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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

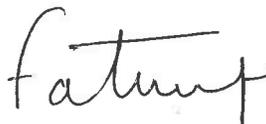
OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Mariano Fernandez
A: Special Representative of the Secretary-General
United Nations Stabilization Mission in Haiti

DATE: 30 September 2011

REFERENCE: IAD: 11-00604

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



SUBJECT: **Assignment No. AP2011/683/01 – Audit of contracts management in MINUSTAH**

OBJET:

Overall results relating to MINUSTAH's effective administration and management of contracts were partially satisfactory

1. Attached please find the final report on the above-mentioned audit.
2. Annex-I shows the status of recommendations. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and to the Secretary-General, quarterly for critical recommendations and annually for important recommendations (nos.1 and 2).
3. The audit also identified a number of opportunities for improvement (see Annex-II). While OIOS will not report on the implementation of these opportunities, we encourage you to implement them to improve the efficiency and effectiveness of your operations. OIOS will review their implementation as part of future audits.
4. Please note that under General Assembly resolution 59/272, a Member State may request that the final report be made available. Also note that pursuant to General Assembly resolution 64/263, OIOS has included the complete management response as an appendix to the present report.
5. We wish to express our appreciation to the Management and staff of MINUSTAH for the assistance and cooperation extended to the auditors during the assignment.

cc: Mr. Kevin Kennedy, Principal Deputy Special Representative, MINUSTAH
Mr. Sunny Makoge, Officer-in-Charge of Mission Support, MINUSTAH
Ms. Barbara Reggi, Officer-in-Charge, Contracts Management Unit, MINUSTAH
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, DFS
Mr. Moses Bamuwamye, Executive Secretary, IAAC
Mr. Zachary Ikiara, Chief, Oversight Support and Coordination Unit, DM
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Ms. Eleanor T. Burns, Chief, Peacekeeping Audit Service, OIOS
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

AUDIT REPORT

Audit of contracts management in MINUSTAH

BACKGROUND

Contracts management in the United Nations Stabilization Mission in Haiti (MINUSTAH) is the responsibility of project managers in the Self-accounting Units for the day-to-day implementation of the contract, and the Contracts Management Unit (CMU) for oversight and monitoring of contracts.

MINUSTAH had 129 contracts with the total not-to-exceed (NTE) amount as at 17 March 2011 of \$617 million including the NTE amount of \$533 million for systems contracts established by the United Nations Procurement Division and used by MINUSTAH. The CMU has 11 authorized posts, of which six were vacant.

This audit was included in the 2011 OIOS' risk-based work plan due to the high-risk nature of administration and management of contracts in peacekeeping operations.

OBJECTIVE AND SCOPE

The audit was conducted to assess the adequacy and effectiveness of MINUSTAH's risk management, control and governance processes in providing reasonable assurance regarding the effective administration and management of contracts. The key controls tested for the audit included those related to regulatory framework. The audit covered the period 1 January 2009 to 31 March 2011.

AUDIT RESULTS

In OIOS' opinion, MINUSTAH's risk management, control and governance processes examined were **partially satisfactory** to provide reasonable assurance regarding the effective administration and management of contracts. The CMU had been making efforts to monitor and oversee the management of contracts resulting in delivery of the relevant goods and services to the Mission. However, systems and resources available to the CMU were not fully adequate to ensure effective monitoring and oversight of all contracts. Moreover, standard operating procedures on contracts administration had not yet been finalized. MINUSTAH did not have mechanisms to ensure that NTE amounts were monitored and that vendors were paid in a timely manner.

Lack of capacity in the Contracts Management Unit

Of the 11 approved posts, only five were filled. The vacancies in the CMU included five international posts including the Chief of CMU, which had been vacant for over a year. These vacancies impacted the ability of CMU to fulfill its oversight and monitoring responsibilities. For example: (a) 43 of the 117 non-lease contracts had not been assigned to staff for monitoring implementation; (b) for the 74 contracts assigned, the monitoring activities were inadequate; (c) only 41 of 117 vendor performance evaluation were conducted; and (d) performance reports were not submitted to the United Nations Procurement Division.

Non-timely action for renewal or extension of contracts

The Mission continued to receive goods and services from contractors even though the contracts had expired. Examples included: (a) the contract for armed guard security services for a NTE amount of

\$2.6 million (b) the spare parts contract for a NTE amount of \$3.3 million; and (c) contracts for hospital & medical services for a NTE amount of \$700,000. While MINUSTAH obtained ex-post facto approval to use the contracts, this could have been avoided by timely procurement action for renewal and extension of contracts. *MINUSTAH has launched an electronic application to track contract expiration dates and will alert requisitioners and procurement staff to ensure timely procurement action.*

- 1. MINUSTAH should ensure that the Contracts Management Unit has adequate capacity to monitor and provide oversight of contracts as required by the United Nations Procurement Manual.**

MINUSTAH accepted recommendation 1 and stated that recruitment action was on-going to fill vacant posts. Recommendation 1 remains open pending confirmation that vacancies are under control.

- 2. MINUSTAH should ensure that the draft standard operating procedures on contracts management are finalized and procedures are in place to ensure compliance.**

MINUSTAH accepted recommendation 2 and stated that the draft standard operating procedures on contracts management are still under review. Recommendation 2 remains open pending the approval of the standard operating procedures for contracts management.

Invoice processing

MINUSTAH did not adequately monitor NTE amounts and therefore was reliant on contractors to provide written notification when 75 per cent of the stated contract price was expended. Also, contractor's invoices were not settled within 30 days due to missing invoices, and/or delays in processing. Moreover, early payment discounts, volume discounts, contract renewal discounts, and global discounts totaling \$66,931 were not obtained, as neither CMU nor project managers had mechanisms to monitor contract conditions.

- 3. MINUSTAH should establish mechanisms to monitor key contract terms, including settlement of invoices, discount conditions and NTE utilization levels.**

MINUSTAH accepted recommendation 3 and stated that CMU has developed standard operating procedures on invoice processing and an Invoice Processing Team would be established to monitor invoice flow, keep track of payments and ensure timely processing of invoices and achievement of discounts. Based on the action taken, recommendation 3 has been closed.

ACKNOWLEDGEMENT

OIOS wishes to express its appreciation to the Management and staff of MINUSTAH for the assistance and cooperation extended to the auditors during this assignment.