



**OIOS**  
Office of Internal Oversight Services



## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Audit of the Local Committee on Contracts in UNMIS**

**29 April 2008**

**Assignment No. AP2007/632/14**

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr Ashraf Jehangir Qazi  
A: Special Representative of the Secretary-General  
UNMIS

DATE: 29 April 2008

REFERENCE: IAD: 08-01284

FROM: Dagfinn Knutsen, Director  
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AP2007/632/14 – Audit of the Local Committee on Contracts in UNMIS**  
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 1 and 2 in the OIOS recommendations database as indicated in the Annex.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Kiplin Perkins, Director of Mission Support, UNMIS  
Mr. Wayne Whiteside, Chairman, Local Committee on Contracts, UNMIS  
Ms. Barbara Klopp, Chief Procurement Officer, UNMIS  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Maria Gomez Troncoso, Officer-in-Charge, JIU Secretariat  
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS  
Mr. Prances Soosa, Chief Resident Auditor, OIOS

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## INTERNAL AUDIT DIVISION

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### FUNCTION

*“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).*

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## **EXECUTIVE SUMMARY**

### **Audit of Local Committee on Contracts in UNMIS**

OIOS conducted an audit of the Local Committee on Contracts (LCC in the United Nations Mission in Sudan (UNMIS). The overall objective of the audit was to assess the effectiveness of the LCC as a procurement internal control mechanism. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the UNMIS LCC was an effective control over the procurement process, as the LCC was generally functioning independently and competently. OIOS observed that:

- A significant proportion of the current LCC members had no previous experience in the function, and many members were not aware of the requirement to file financial disclosure statements. The recent initiative to provide LCC members and alternatives training by the Headquarters Committee on Contracts Training Team should help address this.
- The frequency of the LCC meetings during the fiscal year was heavily weighted towards the last two months of the year to prevent the loss of funding and Darfur related procurement. OIOS was informed that efforts are being made to improve procurement planning, which should, in part, address this.
- The LCC reviewed 117 cases during fiscal year 2006/2007, of which 45 were partially or fully *ex post facto*. Case presentations outlining the reasons for late submission generally showed the absence of exceptional conditions to justify an *ex post facto* case. The Procurement Section has been working to improve the procurement process with regard to this issue.
- There were several instances when a supervisor and subordinate served together as members of the same LCC meeting. The Chairman should be vigilant to ensure that this situation does not recur.
- For property leases, the LCC should be provided with necessary information concerning the nature of improvements and the costs involved where the property needs enhancements to make it compliant with Minimum Operating Security Standards (MOSS).

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Local Committee on Contracts (LCC) in the United Nations Mission in Sudan (UNMIS) in October 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The Director of Mission Support (DMS) under a delegation of procurement authority up to \$200,000 for non-core and \$1,000,000 for core requirements<sup>1</sup> is authorized to establish an LCC and nominate its members. The LCC supports the procurement function in an advisory capacity to the DMS by ensuring that proposed procurement actions conform to the relevant United Nations regulations and rules, policies, procedures and other relevant guidelines.
3. According to Section 2.5.1 (1) of the Procurement Manual (PM), the LCC shall review and provide advice to the Chief of Mission Support, or other officials duly authorized under Financial Rule 105.13, on whether proposed procurement actions, including contracts that generate income to the Organization, are in accordance with the Financial Regulations and Rules (FRRs), Secretary-General's Bulletins (SGBs), Administrative Instructions (AIs) and other procurement policies. OIOS undertook this audit to assess the effectiveness of the LCC in discharging its role as part of the procurement internal control system.
4. Comments made by UNMIS Administration are shown in *italics*.

## II. AUDIT OBJECTIVES

5. The major objective of the audit was to assess the effectiveness of the LCC as a procurement internal control. Specifically, the audit assessed whether:
  - (a) The composition of the LCC allows it to function independently and competently;
  - (b) The LCC is receiving relevant documents needed to properly review procurement actions; and
  - (c) The LCC is effectively identifying procurement issues that violate the relevant FRRs, SGBs, AIs and other procurement policies on the fairness, integrity and transparency of proposed procurement actions.

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<sup>1</sup> Core requirements are essential goods and services which lend themselves to local procurement (e.g. fresh food, waste disposal services, potable water supply, etc.). Non-core requirements are all other goods and services. OIOS examined procurement cases related to core requirements in a separate audit of the delegation of authority to UNMIS to procure such requirements.

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### III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered procurement transactions processed in fiscal year 2006/07, and included file reviews, analytical tests and interviews with relevant Mission personnel. OIOS reviewed the minutes of all of the 29 LCC meetings during the year. The provisions of the PM issued in August 2006 (Rev 003) were used as the criteria for this assignment.

### IV. AUDIT FINDINGS AND RECOMMENDATIONS

#### A. Composition of LCC

##### Notification of nominated members

7. The latest LCC membership as nominated by the DMS, is comprised of Mission personnel selected in accordance with Section 2.5.2 of the PM and paragraph 12 of the delegation of procurement authority granted to the DMS by the Assistant Secretary-General, Department of Field Support (DFS).

8. The composition of the LCC was communicated to the Assistant Secretary-General, Office of Central Support Services, through the Assistant Secretary-General, DFS and the Chief, United Nations Procurement Division (UNPD) on 10 September 2007.

##### Members' responsibilities

9. OIOS met with the LCC Chairman and circulated a general questionnaire to all current LCC members and members of the 2006/2007 LCC still in the Mission. The aim was to obtain an understanding of their level of procurement and finance knowledge and experience, as well as their awareness of the requirement to file financial statement disclosures. The survey results are summarized in Table 1 below:

**Table 1: Summary of Responses to Questionnaires**

	2007/2008		2006/2007	
	Members	Ex-Officio	Members	Ex-Officio
No. Members	9	2	11	2
Surveyed	8	2	5*	1
Responses Received	7	2	2	1
No. with no prior LCC experience	4	1	-	-
Filed Statement of Financial Disclosure	3	1	2	N/A

\* The questionnaire was not sent to the other six members as they have since left the mission.

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10. Four of the respondents indicated that they had no prior LCC experience, including two who were not familiar with UN procurement and finance processes. OIOS concurs with the six respondents who pointed out that regular and ongoing training on LCC and procurement processes would be beneficial to members. In addition, this training would help to develop a core group of personnel with the requisite skills to effectively serve as LCC members as they rotate between missions.

11. Four of the current LCC members stated that they had not yet filed their financial disclosure statements in accordance with ST/SGB/2006/6 Section 2.1 (d). Two of these members were unaware of this requirement. OIOS was informed that the filing process is initiated by the UN Ethics Office and LCC members cannot proceed until the Ethics Office has taken action.

12. The HCC Training Team conducted the "Basic Training for Local Committee on Contracts" course during the week ended 1 November 2007, which dealt with members' responsibilities such as filing financial disclosure statements. The trainers indicated their intention of carrying out periodic training sessions. As a result, OIOS is not making a recommendation in this area.

## **B. LCC meetings**

### Frequency and conduct of meetings

13. LCC held 29 meetings in 2006/2007. The minutes of meetings show that the LCC Chairperson confirms at the beginning of the meeting that attending members do not have a conflict of interest in reviewing the cases on the agenda and that a quorum of members is present.

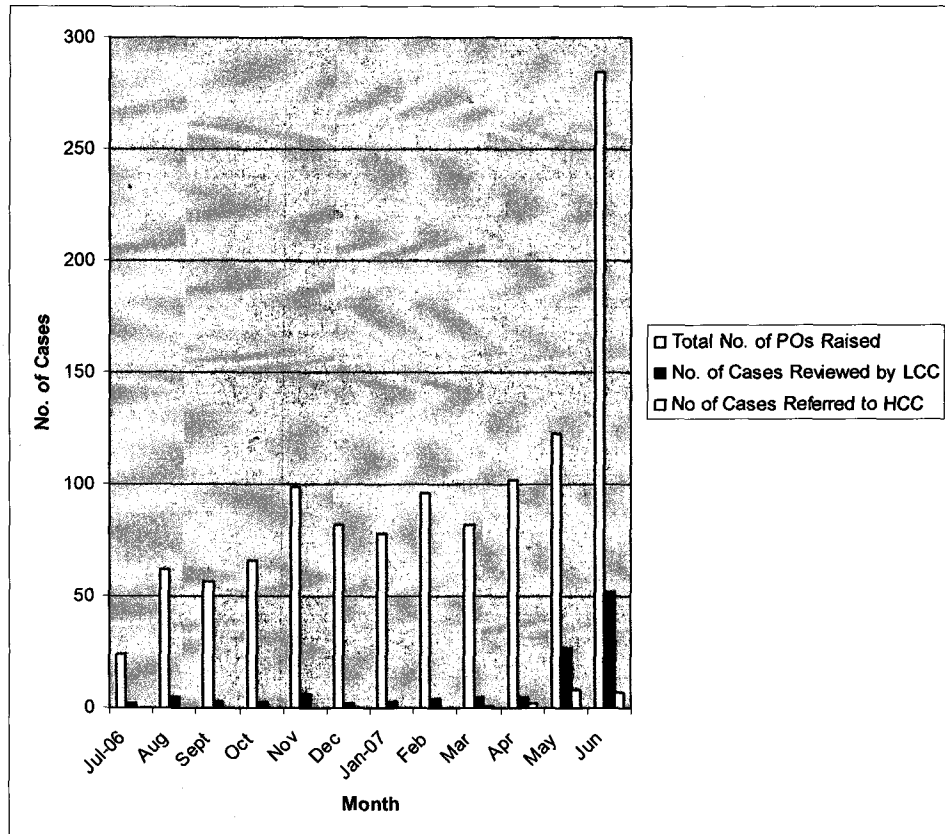
14. Section 12.1.6 (1) of the PM indicates the LCC shall meet at such times and frequency as decided by the Chairperson, with a minimum frequency of once a week subject to there being cases to review or other business. As the procurement process determines the level of LCC activities, its meetings are scheduled on an "as needed" basis.

15. OIOS noted a significant peaking of cases reviewed by the LCC in the last quarter, a trend consistent with that in overall purchase orders processed as illustrated in Graphs 1 and 2 below. This is attributed by the Chief Procurement Officer (CPO) and members of the LCC to factors such as:

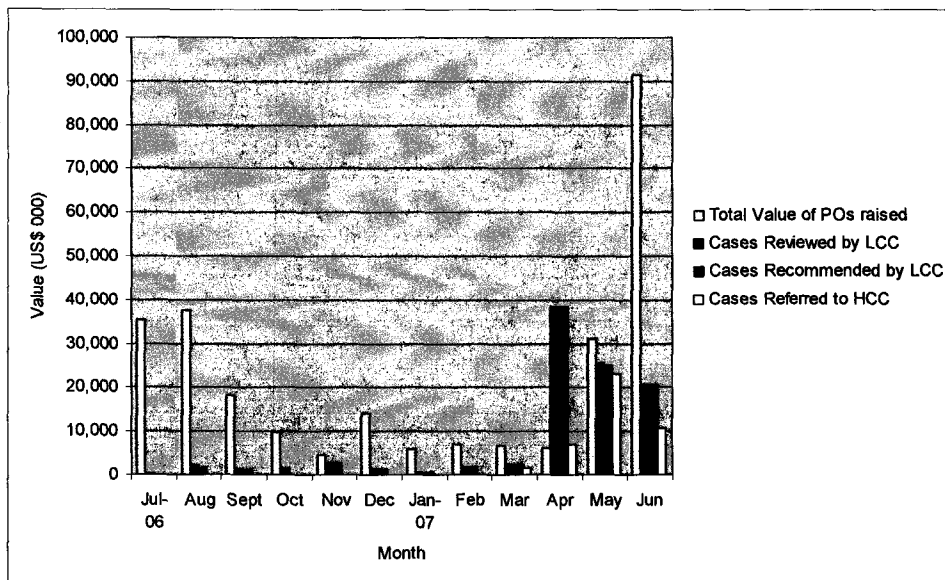
- A year-end rush to prevent the loss of funds as the financial year closes; and
- UNAMID-related procurement.



**Graph 1: Analysis of procurement cases**



**Graph 2: Value of procurement cases**



16. The LCC does not perceive this year-end peak to be a problem. However, OIOS believes that requisitions submitted in bulk towards the end of

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the financial year may generate undue pressure on the LCC, taking into consideration the LCC members' regular work commitments, and the increased risk of requisitions not making the approval cut-off dates.

17. The CPO informed OIOS that the Planning Officer in the office of the DMS has been tasked to regularly meet with the Self Accounting Unit (SAU) requisitioners to streamline the requisitioning process in a way that would match the procurement process to the budgeting and finance processes. As a result, OIOS is not issuing a recommendation but will monitor the progress made with regard to procurement planning.

Independence of LCC members

18. OIOS' review of minutes of LCC meetings identified the following instances where a supervisor and subordinate served as members of the same LCC.

Date	Case #	LCC Members
6 April 07	LCC/MIS/07/18	Chief Finance Officer Finance Officer
10 May 07	LCC/MIS/07/20	Legal Officer*
14 May 07	LCC/MIS/07/21	Legal Officer
11 June 07	LCC/MIS/07/23	
17 June 07	LCC/MIS/07/24	
21 June 07	LCC/MIS/07/25	

\* First Reporting Officer for the second Legal Officer in attendance

19. This situation contravenes Section 2.5.2 (2) of the PM which, in part, stipulates that "under no circumstances shall a supervisor and subordinate serve together as members of the same LCC"; a factor that may compromise the independence of the subordinate.

**Recommendation 1**

**(1) The UNMIS Administration should ensure that the Local Committee on Contracts (LCC) Chairman monitors the composition of the LCC and disallows supervisors and subordinates from serving together as members of the same LCC.**

20. *The UNMIS Administration accepted recommendation 1 and stated that at the start of each meeting, the LCC Chairman confirms with other members of the Committee that there are no conflicts of interest in the cases on the agenda and also that no member of the committee is a supervisor/subordinate of another sitting member for that particular meeting. This is reflected in the minutes of the LCC meetings. Based on the action taken by the UNMIS Administration and the evidence received and reviewed by OIOS, recommendation 1 has been closed.*

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### **C. Ex post facto cases**

21. The LCC reviewed 117 cases during the 2006/2007 fiscal year, of which 45 (38 per cent) were fully or partially *ex post facto* procurement cases in which deliverables have been furnished in part prior to obtaining an LCC opinion or where deliverables were already furnished prior to submission of the case to the LCC. In OIOS' view failure to take action on *ex post facto* procurements may jeopardize the Mission's operational capacity. However, a review of case presentations indicating the reasons for late submission showed that in most instances there was an absence of exceptional conditions to justify an *ex post facto* case. The causes of these cases include the following:

- Improper planning to begin the procurement process for critical and ongoing requirements such as medical support and camp services prior to the current contracts' expiration;
- Delayed implementation of a procurement policy, detailed in a memorandum dated 19 May 2006 from the Officer-in-Charge, UNPD to the CPOs, which reiterated that all cases involving leases with options having aggregated not-to-exceed (NTE) amounts exceeding \$200,000, should be referred to both the LCC and HCC or it will be considered an *ex post facto* submission; and
- Inadequate communication between the users and procurement that led to delays in issuance of a purchase order because the vendor's name had not been indicated on the requisition.

22. The CPO informed OIOS that a high vacancy rate prevailed from the Mission start-up phase which, with the resulting heavy workload, only enabled procurement staff to focus on immediate priorities.

23. The CPO, upon arriving in the Mission in late October 2006, performed an assessment of the Procurement Section culminating in the identification of deficiencies such as *ex post facto* cases that were previously submitted for LCC review. Although OIOS is not issuing a recommendation in this report, it will monitor the Procurement Section's progress with regard to addressing these "inherited" *ex post facto* cases.

### **D. Property leases and renewals**

#### Minimum Operating Security Standards compliance of properties leased

24. Case presentation documents for leased properties, in most of the cases reviewed, referred to the Security Section having carried out a Minimum Operating Security Standards (MOSS) assessment.

#### Relevant information required for proper review

25. The LCC should be provided with all required information to enable it to make recommendations that take into consideration all relevant factors, as

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indicated in Section 12.1.3. (4) of the PM. However, OIOS noted, for example that the case submission regarding the lease of House No. 155, Block 13/Z, Al Mattar Area in Nyala in part states “The UNMIS Regional Security in Nyala stated that House No. 155 could be said to have met MOSS standards on the inside although fire fighting equipment needed to be installed before occupancy. The report stated that on the outside, the perimeter wall in the front and both sides should be raised to MOSS standards.” Other cases specified various actions to be taken prior to occupation or utilization of the premises. There was no indication of the additional cost required to ensure that the properties were MOSS-compliant.

#### **Recommendation 2**

**(2) The UNMIS Administration should ensure the Procurement Section includes sufficient detail in case submissions to the Local Committee on Contracts, including information with respect to additional enhancements and costs that must be incurred to raise proposed leased properties to Minimum Operating Security Standards.**

26. *The UNMIS Administration accepted recommendation 2 and stated that the CPO has accordingly issued Procurement Guideline 10/2008 “Lease Information to Include in LCC Presentations”.* Based on the action taken by UNMIS and the evidence received and reviewed by OIOS, recommendation 2 has been closed.

### **V. ACKNOWLEDGEMENT**

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

## STATUS OF AUDIT RECOMMENDATIONS

<b>Recom. no.</b>	<b>C/ O<sup>1</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date</b>
1	C	Action completed.	Implemented
2	C	Action completed.	Implemented

1. C = closed, O = open