

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I  
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Ms. Carolyn McAskie  
A: Special Representative of the Secretary-General  
ONUB

DATE: 30 November 2005

REFERENCE: AUD-7-5.75 <sup>00271</sup>/<sub>05</sub>

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

*P. Azarias*

SUBJECT: **OIOS Audit No. AP2005/648/05: Procurement: Management of major contracts in**  
OBJET: **ONUB**

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during the period February to June 2005.
2. We note from your response to the draft report that ONUB has generally accepted the recommendations. Based on your response, we have closed recommendations 1, 12 and 16 in the OIOS recommendations database. Recommendations 5 and 17 have been withdrawn. In order to close recommendations (i.e., 2, 3, 4, 6, 7, 8, 9, 10, 11, 13, 14, 15, 18, 19 and 20), we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. OIOS is reiterating recommendations 4 and 14, and requests that you reconsider your initial response concerning these recommendations. Please note that OIOS will report on the progress made in implementing its recommendations, particularly those designated as critical (i.e. recommendations 4, 7, 9, 10, 11, 13, 14, 18 and 20) in its annual report to the General Assembly and semi-annual report to the Secretary-General.
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.
4. I take this opportunity to thank the Management and staff of ONUB for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations  
Ms. Donna-Marie C.-Maxfield, OIC, ASD/DPKO  
Mr. Karsten Herrel, Chief Administrative Officer ONUB  
UN Board of Auditors  
Programme Officer, OIOS  
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# Office of Internal Oversight Services

## Internal Audit Division I



### **Procurement – Management of major contracts in ONUB**

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**Audit no:** AP2005/648/05  
**Report date:** 30 November 2005  
**Audit team:** Muriette Lawrence-Hume, Auditor-in-Charge

## **EXECUTIVE SUMMARY**

### **Procurement – Management of major contracts in ONUB(AP2005/648/05)**

OIOS conducted an audit of the management of major contracts in United Nations Operation in Burundi (ONUB) between February and June 2005. The main objectives of the audit were to review the effectiveness of the procedures for: (i) awarding major contracts; (ii) ensuring compliance with contract terms; and (iii) administering major contracts including amendments to contracts, vendor performance and close-out of contracts.

ONUB commenced operations in June 2004 and the audit covered major contracts initiated from start up of the Mission to 18 February 2005. Major contracts were defined as those with a total purchase price of \$150,000 and above. Twenty eight contracts amounting to \$ 16,514,671 were reviewed representing 65% of the purchase orders raised during the period. Vendors were from ten countries including three from Burundi. The report considers major contracts in three categories: rations contract, fuel contract and other major contracts.

The Rations Cell in Supply Section is responsible for the day to day administration of the rations contract. The audit found that the rations contractor has not fully mobilized eleven months after commencement of the contract. Receipt and inspection procedures still need to be streamlined, and monitoring of stock reserves increased to ensure prompt action in the likelihood of shortages of essential items. Procedures for confirming that monthly invoices are within the ceiling man-day rate allowed and reconciling details of shipping documents with deliveries to the Mission should be introduced and follow up action taken where items imported under duty free concessions are not ultimately delivered to ONUB.

The Fuel Cell in Supply Section administers the fuel contract. Major findings from the audit relate to inadequate monitoring of amounts utilized under the contract leading to the Mission obtaining products and services in excess of the not-to-exceed amount of the contract of approximately \$716,183 by the end of February 2005 and by \$239,925 by the end of May 2005. Obtaining goods and services without the advice and approval of the appropriate authorities could lead to staff being held personally accountable and financially liable for authorizing “ex post facto” procurement actions. Current holdings of reserve stock in some locations including Bujumbura are insufficient to allow the Mission’s operations to proceed undisrupted in the event of fuel shortages in the country. Several instances of non-compliance with contract terms were noted including the contractor not having provided a performance bond.

With regards to other major contracts, a number of partial “ex post facto” cases were submitted to the Local Committee on Contracts for advice and in one instance, the recommendation of the Headquarters Committee on Contracts was not sought for a series of purchase orders amounting to \$381,471. Other shortcomings were evident in the lack of a procurement acquisition plan, a tracking system to ensure goods are delivered at the agreed destination by the due dates and a procedure to evaluate the performance of vendors. Nevertheless, the Section has made commendable progress in setting up structures to fulfill its immediate requirements.

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## I. INTRODUCTION

1. OIOS conducted an audit of the management of major contracts by the United Nations Operation in Burundi (ONUB) between February and June 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.
2. ONUB started operations on 1 June 2004 and had a gross budget for the period 1 July 2004 to 30 June 2005 of \$ 329,714,400 and human resources deployment of 5,770 military and police personnel and 998 civilian personnel. The Mission's resources are to be used to undertake activities in Burundi in the political process; security sector reform; security environment; human rights and humanitarian assistance; and support component.
3. The primary responsibility for the management of contracts rests with the Procurement Section in addition to its responsibility for the local and international procurement of goods and services for the Mission; development of procurement sources; maintenance of a roster of vendors; and conducting market surveys. Due to the size and complexity of the fuel and rations contracts, the day to day administration of these contracts is handled by the Fuel and Rations Cells in the Supply Section.
4. The audit reviewed contracts initiated between 1 July 2004 and 18 February 2005. During the period under review, 325 purchase orders with a total value of \$ 25,275,038 were raised and approved.

**Table 1: Analysis of approved purchase orders to 18 February 2005**

Category	Amount US \$
Rations - Military Contingents	9,226,314
Acquisition of Communications Equipment	3,041,909
Maintenance Supplies – Facilities & Infrastructure	1,737,096
Rental of Premises	1,437,527
Petrol, Oil, Lubricants - Ground transport	893,890
Acquisition of IT Equipment	869,588
Spare Parts for Communications Equipment	714,931
Petrol, Oil, Lubricants - Facilities & Infrastructure	673,559
Construction Services- Facilities & Infrastructure	636,734
Maintenance Supplies- Facilities & Infrastructure	623,693
Other categories	5,419,797
	<b>25,275,038</b>

5. For the purposes of this assignment, major contracts are defined as those with a total purchase price of \$150,000 and above. Procurements meeting this criterion for the period are analyzed in Table 2.

**Table 2: Analysis of individual contracts greater than \$150,000**

Category	Total contracts greater than \$150,000 each \$	No. of orders	Total approved contracts in period \$	% of total contracts
Maintenance Supplies - Facilities & Infrastructure	317,990	2	1,737,096	18%
Construction Services - Facilities & Infrastructure	168,000	1	636,734	26%
Other Utilities - Facilities & Infrastructure	291,600	1	291,600	100%
Petrol, Oil, Lubricants - Facilities & Infrastructure	450,000	1	673,559	67%
Rental of Office Equipment	168,515	1	183,326	92%
Other Freight & Related Costs	390,000	2	475,000	82%
Acquisition of Office Furniture	336,159	1	403,119	83%
Acquisition of IT Equipment	869,588	2	869,588	100%
Acquisition of Communications Equipment	2,263,028	5	3,049,364	74%
Acquisition of Field Defence Supplies	203,700	1	203,700	100%
Acquisition of Fuel Tank and Pumps	226,108	1	439,745	51%
Acquisition of Generators	167,009	1	167,009	100%
Spare Parts for Communications Equip.	418,912	2	714,931	59%
Petrol, Oil, Lubricants - Ground transport	811,824	2	893,890	91%
Rations - Military Contingents	9,183,714	4	9,226,314	99%
Rations - Other	248,530	1	248,530	100%
Other categories			5,061,533	
	<b>16,514,676</b>	<b>28</b>	<b>25,275,038</b>	<b>65%</b>

6. The contracts form 65% of the total purchase orders issued during the period. They were issued to twenty vendors from ten countries including three from Burundi.

7. The comments made by the Management of ONUB on the draft audit report have been included in the report as appropriate and are shown in italics.

## II. AUDIT OBJECTIVES

8. The major objectives of the audit are to review the effectiveness of the procedures for:
- i. awarding major contracts;
  - ii. ensuring compliance with contract terms; and



iii. administering major contracts including:

- amendments to contracts
- vendor performance evaluation
- close-out of contracts.

### **III. AUDIT SCOPE AND METHODOLOGY**

9. The audit involved the review and extraction of information from the Mercury database; documentation leading to the award of contracts; various contractual instruments used; and purchase order and correspondence files maintained for each vendor. Personnel in Procurement Section, and Rations and Fuel Cells in Supply Section were interviewed.

### **IV. OVERALL ASSESSMENT**

10. Procurement Section has been under considerable pressure to satisfy the Mission's requirements for the acquisition of goods and services. Their activities have been hampered by slow staff recruitment, evolving Mission requirements and long lead times due to Burundi being a landlocked country with several national boundaries to the nearest seaport. Nevertheless, the Section has made commendable progress in setting up structures to fulfill its immediate functions. However, serious violations of procurement rules were noted in the monitoring of the fuel contract leading to the not-to-exceed amount being significantly exceeded and necessitating the presentation for "ex post facto" cases for regularization; performance evaluation of vendors not being conducted and lack of acquisition planning. Procedures need to be put in place to address these issues and avoid the possibility of staff being held personally accountable for non-compliance with UN rules. A good working relationship has been established with the fuel contractor who has accommodated ONUB's various requests for services not covered by the original short term contract under which the Mission has been operating. A number of difficulties encountered with the rations contract have been resolved, but the contractor is yet to complete mobilization and build up the reserve stock.

### **V. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. Rations contract**

##### Background

11. The UN entered into a contract with Eurest Support Services International (ESS) in March 2004 for the provision of food rations to ONUB from 1 July 2004 to 30 June 2006 at a not-to-exceed (NTE) amount of US\$44,455,380 with three annual options to renew. The contract is managed by the ONUB Rations Cell which is part of the Supply Section.

12. The Officer in Charge (OIC) of the Rations Cell holds monthly performance meetings with the contractor immediately after each delivery period. A review of the minutes indicates that a lot of the initial problems that had been encountered by ESS have been resolved. Due to the contractor's inability to make deliveries based on a 42-day order cycle as provided for in the contract, requisitions are now placed 60 days in advance of the expected delivery. Procedures are also in place for proposed substitutions of items ordered to be approved by the Rations Cell, prior to them being affected.

13. Eleven months after the commencement of the contract, major components of the mobilization are yet to be fulfilled as the construction of the cold room is still in progress and a second reefer truck has not yet been obtained. Consequently, frozen foods are transported in the same truck as fresh fruit and vegetables (FFV) which is not in compliance with the guidelines for handling of food items. The contract required mobilization to have been completed within sixty days of the commencement of the contract. The cold room is now scheduled for completion in August 2005.

#### **Recommendation 1**

ONUB Administration should formally notify the rations contractor of the requirement to fulfill all aspects of mobilization of the contract failing which penalties contained in the contract may be invoked (AP2005/648/05/01).

14. *ONUB accepted recommendation 1 and stated that the contractor acknowledged non-compliance with the required mobilization and has submitted a proposal to reduce the contract mobilization cost by \$20,000. Such proposal will be conveyed to the Procurement Service at Headquarters, New York for comments and/or approval. Based on the Mission's response, recommendation 1 has been closed.*

#### Receipt and inspection

15. Contingents place requisitions for 28 days supply of food rations with the Rations Cell, where they are checked, consolidated and forwarded to the contractor. Rations are delivered to/collected by the contingents weekly, a representative of which signs the delivery notes to indicate receipt. Until June 2005, the receipt and inspection portion of the delivery notes was completed by the OIC Rations Cell while checking the monthly invoices. With effect from July 2005, the Receiving and Inspection (R&I) unit has permanently assigned two national staff to the contractor's warehouses to perform receipt and inspection of pallets packaged for delivery to contingents. An international staff oversees the function. The personnel are relatively inexperienced and detailed guidelines for this function are yet to be established.

16. The Rations Cell has no quality assurance personnel to check the appropriateness of the conditions under which food items are stored and the quality of food delivered. Poor quality deliveries may not be identified timely for corrective action to be taken.

#### **Recommendation 2**

ONUB Administration should ensure guidelines for receipt and inspection of rations delivery are compiled as soon as possible. They should include procedures for the reconciliation of weekly deliveries with monthly requisitions placed by the contingents and surprise receipt and inspection procedures conducted at contingents' locations periodically (AP2005/648/05/02).

17. *ONUB accepted recommendation 2 and stated that it shall formulate guidelines for receipt and inspection of rations delivery as well as the implementation of the conduct of periodic surprise inspections at contingent locations. Furthermore, ONUB stated that it shall establish procedures*



and implement reconciliations of weekly deliveries with monthly requisitions. Recommendation 2 remains open pending receipt of a copy of these guidelines and written procedures from ONUB.

Ceiling man-day rate (CMR)

18. The contract with ESS provides for a CMR of \$ 4.844 based on the Basis of Provision (BOP) Scale A for non-western dietary requirements. The CMR can be adjusted based on a sliding scale chart for changes in the number of troops in the Mission area, and the number of troops in a particular contingent.

19. OIOS performed reasonableness checks on invoices received from the contractor to determine whether the charge per troop was within the CMR allowed taking into account the various adjustments required in respect of troop numbers. OIOS observed instances where the CMR computed from monthly invoices for some contingents was in excess of the amount allowable. However, the monthly CMR for all troops in the mission area was within the limit allowed.

20. The OIC, Rations Cell explained that the August and September 2004 requisitions were not based on a detailed computation of the CMR. Other differences were attributable to the allowance given to the rations contractor to supply food items of up to 3% more than the quantities ordered to account for differences between quantities ordered and packaging sizes. However, there are no procedures to confirm that monthly invoices are within the CMR or that any variations in quantities delivered do not exceed the 3% allowance.

**Recommendation 3**

ONUB Administration should introduce procedures to extend the checks on invoices to include a recomputation of the effective ceiling man-day rate indicated by the invoices to ensure they do not exceed the authorized ceiling man-day rate or the 3% allowance for package sizes (AP2005/648/05/03).

21. *ONUB accepted recommendation 3.* This recommendation remains open pending confirmation that procedures have been implemented to re-compute the effective ceiling man-day rate on invoices and check that it does not exceed the authorized rate or 3 percent allowance.

Rations reserve stock

22. The contractor is required under the contract to maintain a minimum of 14 days reserve stock of frozen, chilled and dry food and 7 days reserve of FFV stock. ESS has been unable to meet this requirement and only holds half a day's supply of FFV. A review of stock balances as at 30 May 2005 revealed shortages in the reserve holding of critical items as shown in the following table.

**Table 3: Shortfalls in critical rations stock balances as at 31 May 2005**

Code	Description	Current Stock	UN Reserve Stock Requirement	Shortfall in UN Stock Requirement
1.090	Beef Steak	-	4,430	(4,430)
1.350	Goat Bone-In, Frozen	792	2,848	(2,056)

Code	Description	Current Stock	UN Reserve Stock Requirement	Shortfall in UN Stock Requirement
1.540	Curried Fish, Canned	2,140	2,215	(75)
1.580	Corned Beef, Canned	1,909	2,215	(306)
3.150	Crackers	3,544	7,594	(4,050)
3.200	Whole wheat Flour	10,980	11,392	(412)
7.010	Coffee Ground	504	1,551	(1,047)
8.140	Mustard, English, Prepared	85	380	(295)
9.040	Fruit Cocktail, Canned	3,744	7,595	(3,851)
9.070	Pineapple, Canned	4,240	7,595	(3,355)
13.380	Beans In Tomato Sauce, Canned	3,734	3,797	(63)
13.430	Carrots, Canned	1,715	5,696	(3,981)
13.510	Tomato Paste, Canned	4,664	5,696	(1,032)
16.040	Pudding Mix – Chocolate	861	2,215	(1,354)
17.020	Potato Powder, Mash	-	633	(633)
17.030	Potatoes, Canned	2,231	12,658	(10,427)
18.100	Soup Condensed	93	759	(666)
19.230	Ginger Fresh	2	3	(1)
19.530	Vinegar	100	492	(392)

23. In January/February 2005, ESS experienced an acute shortage of milk leading to milk not being available for delivery for approximately three weeks. When stocks arrived, these were back delivered to contingents at a total cost of \$14,800.

24. OIOS is of the view that in spite of the fact of milk being an entitlement of the troops, a back delivery of three weeks supply could lead to excess holdings of the product and its possible misuse.

25. The OIC Rations Cell attributed the stock out problems to long lead times due to congestion at the Dar es Salaam port and the main suppliers of a significant number of products being in the European Union, Middle and Far East. Further, the contractor did not meet the undertaking given to expedite the supply of milk.

#### **Recommendations 4 and 5**

ONUB Administration should:

i. Regularly monitor stock balances held by the rations contractor to ensure the required reserves are on hand, and timely alternative arrangements made in the likelihood of shortages to prevent prolonged non-delivery of essential items. Consideration should be given to allowing the contractor only one week to make good any shortfalls in delivery after which the items should be obtained from other sources and the contractor charged for any adverse price differences (AP2005/648/05/04); and

ii. Continue to put pressure on the rations contractor to pursue options of reducing lead times on filling requisitions including

increasing the number of supplies it sources from neighboring countries (AP2005/648/05/05).

26. *ONUB accepted recommendation 4 and stated that it will monitor stock balances at the contractor's warehouse to determine compliance to required stock reserves. However, on the issue of allowing the contractor only one week to make good any shortfalls, ONUB felt that a realistic timeframe should be given, considering that Burundi is a landlocked country and flow of goods into the country could certainly take weeks.* OIOS of the opinion, however, that since the contractor is required to hold 14 days' reserves of essential stock items, allowing the contractor more than an additional week to make good any shortfall would encourage non-compliance with contractual terms. Recommendation 4 remains open pending its full implementation by ONUB.

27. *ONUB did not accept recommendation 5, stating that knowing the difficulties involved in transporting goods from Dar Es Salaam, Tanzania to Burundi, not to mention the security risks involved, ONUB is of the opinion that reducing the provisioning cycle to 42 days is not realistic and achievable. Because of these inherent logistical difficulties, the contractor is seeking a longer requisitioning lead-time.* Based on the explanations and clarifications provided by ONUB, recommendation 5 has been withdrawn.

#### Reconciliation of shipments

28. In accordance with the terms of the contract, ESS submits shipping documents together with the relevant packing lists and health certificates to ONUB before the entry of the shipping vessel into the port of delivery. There are however, no procedures to reconcile items contained on these documents with deliveries to ONUB, to ensure all items imported into the country under duty free concessions have been ultimately delivered to ONUB. There is therefore a possibility that items imported tax free may not eventually be supplied to ONUB.

#### **Recommendation 6**

ONUB Administration should require the rations contractor to periodically provide returns reconciling stock received in Burundi with deliveries to ONUB. These should be checked by ONUB and follow up action taken on any discrepancies including requiring the contractor to provide evidence of payment of duties on items not supplied to ONUB (AP2005/648/05/06).

29. *ONUB accepted recommendation 6, but did not indicate specific actions to be taken.* Recommendation 6 remains open pending receipt of documentation from ONUB showing that it has been fully implemented.

#### **B. Fuel contract**

##### Background

30. ONUB entered into a contract with Engen Petroleum Burundi S.A. (Engen) for the provision of petroleum, oil and lubricants from 20 June to 19 September 2004 for a maximum price NTE a total cost of \$723,800. Due to delays in obtaining exemption from taxes, the contract period was revised to 1 August to 30 November 2004. The contract was later extended to 15 March 2005 and the NTE cost increased to \$1,673,800. There was a further extension from 16 March to 31 May 2005 to accommodate delays in completing the long term contract with a revised NTE of

\$3,683,340. The long term contract expected to be in force for a maximum of 3 years at an NTE of \$17,663,715 is currently being finalized.

#### Contract sum

31. By the end of February 2005, ONUB had obtained products and services from Engen to the tune of \$2,389,983 exceeding the then authorized NTE cost by \$716,183. The prevailing NTE on 31 May 2005 was again exceeded by \$239,925. The following explanations were given / observations made:

i. The estimates of fuel requirements were grossly understated due to several unanticipated activities the Mission had to undertake including expansion into regional locations and support of the referendum and demobilization processes.

ii. The method of fuel operation in that fuel, especially Diesel, is supplied directly into UN owned equipment (vehicles and generators) without any prior approval of a requisition. The Mission is only aware of how much fuel has been consumed when the monthly invoices are presented, supported by relevant signed delivery notes. Information on the rate of fuel consumption by ground transportation can be obtained more quickly with the installation of the car log system in vehicles.

iii. The number of generators installed in the Mission area and the number of hours they are in operation daily. There is also no comprehensive list of the generators in use to allow for the proper monitoring and control of their fuel consumption.

iv. Section 4.4 of the contract delegates the responsibility for ensuring that the NTE cost is not exceeded to the contractor. This Article requires Engen to advise ONUB when it is likely that 75% of the NTE amount would be utilized within the next thirty days.

v. Obligations are made in excess of the NTE cost and purchase orders are monitored against obligations. By the end of February 2005, total obligations raised amounted to \$2.8 million compared to the NTE amount of \$1.67 million.

32. These weaknesses resulted in a violation of the contract terms and a partial "ex post facto" case which is in contradiction of the Financial Rules and Regulations and is strongly discouraged by the Procurement Manual. They could also lead to officials being held personally accountable and financially liable for authorizing the "ex post facto" procurement action and any course of action deemed necessary by the Controller.

33. Current monitoring of the NTE amount of the fuel contract is inadequate and could be improved upon by producing a report to the Chiefs of Procurement and Supply Sections on the status of the fuel contract before monthly invoices are paid. This could include the following:

	\$	\$
Contract sum		xxx
Cumulative consumption brought forward	(xxx)	
Consumption during the month including details of any surge demand	(xxx)	
Cumulative consumption to date		(xxx)
Balance remaining on the contract		xxx
Projected fuel usage for the next xxx weeks / months based on prevailing contract rate		(xxx)
Any adjustments for anticipated price increases based on world market prices		(xxx)
Any other adjustments deemed appropriate		(xxx)
<b>Adjusted balance remaining on the contract</b>		<b>xxx</b>

Where it is likely that the contract period will expire or NTE amount exhausted earlier than anticipated, procedures for an amendment of the contract should commence.

#### **Recommendations 7 to 10**

ONUB Administration should implement measures to increase the monitoring of fuel contract. This should include:

- i. Monitoring the not-to-exceed amounts of contracts more closely and instituting appropriate action before limits are reached, to amend the contract or put other suitable arrangements in place (AP2005/648/05/07);
- ii. Expediting the installation of the car log system in all vehicles in use in the mission area (AP2005/648/05/08);
- iii. Ensuring a comprehensive record of all generators in use, including details of their engine and tank capacities and locations, is prepared and submitted to the Fuel Cell to enable them check that fuel usage is in accordance with UN standard consumption rates (AP2005/648/05/09); and
- iv. Ensuring that total outstanding obligations against any contract are not greater than its not-to-exceed amount, and continue monitor payments against outstanding obligations (AP2005/648/05/10).

34. *ONUB accepted recommendation 7, but did not indicate specific actions to be taken. Recommendation 7 remains open pending receipt of documentation from ONUB showing that the recommended actions have been implemented.*

35. *ONUB accepted recommendation 8 and stated that it has adequate car log units for UN owned equipment (UNOE), but there are no technicians available in the Mission to undertake installation and maintenance. The Mission is currently examining the possibility of outsourcing this work. Recommendation 8 remains open pending confirmation by ONUB that it has been implemented.*

36. *ONUB accepted recommendation 9, but did not indicate specific actions to be taken. Recommendation 9 remains open pending receipt of documentation from the Mission showing that it has been implemented.*

37. *ONUB accepted recommendation 10 stating that it shall strengthen its monitoring and institute control mechanisms to prevent exceeding the contract amount. Recommendation 10 remains open pending clarification by ONUB as to the specific measures put in place to implement it.*

Fuel reserves

38. ONUB is not carrying adequate reserves of fuel to ensure uninterrupted operations of the Mission in the event of Engen being unable to supply due to circumstances outside its control including a general strike action. The table below shows reserves required at the various locations and ONUB's current holdings:

**Table 4: Shortfalls in fuel reserves as at 31 May 2005**

<b>Product</b>	<b>Location</b>	<b>Required Liters</b>	<b>Held Liters</b>	<b>Shortfall Liters</b>
Diesel	Bujumbura	200,000	20,000	180,000
Diesel	Gitega	10,000	10,000	-
Diesel	Makamba	8,000	8,000	-
Diesel	Cibitoke	5,000	5,000	-
Diesel	Ngozi	5,000	5,000	-
Petrol	Bujumbura	20,000	10,000	10,000
Jet A1	Bujumbura Airport	90,000	-	90,000
Jet A1	Gitega	10,500	10,500	-
Jet A1	Makamba	10,500	10,500	-

39. This situation has arisen because of:

- i. Diversion of some of the tanks already obtained for other purposes;
- ii. Inability of the Engineering Section to install the tanks already obtained; and
- iii. Delays by UNHQ to submit procurement action for the fabrication of additional tanks to the Headquarters Committee on Contracts (HCC).



## Recommendation 11

ONUB Administration should take steps to expedite arrangements for the procurement and installation of fuel tanks and ensure adequate levels of fuel reserves are held (AP2005/648/05/11).

40. *ONUB accepted recommendation 11 and stated that the case was submitted to Procurement Service, HQ on 6 June 2005. The Mission is following up closely with Procurement Service for the presentation and HCC approval of the case. As soon as HCC approval is obtained, Procurement Section will issue the contract for delivery of the requested tanks.* OIOS acknowledges the efforts being made to address recommendation 11. The recommendation remains open pending confirmation by ONUB that it has been implemented.

### Compliance with terms of the contract and other undertakings

41. The contract with Engen includes several clauses to ensure allow for its efficient execution and protect the interests of the UN. Our review of compliance with the terms of the contract revealed the following deficiencies:

- i. Engen has not provided a performance bond of 10% of the total NTE contract price to ONUB for the required duration as required by Section 12 of the contract.
- ii. ONUB has not obtained, reviewed and approved a safety plan of the contractor's operations to ensure adequate arrangements are in place to deal with any eventualities. Consequently, no performance review of the operation of the plan could be conducted.
- iii. Inspections of the contractor's equipment and facilities only commenced in March 2005 with the result that the contract ran for seven months without any checks to confirm the quality of product and accuracy of calibration of the equipment.
- iv. There is no evidence that performance review meetings are being held even though the Fuel Cell advises that it is in almost daily contact with Engen.
- v. There is also no evidence that steps have been taken to ensure the contractor maintains a separate set of books and records available for audit and UN staff.

42. To support its application for exemption from taxes on fuel lifted, ONUB undertook to add red fuel dye to all fuel except LPG on receipt of the products at Engen's depot and before being dispatched to various fuelling points. ONUB had still not taken the steps necessary to add the dye to the fuel.

43. The OIC, Fuel Cell explained that inadequately trained staff and insufficient supply of vehicles had hindered the extent of monitoring of the contractor's performance. However, ONUB is receiving excellent service from Engen, which is providing services over and above those required by the contract.

44. The OIC, Fuel Cell further explained that the red dye had been procured on ONUB's behalf by Engen as Procurement Section had been unable to obtain it. The dye had not been added in because there was insufficient infrastructure under the original three month contract that was in existence, for the use of the dye. ONUB is currently operating out of 15 fuel locations and does not

have any dedicated tanks. If the dye were to be added, it would mean half the vehicles in Burundi would be affected with red dye. The Department of Customs is not pursuing this issue and the Fuel Cell is monitoring the position with Engen, with whom daily contact is maintained. The decision to put dye in the fuel was taken a long time ago without looking properly at the type of fuel operation to be used.

### **Recommendation 12**

ONUB Administration should put procedures in place to ensure as a minimum, that critical contract terms are complied with. For every major contract, a periodic return should be provided to a designated official indicating terms not yet implemented and action to be taken to bring the Mission/vendor into compliance. Where undertakings previously given are no longer deemed feasible, these should be discussed with the appropriate authority and revised agreed action implemented (AP2005/648/05/12).

45. *ONUB accepted recommendation 12 commenting that the submission of 10% performance bond is now included in the new contract with Engen. Although meetings are held regularly by the Fuel Cell and the fuel contractor, the Chief Supply Officer will require that these meetings be recorded and documented, with copies provided to Procurement Section and Supply Section at DPKO HQ. With regard to safety plan and separate books of account for ONUB, Procurement Section shall address these two issues to the contractor as soon as possible. Based on the Mission's response, OIOS has closed recommendation 12.*

### **C. Other major contracts**

#### Award of contract

46. The majority of contracts reviewed were drawn from systems contracts. Due to the urgency of a lot of the requests, there were few opportunities to determine whether goods could be procured from other sources on more favorable terms. Six of the contracts were reviewed by the Local Committee on Contracts (LCC), two of which were based on immediate operational requirement (IOR). There was one instance when the vendor was identified by the requisitioner.

47. The urgency of requisition requests is attributable to the start up phase of the Mission with a high and fast evolving demand for a variety of goods and services. However, OIOS noted that there were no procurement plans to facilitate the effective and timely solicitation of bids or proposals, award of contracts and delivery of the goods and services as required under paragraph 8.1.1 of the Procurement Manual.

### **Recommendation 13**

ONUB Administration should implement procedures for requisitioning offices, in conjunction with the Procurement Section, to draw up annual procurement plans which will be subject to periodic revisions as deemed appropriate (AP2005/648/05/13).

48. *ONUB accepted recommendation 13 and stated that it is currently finalizing a revised Acquisition Plan which links budgetary allotments into timelines for submission of requirements until expected delivery date(s). Once operational, such information will be made available on real-*

time basis to Procurement Section and all certifying officers in the Mission. OIOS acknowledges ONUB's proposed actions and will keep recommendation 13 open pending confirmation by ONUB that it has been implemented.

Review by Committees on Contracts

49. Paragraph 12.1.1 (1) of the Procurement Manual requires that the recommendation of HCC and the prior approval of the ASG/Office of Central Support Services be obtained for "...any proposed award to a single contractor in respect of a single or a series of related requisitions which in total exceeds \$200,000 ("HCC threshold") during a calendar year ...". ONUB raised a number of purchase orders in favour of ASL Limited (Trading Division) in Kenya as shown below without meeting this requirement:

<b>Date</b>	<b>PO Number</b>	<b>Total Price</b>	<b>Commodity Description</b>
<b>Approved</b>		<b>USD</b>	
29/10/2004	5NUB-205108/0	88,952.10	Steel
29/10/2004	5NUB-205109/0	71,341.85	Paints & other items
29/10/2004	5NUB-205110/0	105,442.21	GI pipes & fittings
01/11/2004	5NUB-205111/0	35,857.41	Hardware & other miscellaneous items
29/10/2004	5NUB-205112/0	79,876.96	PVC pipes and sanitary wares
<b>Total</b>		<b>381,470.53</b>	

50. These items were urgently required by the Engineering Section in the start up phase of the Mission and had been procured during a procurement drive in Kenya which was supported by the Chief of Integrated Support Services.

51. ONUB has contended that where each procurement action is subject to a separate bidding process, such aggregation should not apply. OIOS however believes that in this instance, where the requisitions were clearly for the same category of products from the same vendor, they should have been aggregated and submitted to HCC for recommendation.

**Recommendation 14**

ONUB Administration should forward a procurement action relating to purchase orders 5NUB-205108 to 5NUB-205112 to UNHQ for presentation to the HCC as an "ex post facto" case for further action (AP2005/648/05/14).

52. *ONUB did not accept recommendation 14 commenting that the last sentence of paragraph 12.1.1 (1) of the Procurement Manual specifically mentions that "For purposes of determining if the LCC threshold has been reached, there shall be no aggregation of multiple awards and proposed awards in a calendar year." As these individual cases were LCC approved, ONUB does not see any value-added in presenting the case post-facto to the HCC in view of the current delegation of authority given to the Mission. OIOS disagrees with the Mission's comments especially in this instance where the purchase orders run consecutively and were issued within one or two days of each other. OIOS therefore reiterates that the Mission's current delegation of authority does not preclude it from obtaining HCC approval in terms of Paragraph 12.1.1 (1) of the Procurement*

Manual. Recommendation 14 remains open pending confirmation by ONUB that it has been implemented.

#### Purchase orders

53. The primary contract document in use by the Procurement Section is the purchase order. OIOS noted that delivery due dates on purchase orders were not being set on the basis of a realistic timeframe within which to expect delivery and further, the dates are not updated with commitments given by vendors regarding expected shipment dates. In addition, the section does not have a procedure of tracking delivery of items against dates agreed and in several instances, delayed deliveries were only followed up after enquiries from requisitioners.

54. Payment terms are routinely recorded as net 30 days without reference to systems contracts that may have different terms. This has led to cases of failure by ONUB to make payments in accordance with contract terms and resultant queries from vendors regarding late payments. It could also affect the Mission's cash flow projections.

55. These problems were attributed to the fact that a number of buyers are still being trained.

#### **Recommendations 15 and 16**

ONUB Administration should introduce measures to ensure that:

i. Each buyer maintains a schedule of expected delivery dates updated with details of shipment documents received. Periodically, this schedule should be reviewed and any overdue deliveries followed up with the vendor (AP2005/648/05/15); and

ii. Approval of purchase orders relating to systems contracts should include a confirmation that payment terms and other vendor-specific provisions have been accurately reflected (AP2005/648/05/16).

56. *ONUB accepted recommendation 15 and stated that this recommendation would necessitate preparation of reports manually. Considering the very tight manpower resources of the Section, this is an added burden which cannot be implemented in the short term. The long-term sustainable solution however is for a global reporting system developed in the Mercury II system that would generate information capturing the whole procurement cycle from its inception to closure. Recommendation 15 remains open pending confirmation by ONUB that it has been implemented.*

57. *ONUB accepted recommendation 16 and stated that all Procurement staff members were advised to refer to the salient provisions of the global systems contracts in formulating a Mission purchase order. Based on the Mission's response, OIOS has closed recommendation 16.*

#### Receipt of goods ordered

58. OIOS noted there are considerable delays between shipment dates and the issue of R&I reports, even when goods are air-freighted. These delays were attributed to:

- i. Non-receipt or misplacement of advance copies of shipping documents. Therefore, preliminary work on customs clearance is not commenced until well after the goods arrive;
- ii. Pallets being split by freight forwarders or airlines to facilitate shipment but leaving some of the packages unlabelled. Because cargo is not properly stored at the airport, it becomes difficult to bring together the various packages forming a shipment;
- iii. Influx of containers causing bottlenecks in receiving and inspection;
- iv. Incorrect address used e.g. where documents are addressed to UN Development Programme instead of ONUB
- v. Attempts to resolve damages and discrepancies with vendors through Procurement Section prior to issuing the R&I report. This however results in instances where R&I reports are not issued for items already received for excess of a month. In the interim, there is a tacit agreement between R&I and the self accounting units to use/issue the items.
- vi. Lack of an adequately paved and covered work area which results in suspension of R&I activities during rains. However, plans are underway to move the R&I Unit to more appropriate accommodation next to the new mission headquarters shortly.

59. There were further delays in certifying the reports by both the OIC of the R&I Section and the self accounting unit managers.

60. These delays result in payment terms of contracts not being met and possible strained relationships with vendors. The Mission may also not be able to take advantage of discounts offered for timely payments.

#### **Recommendation 17 to 19**

ONUB Administration should:

- i. Investigate the possibility of personnel in the Movement Control Section meeting aircraft with consignments for ONUB and overseeing the offloading of cargo, to ensure that shipments are kept together. The possibility of obtaining a dedicated storage area for ONUB cargo should also be explored with airport officials (AP2005/648/05/17);
- ii. Investigate the possibility of tracking deliveries electronically via the Mercury Procurement System. The Movement Control Section could also assist by alerting Procurement Section when goods do not arrive by the due dates for follow up with the freight forwarders or vendors. This information could also be used to time the arrival of cargo and avoid bottlenecks in the Receipt and Inspection Unit (AP2005/648/05/18); and



iii. Provide guidelines to Receipt and Inspection Unit on the extent of observed damages and discrepancies that should delay the issue of the receiving and inspection report (AP2005/648/05/19).

61. *ONUB did not accept recommendation 17 commenting that there were no bottlenecks caused by the influx of containers in the receiving and inspection of goods. The Mission maintains that the R & I personnel were able to complete the inspection and receipt of the Corimec containers on time for the construction of the Integrated Mission HQ. At no time the rains hampered the work of R & I; R & I personnel worked under hard conditions notwithstanding dust, heat & rains to ensure that the goods were inspected and received as they arrived and as when documents were made available. MOVCON had already obtained permission from airport authorities to have a dedicated storage area allocated for ONUB shipments. Based on the Mission's clarifications and explanations, OIOS has withdrawn recommendation 17.*

62. *ONUB did not accept recommendation 18 commenting that it does not agree with the findings contained in paragraph 57 (iii). The Mission felt that there has been no delay in the certification of reports from the R & I Unit. On the issue of tracking deliveries via electronic means through the Mercury system, ONUB shall consult the Mercury Team in Brindisi if this is possible. In any case, MOVCON already operates a pre-alert system electronically. This is used to track incoming shipments from receipt of delivery notification or from receipt of shipping documents. Another column could be added to show due date. This will be implemented prior to consultation with the Mercury Team in Brindisi. OIOS acknowledges ONUB's proposed actions. Recommendation 18 remains open pending confirmation by the Mission that it has been implemented.*

63. *ONUB agreed with recommendation 19 but did not indicate specific actions to take. Recommendation 19 remains open pending confirmation by ONUB that it has been implemented.*

#### Performance evaluation

64. With the exception of the fuel and rations contracts, the Procurement Section has not implemented procedures requiring requisitioners or procurement officers to evaluate the performance of vendors on contracts, and utilising this information to update the vendor profile on Mercury. Performance of vendors is also not evaluated prior to contract amendments in accordance with paragraph 15.1(3) a. of the Procurement Manual.

65. OIOS' review of Mercury revealed that the information held on vendors is scanty with a lot of the fields remaining blank.

66. Consequently, data on the ability and efficiency of vendors in executing contracts is not readily available on the database, to impartially guide decision making for subsequent procurement requirements. Feedback information that may be useful to the Procurement Division at UNHQ for incorporation in future systems contracts is also not provided. Also, data on vendors is not collated in a single location for ease of reference.

67. Procurement Section explained that its operations have been severely hampered by inadequate staffing and an immense pressure put on its resources due to the requirements of various sections during the start up phase of the Mission. The Section added that it had so far received satisfactory cooperation from the majority of vendors.



## **Recommendation 20**

ONUB Administration should implement procedures for the maintenance of an adequate vendor database which includes performance evaluation of vendors (AP2005/648/05/20).

68. *ONUB accepted recommendation 20 advising that management shall issue an inter-office memorandum to all certifying officers emphasizing the importance and submission of contractor performance reports in accordance with prescribed directives from LSD/OMS. OIOS acknowledges ONUB's proposed actions and will keep this recommendation open in its database pending receipt of memorandum issued confirming actions taken.*

## **VI. ACKNOWLEDGEMENT**

69. We wish to express our appreciation to the Management and staff of Procurement and Supply Sections for the assistance and cooperation extended to the auditors during this assignment.



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