



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of Post Exchange (PX) operations in MONUC

**Better monitoring of PX operations would
improve the services provided**

19 October 2009

Assignment No. AP2009/620/14

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 to the Secretary General, MONUC

DATE: 19 October 2009

REFERENCE: IAD: 09-7-5-7(24)

09-0304

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

Fatoumata

SUBJECT: **Assignment No. 2009/620/14 – Audit of Post Exchange Operations 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 recommendation 2 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 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Hany Abdel-Aziz, Director Mission Support MONUC
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit Secretariat
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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

Post Exchange operations in MONUC

OIOS conducted an audit of Post Exchange (PX) operations 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 internal controls established by the Mission over PX operations. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

MONUC had not established adequate procedures for the management of its PX operations, and the following weaknesses were found during the audit:

- The PX contract was not reviewed by a Legal Advisor before it was signed with the Contractor and therefore, there was a risk that the final contract was not in the best interests of the UN;
- The On-Line Ordering System, a main criterion for the selection of the Contractor was not implemented, and weaknesses in the contractual agreement prevented imposing penalties;
- The PX Committee, established to monitor PX activities, did not carry out its responsibilities effectively. The Committee rarely met during the three year period of the contract, customer satisfaction surveys were not routinely done, and sales figures and profit margins were not systematically reviewed;
- The prices of items in the PX were high when compared to those available in the local market indicating the need for periodic review of PX inventory;
- The safety and storage of food and sanitary conditions were less than satisfactory. Only one inspection report by the Environmental Health Unit was conducted during the three-year contract period; and
- The clearance of PX goods by Port Authorities was often delayed for more than two months increasing the risk of delivery of damaged goods with a reduced shelf life.

OIOS made a number of recommendations to address the issues identified during the audit to further improve the operation of the PX.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1-7
II. AUDIT OBJECTIVES	8
III. AUDIT SCOPE AND METHODOLOGY	9
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Contract with PX Contractor	10-15
B. Management of PX operations	16-29
V. ACKNOWLEDGEMENT	30
ANNEX 1 – Status of Audit Recommendations	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of Post Exchange (PX) operations 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 entered into a contract with a supplier (the Contractor) in June 2006 for the provision and management of duty free PX facilities in Kinshasa and Bunia for the benefit of MONUC staff.
3. The Chief of the Contracts Management Section (CMS) was responsible for the overall monitoring of the contract and ensuring compliance with the contractual obligations in managing the operations. A PX Coordinator in CMS liaised with the Contractor and acted as the focal point for monitoring the performance of the contract. A PX Committee was established to oversee PX operations and to provide guidelines on procedures and to make changes to ensure adequate customer service.
4. The contract provided that the Contractor should maintain separate and complete records and books of account, and for these to be made available for inspection and audit by MONUC management and UN auditors.
5. The sales from PX's operation from the start of the contract in October 2006 to May 2009 are shown in Table 1 below.

Description	October to December 2006	Year ended 31 December 2007	Year ended 31 December 2008	January to May 2009*
	\$	\$	\$	\$
Retail sales	382,677	2,194,818	2,755,834	1,314,896
Bulk sales	5,662	55,757	65,662	31,808
Total Turnover	388,339	2,250,575	2,821,496	1,346,704

* Figures available at the time of the audit

6. The contract for PX expired on 30 June 2009. However, it was extended to 31 July 2009 to facilitate the demobilization of the Contractor. A new vendor was identified and awarded the contract as the audit was in-progress.
7. Comments made by MONUC are shown in *italics*.

II. AUDIT OBJECTIVES

8. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls established by the Mission over PX operations.
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III. AUDIT SCOPE AND METHODOLOGY

9. The audit covered the operations of the PX for the period 1 October 2006 to 30 June 2009. The audit included a visit to the PX in Kinshasa, review of available documents and other relevant records and transactions during the period of the contract, interviews with key Mission staff and Contractor employees and analysis of applicable data.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Contact with PX Contractor

PX contract was not reviewed by the Legal Advisor before it was finalized

10. The PX contract was not reviewed by MONUC's Legal Advisor before it was signed. There was a risk therefore that the agreed terms and conditions were not in the best interests of the UN. For example, clarification of the provisions of the contract was subsequently requested by CMS, as it was not clear in the contract whether the Contractor or MONUC was responsible for delays, damage or loss when a MONUC vehicle was used in transporting PX goods.

Recommendation 1

(1) The MONUC Office of Mission Support should implement a process to ensure that the Post Exchange services contract is reviewed by the Legal Advisor prior to finalization.

11. *The MONUC Office of Mission Support accepted recommendation 1 and stated that although a new standard contract with the new contractor had already been signed prior to OIOS' recommendation, a copy of the contract would be sent to the Legal Advisor for review and amendment, if it is considered that a fundamental change is necessary. Recommendation 1 remains open pending evidence that the Post Exchange services contract has been reviewed by the Legal Advisor.*

On-Line Ordering System (OLOS) was not implemented

12. The use of OLOS was a key evaluation criterion in the selection of the PX Contractor. However, for the three years during their operations, the Contractor never implemented this provision. Consequently, staff in the sectors did not have access to the PX.

13. The Mission since November 2006 had reminded the Contractor about their obligation to develop and install an OLOS in performance review meetings.

A trial run of OLOS was successfully conducted in August 2008, but it was not fully implemented. The Contractor explained to MONUC that OLOS implementation was delayed pending the Office of Mission Support's approval of weight restrictions to be applied to customer orders through OLOS. However, the Director of Mission Support (DMS) was not timely informed of the difficulty in the implementation of OLOS.

14. The contract did not have any provision to impose a penalty for failure to implement this system, and no other remedial action against the Contractor was considered. Moreover, there was no system in place to ensure non-compliance with contractual terms and conditions were brought to senior management in a timely manner.

Recommendation 2

(2) The MONUC Office of Mission Support should implement procedures to ensure noncompliance with critical conditions of contracts are followed up and addressed both with the Contract Management Section and the Contractor in a timely manner.

15. *The MONUC Office of Mission Support accepted recommendation 2 and stated that the CMS will ensure that any future noncompliance by the Contractor is brought to the attention of the DMS so that timely action will be initiated.* Based on the assurances provided by Management that in future action will be initiated in a timely manner, Recommendation 2 has been closed.

B. Management of PX operations

PX Committee's monitoring was ineffective

16. A Committee was established to monitor the operations of the PX, with terms of reference to meet quarterly and submit half yearly reports of its activities to the DMS. No mechanism was established to ensure the PX Committee was operating effectively, and as a result the activities of the PX were not properly monitored and controlled, and the members did not fulfill their responsibilities.

17. OIOS was informed that due to other priorities, staff on the Committee found it difficult to devote sufficient time to their responsibilities. The DMS agreed to explore the possibility of increasing the number of alternate members of the PX Committee and also ensure that meetings were regularly attended to strengthen its functioning.

Recommendation 3

(3) The MONUC Office of Mission Support should ensure that the Post Exchange (PX) Committee complies with its terms of reference and meets regularly to monitor

PX activities and submit the required reports on its activities to the Director of Mission Support.

18. *The MONUC Office of Mission Support accepted recommendation 3 and stated that it will ensure that the PX Committee complies with its terms of reference including the monitoring of the performance of the PX and regular reporting to the DMS. Recommendation remains open pending OIOS verification that the PX Committee is functioning effectively.*

PX services needed improvement

19. The survey conducted by OIOS revealed that staff members were dissatisfied with the prices of certain items such as milk, detergent, cereals, and other household goods sold at the PX store. The prices charged were considered high compared to those of comparable goods found in the local supermarkets. Consequently, these items were generally not purchased from the PX. In OIOS' view, if there had been regular management oversight of PX activities, this would have been identified and corrective action taken.

20. A PX Coordinator is responsible for monitoring the activities of the PX in Kinshasa and in Bunia. The Coordinator, based in CMS, did not have detailed terms of reference, and was assigned other duties. This impacted on his ability to monitor and manage the PX contract. For example, there were no regular visits to the Kinshasa PX store to review the accuracy and completeness of sales records and ensure that the prices of goods and profit margin were within the contract parameters. Also, the Coordinator only visited the Bunia PX once in three years.

Recommendation 4

(4) The MONUC Office of Mission Support should provide the Post Exchange Coordinator with detailed and clear terms of reference. These should include regular visits and inspections to all PX stores as well as preparing reports on the regular reviews of the sales records and profit margins.

21. *The MONUC Office of Mission Support accepted recommendation 4 and stated that the terms of reference for the PX Coordinator have been revised to include regular visits and inspections of all PX stores. Recommendation 4 remains open pending receipt of the revised terms of reference, which clearly specify the responsibilities of the PX Coordinator.*

Environmental and health inspection of PX stores was not adequate

22. Per Article 17.4 of the contract, MONUC's Medical Section's Environmental Health Unit (EHU) should conduct inspection visits to PX stores and appraise the sanitary situation, as well as the hygiene and food safety conditions. During the contract period, the EHU visited the Kinshasa PX store only once in July 2008. The Bunia PX store was not visited during the period of the contract.

23. The Kinshasa PX inspection was made on the basis of an unofficial request from the Chief of CMS due to staff complaints regarding food safety. The staff had complained for instance, that food was not stored at the correct temperature in the freezer, and rotten fruits and vegetables were stored along with fresh ones. The inspection found that the cleanliness and sanitary condition in the PX store was unsatisfactory and there were some instances of health and safety hazards. Despite these observations, CMS did not establish a mechanism for regular inspections of PX stores by EHU. Thus, potential health and safety risks were not adequately mitigated.

Recommendation 5

(5) The MONUC Office of Mission Support should ensure that the Environmental Health Unit carries out periodical inspection of the Post Exchange stores to ensure food safety and proper sanitation standards are adhered to.

24. *The MONUC Office of Mission Support accepted recommendation 5 and stated that it will ensure that EHU conducts periodic inspections of all PX locations as recommended.* Recommendation 5 remains open pending receipt of the report on the inspection of the PX stores.

Delay in clearing imported goods for PX

25. To facilitate clearance of goods by the Contractor from the port of Matadi, MONUC provided the Contractor with a Note Verbale identifying the goods that were imported for sole consumption by MONUC personnel who are entitled to duty free privileges. However, despite the Note Verbale, the Contractor experienced significant delays in clearing goods attributed to port officials. According to the Contractor, a total of 126 shipments were received throughout the contract period and the delays ranged between 25 days to 220 days. The average delay per shipment was 68 days.

26. As a result of the delays, goods arrived damaged, pilfered and with reduced shelf life resulting in shortages and a higher probability of expired goods in the PX store. The Contractor's repeated requests for assistance from MONUC to expedite the clearance of imported goods were declined by Management on the grounds that it was the Contractor's responsibility. Thus, the risk of supplying substandard goods and loss or shortage of goods at the PX stores was not adequately mitigated through improved coordination and facilitation by MONUC.

Recommendation 6

(6) The MONUC Office of Mission Support should explore additional ways to assist the Post Exchange (PX) Contractor in the clearance of duty-free goods to enable goods to be received in a timely manner and in the relevant condition for sale in PX stores.

27. *The MONUC Office of Mission Support accepted recommendation 6 and stated that it will further discuss with the new PX Contractor ways to explore possible alternatives and solutions. Recommendation 6 remains open pending OIOS review of the action taken for expediting the clearance of goods from the port.*

Inadequate customer satisfaction surveys and monitoring of complaints

28. There was a customer complaints system, but no records of the complaints were maintained. Also, no systematic or regular surveys were conducted to determine whether customers were satisfied with the quality, scope and pricing of the services provided at the PX stores.

Recommendation 7

(7) The MONUC Office of Mission Support should systematically conduct customer satisfaction surveys, document the complaints and follow-up with the Contractor to ensure improvements are made and expectations are met.

29. *The MONUC Office of Mission Support accepted recommendation 7 and stated that a database has been established to assess PX customer needs, and monthly reminders will be sent to staff advising them to use the database. Furthermore, conducting customer surveys has been included in the revised terms of reference of the PX Committees. Recommendation 7 remains open pending OIOS verification of the systems put in place to ensure customer needs are adequately considered.*

V. ACKNOWLEDGEMENT

30. 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	Actions needed to close recommendation	Implementation date ²
1	The MONUC Office of Mission Support should implement a process to ensure that the Post Exchange services contract is reviewed by the Legal Advisor prior to finalization.	Compliance	Medium	O	Evidence the Post Exchange services contract has been reviewed by the MONUC Legal Advisor.	Ongoing
2	The MONUC Office of Mission Support should implement procedures to ensure noncompliance with critical conditions of the contract are followed up and addressed both with the Contract Management Section and the Contractor in a timely manner.	Governance	Medium	C	Action taken.	Implemented
3	The MONUC Office of Mission Support should ensure that the Post Exchange (PX) Committee complies with its terms of reference and meets regularly to monitor PX activities and submit the required reports on its activities to the Director of Mission Support.	Compliance	Medium	C	Verification that the PX Committee is functioning effectively.	September 2009
4	The MONUC Office of Mission Support should provide the Post Exchange Coordinator with detailed and clear terms of reference. These should include regular visits and inspections to all PX stores as well as preparing reports on the regular reviews of the sales records and profit margins.	Operational	Medium	O	Receipt of the revised terms of reference, which clearly specifying the responsibilities of the PX Coordinator	September 2009
5	The MONUC Office of Mission Support should ensure that the Environmental Health Unit carries out periodical inspection of the Post Exchange stores to ensure food safety and proper sanitation standards are adhered to.	Operational	Medium	O	Receipt of the report on the inspection of the PX stores.	October 2009
6	The MONUC Office of Mission Support should explore additional ways to assist the	Operational	Medium	O	Review of the action taken for expediting the clearance of goods from the port.	November 2009

Recorm. no.	Recommendation	Risk category	Risk rating	C/ O ¹	Actions needed to close recommendation	Implementation date ²
7	Post Exchange (PX) Contractor in the clearance of duty-free goods to enable goods to be received in a timely manner and in the relevant condition for sale in PX stores. The MONUC Office of Mission Support should systematically conduct customer satisfaction surveys, document the complaints and follow-up with the Contractor to ensure improvements are made and expectations are met.	Operational	Medium	O	Verification of the systems put in place to ensure customer needs are adequately considered.	September 2009

1. C = closed, O = open

2. Date provided by MONUC in response to recommendations.