



INTERNAL AUDIT DIVISION

REPORT 2017/140

Audit of procurement, contract management and medical services in United Nations Peacekeeping Force in Cyprus

The Mission needed to develop and implement a strategy for effective and competitive procurement operations and a modality for proper certification of medical payments.

**14 December 2017
Assignment No. AP2017/654/01**

Audit of procurement, contract management and medical services in the United Nations Peacekeeping Force in Cyprus

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of procurement, contract management and medical services in the United Nations Peacekeeping Force in Cyprus (UNFICYP). The objective of the audit was to assess whether UNFICYP implemented adequate and effective processes to ensure: (i) goods and services procured meet the applicable specifications at competitive prices and within the timeframe required; and (ii) medical services for military personnel are adequate and meet United Nations standards. The audit covered the period from 1 July 2015 to 31 May 2017 and included a review of: (i) procurement, including acquisition planning, solicitation and vendor selection processes; (ii) contract management; and (iii) provision of medical services.

UNFICYP was complying with the required procedures on tender opening and evaluation of bids received from vendors, and its procurement personnel completed mandatory procurement training. UNFICYP made adequate arrangements to provide Levels 1 and 2 medical care for its military personnel. However, there were considerable delays in contract extensions, insufficient vendor participation in solicitation exercises that limited competition, and weaknesses in contract management. Controls over payments to commercial medical facilities also needed significant improvement.

OIOS made eight recommendations. To address issues identified in the audit, UNFICYP needed to:

- Develop and implement an overall procurement strategy to increase the competitiveness and effectiveness of the procurement process;
- Identify bottlenecks in implementation of procurement actions and ensure extensions of contracts beyond their approved terms are duly justified and allowed only under exceptional circumstances;
- Ensure key performance indicators included in contracts are critical to contract delivery and can be implemented cost effectively and that requisitioners properly reflect performance issues in contractors' performance reports;
- Conduct a proper procurement process for requirements relating to medical services delivered by commercial facilities;
- Develop and implement guidelines on referral and treatment of military personnel in consultation with the Medical Service Division (MSD) of the Department of Management;
- Consult with MSD to implement an appropriate modality to certify and approve payments of medical invoices in the absence of a civilian medical officer in the Mission;
- Request Vendor A to provide itemized invoices and supporting medical records for the past two years and review the accuracy of charges and application of agreed discounts; and
- Conduct a needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and dispose of surplus equipment.

UNFICYP accepted the recommendations and has initiated action to implement them.

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Audit of procurement, contract management and medical services in the United Nations Peacekeeping Force in Cyprus

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement, contract management and medical services in the United Nations Peacekeeping Force in Cyprus (UNFICYP).
2. UNFICYP total expenditure for procurement of goods and services, such as engineering equipment, rental of vehicles and various maintenance services, for financial years 2015/16 and 2016/17 were \$14.1 million and \$17.1 million respectively. The United Nations Financial Regulations and Rules (FRR) and the Procurement Manual govern procurement and contract management activities in UNFICYP. The Procurement Section is responsible for conducting local procurement activities and contract administration. The Procurement Section is headed by a Chief at the P-4 level, who is supported by six national staff. Self-accounting-units (SAUs) are responsible for monitoring and managing vendors' performance based on contractual terms and conditions.
3. According to the memoranda of understanding (MOU) with troop-contributing countries, the Mission would provide Levels 1 and 2¹ medical care for military personnel. UNFICYP has three Level 1 medical centers that render basic medical support services to its 871 military personnel and provided 9,643 treatments during financial years 2015/16 and 2016/17. In addition, the Mission has contracts with six commercial medical facilities to provide Level 2 medical care. The Force Medical Officer is responsible for management of day-to-day operations of the medical centers in UNFICYP. The Chief Human Resource Officer is assigned as the certifying officer for the medical expenses paid to commercial hospitals. Total expenditure on medical services, equipment and supplies for financial years 2015/16 and 2016/17 were \$390,000 and \$350,000 respectively.
4. Comments provided by UNFICYP are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess whether UNFICYP implemented adequate and effective processes to ensure: (i) goods and services procured meet the applicable specifications at competitive prices and within the timeframe required; and (ii) medical services for military personnel are adequate and meet United Nations standards.
6. This audit was included in the 2017 risk-based work plan of OIOS due to the financial and operational risks.
7. OIOS conducted this audit from June to July 2017. The audit covered the period from 1 July 2015 to 31 May 2017. Based on an activity-level risk assessment, the audit covered higher and medium risk areas that included: (i) procurement including acquisition planning and solicitation and selection processes; (ii) contract management; and (iii) arrangements for medical services.

¹ A level 1 hospital, as defined by the Contingent Owned Equipment Manual, provides the first level of medical care for a battalion comprising 600 to 1,000 military personnel, where two doctors are available and can provide treatment to up to 20 patients a day and has holding capacity of five patients for up to two days. A level 2 hospital is the next level of medical care that includes immediate resuscitation capabilities with routine clinical care, emergency and damage control surgery, in-patient services, basic imaging services, laboratory services and dental care.

8. The audit methodology included: (i) interviews of key personnel, (ii) reviews of relevant documentation, (iii) analytical reviews of data, (iv) inspections of medical facilities and (v) sample testing of contracts, invoices, payments and contract management records.

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

III. AUDIT RESULTS

A. Procurement

The Mission complied with the delegation of procurement authority, mandatory training and financial disclosure requirements for procurement personnel

10. The Chief of Mission Support (CMS) sub-delegated procurement authority in line with established thresholds to the Chief Procurement Officer (CPO) and other procurement personnel. The Mission submitted monthly and quarterly reports on procurement of core requirements and ex-post facto cases as required by the Department of Field Support (DFS). In addition, in accordance with the Secretary-General's bulletin on financial disclosure and declaration of interest statements (ST/SGB/2006/6), all procurement officers and other staff members subject to the disclosure requirements submitted their annual financial disclosure statements. Procurement personnel also completed all four mandatory training courses on procurement. OIOS concluded that controls to ensure compliance of delegation of procurement authority, mandatory training and financial disclosure requirements for procurement personnel were effective.

Absence of an overall procurement strategy resulted in ineffective procurement

11. FRR 105.4 states that to ensure a competitive process, acquisition planning should be conducted to develop an overall procurement strategy. The United Nations Procurement Manual describes acquisition planning as the process by which requisitioners and the Procurement Section devise a comprehensive plan for fulfilling requisitioners' needs in a timely manner and at competitive pricing. This includes the development of an overall strategy for managing procurement actions, a detailed list of anticipated purchases for a year, consolidation of requirements to the extent possible, the planning of delivery and shipment of goods, and source selection planning for individual requirements. The Procurement Manual also states that in general, procurement actions should be initiated no later than six months prior to the need for receipt of the required goods and services.

12. OIOS assessment of overall procurement and contract management at UNIFIL identified the following:

- A review of all 92 contract extensions during the audit period showed that they included 43 extensions (or 47 per cent) beyond contractual terms due to delays in completing the procurement process to replace expiring contracts. This included two contracts for cleaning, ground maintenance and casual labour, and provision of waste management services, that were extended for 11 and 20 months beyond their approved expiry dates, respectively;
- In 12 out of 18 procurement cases reviewed, the Mission did not fully meet the required procedures aimed at achieving competitiveness, such as the minimum number of invitees for solicitations or justifications for exceptions to formal methods of solicitation. For example, the contract for the provision of rental vehicles with a not-to-exceed (NTE) amount of \$5.8 million

had been awarded to the same vendor for the last 40 years on the basis that only the vendor could meet all requirements;

- Purchase orders totaling \$1.7 million were placed after the delivery dates indicated in the annual acquisition plan for financial year 2015/16;
- Four out of six contracts reviewed were not properly managed (see section on contract management); and
- The Mission did not procure goods and services worth \$2.9 million out of \$14 million (20 per cent) of planned acquisitions by the end of the financial year 2015/16.

13. OIOS concluded that the above occurred because the Mission did not have an overall procurement strategy or a process to periodically review and improve its procurement operations. The following contributory factors were also identified:

- Requisitioners were late in submitting statement of works (SOWs) for the procurement process to commence, despite reminders of the Procurement Section to do so at least six months prior to contract expiry date. In some cases, the quality of SOWs that the requisitioners submitted to the Procurement Section was poor. The revision of those SOWs took considerable time;
- The Mission management did not adequately monitor extension of contracts beyond their expiry dates to ensure that such extensions were allowed only on an exceptional basis. Some requisitioners considered contract extensions beyond the term as a routine practice;
- The Mission did not have a tool, such as a dashboard being used at other United Nations offices, to track the progress of the procurement process and identify bottlenecks for corrective actions;
- The Mission had too many contracts, totaling 154 active contracts. These included multiple contracts for similar services. For example, there were six contracts for repairs and maintenance of vehicles, six contracts for installation and maintenance services for closed circuit televisions, four contracts for provision of internet services and two contracts for provision of alarm systems. In addition, 40 of the 154 contracts had NTE values of less than \$40,000. This resulted in substantial administrative burden in renewing and managing contracts. Each eligible support staff had to manage 4 to 16 contracts in addition to their regular duties. This adversely affected the quality of contract management;
- Although prepared to meet the requirements of the Procurement Manual, annual acquisition plans and source selection plans were incomplete. For example, the plans for the financial year 2015/16 did not indicate required delivery dates for 10 per cent of line items totaling \$1.3 million and data on key procurement actions to be conducted, such as the expected start date and duration of the procurement process and requirements for local procurement authority were not included. Also, the Mission did not evaluate the previous year's acquisition plan against actual implementation to identify lessons learned. The results for the implementation of acquisition plan for financial year 2016/17 were not available at the time of audit; and
- To increase competition, the Mission conducted a vendor outreach seminar. However, more was needed to review other factors limiting competition. For example, SOWs for the provision for casual labour and waste management services included extremely demanding requirements that only a few local vendors could deliver but were not critical for service delivery. In addition,

for a large contract such as the provision of rental vehicles, split awards or exploring international markets were not considered.

14. As a result, the Mission was exposed to the risk of disruption in the delivery of goods and services for operational requirements should contractors refuse to extend contracts beyond the contractual term under the same terms. For example, the contractor for provision of third-party liability insurance refused to extend the contract for three months beyond the contractual term, unless there was a significant increase in prices or a new contract was awarded with the same prices. This led the Mission to award a new contract to this vendor without undertaking a competitive bidding.

- (1) UNFICYP should develop and implement an overall procurement strategy to increase the competitiveness and effectiveness of the procurement process that includes: (i) consolidation of similar contracts to a manageable number of contracts; (ii) measures to increase competition by reviewing and removing elements in statements of work that limit competition and are not critical for the delivery of goods and services; (iii) splitting awards when applicable; (iv) exploring international markets; and (v) evaluating previous year's acquisition plans against actual implementation to identify lessons learned.**

UNFICYP accepted recommendation 1 and stated that the Mission was developing an overall procurement strategy, which would include identification and consolidation of similar requirements, requiring justification for elements in technical specifications that could potentially limit competition, systematic consideration of split awards when applicable, utilization of best efforts to invite participation of a wide geographical distribution of vendors, and quarterly reviews of the implementation of the acquisition plan. The strategy would be implemented on a phased basis by SAUs. Recommendation 1 remains open pending receipt of the strategy and evidence of implementation at the first SAU.

- (2) UNFICYP should strengthen the procurement process by: (i) developing a tool to track the progress of procurement actions and identify bottlenecks impeding timely contract extensions and renewals; and (ii) implementing measures to ensure that extensions of contracts beyond their approved terms are duly justified and allowed only under exceptional circumstances.**

UNFICYP accepted recommendation 2 and stated that the Mission was revising its work practices to strengthen internal procurement workflow to enable the Procurement Section, SAUs and requisitioners to effectively monitor and track the various stages of procurement process against established timelines to identify bottlenecks and initiate timely corrective actions. In addition, the CMS would issue a circular to remind all SAUs that extensions of contracts beyond their approved terms must be duly justified and allowed only under exceptional circumstances defined in the circular. The Procurement Section would report exception cases to the CMS on a quarterly basis. Recommendation 2 remains open pending receipt of evidence of implementation of applicable tools and measures for timely procurement actions and contract extensions.

Controls over tender opening procedures and evaluation of bids were effective

15. The Procurement Manual requires establishment of tender opening committee with at least two members from different offices and exclusion of procurement staff and the requisitioner, and rejection of submissions received after closing time. Bid evaluation committees shall comprise at least of two members with a least one member from the requisitioning office, but a superior and subordinate may not serve together in evaluation committees.

16. A review of 15 sampled contracts showed that the Mission duly established a tender opening committee and the assigned personnel stamped time and date on the bidding documents received to be able to exclude the bidding documents received after the closing time. Also, in all 15 cases, the composition of technical and commercial evaluation committees as well as development and assessment of evaluation criteria and their weightings were in accordance with the requirements in the Procurement Manual. OIOS concluded controls over tender opening procedures and financial and technical evaluations were effective.

Need to implement measures to further improve vendor participation and competition

17. The United Nations Procurement Manual states that a key element to achieving best value for money is to have multiple vendors that can fulfill the requisitioners' needs participate in the solicitation process so that competitive prices will be obtained. The Procurement Manual recommends missions to invite at least 10 and 15 vendors for the bidding process for contract values below and above \$200,000 respectively. Further, to ensure the transparency and competitiveness of the process, FRR 105.15 requires missions to use formal methods of solicitation, although FRR 105.16 provides for exceptions to formal methods of solicitation.

18. Table 1 summarizes 96 new contract awards during the audit period with total NTE amounts of \$16.5 million, out of which 31 were exceptions to formal methods of solicitation.

Table 1: Basis of contract awards in 2015/16 and 2016/17

Basis of contract awards	Number of contracts	NTE (in \$'000) (A)	Percentage of total NTE (A)/(B)	Sampled cases
Formal methods of solicitation (FRR 105.15)				
- Contract awards to lowest bid/most responsive proposal	54	8,529	52%	5
- Contract awards to sole bid/proposal received	11	1,108	7%	11
Total contract awards using formal methods of solicitation	65	9,637	59%	16
Exceptions to formal methods of solicitation (FRR 105.16)				
- Procurement value below \$40,000 threshold for formal solicitation - lowest compliant quotation	23	429	3%	-
- No competitive market - Prices fixed by legislation or government regulation or involved proprietary product or service	6	369	2%	-
- Formal solicitation will not give satisfactory results	2	6,027	36%	2
Total exceptions to formal methods of solicitation	31	6,825	41%	2
Total	96	(B) 16,462	100%	18

Source: OIOS analysis of Umoja Business Intelligence report

19. A review of 18 sampled cases with a total NTE of \$8.8 million, representing 54 per cent of total NTE of contract awards, showed that in 12 cases, the Mission did not fully meet the required procedures to achieve best possible competitiveness.

20. In 11 of the 16 cases reviewed where contracts were awarded on the basis of FRR 105.15 'formal method of solicitation', the numbers of vendors invited to submit proposals were less than the minimum required. Seven of the 11 cases were in the category of 'contract awards to the sole bid/proposal received'

and the Procurement Section explained that it extended the invitation to only local vendors due to short timelines for delivery that could only be met by local vendors. For the sampled contracts in the category ‘contract awards to lowest bid/most responsive proposal’ where 5 to 15 vendors were invited to bid, only 2 or 3 vendors submitted bids in each of the five cases.

21. In one case, the Procurement Section considered the requirement as an exigency and did not advertise the requirement. This exigency requirement arose because the Mission did not initiate the procurement process early enough. Instead, the Mission extended the contract beyond the approved contractual term for two months with the existing vendor that had been suspended by the Vendors Review Committee. When the Headquarters Committee of Contracts rejected the Mission’s request for further extensions, the Mission considered this as exigency requirement because it needed to complete the procurement process in a shorter time.

22. In one of the two cases reviewed where contracts were awarded on the basis of FRR 105.16 ‘exceptions to formal methods of solicitation’, the exception was justified because a recent formal solicitation process did not identify any technically qualified vendor. However, in another case relating to the provision of rental vehicles with NTE of \$5.8 million, the Procurement Section entered into direct negotiations with the existing vendor, concluding that other potential vendors who had expressed interest during the market researches would not be capable of fulfilling the requirements. However, the Section neither considered the possibility of split awards for different categories of vehicles nor potential vendors from the international market.

23. As a result, there was no assurance that the Mission was obtaining the most competitive prices in its procurement. For example, the decision to negotiate directly with the existing vendor of over 40 years for rental vehicles instead of a competitive procurement process, created a perception that this was the preferred vendor. Some local companies indicated a lack of interest to participate in the Mission’s bidding exercises due to their perception that existing vendors of the Mission were always selected, reducing the bargaining power of the Mission. In the current contract effective 1 July 2016, the Mission continued to accept the vendor’s proposal for a 20 per cent profit margin for subcontracted repair and maintenance services; and an increase of 3.2 to 114.7 per cent in rental rates of various categories of vehicles compared to the previous contract that expired on 30 June 2016.

24. In May 2017, the Mission conducted a vendor outreach seminar where the Mission encouraged and assisted local vendors to register with United Nations Global Marketplace (UNGM). The Procurement Section stated that there were only a limited number of qualified local vendors who had registered with the UNGM and could be invited to participate in bidding exercises. Recommendation 1, once implemented, will increase the competitiveness in the Mission’s procurement process.

B. Contract management

Need for improvement in contract management

25. The United Nations Procurement Manual states that contract management is a key element in the procurement process to achieve best value for money. It consists of ongoing monitoring and management of vendors’ performance including the quality of their work, timeliness, key performance indicators (KPIs), prices, payments and applicable discounts as contracted. The requisitioner is required to evaluate vendor performance and report the results in a timely manner for necessary corrective actions.

26. A review of contract management records for 6 out of 154 contracts showed that for 2 contracts on the provision of food rations and catering services at Mission’s headquarters, the requisitioner adequately

monitored the performance of the vendor against the established KPIs. For the contract on the provision of rations with NTE of \$8.6 million, the requisitioner inspected both the quality and quantity of ordered rations for each delivery and followed up for credit notes in cases of shortfalls in delivered amounts. The requisitioner also held monthly meetings with vendors to discuss performance issues. For the contract on catering and dining management services with NTE of \$714,000 at the Mission's headquarters, the requisitioner conducted weekly spot checks of the catering facility, reported the vendor's performance against the established KPIs on a monthly basis and conducted quarterly performance meetings with the vendor.

27. However, the following were identified with the remaining four contracts:

- For the contract on provision of catering, cleaning and road sweeping services in the sectors with NTE of \$3.6 million, the requisitioner conducted monthly meetings with the vendor but accepted the vendor's self-assessment of its achievement of KPIs without performing independent verification. This vendor consistently rated its own performance as excellent;
- For two contracts relating to the provision of: (i) casual labour services with NTE of \$80,000; and (ii) cleaning, ground maintenance and casual services with NTE of \$1.6 million, the contract at the request of the requisitioner included an extensive list of reports for the vendor to submit to the Mission but the requisitioner did not monitor receipt of them. The reporting requirements included business continuity plans, reports for quality control governance and assurance, annual report on the planned maintenance programme, and quarterly and monthly performance reports. Without any evidence of monitoring that the vendor had fulfilled these obligations, the requisitioner completed contractor performance appraisal reports with ratings of satisfactory performance to extend the contracts; and
- For the contract on provision of waste management services with the NTE of \$1.7 million, the requisitioner identified some performance issues but did not reflect them in the contractors' performance reports. For example: (i) the contractor was required to use calibrated meters to measure the collection of septic waste but the contractors used trucks that were not equipped with calibrated meters; and (ii) there was an unresolved dispute with the contractor since July 2013 when the contractor had invoiced the Mission based on a fixed quantity instead of the actual quantity of septic waste collected. OIOS review of invoices between October 2015 and April 2017 showed the meter readings provided by the contractor in invoices exceeded the corresponding septic tanks' capacity. Total overstatement of septic waste collection was 1.8 million litres costing \$23,000.

28. The above happened because:

- There were too many contracts affecting the quality of contract management (see recommendation 1);
- The Mission did not provide training to staff responsible for contract management, an issue already raised by OIOS in its audit of vehicle and fuel management in UNFICYP (Report No. 2016/092);
- Although the Mission developed KPIs for contractors to perform in accordance with the SOWs, some KPIs were neither critical for the delivery of the goods or services nor cost effective to manage considering limited staffing capacity, as in the contracts for casual labour and waste management services; and

- The Mission did not have monitoring mechanisms to verify that staff properly indicated all performance issues in the contractors' performance reports.

29. As a result, the Mission paid for requirements in contracts that were not properly monitored and therefore did not ensure the achievement of the best value for money. The non-reporting of performance issues resulted in recurring contract awards and extensions to vendors who did not fully deliver. For example, for waste management services, the Mission continued to award the contract to the same vendor, although this vendor had a history of overcharging the Mission including for collection of waste at Mission positions that had been closed.

(3) UNFICYP should strengthen management of its contracts by: (i) assessing key performance indicators for their criticality to contract delivery and cost effectiveness to implement; and (ii) implementing monitoring mechanisms to ensure that requisitioners properly reflect performance issues in contractors' performance reports.

UNFICYP accepted recommendation 3 and stated that the Mission had requested, in its 2018/19 budget submission, establishment of a contract management post to address the weaknesses raised in this report. In the interim, SAUs would continue to perform this function and the Mission would issue guidelines to assist SAUs to manage their respective contracts. The Mission would also issue a circular reiterating the need for inclusion of KPIs in SOWs and subsequent monitoring of contractor performance against the established indicators. Recommendation 3 remains open pending receipt of the results of the assessment of the appropriateness of KPIs included in contracts and evidence of implementation of a mechanism to monitor contractors' performance reporting.

C. Medical services

Commercial medical facilities were contracted without complying with the required procedures

30. The Procurement Manual states that only officials who have properly delegated authority can enter into financial commitments relating to procurement activities. FRR 105.18 also requires all written procurement contracts to specify in detail the goods and services being procured, the contract or unit price, the period covered, the conditions to be fulfilled including the United Nations general conditions of contract and implications for non-delivery.

31. A review of the six contracts with commercial medical facilities and payment records showed that the Mission had not undertaken a proper procurement process to obtain them and they did not contain the standard elements of a contract as established by FRR 105.18. Of the six contracts, four were undated and signed by a former Chief of General Services who did not have delegated procurement authority. The remaining two were signed by the former CMS in 2012. All six contracts were arranged without the involvement of the Procurement Section contrary to the provisions in the Procurement Manual. All six contracts did not have an expiry date, NTE values, price lists of available medical services and the United Nations general terms and conditions for contracts that protect the interest of the Mission.

32. Due to staff turnover, the Mission was not aware of the reasons for arranging the contracts without the involvement of the Procurement Section. Also, the certifying officer and Mission management did not initiate a proper procurement process or question payments for patient referrals to commercial medical facilities although the alternate certifying officer informed them in writing of the need for corrective actions in February 2016.

33. As a result, there were no assurances that the Mission was paying for medical services at the commercial medical facilities at competitive prices. Payments totaled \$601,000 during the audit period.

(4) UNFICYP should conduct a proper procurement process for its requirements relating to medical services delivered by commercial facilities to replace the current contacts that had been arranged without undertaking the required procurement procedures.

UNFICYP accepted recommendation 4 and stated that planning was underway, in coordination with the Medical Service Division (MSD) of the Department of Management, to undertake a procurement process for medical services delivered by commercial facilities. Recommendation 4 remains open pending receipt of copies of new contracts with commercial medical facilities concluded in accordance with established procurement procedures.

Medical coverage for military personnel was adequate but there is a need to strengthen controls over medical referrals to commercial medical facilities

34. According to the MOU with troop-contributing countries, the Mission would provide Levels 1 and 2 medical care for military personnel. Specialist diagnostic and multidisciplinary surgery are considered beyond Levels 1 and 2 care and are not the Mission's responsibility, except in cases of serious illness or injury. The United Nations Medical Guidelines for Peacekeeping Operations provide that treatment of members of military contingents at non-United Nations facilities is the responsibility of the individual except in serious illness or injury. The Medical Guidelines also state that uniformed personnel may not authorize activities that may incur cost to the United Nations.

35. The Mission established adequate medical coverage for its military personnel with three Level 1 hospitals with medical teams serving at six locations, each servicing approximately 50 to 200 military personnel. The Mission also made arrangements with six hospitals to provide Level 2 care to the military personnel. During the audit period, the Mission referred about 1,900 military personnel to commercial medical facilities.

36. A review of referrals to commercial medical facilities in 14 out of 23 months during the audit period showed that:

- a. The Force Medical Officer and military medical officers in sectors were referring cases to commercial medical facilities for treatment at the Mission's expense contrary to the Medical Guidelines that prohibit uniformed personnel to authorize activities that would incur costs to the United Nations;
- b. The Force Medical Officer and the military medical officers did not always specify the required examination or treatment at commercial hospitals and clinics in their referral letters;
- c. The Force Medical Officer verbally approved surgeries and in-patient services at the Mission's expense without documenting justifications;
- d. The Force Medical Officer and military medical officers were referring cases to commercial medical facilities of their choice including to dental, optical and dermatological facilities that did not have a contract with the Mission; and
- e. The military contingents did not provide and the Mission did not follow up with the results of pre-deployment medical examinations of troops. Thus, the Force Medical Officer could not determine whether the medical treatment sought was for a pre-existing condition.

37. The above occurred because the Mission did not consult with MSD on medical referrals although there was no civilian medical officer in the Mission. Similarly, the Mission did not request assistance from MSD to review its standard operating procedures on the medical referral process. The existing standard operating procedures did not adequately clarify the following:

- a. Medical entitlements of military personnel for treatment at commercial hospitals and clinic taking into account that the Mission is only responsible for provision of up to Level 2 medical care for military personnel in accordance with the MOU;
- b. Criteria and definition of serious illnesses or injuries to justify referrals to commercial medical facilities at the Mission's expense;
- c. The requirement to determine whether the treatment sought was for a pre-existing condition including those that should have precluded the personnel from participation in peacekeeping operations;
- d. The need to specify the required examination and treatment in referral letters; and
- e. Referrals to non-contracted medical facilities, only on an exceptional basis and with proper justifications.

38. As a result, the Mission paid for all treatments and examinations at commercial medical facilities without limits including specialist diagnostic and outpatient services that could be considered Level 3 and outside the Mission's responsibility. The Mission also paid for treatment of medical conditions such as ear, eye and skin disorders without due consideration whether these were pre-existing conditions, including those that should have precluded the personnel from participation in peacekeeping operations.

(5) UNFICYP should, in consultation with the Medical Service Division of the Department of Management, develop and implement adequate guidelines on referral and treatment of its military personnel at commercial medical facilities. This should include requirements for all referral letters to specify the required examination or treatment and justification in cases of referrals to non-contracted medical facilities.

UNFICYP accepted recommendation 5 and stated that the Chief Medical Officer for Peacekeeping Operations, MSD would visit UNFICYP in 2018 to assess existing medical facilities available in the Mission area. In the interim, effective immediately, all recommended referrals for non-acute medical cases would be submitted to MSD for review and approval, prior to presenting to commercial medical providers. Recommendation 5 remains open pending receipt of guidelines on referral and treatment of medical personnel at commercial medical facilities.

Payments to commercial medical facilities were not properly certified and approved

39. The FRR 105.5 states that certifying officers are responsible for managing the utilization of resources in accordance with the approved purposes and must maintain detailed records of all commitments, disbursements and expenses against the accounts under their purview. The FRR 105.6 also states that approving officers are responsible for approving certified payments in accordance with the contractual terms for goods and services by which they were ordered.

40. The Mission made payments to commercial medical facilities during the audit period, as shown in Table 2:

Table 2: Medical expenditure to commercial medical facilities

Vendor	Description of commercial medical facilities	FY2015/16 (in \$'000)	FY2016/17 (in \$'000)	Total (in \$'000)	Percentage
A*	Level 3 Specialist Hospital in South Cyprus	250	183	433	72.0
B	Dental clinic in South Cyprus	38	32	70	11.7
C	Physiotherapy center in South Cyprus	17	21	38	6.3
D*	Level 3 Specialist Hospital in North Cyprus	11	21	32	5.4
E	Dental clinic in North Cyprus	1	10	11	1.8
F*	Pharmacy in South Cyprus	4	2	6	1.0
G	Laboratory in South Cyprus	2	2	4	0.7
H	Dermatological clinic in South Cyprus	-	1	1	0.2
I	Public General Hospital in North Cyprus	-	1	1	0.2
Others	Others	2	3	5	0.7
	Total	325	276	601	100

Source: OIOS analysis of general ledger account for medical expenses (74211010) in Umoja

*Contracted commercial medical facilities

41. Seventy-two per cent of the payments were made to Vendor A. A review of the payments to the vendor for three sampled months identified the following:

- a. All payments were certified and approved without itemized invoices and therefore verification of prices was not done. Invoice amounts ranged from €50 to €10,800 (\$59 to \$12,300);
- b. All paid invoice numbers were in sequential order and were issued under the name of a clinic managed by the designated focal point in the contract, who is an internist, regardless of the type of medical treatment provided;
- c. The hospital did not provide supporting documents for the invoices such as results of examinations, diagnostic and discharge reports as required;
- d. In 16 cases, the Mission paid for magnetic resonance imaging services although this service was not listed on the website of the hospital; and
- e. There were no discounts given contrary to the contractual terms.

42. The agreement with Vendor A did not include a price list but indicated that the medical charges would be based on the price list at the time of admission and a special discount would be given to the Mission in accordance to the discount given to local insurance companies. The Force Medical Officer provided OIOS with a price list from the hospital dated August 2016 and stated that this list remained in effect at the time of audit in June 2017. However, this price list did not provide itemized details and was not comparable to the itemized price list on the hospital website.

43. The above occurred because the Mission did not seek advice from MSD on the modalities to certify and approve payments for medical invoices in the absence of a civilian medical officer in the Mission. Instead, the certifying and approving officers were solely relying on the Force Medical Officer to perform the necessary verification of supporting medical records of invoice amounts, stating patient confidentiality. This practice did not comply with the FRR and Medical Guidelines that prohibit uniformed personnel from authorizing financial transactions. In addition, the Force Medical Officer did not follow up with the hospitals for supporting medical reports and itemized invoices because this was a long-standing practice by previous Force Medical Officers.

44. As a result, there were no assurances that payments for medical services, particularly those to Vendor A, were based on actual services received and at established prices with agreed discounts.

(6) UNFICYP should consult with the Medical Service Division of the Department of Management and implement the appropriate modality to certify and approve payments of medical invoices in the absence of a civilian medical officer in the Mission.

UNFICYP accepted recommendation 6 and stated that after consultation with MSD, it was agreed that the Medical Desk Officer in MSD would act as the de facto Chief Medical Officer for UNFICYP and verify medical invoices. The Chief Human Resource Officer would continue to certify invoices after verification by the Medical Desk Officer. Recommendation 6 remains open pending receipt of evidence of implementation of this process.

(7) UNFICYP should request Vendor A to provide itemized invoices and supporting medical records for the past two years and review the accuracy of medical charges and application of agreed discounts.

UNFICYP accepted recommendation 7 and stated that the Mission would request Vendor A to provide itemized invoices and supporting medical reports for the past two years and review the accuracy of medical charges and application of agreed discounts. Recommendation 7 remains open pending receipt of the results of the review of the accuracy of medical charges and application of agreed discounts by Vendor A.

Inadequate planning resulting in excessive medical equipment, drugs and consumables

45. The United Nations Medical Support Manual provides that medical planning shall include identification of the most cost-effective means to achieve the degree of medical coverage required. For Level 1 medical facilities in the Mission, the Contingent-Owned Equipment (COE) Manual states the requirement to maintain a 60-day supply of pharmaceuticals and medical consumables as well as the minimum requirements for medical equipment. The Force Medical Officer is responsible for the coordination of all medical matters for military personnel in the Mission area.

46. A review of inventory and disposal records of pharmaceuticals and medical consumables showed that the Force Medical Officer maintained the required 60-day supply but did not take into account similar medical supplies brought by the four military contingents on each rotation. This has resulted in excess inventory and waste as evidenced by the high level of expired drugs requiring disposal. For instance, the yearly disposal of medical inventory increased from 40 kilograms in 2013 to 200 kilograms since 2015. As the Board of Auditors made a recommendation on this issue in October 2016, which is still outstanding, OIOS is not making an additional recommendation.

47. A review of the medical equipment list as of May 2017 showed that of the 58 types of medical equipment in the Mission, there was an excess of 159 medical equipment in 27 types, compared to the minimum requirements for Level 1 medical facilities in the COE Manual, without adequate justification.

48. This occurred because the Force Medical Officer did not perform a needs assessment to determine the requirements for medical equipment. Instead, medical equipment were replaced solely based on their age, and fully depreciated equipment were kept at the Level 1 medical facilities without undertaking a disposal process. As most of the medical equipment required calibration, the Mission incurred additional cost to maintain the higher level of medical equipment.

(8) UNFICYP should conduct a needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and dispose of surplus equipment.

UNFICYP accepted recommendation 8 and stated that the Mission would be conducting a needs assessment to determine the appropriate level of medical equipment and consumables required and would dispose of surplus equipment based on guidance from MSD and DFS. Recommendation 8 remains open pending receipt the result of the needs assessment and evidence of its implementation.

IV. ACKNOWLEDGEMENT

49. OIOS wishes to express its appreciation to the management and staff of UNFICYP 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 procurement, contract management and medical services in the United Nations Peacekeeping Force in Cyprus

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNFICYP should develop and implement an overall procurement strategy to increase the competitiveness and effectiveness of the procurement process that includes: (i) consolidation of similar contracts to a manageable number of contracts; (ii) measures to increase competition by reviewing and removing elements in statements of work that limit competition and are not critical for the delivery of goods and services; (iii) splitting awards when applicable; (iv) exploring international markets; and (v) evaluating previous year's acquisition plans against actual implementation to identify lessons learned.	Important	O	Receipt of the procurement strategy and evidence of implementation at the first SAU.	31 March 2018
2	UNFICYP should strengthen the procurement process by: (i) developing a tool to track the progress of procurement actions and identify bottlenecks impeding timely contract extensions and renewals; and (ii) implementing measures to ensure that extensions of contracts beyond their approved terms are duly justified and allowed only under exceptional circumstances.	Important	O	Receipt of evidence of implementation of applicable tools and measures for timely procurement actions and contract extensions.	31 March 2018
3	UNFICYP should strengthen management of its contracts by: (i) assessing key performance indicators for their criticality to contract delivery and cost effectiveness to implement; and (ii) implementing monitoring mechanisms to ensure that	Important	O	Receipt of the results of the assessment of the appropriateness of KPIs included in contracts and evidence of implementation of a mechanism to monitor contractors' performance reporting.	1 July 2018

² 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.

³ 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.

⁴ C = closed, O = open

⁵ Date provided by UNFICYP in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of procurement, contract management and medical services in the United Nations Peacekeeping Service in Cyprus

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	requisitioners properly reflect performance issues in contractors' performance reports.				
4	UNFICYP should conduct a proper procurement process for its requirements relating to medical services delivered by commercial facilities to replace the current contracts that had been arranged without undertaking the required procurement procedures.	Important	O	Receipt of copies of new contracts with commercial medical facilities concluded in accordance with established procurement procedures.	30 June 2018
5	UNFICYP should, in consultation with the Medical Service Division of the Department of Management, develop and implement adequate guidelines on referral and treatment of its military personnel at commercial medical facilities. This should include requirements for all referral letters to specify the required examination or treatment and justification in cases of referrals to non-contracted medical facilities.	Important	O	Receipt of the UNFICYP revised guidelines on referral and treatment of medical personnel at commercial medical facilities.	30 June 2018
6	UNFICYP should consult with the Medical Service Division of the Department of Management and implement the appropriate modality to certify and approve payments of medical invoices in the absence of a civilian medical officer in the Mission.	Important	O	Receipt of evidence the Medical Desk Officer in MSD is verifying medical invoices prior to certification by Chief Human Resource Officer.	31 October 2017
7	UNFICYP should request Vendor A to provide itemized invoices and supporting medical records for the past two years and review the accuracy of medical charges and application of agreed discounts.	Important	O	Receipt of the results of the review of itemized invoices and supporting medical reports for the past two years for accuracy of medical charges and application of agreed discounts by Vendor A.	31 March 2018
8	UNFICYP should conduct a needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and dispose of surplus equipment.	Important	O	Receipt the result of the needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and evidence of disposal of surplus equipment.	30 June 2018

APPENDIX I

Management Response



UNITED NATIONS PEACEKEEPING FORCE IN CYPRUS
P.O. BOX 21642, NICOSIA, CYPRUS - TEL: 357-22-614000 FAX: 357-22-614600

INTER-OFFICE MEMORANDUM

DATE: 23 November 2017

REF: SRSG/Audit/2017-1

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

FROM: Elizabeth Spehar, Special Representative of the Secretary-General
DE: and Head of Mission

SUBJECT: Draft Report on an audit of procurement, contract management and medical services
OBJET: in the United Nations Peacekeeping Force in Cyprus (Assignment No.2017/654/01)

1. Reference is made to your memorandum IAD:17-MO171102 of 9 November 2017 on the subject matter.
2. Please find attached the Mission's response to the audit recommendations outlined in Appendix 1 of the above-mentioned draft report.
3. Please do not hesitate to contact us, should you require any additional information on this matter.

Thank you.

cc: Dr. Jillann Farmer, Director, Medical Services Division, DM
Mr. Joel Cohen, Chief of Mission Support, UNFICYP
Ms. Lynn Hastings, Senior Advisor, UNFICYP
Mr. Zachary Ikiara, Chief, Oversight and Coordination Support Unit, DM
Mr. Daeyoung Park, Chief Resident Auditor, Middle East Regional Audit Office, OIOS
Dr. Adarsh Tiwathia, Chief Medical Officer, Peacekeeping Operations Support Section,
Medical Services Division, DM
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division,
OIOS

Rec. no.	Recommendation	Critical/ ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNFICYP should develop and implement an overall procurement strategy to increase the competitiveness and effectiveness of the procurement process. This strategy should include: (i) consolidation of similar contracts to a manageable number of contracts; (ii) measures to increase competition by reviewing and removing elements in statements of work that limit competition and are not critical for the delivery of goods and services; (iii) splitting awards when applicable; (iv) exploring international markets; and (v) evaluating previous year's acquisition plan against actual implementation to identify lessons learned for late deliveries.	Important	Yes	CPO	31 March 2018	UNFICYP is currently developing an overall procurement strategy, which would include: a. identification and consolidation of similar requirements b. requiring justification for elements in technical specifications that could potentially limit competition c. systematic consideration of split awards when applicable d. utilization of best efforts to invite participation of a wide geographical distribution of vendors e. quarterly reviews of the implementation of the acquisition plan. The Mission plans to implement this strategy on a phased basis by Self Accounting Unit (SAU) to be completed by 31 March 2018.
2	UNFICYP should, to strengthen the procurement process: (i) develop a tool to track the progress of procurement actions and identify bottlenecks for timely contract extensions and renewals; and (ii) implement measures to ensure that extensions of contracts beyond their approved terms are duly justified and	Important	Yes	CPO	31 March 2018	UNFICYP is revising its work practices to strengthen internal procurement work flow which, inter alia, will enable Procurement and Self Accounting Units/Requisitioners to effectively monitor and track the stages in the procurement process with established timelines to identify

¹ 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.

² 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.

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	allowed only under exceptional circumstances.					<p>bottlenecks and initiate timely corrective action as required.</p> <p>A Mission Circular will be issued to remind all self accounting units that extensions of contracts beyond their approved terms must be duly justified and are allowed only under exceptional circumstances. Such exceptional circumstances would be defined in the circular and the Procurement Section would report these cases to the CMS on a quarterly basis.</p>
3	UNFCYP should, to strengthen management of its contracts: (i) assess key performance indicators for their criticality to the contract delivery, cost effectiveness to implement considering staffing capacity; and (ii) implement monitoring mechanisms to ensure that requisitioners properly reflect performance issues in the contractors' performance report.	Important	Yes	CMS	1 July 2018	<p>UNFCYP has included, in the context of its budget submission for FY 2018/2019, the establishment of a Contracts Management post (one National Staff position), to strengthen overall contract delivery and address the weaknesses raised by OIOS in terms of contracts management. In the interim, this function will continue to be performed by the Self Accounting Units (SAU). The Mission will issue guidelines to Self Accounting Units to assist them in the management of their respective contracts.</p> <p>UNFCYP will issue a Mission Circular reiterating the need for performance compliance and the inclusion of key performance indicators in the SOWs and</p>

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	UNFICYP should conduct a proper procurement process for its requirements relating to medical services delivered by commercial facilities to replace the current contacts that had been arranged without undertaking the required procurement procedures.	Important	Yes	CHRMS	30 June 2018	subsequent monitoring of contractor performance against these KPIs. Planning is underway to undertake 1 procurement process for the requirements related to medical services delivered by commercial facilities within Cyprus. This exercise is being conducted in coordination and with the full support of MSD, OHRM/DM.
5	UNFICYP should, in consultation with the Medical Service Division of the Department of Management, develop and implement adequate guidelines on referral and treatment of its military personnel at commercial medical facilities. This should include requirements for all referral letters to specify the required examination or treatment and justification in cases of referrals to non-contracted medical facilities.	Important	Yes	CHRMS/FMO	30 June 2018	Planning is under way for Chief Medical Officer, Pacekeeping. MSD to visit UNFICYP in the first quarter of 2018 for an assessment of existing medical facilities available in the Mission area. In the interim, effective 1 November 2017, all referrals for non-acute medical cases are to be submitted to MSD for review and verification prior to referral to commercial medical providers for treatment.
6	UNFICYP should consult with the Medical Service Division and implement the appropriate modality to certify and approve payments of medical invoices in the absence of a civilian medical officer in the Mission.	Important	Yes	CHRMS	31 October 2017	After consultation with MSD, it was agreed that the Medical Desk Officer in MSD will act as de facto CMO for UNFICYP and will perform the verification of medical invoices, in close cooperation and consultation with the Mission. CHRO will continue certifying invoices after verification by Medical Desk Officer.
7	UNFICYP should request the vendor number 1900000714 to provide itemized invoices and supporting medical records	Important	Yes	CHRMS/FMO	31 March 2018	UNFICYP will request the vendor number 19000007.4 to provide itemized invoices and supporting

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
8	<p>for the past two years and review the accuracy of medical charges and application of agreed discounts.</p> <p>UNFICYP should conduct a needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and dispose of surplus equipment.</p>	Important	Yes	CHIRMS/FMO	30 June 2018	<p>medical records for the past two years and review the accuracy of medical charges and application of agreed discounts.</p> <p>UNFICYP will conduct a needs assessment to determine the appropriate level of medical equipment and consumables required for the Mission and dispose of surplus equipment in coordination with and based on guidance and advice from LSD/DFS and MSD/DM.</p>