



## **INTERNAL AUDIT DIVISION**

### **REPORT 2024/062**

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#### **Audit of local contract management in the United Nations Interim Force in Lebanon**

**The Mission needed to properly conduct and document the vendor performance evaluations and ensure accurate recording of quality and quantity discrepancies of the received goods and services**

**12 December 2024  
Assignment No. AP2023-672-01**

# **Audit of local contract management in the United Nations Interim Force in Lebanon**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of local contract management in the United Nations Interim Force in Lebanon. The objective of the audit was to assess the adequacy, efficiency and economy of local contract management in UNIFIL. The audit covered the period from 1 July 2021 to 31 December 2023 and covered higher and medium-risk areas, which included: (a) oversight of contract management; (b) vendor performance evaluations; (c) assessment of the delivery of goods and services; and (d) contract administration.

UNIFIL assessed its contract management performance against key performance indicators. The Mission adequately amended and extended contracts and applied contract remedies for vendor non-performance. However, UNIFIL did not upload all the required performance evaluation supporting documentation into the Contract Performance Reporting Tool. Where documentation was available, OIOS noted instances where UNIFIL's evaluation supporting documentation was not consistent with the vendor's rating. Additionally, the Mission did not consistently record returns to vendors and quantity discrepancies in the Instant Feedback System.

OIOS made three important recommendations. To address issues identified in the audit, UNIFIL needed to:

- Take steps to ensure: (a) it conducts proper vendor performance evaluations and ensures alignment of the vendor rating with the evaluation documentation; and (b) all the documents supporting performance evaluations are uploaded into the Contract Performance Reporting Tool;
- Take action to comply with the requirement to update timely the purchase order required delivery dates in cases with acceptable delays to enable better planning, tracking and reporting of deliveries; and
- Enforce the requirement to record discrepancies in the quality and quantity of goods delivered into the Instant Feedback System to provide an accurate history of vendor delivery performance.

UNIFIL accepted all recommendations and has initiated action to implement them. Actions required to close the recommendations are indicated in Annex I.

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# **Audit of local contract management in the United Nations Interim Force in Lebanon**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of local contract management in the United Nations Interim Force in Lebanon (UNIFIL).
2. UNIFIL is required to ensure that quality goods and services, in the right quantity, are delivered on time and in accordance with the contract terms and the United Nations is obtaining the best value for money. Contract management refers to actions undertaken after the awarding of a contract and covers activities, such as contract execution, vendor performance monitoring, contract amendment, contract disputes, and contract file maintenance and retention.
3. Contract management is guided by the Department of Operational Support (DOS) Contract Management Policy, Procurement Manual, United Nations General Conditions of Contract for Provision of Goods and Services, United Nations Financial Regulations and Rules, and the individual contract signed between UNIFIL and the external parties.
4. The management of contracts in UNIFIL was shared between the Supply Chain Management pillar and the technical sections within the Service Delivery and Operational Resource Management pillars:
  - a) Supply Chain Management, which includes the Acquisition Management Section and Procurement Section, was responsible for acquisition and demand planning and recording vendor performance. It was also responsible for contract amendment or extension, claims and dispute resolutions, contract closure, records retention, maintenance of the contract file, and handling security instruments.
  - b) Requisitioners were incorporated in the technical sections under the Service Delivery pillar (Engineering, Aviation, Supply and Medical Sections) and the Operational Resource Management pillar (Field Technology Section). Contract managers and focal points in the technical sections were responsible for contract implementation, including vendor performance evaluation.
5. Three information technology systems that support contract management are: (a) Umoja; (b) Instant Feedback System (IFS); and (c) Contract Performance Reporting Tool (CPRT). Umoja contains transactional data concerning shopping carts and purchase orders through the Supplier Relationship Management (SRM) module, and deliveries through the Material Management module. IFS is used for each delivery to assess the quality of the delivery and to provide timely feedback to the vendor. Vendors have access to IFS and can provide comments on the feedback. CPRT is used for the quarterly vendor performance evaluation.
6. For the period 1 July 2021 to 30 June 2023 and as shown in table 1, 150 contracts were recorded in Umoja, which were locally initiated by the Mission (local contracts) and \$13.7 million was ordered from these contracts, which included 11 Local Procurement Authority<sup>1</sup> cases.

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<sup>1</sup> Local Procurement Authority applies when United Nations Procurement Division contracts are in place for the required goods or services, but the Mission is authorized by DOS to procure locally.

Table 1: Local contracts in UNIFIL for fiscal years 2021/22 and 2022/23

| Local UNIFIL contracts    | Number of contracts | Ordered amount       |
|---------------------------|---------------------|----------------------|
| Engineering Section       | 63                  | \$ 7,818,443         |
| Ground Transport Section  | 12                  | \$ 285,351           |
| Medical Section           | 16                  | \$ 1,859,079         |
| Movement Control Section  | 3                   | \$ 229,213           |
| Office of Mission Support | 4                   | \$ 172,903           |
| Public Information Office | 12                  | \$ 491,192           |
| Regional ICTS Section     | 6                   | \$ 695,644           |
| Service Delivery          | 26                  | \$ 1,557,083         |
| Security Section          | 8                   | \$ 622,884           |
| <b>Grand Total</b>        | <b>150</b>          | <b>\$ 13,731,792</b> |

Source: Umoja Contract Analysis Area

7. Comments provided by UNIFIL are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy, efficiency and economy of local contract management in UNIFIL.

9. This audit was included in the 2024 risk-based work plan of OIOS due to global supply chain challenges and the local contract management risks identified in other audits.

10. OIOS conducted this audit from August 2023 to December 2023 and covered the period from 1 July 2021 to 31 December 2023. Based on an activity-level risk assessment, the audit covered higher and medium-risk areas in the management of local contracts, which included: (a) oversight of contract management; (b) vendor performance evaluations; (c) assessment of the delivery of goods and services; and (d) contract administration.

11. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of Umoja SRM and Material Management data to assess timely delivery and discrepancies in quality and quantity, and comparison of IFS and CPRT data with Umoja data; (d) assessing data management systems, practices and processes related to IFS and CRPT; and (e) review of a random sample of 56 of 150 active local contracts in CPRT for vendor performance evaluations and contract extensions.

12. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

### **III. AUDIT RESULTS**

#### **A. Oversight of contract management**

##### UNIFIL assessed its contract management performance against key performance indicators

13. The Office of Supply Chain Management implemented a Supply Chain Performance Management Framework, which includes two major groups of contracts management-related key performance indicators (KPIs): (a) source reliability, which is based on five criteria for assessing the reliability of delivery of goods and services (quality, quantity, time, packaging and documentation); and (b) source responsiveness, which measures the timelines for virtual and physical delivery of goods and services. Targets<sup>2</sup> for source responsiveness applied to all product categories at a total sourcing timeline of 60 days.

14. Each quarter, DOS prepared performance reports concerning these KPIs, which were specified for each mission. OIOS review of IFS and Umoja contract data indicated that IFS entries were accurately entered. Similarly, Umoja delivery data indicated that the Mission filled the IFS responsiveness data completely.

15. OIOS reviewed the UNIFIL quarterly performance reports for Q3 2022, Q4 2022 and Q2 2023<sup>3</sup>. OIOS noted that UNIFIL analysed the performance reports and took action to remediate the performance issues. For example, the Q3 2022 report noted under-performance concerning source responsiveness, specifically timeliness for shopping carts and purchase orders and lagging of reporting for inbound delivery timelines. UNIFIL took the following actions: (a) improved timelines for shopping carts and purchase orders by setting KPI for these processes; and (b) promptly recorded inbound delivery data. As a result, UNIFIL's performance on the KPIs subsequently improved from 75 to 86 per cent.

##### The Mission could define and assess risks related to contract management

16. During the audit period, UNIFIL did not conduct a detailed risk assessment, including defining mitigating measures related to contract management. The Mission referred to the mission-wide enterprise risk register as the standard guidance on risk management. As a result of the security situation in South Lebanon starting October 2023, legal risks of contracts were introduced in the UNIFIL risk register in 2024. However, given the extent of challenges due to the persisting economic situation, political instability and current security situation in South Lebanon, UNIFIL could benefit from conducting a detailed risk assessment of contract management to identify, assess and mitigate risks to enhance the management of local contracts.

#### **B. Vendor performance evaluations**

##### Need to upload all required evaluation documents and consistently conduct vendor performance evaluations

17. The DOS Contract Management Policy prescribes that the level of management of contracts must be appropriate to the risk, value and type of the contract. The DOS standard operating procedure on contract performance reporting and Procurement Manual require quarterly contractor performance reports (CPRs) to be used to provide information on the overall performance of vendors. KPI reports are also required to indicate quantitative performance against the KPIs mentioned in the contract, including quality and

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<sup>2</sup> Although there are source reliability targets for fuel, rations and freight forwarding, these goods and services were sourced from United Nations Procurement Division contracts and were not in the scope of this audit.

<sup>3</sup> The Q1 2023 performance report was not available in the DOS' SharePoint repository.

timeliness. It also provides guidance on performing vendor performance meetings. The standard operating procedure requires documentation of vendor performance as evidence in the event of disputes, to form institutional memory, and for audit trail purposes.

*a) Incomplete supporting documentation for vendor performance*

18. OIOS reviewed a sample of 56 out of 150 local contracts to confirm whether UNIFIL conducted and loaded performance evaluation supporting documents into CPRT. As shown in table 2, CPRT did not have the required CPR and KPI reports for all sampled contracts, as 28 (or 50 per cent) did not have any documentation and 22 (or 39 per cent) were missing KPI reports. The remaining 6 (or 11 per cent) of the sampled contracts were missing the KPI or CPR report. Where no supporting document was provided, OIOS could not confirm whether performance evaluations were conducted.

**Table 2: Availability of supporting documentation in the Contract Performance Reporting Tool**

| <b>Availability of supporting documents in CPRT</b> | <b>Number of occurrences</b> | <b>Percentage of occurrences</b> |
|---|------------------------------|----------------------------------|
| No supporting documents in CPRT                     | 28                           | 50%                              |
| Some supporting documents in CPRT <sup>4</sup>      | 6                            | 11%                              |
| Only contractor performance report in CPRT          | 22                           | 39%                              |
| <b>Total sample of local contracts review</b>       | <b>56</b>                    | <b>100%</b>                      |

*Source: Contract Performance Reporting Tool*

*a) Inconsistencies between evaluation documentation and vendor performance assessment*

19. The CPR is used to confirm whether performance evaluation processes had been completed. OIOS reviewed the 22 contracts for which UNIFIL uploaded the CPR into CPRT. OIOS noted three contracts that encountered delays or insufficient service delivery. However, in all three cases, the CPR indicated compliance with schedules and specifications. In one case where both a vendor performance meeting note and CPR were uploaded, the vendor performance meeting indicated issues and the rating in CPRT was downgraded. However, the CPR indicated compliance.

20. When no documentation is provided or when documentation in CPRT is inconsistent with the vendor rating, it is not possible to determine if a vendor meets performance expectations. The Mission acknowledged documentation should be complete and advised it would take steps to correct this.

**(1) UNIFIL should take steps to ensure: (a) it conducts proper vendor performance evaluations and ensures alignment of the vendor rating with the evaluation documentation; and (b) all the documents supporting performance evaluations are uploaded into the Contract Performance Reporting Tool.**

*UNIFIL accepted recommendation 1 and stated that UNIFIL Contract Performance Evaluation Unit would ensure technical sections conduct regular performance review meetings, vendor ratings are aligned with the performance evaluations and supporting documentation is uploaded into the Contract Performance Reporting Tool.*

<sup>4</sup> Of the six sampled contracts: (a) three included only the vendor performance meeting notes; (b) two had the vendor performance meeting notes and CPR; and (c) one had the vendor performance meeting notes and KPI report

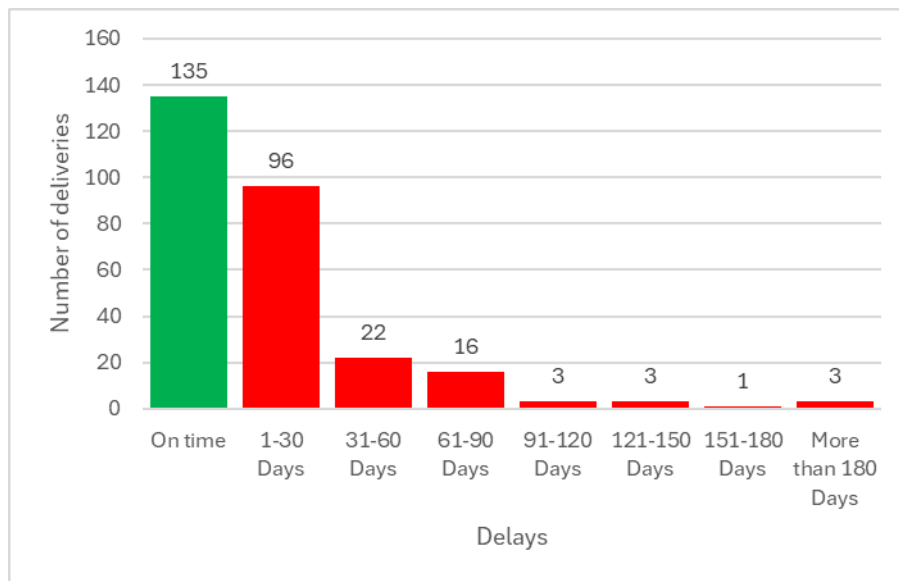
## C. Assessment of the delivery of goods and services

### Need to improve controls over data related to the delivery of goods

21. The Mission is responsible for receiving deliveries of goods and recording these deliveries in Umoja and IFS. Each delivery is assessed in IFS with a rating consisting of five stars to be given for time, quality, quantity, packaging and documentation. A five-star rating indicates a “perfect order”.

22. OIOS analysis of Umoja data (required delivery date per purchase order derived from Umoja SRM and actual goods receipt date derived from Umoja Materials Management) indicated that out of 279 goods delivered for local contracts during the financial years 2021/22 and 2022/23, 144 (or 52 per cent) were delayed. The delays in the delivery of goods are shown in figure 1.

Figure 1: Delays in goods delivery



Source: Umoja purchase order required date and Umoja Material Management received date

23. Despite this, IFS data for deliveries indicated that out of the 144 delayed deliveries, 92 were recorded with a five-star rating or “perfect order” in IFS. The discrepancies between IFS and Umoja occurred because the Mission was not following Umoja procedures for deliveries with known and acceptable delays. For example, the Mission noted a global supply chain disruption during the audit period, resulting in acceptable delays in most cases. The Mission properly entered the actual receipt date in Umoja. However, the Mission did not update the purchase order required delivery date, which is needed in cases where the delay is acceptable.

24. Not updating the purchase order required delivery date posed challenges for inbound delivery planning and monitoring, which requires up-to-date information. Also, it made it seem as if the delivery was unacceptably delayed, which impacted the assessment of vendor performance.

**(2) UNIFIL should take action to comply with the requirement to update timely the purchase order required delivery dates in cases with acceptable delays to enable better planning, tracking and reporting of deliveries.**



*UNIFIL accepted recommendation 2 and stated that the Procurement Section would update the purchase order required delivery dates for approved delays, issue amendments and notify relevant stakeholders.*

Need to consistently record returns to vendors and quantity discrepancies in the Instant Feedback System

25. Upon receipt of goods, the Receiving and Inspection Unit (R&I) is required to confirm the quantity and check for any damages related to goods received. For any discrepancy in quality or quantity, a discrepancy, damages and rejection (DDR) report is prepared by R&I and the technical section jointly. All deliveries, including those with discrepancies, are required to be recorded in IFS and the feedback related to discrepancies is automatically sent to the vendor via email through IFS.

26. OIOS confirmed that R&I recorded the quantities received into Umoja for 273 of 279 deliveries during the audit period. The quantities received matched the purchased order quantity in Umoja. R&I also recorded the timeliness, quality, quantity, documentation and packaging questions in IFS attributed to the deliveries.

27. OIOS reviewed six DDR reports prepared by R&I and the technical sections during the audit period with quality and quantity discrepancies valued at \$95,166. In one case, the goods were damaged and in the remaining five cases, the goods did not meet the required specifications per the purchase order. For four cases, the issues were correctly recorded into IFS, resulting in a lowered rating for the delivery. The notes in IFS were sent to the Procurement Section and the vendor<sup>5</sup>. However, R&I incorrectly noted that the delivery was in full compliance and the delivery received the highest rating. As a result, the Procurement Section and the vendor did not receive feedback via email.

28. The Mission stated that all the issues related to the two DDRs were resolved, and missing or rejected goods were removed from the purchase order or delivered later. However, these discrepancies in the deliveries were not recorded in IFS. If proper goods were received on a later date, there should have been a separate and subsequent IFS entry showing compliance for the second delivery. Not following the procedures for IFS may lead to information not being captured and processed in the system. There was no record of how and when there was any communication with the vendor. Responsible staff in the contract and procurement management process might not be made aware of issues or communications.

**(3) UNIFIL should enforce the requirement to record discrepancies in the quality and quantity of goods delivered into the Instant Feedback System to provide an accurate history of vendor delivery performance.**

*UNIFIL accepted recommendation 3 and stated that UNIFIL Acquisition Management Section would coordinate with the Receiving and Inspection Unit and technical sections to ensure discrepancies are recorded in the Instant Feedback System.*

## **D. Contract administration**

The Mission adequately applied contract remedies for vendor non-performance

29. As defined in each contract, the Mission can apply different remedies when the vendor does not meet performance expectations:

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<sup>5</sup> IFS maintained a record of the date and time an e-mail was sent and to which email address.

- Retention amount is withheld after the final inspection of the completed project. Retention is released back to the vendor if there are no deficiencies found a year after the final inspection.
- Liquidated damages apply when there is a delay in delivery.
- Performance bonds may be claimed when the vendor is no longer able to provide the goods or services contracted and the Mission must revert to an alternate vendor.

30. OIOS confirmed retention, comprising 10 per cent as a warranty and released one year after the completion of a project, was applied to construction projects totaling \$201,686 for 63 purchase orders. For the 63 purchase orders, there were no noted deficiencies a year after the final inspection, and the Mission released the retention back to the vendor. The Mission applied liquidated damages in 27 of 392 cases at \$65,382 for goods and services. The Mission advised that it did not apply liquidated damages to the remaining cases because, as a legal requirement, the Mission had to prove it sustained damages or vendor negligence, which was not always feasible.

31. OIOS confirmed that 18 out of 25 high-value contracts contained requirements for a performance bond. For seven contracts, the Mission concluded that it did not need a performance bond clause based on its risk assessment of the contracts. For example, UNIFIL had contracts with multiple hospitals, so it would be able to quickly switch to an alternate hospital if a hospital was unable to fulfil the required services. For 13 contracts, the performance bond documents were available and held with the Finance and Budget Management Section. For the remaining five, UNIFIL provided a memo to OIOS confirming it returned the performance bond to the vendors. OIOS noted that the Mission did not have to claim the performance bonds for any vendors during the audit period.

The Mission adequately extended and amended its contracts

32. During financial years 2021/22 and 2022/23, 27 contracts were amended, of which 21 were for extensions. For the 21 extensions, the Mission entered into a contract for an initial period of one year, with the possibility for an extension of two more years. In six cases of amendments, the amounts of the not-to-exceed contracts (not-to-exceed amounts) were adjusted. In three of these six cases, the increase was due to the inclusion of another United Nations Office in Lebanon to be included in the contract (i.e., Office of the United Nations Special Coordinator for Lebanon). The other three cases were caused by Lebanese vendors encountering local hyperinflation, resulting in increases in contracted prices. Amendments to the contracts were signed by the appropriate procurement official and the vendor.

**IV. ACKNOWLEDGEMENT**

33. OIOS wishes to express its appreciation to the management and staff of UNIFIL for the assistance and cooperation extended to the auditors during this assignment.

Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of local contract management in the United Nations Interim Force in Lebanon

| Rec. no. | Recommendation  | Critical <sup>6</sup> /<br>Important <sup>7</sup> | C/<br>O <sup>8</sup> | Actions needed to close recommendation   | Implementation date <sup>9</sup> |
|----------|---|---|----------------------|--|----------------------------------|
| 1        | UNIFIL should take steps to ensure: (a) it conducts proper vendor performance evaluations and ensures alignment of the vendor rating with the evaluation documentation; and (b) all the documents supporting performance evaluations are uploaded into the Contract Performance Reporting Tool. | Important   | O                    | Receipt of evidence confirming documents are uploaded and alignment of the evaluations with the documentation. | June 2025                        |
| 2        | UNIFIL should take action to comply with the requirement to update timely the purchase order required delivery dates in cases with acceptable delays to enable better planning, tracking and reporting of deliveries.   | Important   | O                    | Receipt of evidence of implementation of procedures to update the purchase order required date.                | June 2025                        |
| 3        | UNIFIL should enforce the requirement to record discrepancies in the quality and quantity of goods delivered into the Instant Feedback System to provide an accurate history of vendor delivery performance.  | Important   | O                    | Receipt of evidence of recording discrepancies into the Instant Feedback System.                               | September 2025                   |

<sup>6</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>7</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

<sup>8</sup> Please note the value C denotes closed recommendations whereas O refers to open recommendations.

<sup>9</sup> Date provided by UNIFIL in response to recommendations.



# **APPENDIX I**

## **Management Response**



Date: 04 December 2024  
Ref: 1723/UNIFIL/FC 06

To: Mr. Byung-Kun Min, Director  
Internal Audit Division, OIOS

From:  Lieutenant-General Aroldo Lazaro  
Head of Mission and Force Commander, UNIFIL 

Subject: **Draft report on an audit of local contract management in the United Nations Interim Force in Lebanon (Assignment No. AP2023-672-01)**

1. I refer to your memorandum on the above subject, reference No. OIOS-2024-02105 dated 15 November 2024. Please find attached, UNIFIL's response to the recommendations contained in the subject draft report.

2. In following the usual procedure, copies of any supporting documents will only be provided to MERA0 based at UNIFIL HQ and will not be transmitted to you with this Mission's response.

Best regards.

Cc: Melva Crouch, UNIFIL  
Xiaohai Shi, UNIFIL  
Effendi Syukur, UNIFIL  
Mr. Kemal Karaseki, IAD, OIOS  
Mr. Hoa Thanh Quach, IAD, OIOS  
Mr. Jeffrey Lin, IAD, OIOS

| <b>Rec. no.</b> | <b>Recommendation</b>   | <b>Critical<sup>10</sup>/<br/>Important<sup>11</sup></b> | <b>Accepted?<br/>(Yes/No)</b> | <b>Title of<br/>responsible<br/>individual</b>                     | <b>Implementation<br/>date</b> | <b>Client comments</b>   |
|-----------------|---|--|-------------------------------|--|--------------------------------|--|
| 1               | UNIFIL should take steps to ensure: (a) it conducts proper vendor performance evaluations and ensures alignment of the vendor rating with the evaluation documentation; and (b) all the documents supporting performance evaluations are uploaded into the Contract Performance Reporting Tool. | Important  | Yes                           | Chief AMS  | June 2025                      | UNIFIL CPEU (Contract Performance Evaluation Unit) will ensure that technical sections conduct regular performance review meetings, that vendor ratings are issued in accordance with the performance evaluations and that supporting documentation is uploaded into the CPRT (Contract Performance Reporting Tool). |
| 2               | UNIFIL should take action to comply with the requirement to update timely the purchase order required delivery dates in cases with acceptable delays to enable better planning, tracking and reporting of deliveries.   | Important  | Yes                           | CPO  | June 2025                      | UNIFIL Procurement Section will update Purchase Order delivery dates for approved delays, issue amendments, and notify relevant stakeholders.  |
| 3               | UNIFIL should enforce the requirement to record discrepancies in the quality and quantity of goods delivered into the Instant Feedback System to provide an accurate history of vendor delivery performance.  | Important  | Yes                           | AMS & Chief<br>CWS<br>(R & I for Goods,<br>and TS for<br>Services) | September 2025                 | UNIFIL AMS (Acquisition Management Section) will coordinate with Receiving and Inspection and the Technical Sections to ensure discrepancies are recorded in IFS.  |

<sup>10</sup> Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

<sup>11</sup> Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.