



INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jean-Marie Guehenno, Under-Secretary-General
A: Department of Peacekeeping Operations

DATE: 3 May 2005

REFERENCE: AUD-8-10:5 (2266/05)

Ms. Catherine Bertini, Under-Secretary-General
Department of Management

THROUGH:

S/C DE:

FROM: Patricia Azarias, Director
DE: Internal Audit Division I

SUBJECT:

OBJET: **OIOS Audit No. AP2004/600/11: Procurement of Goods and Services
through the Use of Letters of Assist**

1. I am pleased to present herewith our final report on the above subject, which was conducted during November-December 2004.
2. We note from your response to the draft report that the Department of Peacekeeping Operations (DPKO) has accepted recommendation number 1 and that both DPKO and the Department of Management (DM) have agreed on allowing Troop Contributing Countries (TCCs) to subcontract services to commercial enterprises, recommendation number 2. The recommendations will remain open in OIOS' recommendations database pending further actions, specified in the last sentence of the paragraph following each recommendation.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

4. In 2002, OIOS conducted an audit of procurement of goods and services through the use of letters of assist (AP2002/55/9) and raised eight recommendations for consideration and implementation by those involved in the processing of letters of assist (LOA). In November-December 2004, OIOS conducted an audit of the same process, to follow up on the status of implementation of those recommendations.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The overall objective of the audit was to follow up on the status of implementation of recommendations raised in our 2002 audit of procurement of goods and services through the use of LOA, to determine whether policies and procedures on the subject are in place, adequate and operating effectively. To this end, OIOS conducted tests to ensure that the conditions for the use of LOA, set out in Section 13.9.1 of the Procurement Manual, are met and procedures for such use, set out in Section 13.9.2 of the Procurement Manual, are complied with.

III. OVERALL ASSESSMENT

6. The audit indicated that all but one recommendation developed by OIOS in 2002 has been implemented. In OIOS' opinion, the issue of ensuring that the best interest of the UN is protected when using LOA was adequately addressed by DPKO and DM. While OIOS recognizes the efforts and ongoing initiatives on implementing our recommendations to improve the LOA process, we would like to draw management's attention to one recommendation still outstanding concerning timeliness of LOA signing and one new issue arising from this follow-up audit, which are set out in the report.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Processing of LOAs needs to be streamlined

7. Although there were no payments made against unsigned LOA, 17 LOA of the 24 samples we examined (71 percent) were signed either after the effective date of the contract or after the performance of the service has started or, in some cases, already completed. Our analysis of the timeline between the time the requisition was raised in IMIS and the time the LOA was signed by both the Permanent Mission (PM) and Logistics Support Division (LSD) indicated an average period of 104 days. We broke this down further to indicate the period where the UN is entirely in control of the process, i.e., from the time the requisition was raised in IMIS up to the time the LOA was signed by LSD or sent to the PM, which took an average of 70 days. On the other hand, it takes PM about 34 days on average to sign the LOA.

8. Further inquiry and analysis indicated that some of the reasons for the lengthy processing of LOA include:

- (i) Delay in the receipt of request for the service or goods from the Troop Contributing Countries;
- (ii) Insufficient information on the request resulting in longer processing by LSD of presentations to HCC;
- (iii) Lengthy discussions between the UN and the PM;
- (iv) Establishment of reimbursement levels.

9. In recognition of these, LSD, in consultation with Procurement Service, is undertaking a review of the whole LOA procedures to streamline and accelerate the process.

Recommendation 1

Logistics Support Division should establish a timeframe, to be used as benchmark, within which the Letter of Assist process should be completed (AP2004/600/11/01).

10. *The Department of Peacekeeping Operations accepted the recommendation and commented that LSD, in conjunction with the Office of Central Support Services, Department of Management is in the process of developing a revised procedure to streamline the processing of LOAs for short-term transport services. A benchmark of 8 weeks for completion of an LOA process is being established. OIOS will keep this recommendation open in its database until it can be confirmed that the processing of LOAs has been streamlined and completed within 8 weeks.*

B. Sub-contracting of services under LOA needs to be clarified

11. OIOS noted that some of the LOA for the provision of service for the movement of troops were sub-contracted and rendered by commercial contractors. One example was where the Assistant Secretary-General for Central Support Services (ASG-CSS) commented on a Government's use of a private airline to conduct the movement saying that if the government is using commercial aircraft, there is no basis for the LOA. The Chief of Movement Control Unit indicated that he agrees with the HCC Chairman's reply to the ASG-CSS' comment that "there is no express provision in the conditions governing the use of LOAs which prohibits this."

12. The preceding situation creates a parallel market where private companies who are in the UN PS' roster of vendors are actually contracted by the government to do the service they promised the UN under LOA. LSD pointed out that it is more beneficial for both the Organization and the TCC to procure services through LOA, regardless of whether the actual service was rendered by the Government or sub-contracted and when it is cost-neutral, because unforeseen irritants in schedules and logistical arrangements and the additional costs associated with these are shouldered by the Government and not passed on to the Organization.

13. For the common goals of fair and transparent market competition and protecting the best interest of the Organization, LSD and PS should look at the merits of their differing position on the issue and mutually agree on a policy on whether or not to allow sub-contracting services agreed upon under LOA. OIOS referred the issue to the Office of Legal Affairs, which was of the opinion that "there would not seem to be any legal or other impediment to a Government's subcontracting out transportation services arranged under LOAs."

Recommendation 2

The Department of Peacekeeping Operations and Department of Management should decide on whether to allow or not governments to sub-contract services under Letter of Assist to a private company. Accordingly, a policy should be developed expressly for that decision and set out clearly in the relevant sections of the Procurement Manual (AP2004/600/11/02).

14. *The Department of Peacekeeping Operations commented that there should not be any change in the existing practice of allowing the subcontracting of services under LOA to a private company and that, if deemed appropriate for purposes of clarity, the practice may be incorporated in the Procurement Manual. The Department of Management commented that it agrees with the Office of Legal Affairs' advice that the TCC is allowed to subcontract to commercial enterprises in view of the fact that the United Nations is only obligated to reimburse the Governments under such Letters of Assist an amount no greater than the lowest cost commercial alternative for transportation. OIOS will keep this recommendation open in its database until the practice of allowing use of sub-contractors for the procurement of goods and services under LOA has been incorporated in the Procurement Manual.*

VI. ACKNOWLEDGEMENT

15. We wish to express our appreciation to the Management and staff of LSD and PS for the assistance and cooperation extended to the auditors during this assignment.