



## **INTERNAL AUDIT DIVISION**

### **REPORT 2017/092**

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#### **Audit of commercial activities in the United Nations Interim Force in Lebanon**

**The Mission needed to streamline and  
regulate commercial activities operating from  
its premises**

**26 September 2017  
Assignment No. AP2016/672/10**

# **Audit of commercial activities in the United Nations Interim Force in Lebanon**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over commercial activities in the United Nations Interim Force in Lebanon (UNIFIL). The audit covered the period from 1 January 2015 to 31 December 2016 and it included reviewing the Mission's monitoring of commercial entities contracted by the Mission and contingents, including compliance with relevant guidelines on Post Exchange (PX) activities, contractual obligations and local labour, tax and hygiene regulations.

UNIFIL's Policy on Contingent Contracting, aimed at controlling third party services contracted by the Mission's contingents as a part of their personnel welfare and recreation strategy, were inadequate. In addition, it was unclear whether UNIFIL had the authority to allow contingents, who are part of the Mission, to enter into contracts with entities that had not been vetted by the Mission and for these entities to operate from within the Mission's premises. The Mission's monitoring of its PX operation and contractors also needed improvement. As a result, the Mission was not properly safeguarding itself from potential security, health, legal and reputation risks.

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

- Strengthen supervision over the establishment and functioning of the PX Committee and ensure the PX contractor fully complies with contract terms;
- Review and recover loss of revenue to the staff welfare and recreation fund;
- Clarify the respective roles of Mission personnel responsible for monitoring PX operations;
- Ensure that only eligible Mission personnel including contingents purchase duty free items within their entitled quotas;
- Request guidance from the Department of Peacekeeping Operations and the Department of Field Support (DPKO/DFS) on the appropriateness of contingents contracting with commercial entities to operate facilities on the Mission's premises and if appropriate, the modalities for contracting such services;
- If approved by DPKO/DFS, implement measures to monitor the activities of contingents' contractors by designating a section/unit responsible for such monitoring and requiring contractors to sign all necessary waivers and undertakings;
- Undertake the required procurement process for selecting a vendor for a cafeteria service;
- Monitor contractors' compliance with the Mission's health and hygiene standards as well as their obligations to pay for relevant charges and dividends; and
- Clarify local tax, labour, insurance and health regulations for all contractors to comply with.

UNIFIL accepted seven recommendations and initiated action to implement them. UNIFIL did not accept the recommendation to request guidance from DPKO/DFS on the appropriateness of contingents' contractors operating on the Mission's premises. However, in view of the risks involved, the Office of Legal Affairs offered its assistance to DPKO/DFS and UNIFIL to jointly review relevant policy provisions and OIOS will monitor implementation of this recommendation. UNIFIL also did not accept the recommendation to clarify regulations for contractors' compliance, which exposed the Mission to reputational risks. The recommendation has nevertheless been closed and may be reported to the General Assembly indicating management's acceptance of residual risks.

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# Audit of commercial activities in the United Nations Interim Force in Lebanon

## I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of commercial activities in the United Nations Interim Force in Lebanon (UNIFIL).
2. As at 1 November 2016, there were 83 commercial entities operating within UNIFIL’s premises including Post Exchange (PX) commissaries, restaurants, cafeterias, coffee shops, barbershops, gift and jewelry shops. The Department of Peacekeeping Operations and the Department of Field Support (DPKO/DFS) Universal Post Exchange Guidelines govern PX operations. Policies and procedures established by the Mission govern the other commercial activities.

**Table 1: Summary of commercial activities within UNIFIL’s premises**

Contracted by	Duty status	Operated by contingents	Operated by contractors
Contingents	Duty free	6	9
	Duty paid	5	53
	Combined duty free/paid	-	2
	Duty status not indicated	-	4
Total: entities contracted by contingents (79)		<b>11</b>	<b>68</b>
Mission Support	Duty free	-	1
	Duty paid	-	3
Total: entities contracted by Mission Support (4)		<b>0</b>	<b>4</b>
		<b>11</b>	<b>72</b>
<b>Grand Total</b>		<b>83</b>	

3. The Contracts Management Unit (CMU) is responsible for monitoring the Mission’s contracted commercial entities. The Unit is headed by a Chief at the P-4 level, and assisted by one Field Service level 5 and three national staff. The approved 2016/17 staffing cost for the Unit is \$578,000.
4. Comments provided by UNIFIL and the Office of Legal Affairs (OLA) are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over commercial activities in UNIFIL.
6. This audit was included in the 2016 risk-based work plan of OIOS due to potential reputational and legal risks arising out of unregulated commercial activities within UNIFIL premises and complaints from local representatives thereof.
7. OIOS conducted this audit from December 2016 to March 2017. The audit covered the period from January 2015 to December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the commercial activities in UNIFIL, which included: compliance with relevant guidelines on PX activities and monitoring of commercial activities.

8. The audit methodology included: (a) interviews of key personnel, (b) review of relevant documentation, (c) analytical reviews of data, (d) sample testing of commercial contracts, (e) survey of Mission personnel, and (f) field visits to contingent locations.

### **III. OVERALL CONCLUSION**

9. UNIFIL needed to streamline and regulate commercial activities operating from its premises. It needed to seek guidance from DPKO/DFS on the appropriateness of contracts entered into by contingents to provide welfare and recreation services and, if appropriate, the modalities for contracting such services with appropriate safeguards against security, health, legal and reputation risks. With regards to its PX operations, UNIFIL needed to improve its monitoring of the contractor's compliance with contract terms and ensure that only eligible Mission personnel, including contingents, purchase duty free items within their entitled quotas.

### **IV. AUDIT RESULTS**

#### **A. Monitoring of UNIFIL headquarters PX**

##### Supervision over the functioning of the PX Committee and the PX Coordinator needed improvement

10. The DPKO/DFS Guidelines for PX Operations in Field Missions require missions to establish a PX Committee, and to appoint a PX Coordinator as a point of contact for the PX contractor. The PX Committee is required to oversee and report on the performance of the PX to the Director of Mission Support, who has the overall responsibility to monitor PX operations. The Mission Support PX contract requires the PX Coordinator and the contractor to meet quarterly to review the contractor's performance against mutually agreed key performance indicators (KPIs) such as pricing and mark-up. The contract states that it is the contractor's responsibility to obtain entry visas for its personnel, with the Mission offering limited assistance.

11. The PX Committee only convened three out of the required eight meetings from January 2015 to October 2016. The Committee's membership was not constituted as required: the Senior Administrative Officer was not appointed as the Chairperson; the Chief Finance Officer was not a member; and two national staff served on the Committee. The Committee did not follow up implementation of four out of seven action points agreed at its meetings in November 2015, May and June 2016. In addition, the Committee did not conduct customer satisfaction surveys as required. Also, based on an inaccurate endorsement of the Committee, Mission management obtained visas for the contractor's foreign employees.

12. The Mission appointed the Officer-in-Charge of CMU as the PX Coordinator, and another staff in CMU as an alternate. The PX Coordinator convened only two of the required three performance meetings with the contractor. Both staff members stated that this was because they had prioritized their CMU duties. In addition, the PX Coordinator incorrectly rated the contractor's performance as acceptable, although the contractor did not achieve a KPI on pricing and mark-up.

13. The above happened due to inadequate supervision of the functioning of the PX Committee and the Coordinator by the Office of the DMS. Further, the terms of reference for the PX Committee and the Coordinator did not adequately clarify the respective roles of the PX Coordinator and CMU. These weaknesses contributed to the shortcomings on monitoring of PX operations as discussed in the paragraphs below. Recommendations 1-3 below lay out corrective actions to address this issue.

Performance monitoring of the PX contractor needed improvement

14. The PX contract requires the prices and mark-up quoted in the bid documents to remain fixed for the duration of the contract, and for the contractor to provide the Mission with monthly sales reports. The contractor is also required to provide merchandise of international standard and quality at prices lower than in the local market and to pay two percent of gross sales less returns as dividend to the Mission's staff welfare and recreation fund on a monthly basis.

15. A comparison of items in the bid documents with sales data showed that the contractor adjusted the mark-up for 28 items without prior approval by UNIFIL: 16 items were sold at higher prices by up to 63 percent and 12 items were sold at lower prices but they had been substituted with cheaper brands. In addition, prices of 16 out of 48 sampled items exceeded local market prices.

16. The staff welfare and recreation fund received dividends of \$98,000 during the audit period, of which the current contractor remitted \$31,000 between March and December 2016. A review of the contractor's sales and inventory data in that period indicated an underpayment totaling \$4,800. This was because the contractor did not record sales to two contingents of \$153,000, resulting in an underpayment of \$3,000. The remaining \$1,800 was because the contractor calculated the dividend amount not based on gross sales less returns as required but on gross sales minus discounts.

17. The above was due to inadequate supervision over the PX Committee and the Coordinator to monitor the contractor's compliance with the contract terms. This resulted in loss of revenue to the staff welfare and recreation fund and less than satisfactory PX service to Mission personnel. An OIOS survey showed that out of 795 Mission personnel respondents, 40, 65, and 22 percent of them were not satisfied with services, price and authenticity of the goods from the PX contractor, respectively.

**(1) UNIFIL should take action to strengthen supervision over the establishment and functioning of the PX Committee and contract management by the PX Coordinator to ensure the PX contractor's full compliance with contract terms on pricing, inventory requirements and remittances to the staff welfare and recreational fund.**

*UNIFIL accepted recommendation 1 and stated that the Mission had issued an announcement requesting suitable civilian staff to fill the position of PX Coordinator, along with terms of reference. No suitable candidate had so far volunteered or been identified and the Mission would publish a new broadcast shortly. OLA stated that managing the UNIFIL PX Contract and ensuring the PX contractor's full compliance with contract terms was the responsibility of Mission management and not a voluntary occupation. This was because the Mission had an obligation to ensure that the privilege was not abused under the Status-of-Forces Agreement between the United Nations and the Government of Lebanon. Recommendation 1 remains open pending receipt of evidence of actions implemented by the Mission to strengthen supervision of the establishment and functioning of the PX Committee and management of the PX contract.*

**(2) UNIFIL should review and recover loss of revenue to the staff welfare and recreation fund.**

*UNIFIL accepted recommendation 2 and stated that the Contact Management Unit had recovered \$2,410 from the PX contractor, who requested the Mission to clarify the remaining amount to be recovered. Recommendation 2 remains open pending receipt of confirmation that all lost revenue has been recovered.*

**(3) UNIFIL should clarify the respective roles of Mission personnel responsible for monitoring PX operations.**

*UNIFIL accepted recommendation 3 and stated that it would clarify and broadcast the roles of Mission personnel responsible for monitoring PX operations upon selection and appointment of a new PX Coordinator. Recommendation 3 remains open pending receipt of the document clarifying the roles of responsible Mission personnel.*

Controls over duty free eligibility and quotas were inadequate

18. The DPKO/DFS Guidelines for PX Operations in Field Missions require the Director of Mission Support to: (i) establish protocols and procedures that control the importation of all duty free goods; and (ii) define monthly quotas on the purchase of goods such as alcohol and tobacco and communicate this to authorized PX customers. For example, a Head of Mission directive in 2010 allowed sales of 4 litres of hard liquor, 96 cans of beer and 600 cigarettes to individual Mission personnel each month. Contingents operating their own PX operations are required to comply with the Guidelines and the Head of Mission directive on PX operations. Contingent commanders are required to formally authorize consolidated purchases from the UNIFIL PX, which should be commensurate with troop strength and below the entitled monthly quotas. The Mission is required to limit contingent imports of PX items based on contingents' personnel strength.

19. A review of the Mission's relevant records on five contingents showed that two did not impose quotas in their PXs. Three imposed quotas that were different from those established by the Mission, as they were not aware of the 2010 directive. In addition, a contingent with a personnel strength of 500, imported 800 watches during 2016. Although this was within the established quota allowing 500 items for every six-month rotation, the contingent did not maintain sales records to properly account for the balance and subsequent imports.

20. A review of UNIFIL PX transactions for 7 out of 20 contingents showed that the contractor sold items worth \$383,000 to two contingents without formal authorization, and recorded these sales randomly to personnel that had not exhausted their quotas. These contingents did not operate a duty free PX and could not provide evidence that they complied with the established quotas when distributing these items. In addition, the contractor did not record sales of 1,300 boxes of cigarettes worth \$16,000 to two contingents that had exhausted their monthly quotas. This figure is included in the unrecorded sales in paragraph 16.

21. An OIOS survey showed that 25 respondents out of 118 national staff (21 percent) purchased items from contingent PXs, contrary to guidelines, and only 66 (60 percent) were aware of their ineligibility.

22. This occurred because the Mission did not have a Mission-wide policy to monitor that only eligible Mission personnel could purchase duty free items within their entitled quotas. The Mission had a draft policy defining monthly quotas on selected items in August 2012 but did not finalize it. There was also no mechanism to ensure that UNIFIL members exhausting their quotas at one location do not buy from another location. For example, the Mission did not inform the UNIFIL PX of the duty free items that contingents imported. In addition, the Mission's protocol on importation of duty free items did not have a monitoring mechanism to prevent contingents that import duty free items to purchase the same from the UNIFIL PX. Inability to monitor PX privileges and duty free quotas may expose the Mission to reputational risks.

**(4) UNIFIL should review and implement Mission-wide policy and procedures to monitor that only eligible Mission personnel including contingents purchase duty free items within their entitled quotas.**

*UNIFIL accepted recommendation 4 and stated that the Mission would revise and rebroadcast the relevant administrative circular to contingents on purchasing duty free items within entitled quotas. The Mission would also introduce a procedure requiring contingent commanders to certify that each request for bulk purchases was for a specified PX location and that no additional purchases would be made from any other duty free merchant. Recommendation 4 remains open pending receipt of the revised/new procedures and evidence of their implementation.*

Welfare and recreation funds was disbursed generally in accordance with procedures

23. A review of welfare expenditures for 12 months during the audit period, totaling \$93,000 (out of \$240,000 or 39 percent), showed that they were disbursed in accordance with established policy and procedures for the welfare of Mission personnel. The expenditures, comprising 61 line items, were processed generally in accordance with the Financial Regulations and Rules.

## **B. Monitoring of commercial activities**

The Mission needed to review the modality for contingents' contracts with third parties

24. DPKO/DFS policy and standard operating procedures on welfare and recreation provide a non-exhaustive list of activities and facilities that can be implemented in peacekeeping missions as part of a welfare and recreation strategy. These include recreational spaces such as bar, cafeteria, club house and coffee shops, or recreational activities, services and equipment.

25. DPKO/DFS did not provide guidance on how this policy should be implemented. At UNIFIL, contingents entered into contracts directly with various third parties, who operated facilities such as restaurants, cafés, barbershops and massage centers on the Mission's premises. OIOS identified at least 79 such entities during the audit. UNIFIL issued a Policy on Contingent Contracting in 2013 aimed at controlling these activities. However, it was unclear whether UNIFIL had the authority to allow contingents, who are part of the Mission, to enter into contracts with entities that had not been vetted by the Mission and for these entities to operate from within the Mission's premises. These operations exposed the Mission to a number of risks as outlined below:

*(i) Contingents were not complying with Mission guidelines*

26. The Policy on Contingent Contracting requires the Mission to pre-clear all contingent contracts to minimize potential security, health and other legal risks. The policy allows only one commercial entity per contingent location and two identity cards for each contractor. The UNIFIL standard operating procedures on Personal Criminal Background Checks and Vetting for Access to UNIFIL Premises require that all contingents' contractors and employees should be subject to a background check and vetting by Lebanese authorities prior to issuance of a UNIFIL identity card and/or entry into UNIFIL locations.

27. The Mission was not aware of the number of commercial entities that were operating on its premises. A review of the records for 15 entities showed that none had been pre-cleared by the Mission. There was more than one commercial entity at each of the three contingent locations visited by OIOS. Also, some contingents refused to release contract documents to UNIFIL based on an incorrect understanding that they have no obligations to share their contract documents with UNIFIL. Further, except for contractors based at UNIFIL headquarters, contingents did not submit names of contractors and their employees to the local authorities through Security Section to conduct background checks and issue identity cards. At one contingent location, none of the 28 contractor personnel had been vetted. Some contingents issued their own identity cards or passes to contractor employees.



*(ii) Contingent contractors were not complying with host country regulations*

28. A review of 15 of 79 contingents' contracts showed that while all complied with the United Nations requirement prohibiting employment of children under the age of 18 years, only one contractor had obtained all the insurance coverages that were required by local regulation (see Table 2). For two contractors that had obtained workmen's compensation insurance, only 7 out of 16 personnel were covered. Thirteen contractors (one foreign and 12 local) had not registered their businesses in Lebanon as required; and none of the 15 contractors possessed authorization from relevant Lebanese authorities to operate their businesses in the country. None of the 14 foreign personnel employed by contingents' contractors had work permits and contingents' contractors did not register 87 of 88 Lebanese employees with the social security authority. All 15 contractors did not remit tax on profits or payroll taxes. Only one local contractor remitted value added tax.

*(iii) Cost of facilities and utilities were not recovered*

29. The UNIFIL Policy on Contingent Contracting requires: a) contingents to include recovery of utility charges in their contract agreements and reimburse UNIFIL; b) Engineering Section to install utility meters to track consumption by contingents' contractors; and c) contingents to refrain from generating income by charging rent from their contractors. In addition, the Policy requires all commercial entities in the Mission to contribute an agreed percentage of their income to the staff welfare and recreation fund.

30. The Mission did not recover electricity charges for commercial entities operating at contingents' locations, resulting in a loss of approximately \$100,000 over two years. For commercial entities at its headquarters, UNIFIL billed and collected electricity cost but did not bill for other services such as sewage and garbage, leading to a loss of approximately \$7,000. In addition, contrary to the Policy, contingents collected rent from commercial entities at their locations. For example, two contingents collected rent totaling \$27,000 over two years from nine commercial entities and did not remit the money to UNIFIL. Except for one PX, the Mission did not collect dividends for the staff welfare and recreation fund from other commercial entities. The amount of dividends that the contractors should have contributed to staff welfare fund may be significant; but OIOS could not estimate it because their sales data was not made available.

*(iv) The Mission did not seek protection against possible claims and litigation*

31. Although contingent contractors were operating from the Mission's premises and in some instances the Mission was recovering utility charges from them, they did not sign waivers releasing the United Nations from liability in the event of death, injury or loss of property while on United Nations camps or premises. They were also not requested to abide with the standards of conduct included in the Secretary-General's bulletin on special measures on protection from sexual exploitation and abuse (ST/SGB/2003/13).

32. The above occurred because in the absence of specific guidelines, UNIFIL did not consult with DPKO/DFS before establishing its Policy on Contingent Contracting allowing contingents to arrange local commercial contracts. The Mission did not clarify whether it should arrange and administer contracts on behalf of the contingents, or whether contingents could meet their welfare needs through their national support elements. In addition, CMU, stating that contingent contracts were not part of its responsibilities, did not carry out any activities to monitor them. The Mission also did not properly communicate to the contingents the 2013 Policy on Contingent Contracting and standard operating procedures on issuance of Mission identity cards and background checks.

33. As a result, the Mission did not adequately mitigate against reputation, security and potential legal risks arising out of unregulated commercial activities on its premises. It also did not recover costs of services they were using.

**(5) UNIFIL should request guidance from DPKO/DFS on: (i) the appropriateness of contingents contracting with commercial entities to operate facilities on the Mission's premises; and (ii) if appropriate, the modalities for contracting such services.**

*UNIFIL did not accept recommendation 5 and stated that the report of the Special Committee on Peacekeeping Operations (A/59/19/Rev1) stipulated that troop-contributing countries had primary responsibility to provide their troops with welfare and recreation facilities, and recommended that DPKO monitors the provision of such facilities. The DPKO/DFS policy on welfare and recreation already provided guidance in this regard, which UNIFIL enforced at Mission level by issuing administrative circular 2017/035 and other directives. It was the responsibility of UNIFIL's CMU to monitor contingents' compliance with the Mission's established policies and procedures on commercial contracting. As self-sustainment categories for welfare were contingents' responsibility, they may equip, provide and sustain their troops in the manner best determined by them, including by outsourcing/contracting with commercial suppliers of goods and services at their own expense and liability.*

*OLA stated that the DPKO/DFS policy on welfare and recreation provided little, if any, guidance on how to implement the policy. There was a need to review the UNIFIL Policy on Contingent Contracting with relevant Departments to strike the right balance between allowing troop-contributing countries to provide welfare/recreational facilities through contracts with third party entities without the Organization taking over this responsibility, while ensuring that the interests of the Organization were protected. The Office would participate in such a review if requested. OIOS therefore reiterates recommendation 5, which remains open, considering the risks involved, pending receipt of the results of the review of the UNIFIL Policy on Contingent Contracting, in conjunction with OLA and other relevant Departments.*

**(6) UNIFIL should, if approved by DPKO/DFS, implement measures to ensure compliance with its Policy on Contingent Contracting and other applicable policies, procedures and local regulations. This should include: (i) designating a responsible section/unit to monitor compliance by contingent contractors; (ii) ensuring all necessary waivers and undertakings are signed by them; and (iii) establishing necessary measures to invoice and collect all charges and dividends they are required to pay.**

*UNIFIL accepted recommendation 6 and stated that it was currently revising the Policy on Contingent Contracting. As an interim measure, it issued administrative circular 2017/035 (Guidance on UNIFIL Contingents on the Contracting and Operation of Commercial Enterprise/Activities) outlining procedures for contingent contracting. UNIFIL would discuss implementation of the revised procedures with DPKO/DFS. Recommendation 6 remains open pending receipt of the Policy on Contingent Contracting, revised in collaboration with OLA, and evidence of its implementation.*

The Mission did not undertake the required procurement process for one commercial entity

34. The United Nations Financial Regulations and Rules require the Mission to conduct formal solicitation and competitive bidding exercises in accordance with the Procurement Manual when procuring goods and services. Only the Procurement Section and staff with procurement delegation are authorized to enter into contractual agreements for income generating activities.

35. The Mission did not undertake the required procurement procedures for one of the cafeterias operated on the premises. The Director of Mission Support approved a request by the Mission's Women's Advisory Group to use the nominal income generated from the Mission's commercial entities for the Group's activities. CMU assisted the Group in entering into an agreement with a contractor in March 2016 to inaugurate the cafeteria service by International Day for Women's Rights in 2016. This was a temporary arrangement until a formal procurement exercise, scheduled to take place in June 2016, was completed. However, the Mission renewed this agreement until 30 June 2017 and a formal procurement exercise had not taken place as at 31 March 2017. The Procurement Section stated that it was not aware of the agreement.

36. The above happened because the Mission did not properly follow up to undertake the required procurement process. This noncompliance resulted in the lack of an open and fair process and assurance that the most qualified and cost effective vendor was selected.

**(7) UNIFIL should take corrective action to undertake the required procurement procedures for the cafeteria at the Women's Resource Center.**

*UNIFIL accepted recommendation 7 and stated that a statement of requirements would be submitted to the Procurement Section to undertake the procurement process to select a supplier for cafeteria services at the Women's Resource Center. Recommendation 7 remains open pending receipt of evidence of completion of the required procurement procedures.*

Controls for contractors' compliance with health and hygiene requirements were inadequate

37. According to the Mission's Medical standard operating procedures, the Chief Hygiene Officer is responsible for hygiene issues in the Mission, including conducting regular inspections of food hygiene, water safety and sanitation.

38. The Mission did not conduct hygiene inspections of two of the three cafeterias offering food services on the premises. The contract of the cafeteria that was inspected had two KPIs to monitor health and hygiene conditions. CMU rated this contractor's health indicator as satisfactory without properly assessing the physical conditions of premises and employees and, due to lack of coordination with the Hygiene Officer, CMU did not rate the KPI on hygiene.

39. This occurred because the Mission did not have mandatory procedures to require commercial entities offering food services to comply with the Mission's health and hygiene standards and to monitor their compliance. UNIFIL Medical standard operating procedures governing hygiene inspections also did not designate the responsibility to inspect facilities to any of the Mission's units. As a result, Mission personnel were exposed to health and safety risks.

**(8) UNIFIL should develop and implement mandatory procedures to monitor all contractors' compliance with the Mission's health and hygiene standards.**

*UNIFIL accepted recommendation 8 and stated that its CMU Unit had requested the Chief Medical Officer to conduct necessary monitoring activities and submit monthly hygiene reports for all contractors. Inspections were being carried out. Recommendation 8 remains open pending receipt of approved procedures and first set of reports.*

Controls over contractors' compliance with local regulations were inadequate

40. UNIFIL commercial contracts require commercial contractors to comply with local regulations on taxation, labour and insurance. A list of local regulations is shown in Table 2. The DPKO/DFS Policy on Prohibition of Child Labour in the United Nations Peacekeeping Operations prohibits all United Nations contractors and their affiliates from employing children under the age of 18 years. The UNIFIL PX contract states that it is the contractor's responsibility to obtain work permits for its foreign personnel.

**Table 2: List of local regulations**

<b>Business registration/incorporation</b>	
1	Copy of Certificate of incorporation/registration in Lebanon from the Ministry of Economy and Trade
2	Copy of Tax Identification/Financial Number from the Ministry of Finance in Lebanon
3	Copy of authorization from the relevant local authorities in relation with the field of business e.g. restaurant
<b>Labour code</b>	
4	List of all contractor employees (indicating nationality and date of birth)
5	Copies of Social Affairs Services "work book" for all Lebanese employees (showing name, identity card, specialty, and employment by the contractor)
6	Copies of work permits for all foreign employees obtained from the Ministry of Labour
<b>Taxation</b>	
7	A release paper from the Ministry of Finance showing that the contractor is acquitted from all tax obligations (corporate and payroll tax).
8	A release paper from the Social Security Authority showing that the contractor is acquitted from all social security obligations (social security contributions for its employees).
9	Value Added Tax (VAT) registration certificate if applicable for operations with a threshold of \$100,000 per year.
<b>Insurance</b>	
10	All risk insurance
11	Workmen's compensation insurance
12	Liability insurance
13	Comprehensive general liability insurance

41. A review of three out of the four commercial cafeterias contracted by Mission Support showed that all three contractors complied with the United Nations requirements prohibiting employment of children under the age of 18 years. However, one contractor had obtained only three of the four required insurance coverages shown in Table 2. Two foreign contractors operating three commercial entities within the UNIFIL premises did not register their businesses in Lebanon as required. None of the three contractors possessed authorization from the Lebanese authorities to operate their line of business in the country such as restaurants. A contractor's three foreign employees did not have a work permit from the Ministry of Labour, which prompted the Mission, during the audit, to deny their access to the Mission's premises. Another contractor did not register 5 of 12 local employees with the social security authority; and all three contractors did not pay tax on profits, VAT or remit payroll taxes to the authorities, although required.

42. The above occurred because the Mission did not monitor the contractors' compliance with the applicable labour, health and tax regulations. There was no requirement for contingents to verify and report to the Mission on the contractors' compliance with applicable regulations. Further, the Mission was not aware of the detailed local regulations with which the contractors were required to comply. OIOS and the office of legal advisor of the Mission during the audit compiled the applicable requirements. The Mission mentioned a possibility of obtaining special waivers from local authorities but did not take action to consult with them. As a result, the Mission may be exposed to legal liabilities associated with the unregulated commercial activities within its premises. Furthermore, some local representatives had complained to UNIFIL that it was unfair for the contractors to have de facto exemption status on local regulations. Such complaints could negatively affect the Mission's reputation and effort on its mandate implementation. The

UNIFIL office of legal advisor opined that the Mission would not be held legally liable for the contractors' failure to comply with the local regulations.

**(9) UNIFIL should clarify the applicable local tax, labour, insurance and health regulations contractors of the Mission are required to comply with and put in place a mechanism to monitor their compliance.**

*UNIFIL did not accept recommendation 9 and stated that the Missions' contracts placed all obligations, responsibilities and liabilities on contractors to observe laws. Breach of contractual obligations by a contractor would therefore be a basis for the legal termination of a contract. Targeted auditing of contractors prior to relevant notification of noncompliance would be beyond the scope of the contract. Appropriate legal provisions and remedies remained in place to protect UNIFIL from all risks related to the noncompliance of contractors. OLA noted that whether or not the Organization/Mission would be entitled to terminate a contract would depend on the terms and conditions of the specific contract. OIOS reiterates that weaknesses in contract management needed to be addressed to mitigate reputational risks. Nonetheless, OIOS has closed this unaccepted recommendation, which may be reported to the General Assembly indicating management's acceptance of residual risks.*

## **V. ACKNOWLEDGEMENT**

43. OIOS wishes to express its appreciation to the management and staff of UNIFIL, DFS, OLA and the Department of Management for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNIFIL should take action to strengthen supervision over the functioning and appointment of members of the PX Committee and of the PX Coordinator to ensure the PX contractor's full compliance with the contract terms on pricing, inventory requirements and remittance to the staff welfare and recreational fund.	Important	O	Receipt of evidence of actions implemented by the Mission to strengthen supervision of the establishment and functioning of the PX Committee and management of the PX contract.	1 January 2018
2	UNIFIL should review and recover loss of revenue to the staff welfare and recreation fund.	Important	O	Receipt of confirmation that lost revenue has been recovered.	1 January 2018
3	UNIFIL should clarify the respective roles of the Mission personnel responsible for monitoring PX operations.	Important	O	Receipt of the document clarifying the roles of responsible Mission personnel for monitoring PX operations.	1 November 2017
4	UNIFIL should review and implement Mission-wide policy and procedures to monitor that only eligible Mission personnel including contingents purchase duty free items within their entitled quotas.	Important	O	Receipt of revised/new procedures on purchasing duty free items within entitled quotas and evidence of their implementation.	1 January 2018
5	UNIFIL should request guidance from DPKO/DFS on: (i) the appropriateness of contingents contracting with commercial entities to operate facilities on the Mission's premises; and (ii) if appropriate, the modalities for contracting such services.	Important	O	Receipt of the results of the review of the UNIFIL Policy on Contingent Contracting, in conjunction with OLA and other relevant Departments.	Not provided
6	UNIFIL should, if approved by DPKO/DFS, implement measures to ensure compliance with its Policy on Contingent Contracting and other applicable policies, procedures and local regulations. This should include: (i) designating a	Important	O	Receipt of the Policy on Contingent Contracting, revised in collaboration with OLA, and evidence of its implementation.	1 January 2018

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNIFIL in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical/ Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
	responsible section/unit to monitor compliance by contingent contractors; (ii) ensuring all necessary waivers and undertakings are signed by them; and (iii) establishing necessary measures to invoice and collecting all charges and dividends they are required to pay.				
7	UNIFIL should take corrective action to undertake the required procurement procedures for the cafeteria at the Women's Resource Center.	Important	O	Receipt of evidence of completion of procurement procedures for the Women's Resource Center.	1 January 2018
8	UNIFIL should develop and implement mandatory procedures to monitor all contractors' compliance with the Mission's health and hygiene standards.	Important	O	Receipt of approved procedures and first set of hygiene reports.	1 December 2017
9	UNIFIL should clarify the applicable local tax, labour, insurance and health regulations contractors of the Mission are required to comply with and put in place a mechanism to monitor their compliance.	Important	C	Recommendation has been closed without implementation and may be reported to the General Assembly indicating management's acceptance or residual risks.	30 September 2017

# **APPENDIX I**

## **Management Response**





UNCLASSIFIED

Routine

TO: Ms. Lawrence-Hume, Chief, New York Audit Service,  
A: Internal Audit Division, OIOS

DATE:

AUG 10 2017

THROUGH:  
S/C DE:

REFERENCE: UNHQ-AR-BOI-Memo-2-  
2017-11508

FROM: Lisa Buttenheim, Assistant Secretary-General  
DE: for Field Support

A handwritten signature in blue ink, appearing to be 'L. Buttenheim'.

SUBJECT: **Draft Report on an Audit of Commercial Activities in UNIFIL**  
OBJET: **(AP2016/672/10)**

1. I refer to your memorandum, dated 7 July 2017, regarding the above-mentioned audit. We note that OIOS has taken our comments provided earlier into account. Nevertheless, the Department is providing additional comments on the findings and recommendations contained in the draft report as Annex I and Appendix I.
2. Thank you for the opportunity to comment on the draft report. We stand ready to provide any further information that may be required.

cc: Ms. Cynthia Avena-Castillo

## Management Response

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNIFIL should: (i) take action to strengthen supervision over the functioning and appointment of members of PX Committee and of the PX Coordinator to ensure the PX contractor's full compliance with the contract terms on pricing, inventory requirements and remittance to the staff welfare and recreational fund; (ii) review and recover loss of revenue to the staff welfare and recreation fund; and (iii) clarify the respective roles of the Mission personnel responsible for monitoring PX operations.	Important	Yes	(i) DMS (ii) UNIFIL PX Committee (iii) DMS, UNIFIL	First Quarter of 2018	DFS requests that this recommendation be split into three separate recommendations to facilitate the monitoring and implementation of each part of the recommendation. (i) Further to the Administrative Circular published in September 2016 on the revised composition of the PX Committee, on 25 April 2017, a Mission Announcement was sent out to UNIFIL civilian staff requesting suitable candidates to fill the position of the PX Coordinator, along with the PX Coordinator Terms of Reference, which are inclusive of the requirements to ensure the PX Contractor's full compliance with the contract terms. Thus far, no suitable candidates have volunteered or been identified. A new broadcast seeking candidates will be published shortly. ii) On 8 June 2017, the Contracts Management Unit sent a letter to

<sup>5</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>6</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						the PX Contractor requesting recovery of moneys owed. On 15 June 2017, the contractor reimbursed UNIFIL in the amount of USD \$2,410.00. The contractor has sought additional clarification from the Mission on additional moneys owed. iii) The roles of all Mission personnel responsible for monitoring PX operations will be clarified and broadcast upon selection of a new PX Coordinator.
2	UNIFIL should review and implement Mission-wide policy and procedures to monitor that only eligible Mission personnel including contingents purchase duty free items within their entitled quotas.	Important	Yes	PX Committee	First Quarter of 2018	The current standing Administrative Circular on this subject (07/2010) will be revised and rebroadcast to all TCC's. Additionally, along with reinforcement of the current procedure whereby contingent commanders submit bulk purchase requests to the Deputy Chief of Staff Support, an additional procedure will require contingent commanders to certify that each request made for bulk sales is a standalone request from one specified PX location and that no additional purchases will be made from any other duty free shops. The procedure will be included in the revised Administrative Circular.
3	UNIFIL should request guidance from DPKO/DFS on: (i) the appropriateness of contingents	Important	No	Not applicable	Not applicable	Almost all welfare remains a self-sustainment category for troops deployed to the United Nations.

## Management Response

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	contracting with commercial entities to operate facilities on the Mission's premises; and (ii) if appropriate, the modalities for contracting such services.					As stated by the special Committee of the General Assembly (A/59/19/Rev.1, Chap. II, para. 22) <i>"troop contributing countries have the primary responsibility to provide their troops with welfare and recreation facilities"</i> . The Special Committee recommended (Chap. II, para. 23) that <i>"the provision of such facilities in Mission be monitored by DPKO using existing monitoring mechanisms, while troops are deployed"</i> . In this regard, guidance has already been provided as a directive to Missions, through the DPKO Welfare and Recreation Policy (para. 23), of 30 April 2007, and enforced at Mission level through DMS instructions, such as the UNIFIL Contingent Contracting Policy, 2013 and subsequent Guidance/ Administrative Circular 2017/035 (Guidance on UNIFIL Contingents on the Contracting and Operation of Commercial Enterprises/Activities), directives and circulars to Contingents, requiring insertion of mandatory contract provisions, outlining prohibitions and procedures, as well as the responsibility of UNIFIL's Contract Management Unit to monitor Contingents

Management Response

Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>compliance with the Mission’s established policies and procedures on commercial contracting. As to the provision of contracted services to contingents on UNIFIL premises, note that pursuant to the SOFA, paragraph 16, the GoL provides without cost to UNIFIL (inclusive of its military element) areas for headquarters, camps or other premises as may be necessary for the conduct of administrative and operational activities. Contracted activities in relation to self-sustainment categories, such as welfare falls within the operational activities of contingents. It is already well established that based on the nature of their arrangements with the United Nations, TCC’s may agree to equip, provision and sustain their own troops, in accordance with the principal of self-sustainment, for certain agreed categories. Such self-sustainment obligations are a national responsibility and are fulfilled by TCC’s in the manner best determined by them, including by outsourcing/contracting with commercial suppliers of goods and services in accordance with national</p>

## Management Response

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						arrangements and at their own expense and liability.
4	UNIFIL should, if approved by DPKO/DFS, implement measures to ensure compliance with its Policy on Contingent Contracting and other applicable policies, procedures and local regulations. This should include: (i) designating a responsible section/unit to monitor compliance by contingent contractors; (ii) ensuring all necessary waivers and undertakings are signed by them; and (iii) establishing necessary measures to invoice and collecting all charges and dividends they are required to pay.	Important	Yes	DMS, UNIFIL	First Quarter of 2018	The Standard Operating Procedure (SOP) on Contingent Contracting is currently under revision. In the interim, Administrative Circular 2017/035 (Guidance on UNIFIL Contingents on the Contracting and Operation of Commercial Enterprises/Activities) has been published outlining the procedures for TCC commercial activities including coordination with DCOS Support, MSC and CMU. Upon finalization of the SOP, and in coordination with the UNIFIL Finance Section, implementation measures to ensure compliance can be discussed with DPKO/DFS.
5	UNIFIL should take corrective actions to undertake the required procurement procedures for the cafeteria at the Women's Resource Center.	Important	Yes	DMS, UNIFIL	First Quarter of 2018	Requirements will be submitted to UNIFIL Procurement Section so that the appropriate procurement procedures are undertaken for the cafeteria at the women's Resource Center.
6	UNIFIL should develop and implement mandatory procedures to monitor all contractor's compliance with the Mission's health and hygiene standards.	Important	Yes	DMS, UNIFIL	First Quarter of 2018	The Contracts Management Unit has requested (email dated 3 May 2017) that the Chief Medical Officer comply with the audit recommendation and submit monthly hygiene reports for all contractors. Inspections are being

## Management Response

## Audit of commercial activities in the United Nations Interim Force in Lebanon

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						carried out and monthly reports will be submitted.
7	UNIFIL should clarify the applicable local tax, labour, insurance and health regulations for the contractors of Mission and contingents to comply with and put in place a mechanism to monitor their compliance.	Important	No	Not applicable	Not applicable	a) As stated at paragraph 42 of the report, a list of applicable local requirements has been compiled in coordination with the UNIFIL Legal Affairs Section. b) Regarding a mechanism to monitor compliance, UNIFIL, through direct contractual agreements with Mission contractors and mandatory policies, directives and circulars concerning contracting by contingents, requires all contracts signed by Mission and Contingent Contractors to include specific contractual terms, placing all obligations, responsibilities and liabilities on contractors regarding the observance of laws, including tax, labour, health and insurance laws. Breach of contractual obligations by a contractor is therefore basis for the legal termination of contract. The burden of compliance is thereby placed directly on contractors, on risk of legal termination of contract. Targeted auditing of contractors prior to relevant notification of non-compliance, is beyond the scope of the contract. Appropriate legal provisions and remedies remain in place to

**Management Response**

**Audit of commercial activities in the United Nations Interim Force in Lebanon**

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						protect UNIFIL from all risks related to non-compliance of contractors.



## ANNEX I

### AP2016/672/10 - Draft Report on an Audit of Commercial Activities in UNIFIL

#### Audit results

1. **Paragraphs 10 to 17:** DFS wishes to clarify that the governance and funding of the PX falls within a third party to the United Nations, even though it operates within United Nations premises. The personnel in the PX Committee members operate in a personal function rather than any official United Nations capacity. It may be the role of the PX Committee to oversee the governance of the PX, but under the ambit of their personal responsibilities. Neither the funds of the third party PX, nor any contribution from the third party of the PX is part of the Mission's assessed funds to be reported to the General Assembly.
2. **Paragraphs 18 to 22:** Notwithstanding that the PX is independently owned, it is reasonable to expect the use of the PX to be restricted to mitigate any potential liabilities of a third party nature and in ensuring relations with any host government agreements.
3. **Paragraphs 24 to 33:** Any request from the Mission would be agreeable to be reviewed by DPKO and DFS subject to the restrictions on the part of the third party entity.

TO: Ms. Muriette Lawrence-Hume, Chief, New York Audit Service DATE: 15 August 2017  
A: Office of Internal Oversight Services

**CONFIDENTIAL**

THROUGH: Christian Saunders, Director  
S/C DE: Office of the Under-Secretary-General for Management

FROM: Mario Baez, Chief, Policy and Oversight Coordination Service  
DE: Office of the Under-Secretary-General for Management

SUBJECT: **Draft Report on an Audit of Commercial Activities in UNIFIL (AP2016/672/10)**  
OBJET:

1. This is in response to your memorandum dated 7 July 2017 addressed to UNIFIL and which was shared by the Department of Field Support (DFS) with our office requesting for additional comments. Following the assessment that the matters contained in the draft report should be reviewed by the Department of Management (DM), the Office of Legal Affairs (OLA) and the Department of Safety and Security (DSS), please see below the comments received from DSS and OLA on the above subject draft report. DM has no comments.

A. Department of Safety and Security

2. For the issuance of UNIFIL ID cards, UNIFIL decided to initiate background checks according to Head of Mission policy, HOM POL 15-16, and defined the procedures in the Standard Operating Procedure (SOP) on Personal Criminal Background Checks and Vetting for Access to UNIFIL Premises, dated 4 October 2015.

3. Under heading D. Procedures, paragraph 10.3, background check and vetting procedures are defined in detail.

*10.3. **Background Check and vetting.** CSU will hand the completed vetting forms to SICU where they will be collated, entered into the database, and sent with a cover letter to each one of the Local Authorities that provide background information- which are; ISF (both Operations and Information Units), LAF and GSS. Each request shall be signed by the CSO and shall be hand delivered to, and collected upon completion, in sealed envelopes from each respective local authority by the SICU.*

4. In this regard, it is suggested that OIOS revises paragraph 26 of the draft report to reflect the procedure as below:

The Policy on Contingent Contracting requires the Mission to pre-clear all contingent contracts to minimize potential security, health and other legal risks. The policy allows only one commercial entity per contingent location and two identity cards for each contractor. The UNIFIL standard operating procedures on Personal Criminal Background Checks and Vetting for Access to UNIFIL Premises require that all contingents' contractors and employees should be subject to a background check and

vetting by the ~~UNIFIL Security Section~~ Lebanese authorities initiated by UNIFIL prior to issuance of a UNIFIL identity card and/or entry into UNIFIL locations.

B. Office of Legal Affairs (OLA)

5. The draft audit report essentially addresses two main categories of commercial activities: (i) PX facilities, including the UNIFIL Headquarters PX and PXs operated by UNIFIL contingents; and (ii) commercial activities entered into by UNIFIL contingents directly with third parties. Whilst most of the points raised in the draft audit relate primarily to management, rather than legal, issues, comments on the legal aspects of each category of activity are set out below. OLA would also note that many of the DPKO/DFS and/or UNIFIL issued Policies, Guidelines and Standard Operating Procedures referred to in the draft audit report have not been provided to us.

**i. PX facilities**

6. UNIFIL's right to import/export duty free good, supplies and equipment for its official use is derived from Article II of the Convention on the Privileges and Immunities of the United Nations (hereafter the "Convention") and is reflected in paragraph 15 of the Status-of-Forces Agreement (SOFA) between the UN and the Government of Lebanon. In particular, in paragraph 15 (b) of the UNIFIL SOFA, the Government recognizes the right of UNIFIL:

*(b) To establish, maintain and operate commissaries at its headquarters, camps and posts for the benefit of the members of UNIFIL, but not of locally recruited personnel. Such commissaries may provide goods of a consumable nature and other articles to be specified in advance. The Force Commander shall take all necessary measures to prevent abuse of such commissaries and the sale or resale of such goods to persons other than members of UNIFIL, and he shall give sympathetic consideration to observations or requests of the Government concerning the operation of the commissaries."*

7. UNIFIL's right to operate commissaries (commonly referred to as PXs), therefore, is subject to the Mission having in place the necessary measures to ensure that such PXs are not abused. Most particularly, UNIFIL is obliged to ensure that duty free goods imported for sale in the PX are sold only to authorized PX users and do not (either through sale to locally recruited UNIFIL personnel or otherwise) end up on the local market. UNIFIL's obligation in this regard applies irrespective of whether the PX is operated by a UNIFIL-engaged commercial contractor, or by individual UNIFIL contingents.

8. Within this legal framework, OLA's comments on Section IV of the draft audit report are as follows:

9. Paragraphs 10 - 17 of Section IV of the draft audit report focus on the UNIFIL Headquarters PX which, OLA notes, is operated by a UNIFIL-engaged commercial contractor. OLA further notes that:

- a. The shortcomings in management and oversight of the UNIFIL Headquarters PX highlighted in the audit report are such that they give rise to concerns as to whether UNIFIL is in compliance with its legal obligations under the SOFA (as described above), both as regards the UNIFIL Headquarters PX Contract and the various contingent operated PXs.
- b. UNIFIL's response to Recommendation 1 of the draft audit report indicates that an announcement has been sent out to all UNIFIL civilian personnel seeking volunteers to act as the UNIFIL [Headquarters] PX Coordinator. We would note that managing the UNIFIL Headquarters PX Contract and ensuring the PX contractor's full compliance with contract terms is the responsibility of Mission management -- it is not a voluntary occupation. The same Management responsibility also applies to ensuring that the necessary management measures are in place to ensure the proper operation of contingent run PXs.

10. Paragraphs 18 - 20 of the draft audit report focus largely on the issue of "quotas". The primary purpose for establishing quotas on the purchase of certain items sold in the PX (usually alcohol and cigarettes) is to ensure that those items are purchased for private consumption only, and do not end up being re-sold on the local market. The shortcomings in ensuring the Mission-wide application of the established quota, without the possibility of individual personnel or contingents 'multiplying' their quota by shopping in multiple Mission/contingent operated PXs, identified in the draft audit report could give rise to potential abuse.

11. In relation to paragraphs 21 and 22 of the draft audit report, OLA notes that it is essential that the Mission has and enforces a Mission-wide policy to ensure that only eligible personnel are allowed to use any PX. As stated in the UNIFIL SOFA, this excludes UNIFIL locally-recruited personnel.

**ii. Commercial activities entered into by UNIFIL contingents directly with Third parties**

12. The volume (at least 79) and shortcomings in the regulation of contracts entered into between UNIFIL contingents and third parties operating on UNIFIL premises, as identified in paragraphs 25 to 33 of the draft audit report, give rise to a number of concerns from a legal point of view, many of which are enumerated in the draft report. However, OLA also agrees with the comments in the draft report that the DPKO/DFS Policy and SOPs on Welfare and Recreation provide little, if any guidance, on how this Policy/SOP should be implemented.

13. In OLA's view, a balance must be struck between allowing contingents to provide Welfare/Recreation facilities, including through contracts with third party entities, and without the Organization taking over this responsibility, whilst at the same time ensuring that the interests of the Organization are protected. This would entail a review of the UNIFIL Policy

on Contingent Contracting referred to in the draft audit report, as well as detailed discussions with the Mission and the relevant operational Departments concerned. OLA would be pleased to participate in such review if requested to do so. Such a review could also, in OLA's view, assist in the development of much needed guidance for other Missions besides UNIFIL. In this regard (although not directly addressed in the draft audit report), OLA would note that there appears to be conflicting United Nations Headquarters guidance as to whether welfare fund expenditures should be managed/overseen by Mission management, or by elected Staff Welfare Committees.

14. In relation to the comments in paragraphs 40- 42 of the draft audit report, OLA notes that many of the points raised would be covered by more diligent contract management. As regards UNIFIL's response to this audit observation that breach by a contractor of its contractual obligations would provide a basis for terminating the contract, OLA would note that whether or not the Organization/Mission would be entitled to terminate would depend on the terms and conditions of the specific contract.

15. Thank you for providing the Administration with the opportunity to provide additional comments on the draft Report.