

United Nations

INTEROFFICE MEMORANDUM



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MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Legwaila Joseph Legwaila
A: Special Representative of the Secretary-General,
UNMEE

DATE:

16 May
25 April 2005

REFERRAL:

7-5:21 91
AUD- (02/05)

THROUGH:

S/C DE:

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

P. Azarias

SUBJECT: **OIOS Audit No. AP2005/624/01: Procurement Fraud Indicators in**
OBJET: **UNMEE**

1. I am pleased to present herewith our final report on the audit of the above subject, which was conducted during the period January to March 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.

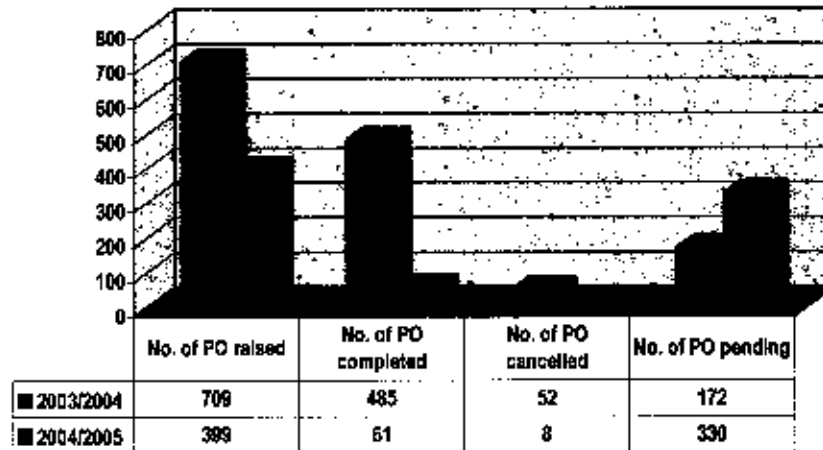
2. We note from your response to the draft report that UNMEE has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed recommendations 1, 2, and 4 in the OIOS recommendation database. Recommendation 5 has been withdrawn. In order for us to close out the remaining recommendations (recommendations 3 and 6), we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status.

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. For the period July 2003 to June 2004, UNMEE raised a total of 709 purchase orders valued at \$27.62 million. For the current fiscal year 2004/2005, in the period July to November 2004, the Mission raised 399 purchase orders valued at \$20.88 million. As at January 2005, delivery of goods and services had been completed for 546 purchase orders valued at \$23.42 million (see Figure 1).

Figure 1: Purchase Order statistics in UNMEE



5. OIOS conducted an audit of the procurement process to detect occurrences of fraud indicators to gauge the integrity of the Mission's procurement system. Generally, fraud indicators are deviations from established best practices, procedures, rules and regulations. Hence, fraud indicators by themselves do not establish the existence of fraud. Fraud, being an act of deceiving or misrepresenting, requires extensive investigation. This audit was intended to alert the Mission's management to the possibility of impropriety in the procurement system if fraud indicators existed, and for remedial actions to ensure the integrity of the procurement process.

II. AUDIT OBJECTIVES

6. The objective of this audit was to identify fraud indicators in the procurement of goods and services in the Mission.

III. AUDIT SCOPE AND METHODOLOGY

7. This audit covered procurement under delegated authority to the Mission. It did not cover procurement made under systems contracts established by Headquarters. OIOS selected 100 purchase orders and related procurement files completely fulfilled during the year 2004 comprising services and goods. These files were scrutinized for indicators of fraud under the five phases of the procurement cycle: requisition, bidding, contract award, receiving and payment. We also conducted interviews with selected requisitioners and buyers to get their personal views on the integrity of the Mission's procurement practices and procedures.

IV. OVERALL ASSESSMENT

8. In the last audit on the Mission's procurement activities reported on 6 March 2002, OIOS made recommendations pertaining to procurement planning, requisitions, registration of vendors, bid evaluation, Tender Opening Committee, Receipt and Inspection functions, invoice processing and payment. The Mission duly implemented all the audit recommendations. Overall, the management controls related to procurement procedures were well established and significant improvements were made in the procurement process. However, the current audit revealed some elements which can be characterized as fraud indicators, although they do not prove the occurrence

of fraud or the intention to defraud the Mission. These indicators are in areas pertaining to needs identification, requisitioning, buying, delivery and payment.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Purchase Order 4MEE-200433 and 5MEE 200433: Provision of medical services at Sembel Hospital

9. A Memorandum of Understanding (MOU) was signed between United Nations and the Government of Jordan for the establishment of a Level II Hospital in Asmara at a monthly reimbursement cost of \$105,360. A contract was also signed by UNMEE with Sembel Hospital (a private hospital) for the provision of certain medical services, which the Jordanian Level II Hospital was not equipped to handle. For every referral made to the Sembel Hospital by the Jordanian Level II Hospital, Sembel Hospital administration would submit invoices for services rendered, along with supporting documents such as referral letters and service charge bills signed by the patients showing a detailed breakdown of the services provided.

10. OIOS' scrutiny of a total of 163 bills amounting to \$19,000 pertaining to the period September to November 2003, February to May 2004, and September 2004 revealed the following irregularities.

Cases referred to Sembel Hospital which can be handled at level II hospital

11. The Jordanian Level II hospital is equipped with an X-ray machine to conduct X-rays of the skull, chest, abdomen, limb and long limb. OIOS found that a large number of X-ray cases were being referred to Sembel Hospital – 39 out of the 163 cases reviewed were referrals for X-rays. Of these, 38 cases had been referred in September 2004 alone. OIOS noted that the verification inspection conducted by the MOU Verification Unit on 23 September 2004 indicated that the Jordanian Level II hospital had an X-ray machine that was functioning and was processing an average of 10 X-ray cases a day. However, during an interview with the doctors at Level II hospital, they stated that the X-ray machine was out of order in September 2004 and hence these cases had been referred to Sembel. For the 39 cases involving X-rays, the Mission was charged \$3,495.

12. The Jordanian Level II hospital is also equipped to carry out diagnostic tests. However, OIOS found that in October and November 2003, basic diagnostic tests involving an expenditure of \$660 were conducted in Sembel Hospital.

Additional tests conducted without referral letter

13. In the following cases, OIOS noted that the hospital conducted more tests than what was requested for. This was done without referral letters from the Level II hospital.

Table 1: Tests conducted without referral letters

SI No.	ID No.	Date of test	Test requested for	Additional tests done
1.	MIL-4017	29.9.04	Abdominal USG	Chest X-ray
2.	MIL-21700	31.5.04	Echocardiogram	USG Abdomen
3.	MIL-23742	15.9.04	Abdominal USG	Echocardiogram

4.	MIL-19927	7.9.04	Abdominal and renal ultrasound	Chest X-ray and echocardiogram
5.	MIL-23946	6.9.04	Chest X-ray	Echocardiogram

It was the opinion of one of the doctors interviewed at Level II hospital that Sembel hospital was not authorized to conduct additional tests without referral letter from the Jordanian Level II hospital.

Rate for visits not correctly charged

14. According to the contract, the fees for first visits were \$30 and for subsequent visits \$10. However, in one case, the patient was charged \$30 even on the second visit and \$10 on the third visit (MIL 17667 date: 24.6.04, 25.6.04 and 28.6.04). The patient's signature did not match in the second service charge bill.

Different charges for the same type of tests

15. OIOS found that while a sum of \$350 was charged for MRI of the ankle in respect of one patient, \$300 was charged for the same test for another patient.

Signature of patients did not match

16. In the following cases, the signatures of the patients on the service charge bills did not match:

Table 2: Signatures of patients did not match

Sl. No	ID No.	Date of test	Type of test
1.	MIL 16274	28.11.03	Differential count
		27.11.03	Abdominal ultrasound
2.	MIL 22753	19.4.04	Abdominal ultrasound
		26.4.04	Hepatitis A Ag
		26.4.04	Abdominal ultrasound
3.	MIL 20084	3.3.04	X-ray
			Echocardiogram
4.	MIL-19144	26.9.03	Echocardiogram and ultrasound
		1.10.03	Ultrasound
5.	M-16779	5.9.03	Endoscopy
		6.10.03	USG Abdomen

17. In the following cases, OIOS found that the service charge bills bore the same signature although the patients were different. None of the cases were supported by referral letters from the Jordan Level II hospital.

Table 3: Same signatures for different patients

Sl. No.	ID No.	Date of tests	Type of test
1.	ID-18485	20.11.03	Potassium, Sodium
	ID-18332	20.11.03	Potassium, Sodium
2.	*	18.9.03	Echo and renal USG
	*	16.9.03	USG
	*	15.9.03	USG
	*	8.9.03	USG
3.	M-16779	5.9.03	Endoscope
4.	*	3.9.03	USG
5.	*	2.9.03	USG

[Note: * ID No not stated in the service charge bills]

Referral letters from doctor missing

18. The service charge bills pertaining to the period September to November 2003 did not have any referral letter from the Jordanian Level II hospital. In the absence of this, it is unclear how the Chief Medical Officer certified the bills.

Incorrect payment of bills

19. OIOS' examination of the bills for June 2004 and September 2004 showed that the total of the bills actually worked out to \$1,800 and \$6,575 respectively against which payment of \$1,925 and \$6,625 was made.

Test conducted other than the one referred for

20. In one case, the patient was referred for an abdominal ultrasound but was billed for an echocardiogram instead.

Recommendations 1, 2, and 3

OIOS recommends that UNMEE Administration ensure that:

- i. The Chief Medical Officer scrutinizes all referrals to Sembel Hospital to advise the Administration if it involves cost recovery for services covered under the MOU (AP2005/624/07/001);
- ii. Bills from Sembel Hospital are crosschecked with the referral letters issued by Level II hospital to ensure the Mission is not charged for services not requested (AP2005/624/07/002); and
- iii. Cost recovery is made in respect of X-ray services amounting to \$3,495 and diagnostic tests amounting to \$660 that were

outsourced to Sembel Hospital by the Level II Hospital (AP2005/624/07/003).

21. *UNMEE accepted recommendations 1 and 2 and implemented them immediately.* Based on the action taken by UNMEE, OIOS has closed recommendations 1 and 2.

22. *UNMEE also accepted recommendation 3 and explained that implementations will take place upon receipt of additional information from OIOS.* OIOS subsequently provided the requested information to UNMEE. Recommendation 3 remains open until recoveries are made based on the information provided.

B. PO 3MEE-200551 – Construction of septic tank platforms at 14 locations

23. For the construction of septic tank platforms at 14 locations, the Mission received bids from two local vendors. One quoted \$55,999 while the other quoted in Eritrean Nakfa, ERN1,342,361 which when converted to USD at the official bank rate of ERN 13.55 per USD was equivalent to \$99,067. Prior to submission to the Local Committee on Contracts (LCC), the Procurement Assistant concerned requested the vendor who quoted the lowest price of \$55,999 to resubmit the bid in Eritrean Nakfa. The Procurement Assistant explained to OIOS that it was a requirement by the Eritrean Central Bank that all local vendors be paid in Eritrean Nakfa. The vendor resubmitted the same bid in Eritrean Nakfa at a conversion rate of ERN17.00 per USD and explained that it was an average of the black market rate and the official bank rate. Hence, the revised offer from the lowest bidder was ERN 952,015.

24. However, in the revised Bid Abstract presented to the LCC, Procurement Section converted ERN 952,015 to \$70,259 using the official bank rate of ERN13.55 per USD and explained that it was still lower than the other vendor's offer of \$99,067. OIOS does not see the rationale for requesting the original lowest bidder to resubmit his offer in Eritrean Nakfa and accepting the black market conversion rate of ERN 17.00 per USD. The original offer of \$55,999 could have been accepted and payment effected in Eritrean Nakfa through the commercial bank at official rate of ERN 13.55 per USD, which would have resulted in savings of \$14,260. In OIOS' opinion, it was improper to allow the vendor to use black market rate for conversion, even though the final price was lower than the other bidder. The Chief Procurement Officer explained that currently, all transactions with local vendors are in Eritrean Nakfa.

Recommendation 4

OIOS recommends that UNMEE Administration reject bids that are not in compliance with ethical practices, such as the use of black market rates for currency conversion (AP2005/624/07/004).

25. *UNMEE accepted recommendation 4 and clarified that the contract in question was awarded at a time when the Central Bank of Eritrea was introducing new foreign exchange policies.* Based on explanations given by UNMEE, OIOS has closed recommendation 4.

C. PO 3MEE-200876 – Purchase of HP Toner Cartridges

26. The Receipt and Inspection (R&I) Unit reported on 14 July 2003 that only 119 units of "HP Toner Cartridge for HP Laser Jet 1200" were received and accepted although the quantity ordered

was 220. There was a short supply of 101 units valued at €4,624.79. The buyer had brought this matter to the vendor's notice in July 2003. However, the vendor insisted that the correct quantity was shipped. Furthermore, in September 2003, the vendor notified that no claim could be made from insurance because the shipment was made two and half months earlier and also that the insurance covered the shipment until UNMEE official signed for receipt of consignment at the airport. This matter was reported to Security Section for further investigation. In the investigation report dated 15 November 2003, the Chief Security Officer concluded that 101 pieces of toners expected under purchase order 3MEE-200876 did not arrive in Asmara. However, on 04 March 2004, the Claims Review Board decided that the gross weight of the shipment was a significant factor and that should have been considered by UNMEE's Security Investigation Unit (SIU) while conducting the investigation. It further recommended that UNMEE's SIU be requested to reopen this case and that they contact the vendor to obtain specific information regarding product codes and individual weights, so that comparisons are made against the Airway Bill.

27. In the second investigation report dated 29 March 2004, it was concluded that the full consignment as per the two Airway Bills arrived in Asmara in three separate consignments. The basis for this conclusion was that the weight declared in the Airway Bills totaled 2,103kg and the estimated weight of full consignment computed was 2,124.9 kg. Hence, on 15 April 2004, the Claims Review Board decided that the vendor be compensated for the 101 pieces of toner missing from their shipment in the total amount of €4,624.79.

28. OIOS' review of the related procurement files revealed the following:

- i. The vendor had insured the total consignment as weighing 1,927 kg while in the Airway Bill the weight stated was 2,103 kg. Hence, even the insurance company would have rejected this claim because of the discrepancy between the weights declared in the Airway Bill and the Insurance Certificate. The insurance company could deem the 101 units of toner as excess items for which insurance was not purchased. The vendor admitted this discrepancy and explained it as an administrative mistake.
- ii. The R&I Unit had stated that in the past there has been over/under shipments by the same vendor but the vendor claimed that it was not fair to judge their performance based on previous history. The vendor claimed that in this particular case, the exact quantity of items had been forwarded.
- iii. The basis used in the second SIU report was that the weight declared in the Airway Bills totaled 2,103kg and the estimated weight of full consignment was 2,124.9 kg, and therefore the consignments must have been received. The accepted practice in all peacekeeping missions is opening the consignment packages and counting the quantity of items in the presence of the requisitioners. The Mission ought to accept the credibility of the R&I and the requisitioners who witnessed the R&I process.
- iv. Details of items missing were reported to the vendor by the concerned Procurement Assistant on 24 July 2003, within 10 days after the R&I process. However, the vendor who purchased the insurance did not take any action to make insurance claims but kept on insisting that the items were fully supplied and must be in one of the pallets. The reason for

not making the insurance claim could be the discrepancy in the weight of consignment between that stated in the Insurance Certificate and the Airway Bills.

- v. In an email of 29 September 2003 to the Procurement Assistant, the vendor claimed that "this insurance covered the shipment until the UNMEE official signed for receipt of it at the airport. After that point the risks pass to UNMEE". However, in the purchase order, UNMEE had stated the terms of referral that "UNMEE shall have a reasonable time after delivery to inspect the goods...". It has never been a practice for UNMEE to do an R&I at the airport before signing acceptance of the consignment. The Mission's clearing agent stated that they did not have cause to complain about any defect, and they do not open any packages. Furthermore, customs officials do not open all goods meant for UNMEE.

29. In OIOS' opinion, it is not fair for the Mission to accept the vendor's contention that after receipt of consignments at the airport, the risk passed on to UNMEE prior to the conduct of R&I. The very function of R&I is to verify that the quantity of items received are in accordance with the quantity ordered.

Recommendation 5

OIOS recommends that UNMEE Administration revise the purchase order form to stipulate that the Mission shall have a reasonable time after delivery to inspect the accuracy of quantity and specifications of goods, and that acknowledging receipt of the consignment at the airport does not amount to confirmation of correct receipt of quantities (AP2005/624/07/005).

30. UNMEE did not accept recommendation 5, stating that it would increase freight charges to the Mission and it would mean purchasing goods on a DDU basis whereby the vendor is the owner of the goods until the consignment is received at the Mission's warehouse. Based on the explanation provided by UNMEE, OIOS has withdrawn recommendation 5.

D. Analysis of calls made to successful vendors prior to closing date of bids

31. OIOS scrutinized the telephone calls made by all the procurement assistants and clerks for the months of October to December 2004 to ascertain the frequency of calls made to successful vendors prior to the closing dates of the bids in which they participated. The scrutiny detected four cases of calls made to successful bidders prior to the closing date of bids, as shown in Table 5. Even though it was explained that these calls were made without any breach of procurement rules, it raises certain doubts about the transparency of the bidding process.

Table 5: Calls made to successful bidders prior to closing date of bids

ITB No.	ITB Closing date	Number of calls made to the successful vendor prior to closing date of bid	Dates the calls were made
ITB5 300022	22/11/2004	3	05/11/2004, 22/11/2004 (twice)
ITB5 300027	21/12/2004	3	08/12/2004 (thrice)

ITB5 300017	26/10/2004	2	20/10/2004, 21/10/2004
RFQ 300208	07/12/2004	9	22/11/2004, 23/11/2004, 26/11/2004 (4 times), 30/11/2004, 02/12/2004 and 03/12/2004

Recommendation 6

OIOS recommends that UNMEE Administration ensure, as a matter of policy, that all procurement assistants and clerks refrain from calling participating vendors after bids have been floated until the closing date. Any information to be disseminated must be by correspondence, and the same information should be transmitted to all the vendors invited to bid (AP2005/624/07/006).

32. *UNMEE did not accept recommendation 6, stating that during the evaluation of offers, some additional clarifications are required due to omissions or vagueness in the offers. It is often easier and less time consuming to formulate the questions orally rather than in writing.* OIOS made this recommendation to prevent procurement assistants and clerks from initiating telephone communication to participating bidders during the bidding period. This is a crucial period where the participating bidders solicit extra information to outbid their competitors. Best practices in procurement prevent telephonic communication with bidders during the bidding period, and it has been recognized as a fraud indicator. OIOS reiterates recommendation 6, which will remain open until it is implemented by UNMEE.

VI. ACKNOWLEDGEMENT

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

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
 Ms. Hazel Scott, Director, ASD/DPKO
 UN Board of Auditors
 Mr. Vitali Petrounev, CAO, UNMEE
 Mr. Prances Sooya, Chief Resident Auditor, UNMEE