.
 7. The audit methodology comprised: (a) interviews with key personnel; (b) analysis of relevant data; and (c) review of a sample of procurement files.
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Vendor registration

8. The Procurement Manual (PM) requires documentation of a vendor's profile, business registration and financial standing to be registered as a vendor of the UN. OIOS reviewed the applications of 16 registered vendors and found: (a) in most cases the business registration papers were not on file; (b) business references had not been given; and (c) there were applications without the names of the owner, principals, intermediaries, agents or consultants of the company.

9. Additionally, some procurement officers approved the registration of vendors although they had not been authorized to do this. Contrary to the PM, the Mission had not established a Local Vendor Review Committee (LVRC). Following the discussion of the finding, the CPO took immediate action and instructed Procurement Officers that in the future, only the CPO can approve vendors for registration. With regard to the establishment of an LVRC, the CPO informed OIOS that there was insufficient capacity within the PS.

Recommendation 1

(1) The UNAMA Office of Mission Support should strengthen the registration process for vendors by ensuring that applications are reviewed by a Local Vendor Review Committee. The Committee should be responsible for evaluating vendors and recommending the suspension, removal and reinstatement of registered vendors in accordance with the provisions of the Procurement Manual.

10. *The UNAMA Administration accepted recommendation 1 and stated that due to staff turnover within the Procurement Section, the continuation of the LVRC had been delayed. The LVRC was re-established in April 2009, and the first meeting will be held as soon as all members are available.* Based on the action taken, recommendation 1 has been closed.

B. Evaluation of vendor performance

11. Section 15.1.2 of the PM states that the PS should ensure adequate evaluation of vendor performance. The evaluation should cover performance on delivery, terms and conditions, warranty, quality and timely response. A review of 16 vendor files showed the absence of a relevant evaluation and supporting documents in all cases. Therefore, OIOS could not determine if the required evaluation was conducted. Failure to conduct vendor evaluations presents the risk that non-performing vendors may be awarded further contracts negatively impacting programme delivery.

Recommendation 2

(2) The UNAMA Office of Mission Support should comply with the United Nations Procurement Manual and evaluate vendor performance.

12. *The UNAMA Administration accepted recommendation 2 and stated that the Mission has taken action to enforce the mandatory requirement for vendor evaluation prior to filing cases/purchase orders (PO) valued at \$30,000 and above. Recommendation 2 remains open pending verification of completion of vendor performance evaluations.*

C. Definition of procurement requirements

13. The Mission, in line with its expanded mandate, increased the number of its staff and structure which resulted in the need to procure new offices, equipment, staff accommodations, and furniture and fixtures, as well as stationery and supplies. No acquisition plans were developed specifying UNAMA's additional procurement requirements or ensure economies of scale through bulk buying.

14. The Mission issued solicitation documents for the purchase of construction materials without specifying the estimated required quantities. As a result, the PS awarded the bids based on the lowest aggregate unit prices without the quantity of the items. OIOS reviewed 6 sample bids received in 2007 and the corresponding contract awards, noting the awarded contract amount was over \$200,000 higher than the bid amount as a result of the exclusion of quantities from the formulation of the bid submitted. The method of solicitation used does not ensure best value for money, as unit prices may change depending on the number of items ordered.

15. OIOS reviewed 6 sample bids received in 2008, totaling approximately \$56,000, and noted the Engineering Section (ES) sent its requisitions to PS indicating the quantity, the unit price and the total cost of the requisition. Such cost information should not be provided, as it is not in conformance with the definition of requirements for the requisitions under Section 8 of the PM. The ES should provide generic technical specifications, the quantities required and provide assurance that sufficient funding is available in order not to preempt the PS in its sourcing of requirements at the best price.

Recommendation 3

(3) The UNAMA Office of Mission Support should ensure that the Procurement Section and the requisitioners comply with the Procurement Manual with regard to the definition of requirements for requisitions.

16. *The UNAMA Administration accepted recommendation 3 and stated that the PS has continually attempted to clarify these issues with account holders and requisitioners. The PS plans to arrange a briefing/training for all requisitioners*

in May/June 2009, to further address the issues with regard to needs assessment, planning and definition of needs. Recommendation 3 remains open pending confirmation that the necessary training has been undertaken and OIOS verification of compliance with the Procurement Manual with regard to the definition of requirements for requisitions.

D. Use of blanket purchase orders

17. Section 13.3 of PM provides for the use of blanket purchase orders (BPO) through direct order on limited products. The use of BPO is reserved for repetitive orders of relatively low-value, when non-stock items and services are required, where limited time is an important factor, or where prices may conform to a set pattern in the trade. Additionally, the total sum drawn upon a BPO is limited to a maximum of \$50,000 per year.

18. The Mission procured 20,000 reams of A4 photocopy paper totaling AFN 3.2 million (\$63,700) from Aria Stationery using a BPO. This was done without a formal requisition, which should be based on an assessment of the Mission's needs taking into consideration the consumption pattern and stock levels. The Supply Officer informed OIOS that the previous Chief Administrative Officer had verbally instructed them to utilize the BPO for stationery as it was approaching the year end and funds had to be utilized. This instruction was not supported by any formal requisition or documentation.

19. Consequently, the Mission did not follow the policy on the use of BPO and was not able to maximize the use of its resources in line with the best value for money principle.

Recommendation 4

(4) The UNAMA Office of Mission Support should ensure that the Supply Section uses blanket purchase orders in accordance with the Procurement Manual.

20. *The UNAMA Administration accepted recommendation 4 and stated that in April 2009 the National Procurement Officer and the Chief Supply Officer met and agreed on the importance of using proper procedures and supporting documents for blanket purchase orders. Compliance with the PM will be strictly monitored. Recommendation 4 remains open pending verification that blanket purchase orders are used in accordance with the PM.*

E. Identification of vendors

21. Section 9.3.4 of the PM states that, as a general rule, the PS should invite all relevant registered vendors to compete for each requirement valued at more than \$2,500. Whenever it is not feasible, the PS shall observe the minimum number of vendors as detailed in the PM, taking into account that the minimum number of invitees shall increase proportionally with the estimated cost, to ensure maximum competition. The PS can use sourcing techniques such as market research and vendor registration, among others, in cases of low response.

22. OIOS reviewed 20 POs out of which 4 POs, with respective amounts exceeding \$2,500 and with an aggregate contract value of \$131,355, were awarded without inviting the minimum number of vendors to compete. Further efforts are required by the Mission to ensure the recommended minimum number of vendors are solicited to ensure best value for money and the integrity of the process.

Recommendation 5

(5) The UNAMA Office of Mission Support should require the Procurement Section to comply with the Procurement Manual on the sourcing of vendors and ensure the minimum recommended number of participants for bid exercises to make sure there is fair competition and best value for money.

23. *The UNAMA Administration accepted recommendation 5 and stated that the PS, on a regular basis, tries to solicit as many vendors as possible to every bidding exercise using the recommended methods of market survey, expression of interest and UN Global Market. Unfortunately, some goods are region-based within Afghanistan and there is a very small pool of vendors. Also, due to the security situation, vendors are not interested in providing services in the remote regions. Additionally, vendors are dissuaded by UN payment terms and conditions. The PS has been advising requisitioners to re-tender in cases where insufficient bids are received. Based on the continuing efforts being made by the PS to solicit as many vendors as possible recommendation 5 has been closed.*

F. Evaluation of technical compliance

24. One of the four general principles to be given due consideration when exercising the procurement functions is the “best value for money”, according to Financial Regulation 5.12. Section 11.9.2.2 of the PM states that the Procurement Officer shall request the requisitioner to evaluate the technical compliance of the submission with the specifications. The technical assessment shall be in writing and shall be performed without prior knowledge of cost.

25. OIOS reviewed 30 POs totaling approximately \$149,000 and found that 13 of them were awarded without the related bids being technically evaluated. PS remarked that the end users reviewed the POs. However, PS was not able to provide the written technical evaluations for OIOS’ review. Therefore, OIOS could not verify if the required technical evaluations were conducted prior to awarding the 13 contracts.

Recommendation 6

(6) The UNAMA Office of Mission Support should ensure there is a written technical assessment, from the requisitioners and/or end-users, submitted before awarding a contract to ensure fair competition and best value for money.

26. *The UNAMA Administration accepted recommendation 6 and stated that since January 2009, the PS requires all documentation pertaining to each case to be put on file by the case officer/buyer and no evaluation is complete without the documented technical evaluation from the requisitioner. Based on the action taken, recommendation 6 has been closed.*

G. Enforcement of contractual instruments

27. Section 13.6.3.3i of the PM states that a liquidated damages clause is issued as a protection against failure of the contractor to perform, complete the work or deliver the goods and services on time.

28. OIOS reviewed 50 POs and noted delayed delivery in 26 of the cases (52 per cent). However, liquidated damages, calculated at \$62,374 by OIOS, were not imposed. The requisitioners did not document the reasons for the delays and therefore it was difficult to determine whether liquidated damages were applicable or whether the delays were justifiable. Furthermore, there were no standard operating procedures (SOPs) for requisitioners on the documentation and handling of delays and other vendor noncompliance.

Recommendations 7 to 8

The UNAMA Office of Mission Support should:

(7) Ensure liquidated damages are imposed as appropriate on vendors that fail to deliver goods and services in the agreed time without reasonable cause; and

(8) Provide standard operating procedures to requisitioners to guide them on how to document and handle vendors' noncompliance with contracts.

29. *The UNAMA Administration accepted recommendation 7 and stated that the PS has been tracking issues on liquidated damages. Delays in the delivery of goods have been justified mainly due to security issues at the Pakistan-Afghanistan border. Also, weather conditions have affected air deliveries as the Kabul Airport is not adequately equipped to facilitate safe landing in all weather. Recommendation 7 remains open pending verification of reasons for the Mission's failure to assess liquidated damages in cases of future delayed deliveries.*

30. *The UNAMA Administration accepted recommendation 8 and stated that the PS will assist in preparing/composing SOPs on reporting and monitoring vendor's performance based on the UN Procurement Manual. Recommendation 8 remains open pending receipt of a copy of the SOPs on reporting and monitoring vendor's performance.*

H. Documentation on delivered goods and services

31. Section 14.1.1 of the PM states that the requisitioning offices are directly responsible for receiving, inspecting and certifying their procured goods/services. Products and equipment that have been received, inspected and accepted or rejected are certified on a Receiving and Inspection (R&I) Report. OIOS reviewed R&I reports, delivery receipts and invoices for 14 vendors and noted that 2 of them had no supporting delivery documents on file for goods valued at over \$312,000. Therefore, OIOS could not establish if these items were received and matched the items requisitioned.

Recommendation 9

(9) The UNAMA Office of Mission Support should ensure that prior to the payment of invoices there is evidence that goods and services have been received as ordered and, if not, appropriate action is taken.

32. *The UNAMA Administration accepted recommendation 9 and stated that the PS has a policy to follow-up with both requisitioners and the R&I Office on the maintenance of all documentation pertaining to a PO/contract. Recommendation 9 remains open pending verification that supporting delivery documents for the two items referred to above have been maintained.*

V. ACKNOWLEDGEMENT

33. 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.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
1	The UNAMA Office of Mission Support should strengthen the registration process for vendors by ensuring that applications are reviewed by a Local Vendor Review Committee. The Committee should be responsible for evaluating vendors and recommending the suspension, removal and reinstatement of registered vendors in accordance with the provisions of the Procurement Manual.	Operational	High	C	Action taken.	Implemented
2	The UNAMA Office of Mission Support should comply with the United Nations Procurement Manual and evaluate vendor performance.	Compliance	Medium	O	Verification of completion of vendor performance evaluations.	March 2009
3	The UNAMA Office of Mission Support should ensure that the Procurement Section and the requisitioners comply with the Procurement Manual with regard to the definition of requirements for requisitions.	Operational	Medium	O	Confirmation of compliance with the Procurement Manual with regard to the definition of requirements for requisitions.	June 2009
4	The UNAMA Office of Mission Support should ensure that the Supply Section uses blanket purchase orders in accordance with the Procurement Manual.	Operational	Medium	O	Verification that blanket purchase orders are used in accordance with the Procurement Manual.	April 2009
5	The UNAMA Office of Mission Support should require the Procurement Section to comply with the Procurement Manual on the sourcing of vendors and ensure the minimum recommended number of participants for bid exercises to make sure there is fair competition and best value for money.	Operational	Medium	C	Action taken.	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
6	The UNAMA Office of Mission Support should ensure there is a written technical assessment, from the requisitioners and/or end-users, submitted before awarding a contract to ensure fair competition and best value for money.	Operational	High	C	Action taken.	Implemented
7	The UNAMA Office of Mission Support should ensure liquidated damages are imposed as appropriate on vendors that fail to deliver goods and services in the agreed time without reasonable cause.	Financial	Medium	O	Verification of reasons for the Mission failure to assess liquidated damages in cases of future delayed deliveries.	March 2009
8	The UNAMA Office of Mission Support should provide standard operating procedures to requisitioners to guide them on how to document and handle vendors' noncompliance with contracts.	Compliance	Medium	O	Verification of the new standard operating procedures on reporting and monitoring vendor's performance.	June 2009
9	The UNAMA Office of Mission Support should ensure that prior to the payment of invoices there is evidence that goods and services have been received as ordered and, if not, appropriate action is taken.	Operational	Moderate	O	Verification that supporting delivery documents for the two items referred to above have been maintained.	March 2009

1. C = closed, O = open
2. Date provided by UNAMA in response to recommendations.