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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. Nicolas Von Ruben,
A: Director Mission Support,
United Nations Mission in Sudan

DATE: 20 October 2011

REFERENCE: IAD: 11-00635

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

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SUBJECT: **Assignment No. AP2011/632/02 – Audit of contracts management in UNMIS**

OBJET:

Overall results relating to the effective management of contracts by UNMIS Contracts Management Section 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 annually.
3. 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.
4. We wish to express our appreciation to the Management and staff of UNMIS for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Md Abdul Wahab OIC, Chief Administrative Services, UNMIS
Mr. Andrew Robertson, Chief General Services Section, UNMIS
Mr. Ebenezer Aryee, Chief Contracts Management Unit, UNMIS
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, Department of Field Support
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Ms. Eleanor T. Burns, Chief, Peacekeeping Audit Service, OIOS
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AUDIT REPORT

Audit of contracts management in UNMIS

BACKGROUND

The Contracts Management Section (CMS) of the United Nations Mission in Sudan (UNMIS) is responsible to oversee and manage some of the Mission's contracts, and has 14 staff members. As at 14 February 2011, the CMS managed 10 contracts valued at \$19.8 million.

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

OBJECTIVE AND SCOPE

The audit was conducted to assess the adequacy and effectiveness of risk management, control and governance processes in UNMIS in providing reasonable assurance regarding the effective management of contracts by CMS. The key control tested for the audit included that related to regulatory framework. The audit covered the period from 1 July 2009 to 31 December 2010.

AUDIT RESULTS

In the opinion of OIOS, risk management, control and governance processes examined were **partially satisfactory** to provide reasonable assurance regarding the effective management of contracts by CMS. UNMIS had established relevant standard operating procedures for contracts management in line with the United Nations Procurement Manual. Contracts were prepared using standard templates and contained required provisions. There were adequate procedures in place to ensure that contractors were paid only for services rendered. However, there was a need to resolve disputes with contractors over utility charges imposed by UNMIS, and to ensure that contracts were closed-out in a timely manner.

Contract development

A review of four of 10 contracts managed by CMS showed that they contained all the standard contract provisions, and when clarification / modification to the standard contract template was required, the CMS sought guidance from the Mission's Legal Officer to ensure that the interests of UNMIS were adequately protected.

Payments to contractors

Procedures in place were adequate and implemented effectively to ensure contractors were paid only for services rendered.

Coordination between Contracts Management Section and the General Services Section

UNMIS had established standard operating procedures for contracts management that clearly delineated the responsibilities of CMS as well as service-user sections and units. However, coordination between CMS and the General Services Section, that was using nine of the 10 contracts managed by CMS, was not formalized or effective. *UNMIS acknowledged that there was ineffective coordination between CMS and GSS, and that there was a need to streamline the information flow and work processes.* As the Mission was going into liquidation, no recommendation was made.

Cost recovery of utilities provided to contractors

UNMIS did not install in all locations utility meters to measure contractors' use of water and electricity provided by UNMIS. Consequently, the estimated costs raised by UNMIS were in many instances disputed by contractors. At the time of the audit, bills to contractors totaling \$309,620 were in dispute.

(1) UNMIS should settle disputes and recover cost of utilities provided to contractors prior to the end of the liquidation period.

UNMIS accepted recommendation 1 and stated that processes were underway to recover outstanding amounts. The status of implementation of recommendation 1 will be reviewed as part of liquidation audits of UNMIS to be conducted by OIOS.

Contract close-out procedures

Although the Mission had in place policies and procedures to close-out contracts, these were not consistently adhered to, as some contracts had not been closed-out by the 60-day prescribed deadline.

(2) UNMIS should resolve all outstanding issues and close-out contracts before completion of the liquidation of UNMIS.

UNMIS accepted recommendation 2 and stated that all close-out issues are being addressed by the General Services Section as contracts come up for closure. The status of implementation of recommendation 2 will be reviewed as part of liquidation audits of UNMIS to be conducted by OIOS.

ACKNOWLEDGEMENT

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

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AUDIT RESULTS

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contracts management in the United Nations Mission in Sudan (UNMIS).

II. AUDIT OBJECTIVE

2. The audit was conducted to assess the adequacy and effectiveness of risk management, control and governance processes in UNMIS in providing reasonable assurance regarding the effective management of contracts by the Contracts Management Section (CMS). The key control tested for the audit included that related to regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls designed to provide reasonable assurance that organizational structures, policies and operational procedures exist to guide contract management operations, and are implemented effectively.

III. AUDIT SCOPE AND METHODOLOGY

3. OIOS conducted this audit from February to May 2011. OIOS covered contract management activities in UNMIS for the period from 1 July 2009 to 31 December 2010, and included 10 major contracts valued at \$19.8 million that were managed by CMS. The audit did not include fuel and rations contracts, as they had been reviewed in other audits conducted by OIOS, nor other UNMIS contracts managed by the respective Self-accounting Units (SAUs).

4. To gain a general understanding of the processes of CMS, OIOS interviewed staff in CMS, the General Services Section (GSS) and the Procurement Section. OIOS reviewed the draft Departments of Peacekeeping Operations and Field Support (DPKO/DFS) Contract Management Guidelines for Peacekeeping Operations, the United Nations Procurement Manual and the Mission-specific standard operating procedures (SOPs) for CMS. Field visits were made to Juba to review contracts managed by CMS in Juba. An activity-level risk assessment was conducted to identify and evaluate specific risk exposures, and to determine whether controls existed to mitigate such risks.

5. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of written policies and procedures, and determined whether controls existed to mitigate such risks.

IV. OVERALL ASSESSMENT

6. In the opinion of OIOS, risk management, control and governance processes of UNMIS were **partially satisfactory** to provide reasonable assurance regarding the management of contracts by CMS. UNMIS had established relevant standard operating procedures for contracts management in line with the United Nations Procurement Manual. Contracts were prepared using standard templates and contained the required provisions. There were adequate procedures in place to ensure that contractors were paid only for services rendered. However, there was a need to resolve disputes with contractors over utility charges imposed by UNMIS, and to ensure that contracts were closed-out in a timely manner.

V. AUDIT RESULTS

A. Regulatory framework

Standard provisions were included in contracts

7. The United Nations Procurement Manual states that a contract may be customized or standard, and that all contracts must have certain standard/specific provisions and annexes. A review of four of the 10 contracts managed by CMS showed that they contained the standard provisions including: (a) description of responsibilities of all parties to the contracts; (b) reporting requirements; (c) performance security and additional insurance requirements; and (d) notice provisions. The Mission used standard templates and, in one contract where clarification/modification was required, the Mission's Legal Officer was consulted to ensure that UNMIS was not unduly exposed and its interests were protected.

Coordination of contracts management functions needed improvement

8. UNMIS had established relevant SOPs for contracts management that were in line with the United Nations Procurement Manual. The SOPs included the duties and responsibilities of CMS as well as the service-user departments.

9. For CMS to perform its functions effectively, there was need for close coordination with the responsible SAU. GSS was using nine of the 10 contracts managed by CMS. While there was a clear reporting structure in place, and both CMS and GSS reported to the Chief of Administrative Services, coordination between CMS and GSS was not formalized and effective, as shown below:

- Contract close-out should be initiated by the contract administrator, i.e., GSS, and facilitated by CMS. Three of the 10 contracts reviewed were not closed-out because GSS had not initiated the relevant action nor involved CMS in the close-out process.
- CMS was required to moderate/mediate routine and emergency contractor performance meetings to encourage constructive exchange of views between the contractor and end-users. A review of 10 monthly performance meetings arranged by GSS showed that CMS was not in attendance.
- Certifying Officers in SAUs were required to verify invoices and forward them to CMS for review and onward submission to the Finance Section. The purpose of this control was to ensure that all contractual issues were addressed. However, GSS forwarded invoices directly to the Finance Section and only copied CMS for information. Between May 2009 and February 2010, 13 copies of invoices reviewed by CMS noted \$63,593 overstatements by contractors. They were corrected prior to payment.
- CMS was required to develop and implement a quality assurance plan to evaluate the administration of service contracts. These procedures would include unannounced appraisals and random checks to assess the operational effectiveness of the contractor, as well as that of the UNMIS contract administrator. GSS was also required to develop a quality assurance plan to evaluate the performance of contractors. These quality reviews were not adequately coordinated resulting in overlaps and gaps in the process.

10. *UNMIS acknowledged that there was ineffective coordination between CMS and GSS, and that there was a need to streamline the information flow and work processes.* As the Mission was going into liquidation, no recommendation was made.

Payments to contractors were adequately checked and conformed to services received

11. The Mission had adequate procedures in place to verify the accuracy of payments made to contractors, i.e., they were only paid for services rendered. The process included service certification reports being prepared by service users to confirm receipt of goods or services. A review of 15 payments processed by the Finance Section confirmed that service certification reports together with invoices and other supporting documents were certified by the certifying officer and approved by designated approving officers. The Controller had approved the Mission's panels of certifying and approving officers. For seven of the 10 contracts reviewed, payments to contractors were made after SAUs verified services received. The remaining three contracts were zero-dollar value contracts and therefore, no payments were made to the contractor.

Cost of utilities provided to contractors were not recovered

12. Contractors were required to reimburse UNMIS for water and electricity costs at the rate of \$2.52 per cubic meter for water and \$0.25 per kilowatt for electricity. However, the Mission had not installed meters in all locations and facilities to calculate usage. Therefore, there was no sound basis for recovery of associated costs. Instead, the Engineering Section estimated contractors' consumption, which sometimes resulted in disputes and loss of revenue. At the time of the audit, the estimated amount disputed totaled \$309,620, which included:

- Contractor A disputed claims for \$57,247, representing the estimated utility consumption for the period April 2008 to June 2010 in Juba, Kadguli and Malakal. Following the dispute, the Chief of GSS conceded and agreed with the contractor to recover 50 per cent of the estimated amount. The justification to accept 50 per cent was not documented.
- Contractor B paid its utility bill of \$72,110 for the period from November 2007 to February 2010 for its facilities in Juba where meters were installed in the duty-free shop, but did not pay the estimated \$59,736 related to Khartoum.
- The catering contractor in Ed-Damazin and Kurmuk disputed estimated utility bills totaling \$14,527 for the period from August 2008 to March 2010, as meters had not been installed during this period.
- Contractor C disputed an estimated utility charge of \$178,110 for the provision of catering services at the Mission's headquarters between February 2008 and October 2010. Negotiations regarding the charge were still ongoing.

Recommendation 1

(1) UNMIS should settle disputes and recover cost of utilities provided to contractors prior to the end of the liquidation period.

13. *UNMIS stated that the process of recovery is underway.* The status of implementation of recommendation 1 will be reviewed as part of liquidation audits of UNMIS to be conducted by OIOS.

Inadequate oversight of the duty-free commissaries

14. In accordance with article 8 of the duty-free commissaries (PX) contract for the year 2010, the Contractor declared sales totaling \$2,812,465, of which \$56,249 (2 per cent) was remitted to the staff welfare fund. OIOS reviewed relevant sales records for the year 2010 and concluded that all amounts declared by the Contractor were paid to the staff welfare fund. However, contrary to the requirement of the contract, the Mission did not independently verify the revenue to ensure its completeness and accuracy.

15. The Mission did not carry out a review of percentage margins on goods sold in the PX. Out of 15 items tested by OIOS, the PX Contractor had marked-up the price by more than 100 per cent on nine items. In addition, a survey of prices of commonly used items in the PX was not carried out by the Mission to determine whether goods were competitively priced. OIOS surveyed 14 commonly used items and identified that they were considerably cheaper in the local market, with differences ranging from 10 to 60 per cent. As the Mission is going into liquidation, no recommendation was made.

Procedures for closing-out contracts were not consistently applied

16. The Mission had in place policies and procedures for the close-out of contracts. Each contract should be closed-out within 60 days after its completion and before the time stipulated for the return of the performance bond to the contractor. At the end of the contract, a close-out report detailing lessons learned and identification and dissemination of best practices should be forwarded to United Nations Headquarters. The United Nations Procurement Manual states that contracts may not be closed-out if any dispute between the parties remains outstanding. The SAUs, assisted by the CMS, should develop a contract close-out plan.

17. A review of contract close-out procedures identified that three of the four contracts that had ended had not been closed although the 60-day period had passed as follows:

- A camp support services contract that expired in November 2009.
- A catering contract that expired in June 2010,
- A contractor providing goods for the staff commissary that expired in February 2010. This contract also had outstanding issues including: (a) reimbursement of \$26,291 from damage to UNMIS premises due to a fire in the shop premises; and (b) an outstanding electricity bill of \$59,736.

18. Contracts were not formally closed as GSS had not initiated the close-out process as mentioned in paragraph 9 above.

Recommendation 2

(2) UNMIS should resolve all outstanding issues and close-out contracts before completion of the Mission's liquidation.

19. *UNMIS accepted recommendation 2 and stated that all close-out issues are being addressed by GSS as contracts come up for closure.* The status of implementation of recommendation 2 will be reviewed as part of liquidation audits of UNMIS to be conducted by OIOS.

AUDIT RESULTS

ANNEX 1 STATUS OF AUDIT RECOMMENDATIONS Audit of contracts management in UNMIS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	UNMIS should recover costs of utilities provided to contractors prior to the end of the liquidation period.	Operational	Important (Medium)	O	Status to be reviewed during liquidation audits of UNMIS to be conducted by OIOS.	31 August 2011
2	UNMIS should resolve all outstanding issues and close-out contracts before completion of the Mission's liquidation.	Operational	Important (Medium)	O	Status to be reviewed during liquidation audits of UNMIS to be conducted by OIOS.	Not provided End of contracts

1. C = closed, O = open

2. Date provided by UNMIS in response to recommendations.