



INTERNAL AUDIT DIVISION

AUDIT REPORT

Vendor payment process in MONUSCO

Monitoring controls over the vendor payment process should be strengthened to mitigate risks of financial loss

6 June 2011

Assignment No. AP2010/620/09

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. Roger A. Meece
A: Special Representative of the Secretary-General
MONUSCO

DATE: 6 June 2011

REFERENCE: IAD: 11- 00436

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

Fatoumata

SUBJECT: **Assignment No. AP2010/620/09 - Audit of vendor payment process in MONUSCO**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the 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. Paul Buades, Director of Mission Support, MONUSCO
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Mario Baez, Chief Policy and Oversight Coordination Service, 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

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 vendor payment process in MONUSCO

The Office of Internal Oversight Services (OIOS) conducted an audit of the vendor payment process in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over the vendor payment process. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Monitoring controls over the vendor payment process should be strengthened to mitigate risks of financial loss. The audit noted the following irregularities and inefficiencies:

- Contrary to Financial Rule 105.6, payments totaling \$2.8 million made to two freight forwarding vendors were not based on valid commitments. The Movement Control officers who requested and purchased the services were not authorized to enter into financial commitments and approving officers in the Finance Section processed the payments without questioning the validity of the supporting documents.
- The Mission did not adhere to systems contract prices for pharmaceutical items which increased the risk of overpricing and that vendors may not be qualified to supply the procured goods.
- The Procurement Section did not implement a systematic procedure for dealing with short deliveries. This resulted in delays in resolving discrepancies and increased the risk of financial loss, especially for goods that were paid in advance under the International Commercial Terms.
- The Mission lacked a proper invoice processing system, hindering its ability to monitor the processing of invoices and resulting in the unmitigated risk of delays in paying vendors and loss of early payment discounts.

OIOS has made five recommendations to address the issues identified during this audit and to improve internal controls over the vendor payment process.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the vendor payment process in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The Vendors Unit in the Finance Section is responsible for processing invoices for payment in accordance with the Financial Regulations and Rules of the United Nations, the Field Finance Procedure Guidelines and other applicable standard operating procedures (SOPs). The Unit has six authorized posts and all were filled at the time of the audit.
3. During the financial year 2009/2010, the Unit processed payments estimated at \$286 million as shown in Table 1. These payments related to commitments made through contracts, purchase orders (POs), and miscellaneous obligation documents by MONUSCO but did not include payments such as reimbursement to troop contributing countries made at the United Nations Headquarters on behalf of the Mission, as well as the payment for staff salaries and entitlements.

Table 1: Payments by object code during financial year 2009/2010

Description	Budget \$	Expenditure \$
Facilities and infrastructure	86,547,169	87,963,031
Ground transportation	17,660,800	19,560,884
Air transportation	61,773,800	66,479,336
Naval transportation	1,380,200	1,117,480
Communications	20,296,400	17,639,787
Information technology	8,888,100	8,040,157
Medical	2,397,990	1,853,559
Other supplies, services and equipment	19,098,931	19,580,553
Quick impact projects	1,000,000	717,443
Rations	65,160,100	63,023,399
Total	284,203,490	285,975,629

4. Comments made by MONUSCO 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 vendor payment process.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from 1 July 2009 to 30 June 2010 and reviewed the transactions and records of earlier periods where necessary.
 7. The audit methodology included a review of relevant records, analysis of available data and interviews with key Mission personnel. A sample of 67 vendor invoices valued at \$36.5 million out of a total vendor payment of \$286 million
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were tested to assess compliance with the United Nations Manual, Financial Regulations and Rules, Field Financial Procedures and Guidelines and SOPs.

IV. AUDIT RESULTS

A. Noncompliance with the United Nations Procurement Manual and Financial Rules in purchasing and paying for freight forwarding services

8. In response to a recommendation resulting from OIOS' audit of procurement management in MONUSCO (AP2009/620/13), the Mission established a single contract for customs clearance and freight forwarding services for all destinations in February 2010. This effectively prevented the Movement Control Section (MovCon) from unilaterally inviting price quotations and entering into piecemeal freight forwarding arrangements with two freight vendors using task orders in violation of the United Nations Procurement Manual.

9. OIOS notes that prior to establishing the single contract, the Mission had paid \$2.85 million to the two freight vendors during the period from 1 October 2007 to 31 March 2010 in respect of 247 invoices. Out of the 247 invoices, OIOS reviewed the supporting documents for 55 invoices valued at \$1,369,527, being those with the largest individual amounts. The review showed that contrary to Financial Rule 105.6, the payments were made without valid contracts. Instead, the approving officers of the payments relied on task orders (TOs) which were issued by MovCon officers.

10. In accordance with the United Nations Financial Rules, the contracts used in processing payments (i.e. financial commitments) must be approved by the Controller or someone designated by him/her. In MONUSCO, only the Director of Mission Support and procurement officers designated by the Department of Management have the authority to commit the United Nations. However, the task orders used in processing the 247 invoices referred to above were approved by officers who did not have the authority to enter into financial commitments on behalf of the United Nations. Furthermore, these officers performed both requisitioning and purchasing functions, which should be segregated to minimize conflict of interest situations.

Recommendation 1

(1) The MONUSCO Office of Mission Support should review and confirm the regularity of the payments estimated at \$2.8 million made to two freight forwarders and, if the payments are considered as irregular, initiate appropriate action against the concerned staff in connection with the payments.

11. *The MONUSCO Office of Mission Support accepted recommendation 1 and stated that the payments estimated at \$2.8 million were being reviewed to*

determine their legality and considering ways of regularizing them. While OIOS recognizes the steps being taken to confirm the regularity of the payments, there is also the need for the Mission to initiate appropriate action against concerned MovCon officers for discharging procurement function without authority. The related accountability of approving officers who processed invoices in the absence of valid supporting documents including purchase orders should also be clarified. Therefore, recommendation 1 remains open.

B. Short deliveries not resolved in a timely manner

12. Discrepancies between POs and the actual quantities of goods received from vendors needed to be resolved in a timely manner. Discrepancy reports shown in Table 3 as on 16 May 2011 relating to 204 goods valued at \$344,310 delivered from 1 July 2006 to 30 April 2011 had not been resolved by the Mission. Of these goods, 58 per cent were short-delivered, 18 per cent were damaged and 6 per cent were not matching with the specifications given in the POs. Ideally, the Mission should have resolved these short deliveries and discrepancies within a reasonable timeframe. However, this was not done. OIOS noted that it was already too late for the Mission to recover payments from the vendors in respect of the short deliveries and discrepancies.

Table 2: Unresolved discrepancies in MONUSCO

Year	Short deliveries	Damaged goods	Mismatch with PO	Over supplied	Not ordered	Incomplete	Amount (in US\$)
2006	23	5	2	12	1	0	25,965
2007	51	11	0	9	0	0	19,489
2008	13	7	5	1	0	1	33,761
2009	16	4	2	0	0	1	52,939
2010	3	7	4	5	3	0	121,456
2011	12	3	0	3	0	0	90,700
TOTAL	118	37	13	30	4	2	344,310

13. The Procurement Section did not implement a systematic procedure for dealing with discrepancies and short deliveries. Delays in resolving discrepancies increased the risk of financial loss, especially for goods that were paid in advance under the International Commercial Terms.

Recommendation 2

(2) The MONUSCO Office of Mission Support should implement appropriate procedures for resolving discrepancies and short deliveries in a timely manner to prevent financial loss to the Organization.

14. *The MONUSCO Office of Mission Support accepted recommendation 2 and stated that SOPs delineating the roles of the Receipt and Inspection Unit, the Finance and Procurement Sections in resolving discrepancies would be issued. Recommendation 2 remains open pending receipt of the SOP on the resolution of discrepancies and short deliveries in a timely manner.*

C. Systems contracts were not fully used

15. Paragraph 13.5(8) of the United Nations Procurement Manual provides that POs should be issued for the requested deliverable clearly referring to the systems contract and the prices contained therein. Article 20.1 of the systems contract (PD/C0043/07) provides that payment to the contractor shall be made in accordance with the terms of the contract, based on unit prices specified in Annex B. Article 20.2 provides that the unit price for the goods specified in the contract shall remain firm during the entire term of the contract.

16. There were instances where prices in the POs for medical supplies issued by MONUSCO did not match the price lists in the relevant systems contract. For example, in POs 10KIN 200679 and 10KIN 2001131, a pack of 1,000 capsules of Amoxicillin 500 milligram (mg) was priced at \$45 each while the systems contract price for a pack of 1000 Amoxicillin 500 mg was \$25. A pack of 250 tablets of paracetamol 500 mg (nevrine) was priced at \$17.50 each while the approved price for 250 tablets of paracetamol 500 mg was \$1.13. The \$85 per pack of terbinafine hydrochloride 250 mg paid by the Mission was not covered by the systems contract. Further, paid vouchers relating to POs 10KIN 200679, 10KIN-201131 and 11KIN-200501 contained 212 pharmaceutical items valued at \$272,020 of which 90 items valued at \$151,517 (56 per cent of total value of the reviewed vouchers) were not covered by the systems contract.

17. The Mission's failure to use the prices in the systems contract meant that it was not mitigating risks of overpricing and that the vendor may not be qualified to supply procured medicines.

Recommendation 3

(3) The MONUSCO Office of Mission Support should ensure that established systems contracts are used in procuring pharmaceutical items and the medicines not covered in the systems contract price lists are procured through a transparent process and in compliance with the United Nations Procurement Manual.

18. *The MONUSCO Office of Mission Support accepted recommendation 3 and stated that it was seeking further clarification from the United Nations Headquarters on the interpretation of the contract regarding vendor's noncompliance with the initial contract terms due to disparity in prices of brand and generic pharmaceutical brands.* Recommendation 3 remains open pending confirmation that clarification has been sought from Headquarters on the use of systems contract price list and assurance that the Mission has taken steps to ensure that medicines not covered in the systems contract price list are procured through competitive bidding.

D. Invoice tracking system was inadequate

19. The information system used by the Finance Section for invoice processing should be capable of generating reports for effective monitoring of the vendor

payment process. The Vendors Unit maintained a spreadsheet for recording the receipt of invoices and the actions taken on those invoices. However, the spreadsheet had significant gaps that undermined its usefulness. For example, it lacked adequate access controls, the Cashier's Office had no access to update the payment status, and it did not have a reporting capability. The lack of a proper invoice processing system hindered the monitoring of the processing activity in the Vendors Unit and contributed to loss of early payment discounts. For example, the Mission lost early payment discounts totaling \$100,000 in respect of 48 of the 91 sample invoices (52 per cent) reviewed as these had been outstanding for more than 30 days.

Recommendation 4

(4) The MONUSCO Office of Mission Support should ensure that it has an adequate tool to track and monitor the invoice payment process.

20. *The MONUSCO Office of Mission Support accepted recommendation 4 and stated that it acknowledged the need for a better tool to track the invoice payment process and would write a business case to United Nations Headquarters on the viability of establishing an electronic monitoring tool. Recommendation 4 remains open pending confirmation of the establishment of a tool for tracking and monitoring the invoice payment process.*

V. ACKNOWLEDGEMENT

21. We wish to express our appreciation to the Management and staff of MONUSCO 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 MONUSCO Office of Mission Support should review and confirm the regularity of the payments estimated at \$2.8 million made to two freight forwarders and, if the payments are considered as irregular, initiate appropriate action against the concerned staff in connection with the payments.	Compliance	Medium	O	While OIOS recognizes the steps being taken to confirm the regularity of the payments, there is also the need for the Mission to initiate appropriate action against concerned MovCon officers for discharging procurement function without authority. The related accountability of approving officers who processed invoices in the absence of valid contracts should also be clarified. Therefore, this recommendation remains open.	1 April 2011
2	The MONUSCO Office of Mission Support should implement appropriate procedures for resolving discrepancies and short deliveries in a timely manner to prevent financial loss to the Organization.	Financial	Medium	O	Receipt of the SOP on the resolution of discrepancies and short deliveries in a timely manner.	31 March 2011
3	The MONUSCO Office of Mission Support should ensure that established systems contracts are used in procuring pharmaceutical items and the medicines not covered in the systems contract price lists are procured through a transparent process and in compliance with the United Nations Procurement Manual.	Financial	Medium	O	Confirmation of the establishment of a tool for tracking and monitoring the invoice payment process.	31 March 2011
4	The MONUSCO Office of Mission Support should ensure that it has an adequate tool to track and monitor the invoice payment process.	Operational	Medium	O	Establishment of a tool for tracking and monitoring the invoice payment process.	31 July 2011

1. C = closed, O = open

2. Date provided by MONUSCO in response to recommendations.

