



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Procurement management in MONUC

Improved management oversight is necessary in order to strengthen internal controls

27 May 2010

Assignment No. AP2009/620/13

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. Alan Doss
A: Special Representative of the Secretary-General
MONUC

DATE: 27 May 2010

REFERENCE: IAD: 10- **00418**

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



SUBJECT: **Assignment No. AP2009/620/13 - Audit of procurement management in MONUC**
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 4, 9 and 11 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 1. In OIOS' opinion however, this recommendation seeks to address significant risk areas. We are therefore reiterating them 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 and 3), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Warren Sach, Assistant Secretary-General, Office of Central Support Services, DM
Mr. Frank Eppert, Chair, Headquarters Committee on Contracts, DM
Mr. Amadu Kamara, Acting Director of Mission Support, MONUC
Mr. Alain Fortin, Chief Procurement Officer, MONUC
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 Bamuwanye, Chief, Oversight Support Unit, DM
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Ms. Eleanor 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

Audit of procurement management in MONUC

OIOS conducted an audit of procurement management in the United Nations Mission in the Democratic Republic of the Congo (MONUC). The overall objective of the audit was to assess the adequacy and effectiveness of procurement management activities. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Internal controls in procurement management in MONUC need to be strengthened. The audit identified the following areas where improvements were required:

- The Local Committee on Contracts (LCC) amended proposed contract terms in order to avoid reviews by the Headquarters Committee on Contracts. As a result, significant quantities of goods were purchased through change orders valued at \$916,200.
- The Movement Control Section (MOVCON) was performing the incompatible functions of obtaining quotations, deciding rates and acquiring services, bypassing the Procurement Section and LCC. MOVCON issued task orders valued at \$317,000 directly to a vendor without the involvement of the Procurement Section.
- The Finance Section did not verify the rates and contract conditions before authorizing payments of vendor claims. This resulted in the overpayment of \$244,229 to a vendor.
- Risks of delayed deliveries, supply of substandard quality and high freight and insurance costs were not effectively managed in the purchase of liquid cleaning material and paints from international suppliers.
- Safeguards against short and delayed deliveries by the vendors were weak. As a result, liquidated damages were not imposed for delayed supplies and performance bonds were not obtained for the contracts.
- The vendor payments were delayed by up to 700 days in some cases mainly due to delays in resolving discrepancies identified during the receiving and inspection of goods and services. Delays also resulted from the lack of effective coordination among key players in the payment process and the failure of senior management to routinely monitor delays and address accountability for delays.

OIOS made recommendations to address the issues identified during the audit and to improve internal controls in the procurement management.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement management in the United Nations Mission in the Democratic Republic of the Congo (MONUC). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. MONUC's Procurement Section is headed by the Chief Procurement Officer, at P-5 level, who reports to the Chief of Administration Services. The Section has seven units including the Regional Procurement Unit, which was established in April 2009 in Goma to facilitate procurement of goods and services for the Eastern Region.
3. The procurement process in MONUC is managed using the Mercury System.
4. During the fiscal years 2006/2007 and 2007/2008, the Mission spent about \$183 million and \$201 million respectively on the procurement of goods and services.
5. Comments made by MONUC are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to assess the adequacy and effectiveness of the management of procurement activities.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered the period from 1 July 2007 to 31 December 2009. The audit did not cover the procurement of core requirements, rations, fuel, and rental of premises, which were audited separately.
8. The audit methodology included the review of relevant records and documents, test of controls and interviews of key personnel.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Splitting of procurement to avoid HCC's review

9. The Local Committee on Contracts (LCC) and the Headquarters Committee on Contracts (HCC) are responsible for reviewing procurement cases within their respective delegation of authority. In some cases, this internal control was avoided.
 10. There were two cases where the LCC advised the Procurement Section and requisitioners to split procurement actions in order to reduce the values of
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those procurement actions below the threshold of the HCC. For example, in July 2007, the Procurement Section recommended the award of contract for a long-term charter of Pushers and Barges for one year with the option to extend the contract for an additional year for a total cost of \$1.22 million. This amount was above the threshold of the LCC and, as a result, the procurement should have been submitted to the HCC for review. However, the LCC advised that the contract be established for a three-month period for \$152,700 with the option to extend the contract for an additional three months. Ultimately, the contract value was increased to \$610,800 through five change orders, without review by the HCC.

11. In November 2008, the LCC recorded in the minutes of its meeting on the next solicitation for the purchase of the same long-term charter of Pushers and Barges that the award of contract for a six-month period for \$305,400 would be within the Mission's delegated authority.

12. In OIOS' opinion, the action of the LCC was unethical, by requesting that the award of contracts be split, and questions the members capability to be an effective control over the procurement process. Moreover, by splitting the procurement actions, MONUC lost the opportunity of obtaining better rate through economy of scale.

Recommendation 1

(1) The MONUC Office of Mission Support should ensure that the required review of procurement actions by the Headquarters Committee on Contracts is not avoided by splitting procurement actions.

13. *The MONUC Office of Mission Support did not accept recommendation 1 stating that it did not intentionally bypass the HCC. The suggestions of the LCC to allow shorter periods for the contracts were due to the LCC's reluctance to rely on the requirements, which were not clearly established, of the contracts. The minutes of the LCC did not accurately reflect the circumstances of its suggestions and the Secretariat of the LCC has been advised to accurately record the deliberations of the Committee.* OIOS does not find this explanation convincing since the LCC minutes are drafted under the general supervision of the Chairperson. Therefore, any significant inconsistency in the LCC minutes should have been identified and corrected. Procedures need to be implemented by Management to ensure critical LCC discussions are properly documented and reviewed. OIOS reiterates recommendation 1 and requests management to reconsider its position. Recommendation 1 remains open pending confirmation that steps have been taken to ensure future LCC minutes adequately reflect the LCC deliberations, as well as assurance from Management that there are adequate measures in place to ensure the required review of procurement actions by the Headquarters Committee on Contracts is not avoided by splitting procurement actions.

B. The Traffic and Shipping Unit performs incompatible functions

14. The internal controls over the management of the customs clearance and freight forwarding services contract were weak, resulting in irregular and uneconomical acquisition of goods and services.

15. MONUC entered into a contract valued at \$5.2 million covering the period from 1 October 2007 to 30 September 2009 for the provision of customs clearance and freight forwarding services for certain destinations. The contract does not cover all locations within the Mission's area of operation. Therefore, a request for quotation is required for services to destinations not covered by the contract.

16. The Traffic and Shipping Unit, the requisitioner and user of the services, procured services to destinations not covered by the contract by e-mail and issued task orders for these services without the knowledge of the Procurement Section. This is a serious weakness in internal control. The value of the task orders ranged from \$58,000 to \$168,000. Additionally, the Chief of MOVCON estimates that the cost of services to destinations not covered by the contract is about 40 per cent of the contract value or more than \$2.5 million.

17. The contract does not specifically mention that quotations for services to destinations not covered by the contract should be issued by the Procurement Section. The lack of segregation of responsibilities between the requisitioner and the purchaser exposes MONUC to a high risk of mismanagement and abuse of its resources.

Recommendation 2

(2) The MONUC Office of Mission Support should amend the contract for customs clearance and freight forwarding services to cover all locations within the Mission's area of operation.

18. *The MONUC Office of Mission Support accepted recommendation 2 and stated that it would be implemented.* Recommendation 2 remains open pending receipt of the revised contract for customs clearance and freight forwarding services that covers all locations within the Mission's area of operation.

C. Ineffective review of invoices

19. Paragraph 3.2.1(c) of the Field Finance Procedure Guidelines provides that the Finance Section will review vendor invoices to ensure that invoiced goods or services are agreed with the relevant purchase orders and receipt and inspection (R&I) reports and that the unit prices in invoices match the prices in purchase orders.

20. OIOS reviewed a sample of nine invoices totaling \$263,346 relating to customs clearance and freight services. The invoices were certified by the relevant officer and processed for payment by the Finance Section.

21. The unit prices in the invoices were higher than the contracted rates in some cases. This resulted in overpayment of \$244,000 to the vendor. Neither the certifying officer nor the Finance Section detected the excessive charges.

Recommendations 3 and 4

The MONUC Office of Mission Support should:

(3) Ensure that the Finance Section determines and recovers all overpayments including \$244,000 made to the vendor for customs clearance and freight forwarding services; and

(4) Ensure that the Finance Section develops and implements a checklist for use by its staff when processing invoices.

22. *The MONUC Office of Mission Support accepted recommendation 3 and stated that the cases were being reviewed and that action would be taken for recovery where warranted.* Recommendation 3 remains open pending receipt of evidence of the recovery of overpayments made to the vendor for customs clearance and freight forwarding services.

23. *The MONUC Office of Mission Support accepted recommendation 4 and stated that the Finance Section has implemented a checklist since 31 January 2010.* Based on the action taken, recommendation 4 has been closed.

D. Delays in paying vendors

24. MONUC is required to make payments within 30 days of the receipt of contractors' invoices. There were delays by MONUC in making payments. For example, in 45 per cent of the cases reviewed, payments were made to the vendors 50 to 700 days after the invoices were received.

25. The reasons for delayed payments included late issuance of the relevant reports of satisfactory receipt of goods and services and delays in resolving discrepancies identified during receiving and inspection of goods and services. OIOS' review of 42 discrepancy reports relating to the Mission's contracts with the International Chamber of Commerce Trade Terms (INCOTERMS) showed in 22 cases, that discrepancies were resolved 55 to 600 days after the discrepancies were identified.

26. Resolution of discrepancies needed better coordination by the Finance Section, R&I Unit, MOVCON, the Procurement Section and self-accounting units. The audit found the coordination to be poor hampering the effectiveness of the resolution process. Additionally, the Finance Section did not have a system

for prioritizing the processing of invoices and handling vendors' complaints of delays in payments.

27. Delays in settling invoices may result in reputation risk and potential cost increases in future offers for goods and services.

Recommendation 5

(5) The MONUC Office of Mission Support should implement appropriate mechanisms to expedite the processing and payment of vendors.

28. *The MONUC Office of Mission Support accepted recommendation 5 and stated that a system had been established whereby the Finance and Procurement Sections would identify, report, coordinate and follow up and take action on long outstanding invoices.* Recommendation 5 remains open pending verification of the system established to monitor the payment of invoices.

E. The Mission did not claim liquidated damages

29. The Mission is required to claim liquidated damages up to a maximum of five per cent of the value of the contract for delays attributed to the contractor. Deliveries were delayed up to 2 years in some cases, however, the Mission did not claim liquidated damages from the contractors. Delayed deliveries with no adverse consequence for vendors may encourage vendors' noncompliance with contracts and negatively impact on the Mission's operations.

Recommendation 6

(6) The MONUC Office of Mission Support should ensure that in the event of delayed delivery, liquidated damages are imposed on vendors in compliance with relevant contracts.

30. *The MONUC Office of Mission Support accepted recommendation 6 and stated that cases of delayed deliveries were under review and liquidated damages would be applied where applicable.* Recommendation 6 remains open pending receipt of evidence showing that liquidated damages where appropriate are imposed on contractors.

F. Inefficient purchasing of liquid materials and paints

31. Procurement activities should ensure that the required quality and quantities of goods are obtained in a timely manner in an economical way. This was not always ensured regarding the procurement of liquid materials.

32. Procurement for liquid materials such as paints and cleaning and sanitary materials involved high freight charges, insurance costs and extreme delays. In some cases, the containers for the liquid materials were damaged in transit

resulting in losses. These costs could have been avoided if the items were procured locally.

Recommendation 7

(7) The MONUC Office of Mission Support should explore the possibility of purchasing liquid items locally in as an economical and efficient way as possible.

33. *The MONUC Office of Mission Support accepted recommendation 7 and stated that it had embarked upon a new method for procuring detergents which would ensure best value for money in accordance with the Procurement Manual. Based on the action taken, recommendation 7 has been closed.*

G. Large number of open/incomplete purchase orders

34. Purchase orders (POs) should be closed and classified as completed once the contractual obligations have been fulfilled. However, the Mercury System showed that out of 1,371 POs issued from 1 July 2007 to 31 December 2008, only 47 POs (3.31 per cent) were completed as on 31 December 2008. OIOS found that most of the supplies had been received and used in many cases and, as a result, the related POs should have been closed.

35. The matching of POs with invoices is a standard internal control to ensure the Mission only pays for goods and/or services ordered. It is important that this control is evidenced by closing POs in the Mercury system. The lack of this control increases the risk of over or duplicative payments and fraudulent transactions going undetected.

Recommendation 8

(8) The MONUC Office of Mission Support should ensure that the Procurement Section systematically reviews and updates the status of purchase orders in the Mercury database.

36. *The MONUC Office of Mission Support accepted recommendation 8 and stated that the Procurement and Finance Sections would coordinate to ensure the timely closure of completed purchase orders by 30 June 2010. Recommendation 8 remains open pending receipt of a report showing that all completed purchase orders have been closed.*

H. Inadequate monitoring of ex-post facto cases

37. The approval of ex-post facto cases should be discouraged and controls should be put in place to improve the planning and management of the procurement process. This was not always done as 64 out of 230 cases (28 per cent) submitted for review by the LCC from 1 July 2007 to 31 December 2008 was ex-post facto cases. The total value of the ex-post facto cases was \$89.1 million including five high value purchases ranged from \$1.4 to \$63.6 million.

Recommendation 9

(9) The MONUC Office of Mission Support should strengthen management oversight and planning for procurement to minimize ex-post facto cases.

38. *The MONUC Office of Mission Support accepted recommendation 9 and stated that a system for alerting Management of due contracts would be developed. In the interim, a manual log had been established to record and track expiring contracts.* Based on the action taken, recommendation 9 has been closed.

I. Noncompliance with local banking regulations

39. The banking regulations of the Democratic Republic of Congo prohibit payments to foreign bank accounts in respect of local suppliers of goods and services. Accordingly, in June 2006, the Chief Finance Officer (CFO) advised the Procurement Section that payments would no longer be made to foreign bank accounts of local suppliers.

40. OIOS' review of the vendor database and payment records showed that the regulation had not been complied with. Some local vendors in Kinshasa provided foreign bank accounts, which were used by the Mission to make payments to them. The vendor database had not been updated in line with the regulation.

41. Noncompliance with local regulations could strain the Mission's relationship with the host Government and negatively impact its operations.

Recommendation 10

(10) The MONUC Office of Mission Support should ensure that all payments to local vendors are made through their local bank accounts in line with the banking regulations of the host country.

42. *The MONUC Office of Mission Support accepted recommendation 10 and stated that the vendor database was being updated with immediate effect to reflect the local banking details of local suppliers.* Recommendation 10 remains open pending evidence that payments to local vendors are made through their local bank accounts.

J. The required performance bonds were not obtained

43. In compliance with paragraph 9.9.13(2) of the UN Procurement Manual, MONUC requires each vendor to furnish a performance bond within five days of signing a contract. Of the 12 reviewed contracts valued at more than \$100,000 each, only three vendors submitted the required performance bonds. The reasons for not obtaining performance bonds were sometimes not documented and thus

the process was not transparent. The performance bond submitted by one of the three vendors expired in September 2008, but the contract was extended for an additional \$2.6 million through to September 2009.

44. The absence of performance bonds increased the risk of financial losses to the United Nations in the event of vendors' default.

45. There were no adequate controls within the Procurement Section to ensure that the bonds were timely furnished, adjusted and renewed. The procedures for obtaining and/or updated performance bonds were informal and there were no monitoring mechanisms to ensure compliance with the requirement.

Recommendation 11

(11) The MONUC Office of Mission Support should ensure that contractors submit performance bonds, where applicable, in compliance with Section 9.9.13 of the UN Procurement Manual.

46. *The MONUC Office of Mission Support accepted recommendation 11 and stated that it has established a system for monitoring performance bonds.* Based on the action taken, recommendation 11 had been closed.

K. Vendors' database not regularly updated

47. The vendors' database should be regularly updated to ensure efficient and effective sourcing of suppliers.

48. The vendor database in Mercury was not regularly updated. It did not contain updated vendor contact details, relevant commodity codes for vendors, past performance ratings or evaluations and bank details. Such information was also not available in the PO files.

Recommendation 12

(12) The MONUC Office of the Mission Support should ensure that the vendors' database is regularly updated with all required information in compliance with the Procurement Manual.

49. *The MONUC Office of Mission Support accepted recommendation 12 and stated that the vendors' database was been cleaned and that the cleaning would be completed by the end of June 2010.* Recommendation 12 remains open pending evidence that vendors' database has been updated to reflect current and accurate information about all registered vendors.

V. ACKNOWLEDGEMENT

50. We wish to express our appreciation to the Management and staff of MONUC 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 MONUC Office of Mission Support should ensure that the required review of procurement actions by the Headquarters Committee on Contracts is not avoided by splitting procurement actions.	Operational	High	O	Confirmation that steps have been taken to ensure future LCC minutes adequately reflect the LCC deliberations, as well as assurance from Management that there are adequate measures in place to ensure the required review of procurement actions by the Headquarters Committee on Contracts is not avoided by splitting procurement actions.	Not provided
2	The MONUC Office of Mission Support should amend the contract for customs clearance and freight forwarding services to cover all locations within the Mission's area of operation.	Operational	Medium	O	Receipt of the revised contract for customs clearance and freight forwarding services that covers all locations within the Mission's area of operation.	On-going
3	The MONUC Office of Mission Support should ensure that the Finance Section determines and recovers all overpayments including \$244,000 made to the vendor for customs clearance and freight forwarding services	Financial	High	O	Receipt of evidence of the recovery of overpayments made to the vendor for customs clearance and freight forwarding services.	31 March 2010
4	The MONUC Office of Mission Support should ensure that the Finance Section develops and implements a checklist for use by its staff when processing invoices.	Operational	Medium	C	Action taken.	Implemented
5	The MONUC Office of Mission Support should implement appropriate mechanisms to expedite the processing and payment of vendors.	Governance	Medium	O	Receipt of evidence relating to implementation of the newly established reporting and monitoring mechanism.	On-going
6	The MONUC Office of Mission Support should ensure that in the event of delayed delivery, liquidated damages are imposed on vendors in compliance with relevant contract.	Operational	Medium	O	Pending receipt of evidence showing the imposition of liquidated damages on contractors.	On-going

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
7	The MONUC Office of Mission Support should explore the possibility of purchasing liquid items locally in as economical and efficient way as possible.	Compliance	Medium	O	Action taken.	Implemented
8	The MONUC Office of Mission Support should ensure that the Procurement Section systematically reviews and updates the status of purchase orders in the Mercury database.	Compliance	Medium	O	Receipt of a report showing that all completed purchase orders are closed.	30 June 2010
9	The MONUC Office of Mission Support should strengthen management oversight and planning for procurement to minimize ex-post facto cases.	Governance	Medium	C	Action taken.	Implemented
10	The MONUC Office of Mission Support should ensure that all payments to local vendors are made through their local bank accounts in line with the banking regulations of the host country.	Compliance	Medium	O	Evidence that payments to local vendors are made through their local bank accounts.	On-going
11	The MONUC Office of Mission Support should ensure that contractors submit the performance bonds, where applicable, in compliance with Section 9.9.13 of the UN Procurement Manual.	Compliance	Medium	C	Action implemented	Implemented
12	The MONUC Office of the Mission Support should ensure that the vendors' database is regularly updated with all required information in compliance with the UN Procurement Manual.	Compliance	Medium	O	Evidence that vendors' database has been updated to reflect the current and accurate information about all registered vendors.	30 June 2010

1. C = closed, O = open

2. Date provided by MONUC in response to recommendations.

