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To: Mr. Sukehiro Hasegawa,
Special Representative of the Secretary-General
UNMISSET

From: Patricia Azarias, Director
Internal Audit Division I
Office of Internal Oversight Services

A handwritten signature in cursive script that reads "P. Azarias".

Subject: **OIOS Audit No. AP2004/682/08: Procurement and administration of rations contracts in UNMISSET**

1. I am pleased to present herein our final report on the subject audit, which was conducted by the Office of the Chief Resident Auditor in the United Nations Mission of Support in East Timor (UNMISSET) during May 2004. The audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in United Nations organizations and included such tests as the auditors considered necessary.

2. Based on comments received on a draft of this report, OIOS has closed recommendations 2 and 4. Recommendations 1, 3 and 5 will remain open in OIOS' recommendations database pending further action by the Mission, as indicated below each recommendation.

3. I would like to take this opportunity to thank you and your staff for the cooperation and assistance extended to us on this assignment.

I. INTRODUCTION

4. The allocation made for rations in the Mission's budget for the year 2003-04 was \$8.2 million, of which \$6.2 million was spent as of February 2004. The troop strength for this period ranged from 3,500 in July 2003 to 2,050 in March 2004.

II. AUDIT OBJECTIVE

5. The main objective of this audit was to assess the adequacy of controls over logistics, delivery, and quality of food rations, as well as compliance with contract terms by the contractor with a view to ensuring operational efficiencies in rations management.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from July 2003 to April 2004. The methodology included scrutiny of documents and interviews with the concerned section heads. In addition, we reviewed the implementation of recommendations on OIOS' previous audit of rations, which was carried out in April 2003.

IV. OVERALL ASSESSMENT

7. OIOS' previous audit on management of rations had been conducted in April 2003 and the main finding was the absence of proper controls and feedback on the excess stock of rations accumulated with the contingents, which made it difficult for the Rations Management Cell to adjust future supply orders. The current audit noted significant improvement in the overall management of excess stock of unconsumed rations. However, there is scope for further improvement in procuring and managing the rations contract.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Excess balance of food rations

8. OIOS' previous audit (May 2003) had pointed out that some contingent units had kept excess stock of food rations without informing the Ration Management Cell (RMC). During the current audit, OIOS was pleased to note that the RMC had managed rations stocks efficiently by implementing the following measures:

- Reducing the Ceiling Man-day Rate from \$4.9 to \$4.1 effective January 2004;
- Adjusting future orders of the respective contingents against their excess stock items; and
- Recovering any excess stock for redistribution to other contingents.

9. As at 28 January 2004, according to the records of the RMC, there were excess stocks amounting to \$25,736 consisting of 72 food items. These stocks were repossessed from contingents and were in the custody of RMC. As at May 2003, some of these stocks were redistributed for consumption and the remaining items were estimated to be worth \$14,000. The Mission was in the process of re-possessing further quantities of surplus food items from districts.

Recommendation 1

OIOS recommends that in view of its downsizing with a new mandate, UNMISSET should get necessary approvals for disposal of any surplus food through other UN agencies involved in humanitarian work before expiry of its shelf life (AP2004/682/08/01).

10. *UNMISSET stated that with respect to surplus food items, there are both expired and unexpired food items. Most of the existing surplus consists of unexpired food items, and in accordance with the Mission's policy, these items will be redistributed the security forces. Expired*

food items will be destroyed. The recommendation will remain open in OIOS' database till the Mission confirms disposal of surplus food.

B. Management of combat ration packs

11. Adequate stocks of combat ration packs (CRPs) are kept and issued to contingents mainly to meet unforeseen contingencies which may disrupt normal distribution of food rations, particularly in remote locations. However, due to their limited shelf life, there is a need for all Contingent Commanders and the RMC to prepare a plan for consumption of CRPs prior to its expiry to ensure that no time-expired CRPs remain in stock. OIOS' spot check at the rations contractor's warehouse on 19 May 2004 showed that 333 units of CRPs which had expired in March 2004 were held in stock. Furthermore, in a communication dated 18 December 2003, the RMC had requested the write-off of 3,500 CRPs with shelf life up to 30 June 2004 and 550 CRPs with shelf life up to 30 March 2004, on the ground that these stocks were "in excess of UNMISSET requirements". On 9 March 2004, the Board of Survey inspected the CRPs and recommended write-off for sale as requested. These CRPs were kept in a container in the custody of RMC. These excess stocks were indicative of inadequate control on CRPs during the period 2002-03. Attached is a copy of the standing instructions on the management of CRPs issued by the United Nations Mission in Ethiopia and Eritrea (UNMEE), which could be considered by UNMISSET for implementation as a "best practice".

Recommendation 2

OIOS recommends that UNMISSET issue standing instructions to the Rations Management Cell and all contingents for preparing the consumption plan of combat ration packs before their expiry dates (AP2004/682/08/02).

12. *UNMISSET stated that it already has standard procedures for CRP management, which incorporate stock and turnover planning instructions and an associated matrix. Also, instructions were included in the UNMISSET extraction orders issued in March 2004 with the successful conclusion that no expired CRPs were returned during the extraction process from 20 May to 30 June 2004.* In view of the action taken, OIOS has closed this recommendation in its database.

C. Warehousing charges

13. For the contract period 1 March 2000 to 28 February 2002, warehousing charges were \$93,000 per month. For the subsequent contract period 1 March 2002 to 28 February 2003, UNMISSET revised the warehousing charge to \$72,000 per month. For the contract period 1 March 2003 to 30 June 2004 the warehousing cost was further reduced to \$52,000 per month. OIOS' review of paid vouchers for the period June 2003 to March 2004 showed that the reduction in the warehousing charge was not implemented. Consequently, there was an overpayment of \$169,500 to the contractor. In response to this observation, the RMC provided a draft copy of amendment No. 3 to the contract which reinstated the warehousing charge as \$69,000 per month for troop strength of below 4,969. Neither the RMC nor the Procurement Section made available to OIOS the officially

signed copy of the amendment No.3 with justification for revoking the second amendment.

Recommendation 3

OIOS recommends that UNMISSET recover the excess payment of warehousing charges amounting to \$169,500 from the rations contractor (AP2004/682/08/03).

14. *UNMISSET stated that the reduction of warehousing charges was not implemented due to Contract Amendment 3 which reinstated the warehousing charge as \$69,000 per month for troop strength below 4,969. UNMISSET received an email dated 22 January 2003 from Headquarters, New York, stating that the Procurement Division (PD) was working on the renewal and that it should be completed shortly. UNMISSET understands that negotiations with the contractor are ongoing and will seek direction from PD as to the status of Amendment 3 and the advisability of seeking reimbursement of the \$169,500. The recommendation will remain open in OIOS' database till the excess payment of warehousing charges is recovered.*

D. Monthly stock balance at contractor's warehouse

15. The contract requires the contractor to submit monthly returns showing the total quantities of food items received, issued and held in stock. This is an important control mechanism, partly to ensure that the quantities of food items imported with customs duty exemption have been fully accounted for. Prior to September 2003, the RMC used to keep a set of tax exemption certificates and the relevant supporting documents that provided details of goods imported. However, since September 2003, the RMC was keeping only a copy of the exemption certificate without the supporting documents. During OIOS' visit to the contractor's warehouse on 19 May 2004, a verification of selected items from the import documents for January 2004 showed the discrepancies summarized in Table 1.

Table 1: Comparison of quantities of ration items imported and taken into stock inventory

Item code	Item description	Quantity brought into warehouse as per import document	Quantity recorded into the stock inventory record	Stock understated in the monthly stock returns
2.01	Eggs (Unit)	64,080	44,460	19,620
4.01	Sunflower Cooking oil (liter)	1,000	0	1,000
5.02	Long life milk (liter)	7,500	511	6,989
11.01	White sugar (Kg)	1,300	438	862

There is a risk that the unaccounted rations (which were imported duty-free) could be sold in the local market without payment of customs duty. It is important for the Mission to retain complete documentation including tax exemption certificates, and also to ensure full accounting of the quantities imported by the contractor.

Recommendation 4

OIOS recommends that the UNMISSET Rations Management Cell retain a copy of import documents and periodically verify the contractor's warehouse records for full accounting of the imported stocks (AP2004/682/08/04).

16. *UNMISSET stated that a system is already in place under which the Rations Cell retains a copy of import documents. However, the system was not operative during the period of September 2003 to May 2004 due to extended staff absences and the failure of returning staff to notice the lapse. The system was reactivated in May 2004 as evidenced by Rations Cell records. The Food Inspector makes periodic inspections of the contractor's warehouse records as part of his/her duties. In view of the action taken by UNMISSET, OIOS has closed this recommendation in its database.*

E. Inspections relating to management of rations contract

17. Inspections relating to management of the rations contract include periodical inspection by RMC of unconsumed ration stocks. OIOS generally found these RMC inspections to be satisfactory. However, from March 2004, the Receiving & Inspection (R&I) Unit has been issuing R&I Reports on deliveries of food rations without formally conducting any inspection. This was apparently because of shortage of staff due to Mission downsizing. These inspection reports were being issued based on delivery dockets certified by food officers of the respective contingents. To that effect, the Chief of General Services had instructed the R&I Supervisor to conduct random checks at all delivery locations on a regular basis without prior notice. OIOS came across an incident when a contingent received contaminated wheat flour which was subsequently returned to the warehouse. This incident indicated that contingent food officers lacked the necessary experience and expertise for inspecting food items.

Recommendation 5

OIOS recommends that UNMISSET issue inspection guidelines to contingent food officers in order for the R&I Unit to rely on the inspections conducted by them (AP2004/682/08/05).

18. *UNMISSET did not accept this recommendation. The Mission stated that the goal of R&I with respect to rations is to verify the quantities and then match the delivered quantities to the invoices presented by the contractor. The basis for payment is the delivered quantities. According to the contract, defective items must be replaced by the contractor. Therefore, discovery of contaminated food after the inspection does not impact the R&I process since the quantity for invoice purposes remains the same. R&I will continue to perform spot checks based on the availability of staff. OIOS is of the view that restricting the R&I function to matching of quantities, and not training the contingent officers on rations inspections, increases the risk of not detecting instances of non-compliance by the contractor. Furthermore, the R&I Unit should not certify invoices for payment until the defective goods are replaced, or should only certify items actually received in good order. Therefore, OIOS reiterates its recommendation that UNMISSET issue inspection guidelines to*

contingent food officers in order for the R&I Unit to rely on the inspections conducted by them.

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Ms. Hazel Scott, Director, ASD/DPKO
Ms. Margaret Simon, OIC Administration, UNMISSET
UN Board of Auditors
Programme Officer, OIOS
Mr. Nawal Yadav, Chief Resident Auditor, UNMISSET