



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

**Execution of the delegation of
authority to MONUC to procure core
requirements**

24 July 2008

Assignment No. AP2007/620/15

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. Alan Doss,
A: Special Representative of the Secretary General
MONUC

DATE: 24 July 2008

REFERENCE: IAD: 08- 01598

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



SUBJECT: **Assignment No. AP2007/620/15 – Audit of the execution of the delegation of authority to the**
OBJET: **United Nations Mission in the Democratic Republic of Congo (MONUC) to procure core requirements**

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 Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical i.e., recommendation 4, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Hany Abdel-Azizi, Director of Mission Support, MONUC
Mr. Amadu Kamara, Chief of Administrative Services, MONUC
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Seth Adza, Operations Review Officer, Department of Field Support
Mr. Byung-Kun Min, Programme Officer, OIOS

INTERNAL AUDIT DIVISION

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).

CONTACT INFORMATION

DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

CHIEF, PEACEKEEPING AUDIT SERVICE:

Eleanor T. Burns: Tel: +1.917.367.2792, Fax: +1.212.963.3388,
e-mail: burnse@un.org

EXECUTIVE SUMMARY

Audit of the execution of the delegation of authority to MONUC to procure core requirements

OIOS conducted an audit of the execution of the delegation of authority of the United Nations Mission in the Democratic Republic of Congo (MONUC) to procure core requirements. The overall objective of the audit was to assess whether adequate and effective internal controls had been established by MONUC to execute the delegation of authority to procure core requirements up to \$1 million locally. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Although MONUC had established internal controls to execute this delegation of authority, OIOS identified a number of areas that required corrective action.

- The Mission did not classify or identify core requirements in its procurement system, and the Mercury automated procurement system has no feature to distinguish between core requirements and other purchases.
- The core requirement reports for transactions exceeding \$200,000 were not being submitted to UN Headquarters prior to the audit
- There was no evidence that the Mission had made an effort to determine whether core requirements were not available in the United Nations Headquarters systems contracts as required in the delegation of procurement authority.

OIOS also found that the procurement process could be improved. This included the need to conduct market surveys and to regularly up-date the vendor database to make the process more competitive.

OIOS issued recommendations, which if implemented, will assist MONUC to improve its operations regarding the execution of delegated authority for the procurement of core requirements.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 – 4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6 – 7
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Core requirements classification	8 – 11
B. Availability of the requested items in the Headquarters systems contracts	12 – 14
C. Compliance with core requirements reporting requirements	15 – 17
D. Other issues	18 – 27
V. ACKNOWLEDGEMENT	28
ANNEX 1 – Status of Audit Recommendations	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the execution of the delegation of authority of the United Nations Mission in the Democratic Republic of Congo (MONUC) to procure core requirements from April to May 2008. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The audit was carried out at the request of the UN Controller to determine whether there were adequate and effective internal controls in place over the delegated authority to procure core requirements locally. At present, peacekeeping missions have a delegated authority to procure core requirements locally up to \$1 million. Core requirements are defined as “essential goods and services which by their nature lend themselves to local procurement and are not available in United Nations Headquarters contracts”. The list of “core requirements” was established to enhance operational efficiency in field missions by identifying examples of items that might qualify as core requirements and also by giving specific guidelines on the core requirements procurement process.

3. For the fiscal years 2005/06 and 2006/07, a total of 959 procurement cases valued at \$155 million and 859 cases valued at \$191 million respectively were executed. For the reporting period (2006/07), OIOS could not obtain accurate data, as the Mission did not classify or identify core requirements purchases. However, the Procurement Section compiled a list of core requirements purchases exceeding \$75,000. Table 1 shows the procurement activities in the period under review.

**Table 1: Number and amount of procurement cases for core requirements
Fiscal years 2005/06 and 2006/07**

	Total procurement cases		Procurement cases identified as core requirements**		Ratio of core requirements to total procurement cases.
	#	\$	#	\$	%
2005/06	959	155,480,518	767	115,655,999	74
2006/07	859	190,908,550	602	115,449,054	60

** The figures represent procurement transactions valued at \$75,000 and above presented to the Local Committee on Contracts (LCC). Core requirement transactions valued below \$75,000 were not included due to lack of classification and identification in the procurement system.

4. Comments made by MONUC are shown in *italics*.

II. AUDIT OBJECTIVES

5. The main objective of the audit was to determine whether MONUC had established effective controls to execute the delegation of authority to procure core requirements up to \$1,000,000 locally.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered core requirements transactions processed in fiscal year 2006/07, and included a review of available documents, analytical tests and interviews of responsible Mission personnel. OIOS selected 24 core requirements procurement cases and their corresponding LCC minutes for review.

7. Core requirements transactions below \$75,000 were not covered in the audit as these could not easily be classified or identified in Mercury, the procurement system.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Core requirements classification

8. The Mercury system, which is a web-based application designed to facilitate the procurement of goods and services in field missions has no feature to differentiate between core requirements and other purchases. As a result, it was difficult to compile a comprehensive list of all core requirements purchases.

9. Consequently, the Procurement Section (PS) compiled a list of core requirements cases from presentations made to the LCC. These related to transactions exceeding \$75,000. To identify core requirements in cases valued below this amount would have been difficult and very time consuming.

10. The lack of a mechanism for identifying core requirements resulted in the inability to properly monitor the procurement of such items to ensure compliance with the requirements of the delegated authority.

11. As this is a system-wide issue, it will be addressed in OIOS' consolidated report on core requirements.

B. Availability of requested items in the Headquarters systems contracts

12. The 23 February 2007 revision of the delegation of authority to procure core requirements in peacekeeping operations states that if goods or services requested are available through established United Nations Headquarters (UNHQ) contracts, these contracts should be used. Prior to deliberations, the LCC should ensure non-availability of such goods and services in the systems contracts. There was no documentation to evidence that the LCC had confirmed whether the requested goods or services were available under the UNHQ contracts.

13. Non-compliance with the requirements of the delegation of authority on core requirements to ensure goods and services procured locally are not already

available under Headquarters systems contracts can result in major procurement inefficiencies.

Recommendation 1

(1) The MONUC Office of Mission Support should ensure that the Local Committee on Contracts, prior to approving the award of a contract for procurement of core requirements, confirms that goods and services are not available in already established United Nations Headquarters systems contracts.

14. *The MONUC Office of Mission Support accepted recommendation 1 and stated that measures had been taken to ensure the LCC is provided with lists of goods and services already available through UNHQ contracts. A statement is also now included in LCC presentations regarding available systems contracts. Based on the action taken by MONUC, recommendation 1 has been closed.*

C. Compliance with core requirements reporting requirements

15. According to the delegation of authority on core requirements, the Chief of Mission Support is required to submit a written report to the Assistant Secretary-General, Department of Field Support (ASG/DFS), and to the Director, Procurement Division (PD), Department of Management within 30 days after the procurement of a core requirement that exceeds \$200,000. This report should document the description of the commodity purchased, provide a summary of the procurement process, the name of selected vendor, the duration and value of the contract and the approved minutes of the LCC meeting, and cite the financial rule relating to the basis of the award.

16. MONUC did not comply with this reporting requirement during the audit period, and submitted its first such report during the first quarter of fiscal year 2007/2008. Non-compliance with reporting requirements may result in the withdrawal of the delegation of authority on core requirements.

Recommendation 2

(2) The MONUC Office of Mission Support should implement procedures to ensure that the report on procurement of core requirements exceeding \$200,000 is prepared and submitted to the Assistant Secretary-General, Department of Field Support and the Director, Procurement Division, Department of Management within the stipulated time frame in the delegation of procurement authority.

17. *The MONUC Office of Mission Support accepted recommendation 2 and stated that the first report was submitted during the first quarter of 2007/2008. Since then the Procurement Section has been duly preparing the report for submission to UNHQ as required. Based on the action taken by MONUC, recommendation 2 has been closed.*

D. Other issues

Conducting market surveys

18. Section 8.2.4 of the Procurement Manual calls for market surveys within the scope of procurement and discusses the advantages of such surveys, which are also considered a best practice when there is adequate time to ensure that the mission gets better value for money in procurement.

19. Although the PS had a plan to conduct periodic market surveys to identify additional vendors and obtain information on prevailing market prices, surveys were not systematically carried out according to plan. For example, according to the LCC minutes 2007/46 pertaining to the modification of a contract for building materials totaling \$240,000, the LCC members inquired whether the new prices presented by PS were reasonable. Procurement advised that a market survey would be conducted during future solicitations and the LCC members recommended approval of the award.

20. The Chief Procurement Officer explained to OIOS that although PS had conducted market surveys in Goma, Bukavu and Entebbe, due to competing priorities and the fact that market surveys take time, the Mission had not been able to conduct them according to plan. Also, more market surveys needed to be conducted for certain items such as electrical products and leases where prices changed frequently. Although the Procurement Manual did not specify how often market surveys should be conducted, MONUC management recognized the need for frequent surveys due to the volatile nature of the Congolese market.

21. Failure to conduct market surveys may hamper the mission's ability to obtain best value for money from its procurement activities.

Recommendation 3

(3) The MONUC Office of Mission Support should implement procedures to ensure that market research/surveys are conducted frequently to ensure that the mission obtains best value for money in its procurement activities.

22. *The MONUC Office of Mission Support accepted recommendation 3 and concurred with the recommendation.* Recommendation 3 remains open pending receipt of evidence that management has taken action and that market research and surveys are being conducted.

Updating the vendor register

23. The Procurement Manual states that procurement officers need to satisfy themselves that the best possible outcome has been achieved by taking into account all relevant costs and benefits such as those obtained through a competitive process. The manual also provides for suspension or removal of

vendors from the vendor database where there is lack of response or acknowledgement to three invitations to submit a bid in line with Section 9.3.8(1).

24. OIOS' review of three solicitation cases pertaining to the purchase of cement revealed that in all instances, the response rate was low as shown in Table 2 below.

Table 2: Solicitations response rates

LCC Case Number	Minute Number	Number of Invitations to Bid (ITB) sent	Responses obtained	
149	29	11	2	18%
8	5	18	2	11%
49	11	19	1	5%

25. Further review of the procurement case files revealed that solicitation requests were sent to some vendors that were not reachable via fax or phone during previous invitations to bid, and to vendors that had not responded or expressed an intention to bid within the year. The vendors list was not updated and market surveys to identify new vendors for inclusion in the vendor database had not been conducted. It was explained that this was not done due to inadequate staffing levels in PS. Management further explained that in Congo the local market prefers to deal with vendors that pay cash upfront rather than with MONUC whose terms of contract call for payments after 30 days of the delivery of goods and services, which is deemed unattractive. These factors could have contributed to the low response rates.

26. Failure to maintain a database of eligible and interested vendors may hamper the Mission's capability to conduct a competitive procurement process and achieve best value for money.

Recommendation 4

(4) The MONUC Office of Mission Support should ensure that the vendor database is regularly updated with eligible and interested vendors in order to ensure adequate competition in the solicitation process.

27. *The MONUC Office of Mission Support accepted recommendation 4 and stated that a programme is now in place to continually update vendor information.* Recommendation 4 remains open pending verification of the updated vendor database.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O¹	Actions needed to close recommendation	Implementation date²
1	C	Action completed.	30/07/2008
2	C	Action completed	Implemented
3	O	Provision of evidence that market research and surveys have been conducted	01/09/2008
4	O	Verification that the vendor database has been updated.	Not provided

1. C = closed, O = open

2. Date provided by MONUC in response to recommendations.