



## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/104**

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#### **Audit of local procurement of goods and services in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

**Overall results relating to the effective management of local procurement of goods and services in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**26 November 2013  
Assignment No. AP2012/620/07**

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# AUDIT REPORT

## Audit of local procurement of goods and services in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of local procurement of goods and services in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The MONUSCO Procurement Section was responsible for the local procurement of goods and services. The Section was headed by a Chief Procurement Officer at the P-5 level who was assisted by 11 professional staff, 12 field service staff, 14 national staff and 4 United Nations volunteers. For the financial years 2010/11 and 2011/12, local procurement was \$42 million and \$45 million respectively. Procurement activities in MONUSCO were governed by the United Nations Financial Regulations and Rules and the United Nations Procurement Manual.
4. Comments provided by MONUSCO are incorporated in italics.

### II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of MONUSCO governance, risk management and control processes in providing reasonable assurance regarding the **effective management of local procurement of goods and services in MONUSCO**.
6. The audit was included in the 2012 OIOS risk-based work plan due to the operational and financial risks relating to the procurement process and the criticality of effective procurement of the required goods and services for the implementation of the MONUSCO mandate.
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: (i) exist to guide MONUSCO's procurement activities; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.
9. OIOS conducted this audit from October 2012 to April 2013. The audit covered the period from 1 July 2010 to 30 September 2012. OIOS reviewed 38 local procurement cases, totaling \$57 million, which were selected from 127 procurement cases, valued at \$101 million.
10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through

interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

11. The MONUSCO governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of local procurement of goods and services in MONUSCO**. OIOS made four recommendations to address the issues identified. MONUSCO undertook acquisition planning for the procurement of good and services and established a mechanism to minimize the occurrence of ex-post facto approval of procurement actions. However, MONUSCO had not always conducted procurement activities within its delegated procurement authority and also needed to: (a) monitor and take action with vendors not complying with contractual delivery times; (b) ensure that contractors submit the required performance bonds; (c) conduct a new procurement action for a poor performing contractor; and (d) ensure that procurement staff completed mandatory training.

12. The initial overall rating was based on the assessment of the key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of local procurement of goods and services in MONUSCO	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### Regulatory framework

#### Delegation of authority was exceeded

13. The Director of Mission Support had delegated procurement authority of up to \$1 million and the Chief Procurement Officer up to \$75,000. The Chief Procurement Officer had also been delegated the authority to approve amendments to existing contracts, if the increase was less than 20 per cent of the contracted estimated amount. Any amendment in excess of 20 per cent needed to be reviewed by the Local Committee on Contracts and approved by the Director of Mission Support. A review of 38 of 127 contracts completed in the audit period identified three cases where the delegation of authority was exceeded, as follows:

- The Officer-in-Charge of Mission Support, while awaiting the Headquarters Committee on Contracts' review of a case for a new contract for customs clearance services, approved contract extensions on two occasions for a cumulative amount of \$2.5 million. The continuation of the customs clearance services was needed for operational requirements. MONUSCO had not

sufficiently planned its procurement requirements to ensure that a new contract was in place in a timely manner. The Director of Mission Support provided ex-post facto justification to the Under-Secretary-General, Department of Field Support in this regard;

- The Chief Procurement Officer approved an increase of rental charges on a leased property from \$40,000 to \$55,000 per month (38 per cent) starting 1 July 2011 for a period of three years. The agreement was in place for one year before it was presented to the Local Committee on Contracts, resulting in an ex-post facto recommendation for approval by the Local Committee on Contracts. The required justification for ex-post facto approval was provided by the Director of Mission Support to the Under-Secretary-General, Department of Field Support; and

- The Chief Procurement Officer unilaterally executed a contract with a 150 per cent increase, from \$4,000 to \$10,000, despite the decision of the Local Committee on Contracts and the Officer-in-Charge of the Mission Support Division to put the case on hold due to the lack of evidence of negotiation with the landlord. The case was resubmitted to the Local Committee on Contracts on an ex-post facto basis on 29 November 2011, 18 months after the initial presentation.

14. Subsequent to the audit, MONUSCO: (a) implemented measures to ensure that procurement staff complied with their delegation of authority; and (b) reviewed all leases including details of lease contract periods, approved extensions, cumulative amounts, length of contracts and not-to-exceed amounts to ensure that the approval was within the correct delegated authority. Based on the action taken, no recommendation was made.

#### Acquisition planning was in place

15. As required by the Procurement Manual, self-accounting units prepared and the Procurement Section consolidated, acquisition plans for the financial years 2010/11 and 2011/12, which were reviewed and updated as necessary on a quarterly basis.

#### Technical evaluations needed to be improved

16. The Procurement Manual required technical evaluation criteria to be clearly reflected in solicitation documents, and for successful technical proposals to satisfy these criteria. Also, the Procurement Manual stipulated that a supervisor and subordinate may not serve together on an evaluation committee. A review of 20 contracts entered into during the audit period, identified the following three exceptions:

- A vendor that did not meet the established criterion for providing after sales service of medical equipment was awarded the contract. The equipment, due to lack of servicing, was not working and still had not been repaired at the time of the audit;

- A technical evaluation committee incorrectly awarded points to a recommended vendor even though the vendor had no relevant experience on the required task. The Local Committee on Contracts rejected the case; and

- Technical evaluation committees for five contracts included a supervisor and a subordinate.

17. The Director of Mission Support issued further guidance on the technical evaluation process and training was provided to relevant staff in self-accounting units. Due to the action taken by the Director of Mission Support, no recommendation was made.

Procurement cases were submitted late to the Local Committee on Contracts

18. The MONUSCO guidelines on handling lease requirements stipulated that contract extensions needed to be initiated well in advance to allow for Local Committee on Contracts/Headquarters Committee on Contracts review. OIOS review of 43 of the 161 cases presented to the Local Committee on Contracts during 2011/12 indicated that 42 lease renewals were presented close to the expiry date of the contract, including on the same day that the contract expired. This was due to poor planning and monitoring of lease agreements. As a result, the Local Committee on Contracts was often unable to perform a thorough review of cases, and there was an expectation that contracts would be automatically approved for extension due to operational requirements, and to avoid ex-post facto approval. It also weakened the negotiation position of MONUSCO with landlords, as they knew that alternative premises had not been obtained.

19. Subsequent to the audit, MONUSCO implemented a system to monitor contract periods on a monthly basis to ensure that contract extensions and renewals are properly planned for sufficiently in advance. Based on the action taken, no recommendation was made.

The renewal/extension of the Post Exchange commissary contract was not compliant with procedures

20. The Procurement Manual stated that a procurement officer could take action when a contractor was performing unsatisfactorily, including terminating the contract.

21. In 2009, MONUSCO contracted a vendor for Post Exchange commissary services, which was the importation and sale of duty free goods to staff. This was a zero value contract and any income generated was deposited in the staff welfare fund. The contract was for an initial period of two years with an option for three successive one-year extensions subject to: satisfactory performance of the contractor; budget availability; and mandate of the Mission.

22. The Contract Management Section's periodic performance evaluations rated the contractor as unsatisfactory and although MONUSCO recommended corrective action, such as implementing a proactive stock replenishment plan to provide increased stock at each store location, the contractor's performance did not improve. Despite the poor performance, MONUSCO extended the contract on two separate occasions, after review and recommendation for approval by the Local Committee on Contracts. For the extension to 30 June 2013, the Committee noting that the contractor's performance was evaluated as "unacceptable", requested the Procurement Section to initiate a new procurement exercise to cover the period from 1 July 2013 onwards for a duration to be determined as part of the exercise. This was approved by the Director of Mission Support and therefore, any further extension needed to be presented to the Director of Mission Support for approval. The Procurement Section, due to the work involved in a new procurement action decided to further extend the contract to 30 June 2014. This extension to the contract was not presented to the Local Committee on Contracts for review.

**(1) MONUSCO should, considering the unsatisfactory performance of the Post Exchange contract, initiate a new procurement action, and submit the action taken on the current Post Exchange contract to the Director of Mission Support for approval.**

*MONUSCO accepted recommendation 1 and stated that the Director of Mission Support had approved the decision made by the Chief Procurement Officer to extend the contract for one year. A*

*new procurement exercise was being undertaken by the Regional Procurement Office in Entebbe. Recommendation 1 remains open pending OIOS verification of the procurement process for the Post Exchange contract.*

Inadequate procedures for following up with vendors on delivery schedules

23. The Mission's contracts with vendors provided that liquidated damages would be imposed up to a maximum of 10 per cent of the contract value for delayed delivery of supplies.

24. A review of 50 of 725 purchase orders issued in 2011/12 showed that goods for 11 purchase orders were delivered after the agreed delivery date. There were also nine purchase orders issued in 2011 for which the goods had still not been delivered at the time of the audit. Although deliveries were considerably delayed, MONUSCO did not impose liquidated damages. The Procurement Section also did not regularly follow up with vendors to ensure timely delivery, impacting operations.

**(2) MONUSCO should implement a procedure for monitoring vendors' compliance with contractual delivery times and imposing liquidated damages when appropriate.**

*MONUSCO accepted recommendation 2 and stated that the Procurement Section was in the process of establishing an Expediting Unit to ensure compliance with contractual delivery times and imposition of liquidated damages where applicable. Recommendation 2 remains open pending the receipt of evidence that an adequate procedure has been implemented to ensure vendors compliance with contractual delivery times.*

Absence of performance bonds resulted in an unmitigated risk of financial loss to MONUSCO

25. Major contracts entered into by MONUSCO required vendors to furnish performance bonds within 30 days of signing the contract. A review of 13 contracts valued at over \$100,000 indicated that vendors had submitted the required performance bonds for only five contracts.

**(3) MONUSCO should implement procedures to ensure that contractors submit performance bonds, where applicable, and action is taken to enforce remedies for non-compliance with this requirement.**

*MONUSCO accepted recommendation 3 and stated that the Contract Management Section had included the requirement for performance bonds in their quarterly reports to self-accounting units and the Procurement Section, and this had identified that eight active contracts needed performance bonds, and follow-up action to confirm the availability of these bonds was initiated. Recommendation 3 remains open pending receipt of evidence that all required performance bonds have been received.*

Mandatory online procurement training was not completed

26. Only 18 of the 38 staff members in the Procurement Section had completed the mandatory online procurement training. Other staff members involved in the procurement process including members of the Local Committee on Contracts and the Tender Opening Committee had not completed the online training on the procurement process.

**(4) MONUSCO should take action to ensure that: (a) all staff members of the Procurement Section complete the Procurement Division's mandatory online training; and (b) the**

**Director of Mission Support encourages other staff members involved in the procurement process to complete the online training.**

*MONUSCO accepted recommendation 4 and stated that all staff members of the Procurement Section had completed the mandatory on-line training and a checklist was developed and implemented to ensure that all new procurement staff completed the training. Based on the action taken by MONUSCO, recommendation 4 has been closed.*

#### **IV. ACKNOWLEDGEMENT**

27. OIOS wishes to express its appreciation to the Management and staff of MONUSCO for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja  
Assistant Secretary-General for Internal Oversight Services



## STATUS OF AUDIT RECOMMENDATIONS

## Audit of local procurement of goods and services in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo

Recom. 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.	MONUSCO should, considering the unsatisfactory performance of the Post Exchange contract, initiate a new procurement action, and submit the action taken on the current Post Exchange contract to the Director of Mission Support for approval.	Important	O	OIOS verification of the procurement process for the Post Exchange contract.	30 June 2014
2.	MONUSCO should implement a procedure for monitoring vendors' compliance with contractual delivery times and imposing liquidated damages when appropriate.	Important	O	Receipt of evidence that an adequate procedure has been implemented to ensure vendors compliance with contractual delivery times.	1 January 2014
3.	MONUSCO should implement procedures to ensure that contractors submit performance bonds, where applicable, and action is taken to enforce remedies for non-compliance with this requirement.	Important	O	Receipt of evidence that all required performance bonds have been received.	31 December 2013
4.	MONUSCO should take action to ensure that: (a) all staff members of the Procurement Section complete the Procurement Division's mandatory online training; and (b) the Director of Mission Support encourages other staff members involved in the procurement process to complete the online training.	Important	C	Action taken	Implemented

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

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal 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 MONUSCO

# **APPENDIX I**

## **Management Response**

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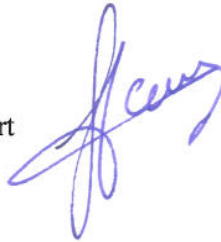
INTEROFFICE MEMORANDUM

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15 November 2013  
Ref. ODMS/2013/245

To: Ms. Eleanor T. Burns  
Chief, Peacekeeping Audit Service  
Internal Audit Division, OIOS

From: Guy Siri  
Director of Mission Support  
MONUSCO



**Subject: Assignment No. AP2012/620/07 - Audit of local procurement of goods and services in MONUSCO**

1. Your interoffice memorandum reference IAD-13-7-5-7 (23) dated 31 October 2013 refers.
2. Attached please find Mission response in respect of the recommendations in the draft report of the above-mentioned audit.
3. Copies of the supporting documentation will be provided to the Resident Audit office.

Kind regards.

Cc Mr. Guy Siri, Director of Mission Support, MONUSCO  
Mr. Daniel Thomas Dale, OIC AS, MONUSCO  
Mr. Mike Dora, Chief, Integrated Support Services, MONUSCO  
Mr. Axel Hoebeke, OIC Procurement Section, MONUSCO  
Ms. Jacoba Genis, Audit Focal Point, MONUSCO  
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS  
Mr. Laud Botchwey, Chief Resident Auditor for MONUSCO, OIOS

## Management Response

**Audit of local procurement of goods and services in the  
United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

Rec. no.	Recommendation	Critical/ Important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	MONUSCO should, considering the unsatisfactory performance of the Post Exchange contract, initiate a new procurement action, and submit the action taken on the current Post Exchange contract to the Director of Mission Support for approval.	Important	Yes	Director of Mission Support/Chief Procurement Officer	Implemented	The Director of Mission Support approved the Chief Procurement Officer's decision that the extension of the PX contract was already approved in 2009 and that the case did not need to be re-presented to the LCC. (A copy of the inter-office memorandum has been provided to OIOS). A new procurement exercise is being undertaken by the Regional Procurement Office.
2	MONUSCO should implement a procedure to monitor vendors' compliance with contractual delivery times, including imposing liquidated damages when appropriate.	Important	Yes	Chief Procurement Officer	1 January 2014	As of 1 November 2013, MONUSCO Procurement Section has put in place an Expediting Unit. (A copy of the organizational chart has been provided to OIOS). The Terms of Reference (TOR) and the staffing of this Unit will be completed by 1 January 2014. The TOR will include: (i) to check completeness and accuracy of the purchase orders (PO), (ii) to report statistics on PO quality, (iii) to expedite delivery of vendors, (iv) to follow-up on Receiving and Payments, (v) Vendor performance reporting to appropriate Procurement office and (vi) the closure and archiving of case files. Liquidated Damages will be applied in all cases, where applicable.

## Management Response

**Audit of local procurement of goods and services in the  
United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

Rec. no.	Recommendation	Critical/ Important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	MONUSCO should implement procedures to ensure that contractors submit performance bonds, where applicable, and action is taken to enforce remedies for non-compliance with this requirement.	Important	Yes	Chief Procurement Officer	Implemented	<p>MONUSCO Contract Management Section has included the requirement for Performance Bonds in their quarterly report which was distributed to the Self Accounting Units and Procurement. Resulting from this, a number of 8 active contracts were identified that require performance bonds. (A copy of the supporting documentation has been provided to OIOS).</p> <p>The officer in charge (OIC) of Procurement Section has sent a reminder to case officers to confirm the availability of a copy of a valid Performance Bond in each of the 8 applicable contracts. (Originals are kept at Finance Section in a safe). (A copy of the reminder has been provided to OIOS).</p>

## Management Response

**Audit of local procurement of goods and services in the  
United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

Rec. no.	Recommendation	Critical/ Important	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	MONUSCO should take action to ensure that: (i) all staff members of the Procurement Section complete the Procurement Division mandatory on-line training; and (ii) encourage other staff members involved in the procurement process to complete the on-line training.	Important	Yes	Chief Procurement Officer	Implemented	All the staff members of Procurement Section have completed the mandatory on-line training. (The list indicating that staff members have completed the on-line training has been provided to OIOS). In addition, a “Procurement Check-in” check-list (copy has been provided to OIOS) has been implemented to ensure that new Procurement staff members perform all the required trainings. The Mission wants to confirm that four new staff members who were recruited recently have completed the Procurement Campus training within the first month.