



INTERNAL AUDIT DIVISION

REPORT 2018/129

Audit of construction projects in the United Nations Assistance Mission for Iraq

**The Mission needed to strengthen oversight
of construction projects, provide additional
guidance to staff and submit required reports**

**12 December 2018
Assignment No. AP2017/812/03**

Audit of construction projects in the United Nations Assistance Mission for Iraq

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of construction projects in the United Nations Assistance Mission for Iraq (UNAMI) to assess the adequacy and effectiveness of their management to ensure provision of a safe and secure environment for personnel. The audit covered the period from 1 January 2015 to 31 December 2017 and included governance and oversight, project planning and implementation, project administration and the management of the trust fund established to meet the construction and renovation costs.

UNAMI established a two-tier governance structure to manage the construction projects and considered applicable environment strategy, safety and security requirements in planning the projects. However, UNAMI needed to strengthen oversight of its construction projects, provide additional guidance to staff on a number of areas and submit required reports.

OIOS made seven recommendations. To address issues identified in the audit, UNAMI needed to:

- Ensure that the Project Management Committee (PMC) convenes regularly and strengthens review and oversight of construction projects;
- Update the engineering standard operating procedures to provide requisite guidance on prioritization and planning of construction projects;
- Submit periodic progress and close-out reports on projects timely to the PMC for review;
- Implement mechanisms, including additional training, to improve project cost estimates and the bid evaluation process;
- Review the recruitment of individual contractors without requisite qualifications and skills and take appropriate corrective measures;
- Ensure proper processing of construction vendors' invoices; and
- Submit annual substantive and financial reports on trust fund activities to donors and relevant Headquarters divisions.

UNAMI accepted the recommendations but has yet to initiate action to implement them.

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Audit of construction projects in the United Nations Assistance Mission for Iraq

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of construction projects in the United Nations Assistance Mission for Iraq (UNAMI).
2. UNAMI developed a plan for the establishment of a United Nations integrated compound in Baghdad between 2013 and 2017. The plan included construction of a new office and residential accommodation buildings, refurbishment of existing buildings and recreation facilities, upgrading of infrastructure such as electrical and firefighting systems and other works to be implemented in 22 projects estimated at \$51.52 million. In 2016-2017, the number of projects was increased to 30 by adding 8 sub-projects within the overall estimated amount and the implementation period extended up to 2019.
3. A trust fund with a contribution of \$50 million from the Government of Iraq, and \$760,000 from six other Member States was established mainly to meet the construction and renovation costs. In addition, \$1.4 million, \$1.1 million, and \$400,000 for the years 2015, 2016 and 2017 respectively, were allocated from the regular budget for alteration and renovation of existing facilities at various locations.
4. Construction was undertaken in three phases: (a) immediate operational requirements, (b) major projects, and (c) other projects. As at 30 September 2018, 24 of the projects estimated at \$15.62 million had been completed, 5 estimated at \$21.79 million were ongoing and 1 estimated at \$1.36 million was under procurement. The rest of the trust fund was used to support construction activities, including recruitment of nine dedicated staff. The projects included a new 5-storey office building with helipad on the rooftop and refurbishment of existing offices. In addition, 21 construction and renovation projects valued at \$1.03 million funded from the regular budget were undertaken and completed during the audit period.
5. The projects were undertaken by UNAMI engineering staff supported by a Project Engineering Team (PET). The Chief Engineer and Senior Project Engineer both at the P-4 level, reported to the Chief of Mission Support through the Chief, Supply Chain Management and Service Delivery. They were supported by 37 regular and 9 project staff.
6. Comments provided by UNAMI are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of the management of UNAMI's construction projects to ensure provision of a safe and secure environment for personnel.
8. This audit was included in the 2017 risk-based work plan of OIOS due to the operational and financial risks relating to construction activities.
9. OIOS conducted this audit from October 2017 to July 2018. The audit covered the period from 1 January 2015 to 31 December 2017. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in construction projects, which included: (i) governance and oversight, (ii) project planning and implementation, (iii) project administration; and (iv) trust fund management.

10. The audit methodology included: (a) interviews of key personnel, (b) reviews of relevant documentation, (c) analytical reviews of data, (d) sample testing of 18 construction projects using a random sampling approach; and (f) physical observation of the projects during a field visit to Baghdad.

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

III. AUDIT RESULTS

A. Project governance and oversight

The Mission needed to improve the governance structure to oversee trust fund construction projects

(a) Project Steering Committee

12. The terms of reference (TORs) of the Project Steering Committee (PSC) require it to establish direction, provide oversight and approve all major construction projects and ensure all projects are energy efficient, environmentally friendly and adhere to adequate safety measures and applicable construction standards. The PSC, comprising the Deputy Special Representative of the Secretary-General (DSRSG) for Development and Humanitarian Affairs, Chief of Staff, Chief Mission Support (CMS) and three United Nations Country Team (UNCT) representatives, should meet with the Special Representative of the Secretary-General (SRSG) as and when required.

13. The PSC held its first meeting in June 2013 and identified parameters and requirements needed to establish the integrated compound, considered energy efficient and environmentally friendly design and requisite safety measures, endorsed proposed projects and approved project charters, which included timelines, justifications, cost estimates and designs. However, the following were noted:

- Only three meetings held by the PSC in June, July and September 2013 were documented and the draft minutes were not finalized. Also, there was no evidence that action points indicated in these minutes such as: updating United Nations Headquarters on the status of works, organizing a meeting with the host Government on progress made towards implementation of the projects and reviewing and approving of the 2014 staffing tables were implemented;
- Documentation such as presentations on project ideas, design features and lay-out plans were presented to the PSC. However, no effective reviews were conducted to ensure compliance with applicable requirements such as scales of accommodation for buildings (discussed in the latter part of this report); and
- In March 2016, the SRSG as programme manager of the trust fund, changed the status of PSC from a high-level decision-making body to an advisory committee, in consultation with the Under-Secretary-General, Department of Peacekeeping Operations (DPKO). This change in status resulted in duplication of the advisory role of the Project Management Committee (PMC) and did not add value to the governance of trust fund.

14. OIOS made no recommendation on these issues as all 30 projects had been approved by the Committee and it played no further significant role in overseeing the construction projects.

(b) Project Management Committee

15. The TORs of the PMC require convening fortnightly to review and monitor all construction projects from planning to closure. This includes project proposals and scopes of works, expenditure reports, changes to projects, risk management, approval of designs by local government, records management and reporting.

16. The PMC chaired by CMS and, assisted by staff from Budget, Engineering, Contracts Management, Procurement, General Services, and Legal Sections, reviewed and endorsed commencement of projects, change orders, terminations of contracts, application of liquidated damages and extensions to project completion dates after approval of project proposals by PSC. Also, PMC monitored progress and financial status of projects and advised on project implementation. However, a review of 23 minutes of meetings held between October 2015 and November 2017, and other relevant documents indicated the following:

- The PMC did not convene fortnightly as required in the TORs. The chairperson stated that the Committee met as and when required due to competing priorities. However, their infrequent meetings and inadequate reviews and monitoring impacted project reviews and oversight from start up to close-out. For example, PMC did not object to prioritization of construction of residential accommodation over office buildings and overlooked splitting of works and noncompliance with recommended scales of accommodation;
- At its first meeting in October 2015, PMC did not review the residential accommodation projects that had been approved by PSC in 2013 to ensure their continued relevance and to factor in recommendations of strategic assessments and the future posture of the Mission. This resulted in the capacity of the residential buildings not being aligned with the Mission's changing posture. For example, UNAMI international staff in Baghdad declined from 240 in 2016 to 215 in 2018 and UNCT staff declined from 559 to 483 during the same period. However, residential requirements were not reassessed prior to outsourcing contractual works in 2016; and
- The PMC did not establish an effective mechanism to follow up on action points to ensure their timely implementation. For example, a request for the Engineering Section to maintain complete records and develop an adequate risk management plan in June 2016 had not been implemented by May 2017, when a second request was made. Although the project charters of sampled cases had identified some risks, the risks were identical for all projects, regardless of differing complexities. For instance, the risks pertaining to construction of walkways valued at \$100,000 were the same as those for the construction of a 3-storey building valued at \$12.31 million. Risks related to the financial strength and capacity of contractors were not timely identified and managed and two of them defaulted, leading to delayed completion and cost overruns for the renovation of a cafeteria and construction of a new building. Significant risks of fraud and overpricing were also not considered.

17. The above occurred due to late establishment of the PMC, delays in convening meetings and weaknesses in the review process impacting effective oversight and efficient use of available resources.

(1) UNAMI should implement measures to ensure that the Project Management Committee convenes regularly and strengthens review and oversight of construction projects in accordance with its terms of reference.

UNAMI accepted recommendation 1 and stated that the Mission would ensure that the PMC convenes regularly to review and oversee construction projects. Recommendation 1 remains open pending receipt of evidence of regular meetings of the PMC.

There was need to enhance guidance on management of projects

18. DPKO/DFS draft Engineering Support Manual and the guidelines on major construction projects provide general guidance on management of construction projects.

19. UNAMI did not adhere to the established scales of residential accommodation stipulated in the DPKO/DFS draft Engineering Support Manual and stated that they did not apply to hard-wall accommodation units, even though the Manual expressly stated the scales were applicable to “permanent conventional” structures. UNAMI indicated that they relied instead on international industry standards but did not specify the relevant standards. Also, UNAMI did not provide evidence that the Mission had consulted with the Engineering Section in DFS for guidance prior to adopting these international standards or clearly apprised the PSC about their use.

20. To meet the need for 400 accommodation units, UNAMI constructed 215 new units at a cost of \$20.6 million to add to the existing 185 hard-wall accommodation units. The units ranged in size from 34 to 45 square meters, instead of the scales of 14 to 28 square meters prescribed in the Engineering Support Manual. The United Nations Global Service Centre (UNGSC), which was responsible to clear projects exceeding the Mission’s delegation of authority, technically cleared solicitation documents relating to 195 units despite these deviations.

21. In addition, the UNAMI Engineering standard operating procedures (SOP) were not developed until 2016, even though project planning and refurbishment works were started in 2013, and contracts for 12 out of 22 projects under the trust fund had already been awarded. The SOP did not include relevant requirements of the Engineering Support Manual on matters to be considered during planning and execution of projects such as prioritization of projects, which impacted planning of projects. For example, UNCT, a key stakeholder in the integrated compound, requested office space as a priority but the Mission opted for construction of residential accommodation, beautification of grounds and refurbishment of old residences. As a result, 5 to 7 UNCT staff shared a small computer server room and more than 40 shared another room, which did not meet the United Nations standards of providing office accommodation of a minimum of 7 square meters per staff at the P-1, FS-5 and GL-5 levels.

22. The Chief Engineer stated that construction of residential accommodation was prioritized due to a request from UNCT and landscaping was merely synchronized with large scale building projects. This assertion was contrary to the request by DSRSG for Development and Humanitarian Affairs, representing UNCT, to prioritize office buildings over construction of residential accommodation. This occurred because of lack of clarity on the guidelines applicable to construction projects and inadequate review by UNGSC and hindered effective planning and use of resources.

23. The High-Level Committee on Management, at its 35th session in June 2018, adopted recommendations from the Task Force on Duty of Care, that included minimum living and working standards in high risk United Nations environments. DFS planned to update accommodations standards accordingly, as well as update the 1998 Engineering Support Manual, for which there is an outstanding OIOS recommendation. Therefore, OIOS did not make an additional recommendation in this regard.

(2) UNAMI should update the engineering standard operating procedures to provide requisite guidance on prioritization and planning of construction projects.

UNAMI accepted recommendation 2 and stated that the Mission would review and make necessary improvements to SOPs and guiding documents in consultation with stakeholders. Recommendation 2 remains open pending receipt of the updated engineering SOPs.

There was need to improve project monitoring and reporting

24. The Engineering SOP requires monitoring and submission of periodic and close-out reports on construction projects to oversight committees. The reports are to contain all essential information from project initiation to close-out, including the successes/failures of projects, lessons learned and recommended measures for improvements.

25. As at 30 June 2018, the Mission reported 45 completed projects (24 financed by the trust fund and 21 by regular budget). A review of 18 of the projects indicated the following:

- In May 2016, PMC asked the Chief Engineer to submit a report indicating losses to the Organization and lessons learned upon termination of a contract for two projects (T7 and T8). The July 2016 minutes of PMC meeting emphasized the need to monitor trust fund project implementation and to maintain a record of actions taken to oversee project management. However, there was no evidence that requested reports were provided; and
- The Engineering Section did not submit project close-out reports to the PMC for 15 out of 18 sampled projects. The three submitted reports were in draft form and did not have approval of the Chief Engineer. In addition, 10 of the sampled case files had no project photos or inspection site notes to document project monitoring activities. The Engineering Section explained that a certificate of substantial completion, as-built bills of quantities, project punch lists, project information and actual milestones were provided to the PMC and saved in the Engineering share drive. However, the above-mentioned documents did not include complete formal close-out reports, which are mandatory.

26. This occurred because of inaction by PET and the Engineering Section, and inadequate follow-up by PMC. This limited effective periodic monitoring and mitigation of potential risks of non-achievement of project targets and objectives and lessons learned.

(3) UNAMI should strengthen the monitoring mechanism for construction projects and ensure timely submission of periodic progress and close-out reports to the Project Monitoring Committee for review.

UNAMI accepted recommendation 3 and stated that the Mission would ensure timely submission of periodic progress and close-out reports to the PMC for review. Recommendation 3 remains open pending receipt of evidence of regular and timely submission of progress and close-out reports.

B. Project planning and implementation

Project planning needed improvement

27. DPKO/DFS draft Engineering Support Manual and guidelines on major construction projects require adequate planning, and consideration of laws and standards of the country and the local engineering environment.

28. Planning considerations for construction projects included relevant security requirements and local environmental conditions. Soil testing was conducted by an independent consultant prior to construction to establish the height of new buildings and state of existing foundations. In addition, the Mission obtained local procurement authority from the Procurement Division/DFS, approvals of cost plans and technical clearance prior to undertaking the projects.

29. However, the Mission did not obtain local permits for the construction of nine new buildings of which seven had been completed and two were ongoing at the time of the audit. This was due to the Mission's assumption that such permission was not needed. Additionally, none of the sampled projects were completed within agreed completion times because project plans did not factor in delays due to weather conditions, religious holidays and security restrictions. Furthermore, similar works were undertaken on a piecemeal basis, thereby eliminating the possibility of achieving economies of scale. For example, 20 similar accommodation units (T7 and T8 costing \$326,876, and T9 and T10 costing \$764,175) were planned and awarded separately. Projects for the construction of a monument (\$9,800) and a water fountain (\$9,900) were split into two purchase orders raised on same date in 2016. Works related to provision of garden soil (\$3,900) and grass (\$4,000) were also split. This brought them to below the prevailing low-value acquisition thresholds of \$10,000 or \$4,000, respectively. The Engineering Section explained that the works were split to minimize the contractors' overhead cost and expedite the process as requested by senior management. However, such splits may result in circumvention of procurement requirements and uneconomical purchases. Recommendations 2 and 4 also address this issue.

The Mission considered environmental strategic goals in implementation of projects

30. DFS environment strategy aims to accomplish significant progress across five key pillars: energy, water and wastewater, solid waste, wider impact and environmental management system to achieve maximum efficiency in use of natural resources and minimize risk to society and ecosystem and contribute to a positive impact.

31. The Mission implemented the environmental strategic goals through initiatives such as installation of solar photovoltaic panels, inverter type heating, ventilation, air conditioning and treatment of wastewater. Sewage and wastewater treatment plants were upgraded in 2013 resulting in savings of \$6,000 per month through reduced sewage collection and use of treated water for irrigation. The Mission also replaced 295 old air conditioners with energy efficient inverter types resulting in a 40 per cent energy saving according to Mission records. A comparison of electricity bills for 2016 and 2017 showed a decrease of 27 per cent from \$1.05 million to \$777,000. Also, generators hours in the Baghdad International Zone showed a downward trend resulting in savings of \$22,385 as compared to 2015. OIOS concluded that UNAMI had implemented measures for more efficient use of energy in the Mission.

C. Project administration

Project cost estimates and the bid evaluation process needed improvement

32. The Procurement Manual requires missions to establish evaluation criteria and set up committees to evaluate the ability of potential vendors to satisfy technical requirements of requisitioners. Missions should also conduct market research to collect and analyze information on capabilities within the market to satisfy the Organization's needs.

33. UNAMI established evaluation criteria for construction projects and assigned a weighting of 60 and 40 per cent to technical and commercial proposals, respectively. The bids were generally evaluated based on established criteria. However, strengths, weaknesses and associated risks were not consistently identified resulting in selection of non-performing vendors, delays in completion of projects and potentially higher costs as described below:

- There were large variations between engineering estimates and bid prices due to inadequate market surveys to obtain information on prices to benchmark financial proposals. A review of sampled projects showed that in three cases contract prices were identical to engineering estimates, while in

nine cases they were 14 to 45 per cent higher and in three they were 5 to 24 per cent lower. Market surveys were needed to establish sourcing options, availability of materials and prices to obtain best value for money. The Headquarters Committee on Contracts (HCC) and CMS did not approve four cases recommended by the Local Committee on Contracts due to unreasonable prices and advised negotiations. This led to savings of \$1.7 million, which could have been lost had the cases not been returned to the Procurement Section.

- Technical evaluation of some proposals was either deficient leading to awards to vendors who were unable to deliver on the contracts, or inconsistent impacting the transparency of the bidding process and posing a reputation risk to the Organization. For example, a vendor was awarded a contract for \$299,540 despite scoring few or no points on important requirements related to manpower, equipment and ability to mobilize resources in the green zone. The contract was later terminated due to non-performance resulting in delayed completion and additional costs of \$92,027. In 6 out of 18 sampled cases, 29 bidders were requested to provide missing information relating to mandatory requirements after opening technical proposals, while in 4 cases 35 bidders with similar missing information were disqualified from the evaluation process without asking for additional information.
- During the commercial evaluation of a bid that yielded only one technically compliant proposal, the financial proposals of non-compliant bids were not opened to benchmark prices, as required by the Procurement Manual. The HCC returned the case to UNAMI for negotiations with all bidders because of lack of transparency, which ultimately resulted in savings of \$1.12 million as a previously non-technically compliant bidder was reassessed as compliant. In addition, contract prices showed significant variations, questioning whether the Mission had ensured economy and best value for money. For example, proposals for two projects that were evaluated at the same time (buildings A and B, and T9 and T10) were accepted even though they had significant variations (241 per cent) in unit prices for in-walls of \$225 and \$543. Similarly, proposals for a square meter of anti-termite treatment were accepted at \$207.48 and \$1,000 for contracts awarded in June 2015 and April 2016, respectively. In another case, the Engineering Section opposed a split award for air conditioners, resulting in a loss of \$81,620 due to acceptance of higher bid prices from the selected contractor.
- Four vendors registered at level-1 (eligible for award of less than \$500,000) were awarded contracts valued between \$600,000 and \$12 million, and two vendors registered at basic level (eligible for award of \$40,000) were awarded contracts up to \$400,000. The Mission subsequently terminated four of these contracts due to non-performance. A review of relevant minutes of meetings showed persistent performance issues attributable to lack of experience and financial capability, which should have been considered at the technical evaluation stage.
- The posting periods of solicitations of sampled cases were 21 days on average, with the lowest being 10 days against the 30 to 60 days provided in the Procurement Manual. UNAMI explained that the cases were immediate operating requirements and subsequently issued guidelines reiterating posting periods for solicitation documents and expressions of interest.

34. The above occurred because the Mission had not taken adequate steps to mitigate identified risks of vendors' inability to meet quality and workmanship requirements and to determine the reasonableness of prices quoted by bidders. The Procurement Section stated that it was difficult to determine prices because the market in Iraq was volatile, which led to unreliable estimates. Also, the reporting module in Umoja was not functional at the time and UNAMI lacked resources to record the details of previous purchases in a database. The issue of inadequate evaluation of bids was reported in a previous audit of major construction

projects (Audit report 12-00710 of November 2012) and closed without implementation as UNAMI assumed the residual risk.

(4) UNAMI should implement mechanisms, including additional training, to: (i) conduct market surveys to obtain proper cost estimates against which to benchmark reasonableness of commercial proposals; (ii) further improve the technical and commercial bid evaluation processes to achieve best value for money; and (iii) ensure vendors bids are in accordance with the current level of their registration.

UNAMI accepted recommendation 4 and stated that while the Mission followed established mechanisms, it would review and make necessary improvements by providing guidelines and training, as necessary to ensure full compliance with the Procurement Manual and best practices, to obtain proper cost estimates, evaluation of technical and commercial bid proposals, receipt of bids from registered vendors and compliance to posting periods of solicitation documents. Recommendation 4 remains open pending receipt of the guidelines and evidence of training provided by UNAMI.

UNAMI applied liquidated damages as needed

35. The United Nations Procurement Manual requires the provision of security instruments such as bid and performance bonds and liquidated damages to safeguard against expenses and losses resulting from failure by a vendor to perform its obligations. The amount of liquidated damages to be applied must be arrived at in good faith and based on an estimate of the actual damage that will ensue from the breach.

36. A review of sampled cases showed that valid bid and performance bonds were obtained in all cases, at the applicable rate of 10 per cent of the bid and contract price. The Mission applied liquidated damages in six of the sampled cases due to vendors' failure to undertake or complete the works in accordance with contractual terms. The Mission amended the contract amounts based on the estimated completed works and levied liquidated damages based on the merits of each case. The damages were recovered from payments due to the vendors and/or calling upon their performance bonds. OIOS concluded that UNAMI had applied liquidated damages as needed.

UNAMI needed to improve transparency in recruitment of individual contractors and consultants

37. The administrative instruction (ST/AI/2013/4) on recruitment of consultants and individual contractors (ICs) provides guidance on evaluating and selecting candidates. The DPKO/DFS guidelines on governance of major construction projects require the PMC to review and approve any proposal to hire a professional organization or consultancy to undertake project or contract management.

38. The Mission contracted 14 ICs and five consultancy services for construction-related works without conducting a needs assessment. The audit noted that the Engineering Section extended contracts of four ICs for periods up to five months without mandatory interim evaluations, two served beyond the maximum period of nine months, while another was recruited at the National Professional Officer level after two months of recent service without observing the required break in service. In addition, several anomalies were noted with regards to the credentials of all 14 selected ICs and there was no evidence on record that reference checks were made prior to issuance of contracts. Further, seven files did not include evaluation criteria and interview records for candidates, while one contained an incomplete personal history form, another included a false claim of previous work experience with UNAMI, and two other ICs' periods of work overlapped with periods of high school and university education, respectively. It was also noted that the Engineering Section did not seek the approval of PMC to engage consultancy services estimated at \$181,985 for designing office building and soil testing. This occurred because of inadequate oversight by

the Human Resources Management Section to provide technical guidance on the recruitment process. As a result, transparency of the recruitment process was compromised.

(5) UNAMI should: (i) review the recruitment of individual contractors for construction projects without requisite qualifications and skills and take appropriate corrective measures; and (ii) obtain ex-post facto approval of the Project Management Committee for engagement of consultancy services.

UNAMI accepted recommendation 5 and stated that the Mission had issued a broadcast reminding hiring managers of guidelines and procedures to be considered for all future recruitment of ICs and consultants. It had also obtained the Controller's Office approval for the post of information technology technician. Recommendation 5 remains open pending receipt of evidence of review and resolution of the cited cases.

UNAMI needed to improve controls over processing of vendor invoices

39. The Financial Regulations and Rules of the United Nations (ST/SBG/2013/4) require missions to record commitments against relevant payments based on supporting documents that ensure receipt of goods or services. UNAMI SOP requires submission of the final reconciled and signed bill of quantities and creation of a punch list before processing of payments to contractors.

40. As at 30 June 2018, the Mission had processed payments of \$19.03 million out of the \$30.25 million commitments (purchase orders) and pre-commitments (shopping carts) in respect of construction projects. A review of payments amounting to \$10.49 million related to 18 completed projects indicated that only 3 of them amounting to \$8.15 million were reconciled to the final as-built bills of quantity and signed by both the project engineer and representatives of vendors. Ten amounting to \$2.10 million were not reconciled and signed, and five amounting to \$240,000 were not provided to the audit team due to inadequate filing/archiving. As a result, the Finance Section processed payments based on the engineer's certificate of substantial completion of projects. In addition, requests for payments for eight of the sampled cases were signed only by the Chief Engineer who also provided certificates of substantial completion of projects in Umoja. This inadequate segregation of responsibilities weakened the internal control mechanism over payments. Twelve of the sampled files included draft punch lists that were not signed by the contractor's representative to indicate agreed refinement works with defined target deadlines.

41. The above occurred due to inadequate attention to controls on documentation of vendor commitments and payment processing. As a result, UNAMI was exposed to risk of overpayment or underpayment and litigation in the event of disputes with contractors.

(6) UNAMI should develop checklists to ensure proper processing of construction vendors' invoices including: (i) reconciling final as-built bills of quantities with signed punch lists; and (ii) submitting vendor payment requests to the Finance Section through Chief Engineer by the Project Engineer.

UNAMI accepted recommendation 6 and stated that the Mission would develop checklists to ensure proper processing of construction vendors' invoices. Recommendation 6 remains open pending receipt of copies of the checklists.

There was need to improve the filing and archiving systems

42. The United Nations archives and records management toolkit requires missions to have a recordkeeping/filing system suited to its operational requirements and adequate procedures for classifying,

filing and retrieving records. Also, the Secretary-General's bulletin on recordkeeping and management of the United Nations archives (ST/SGB/2007/5) requires staff members to ensure that requisite official documents, records or files are not misplaced.

43. A review of case files indicated that the filing and archiving systems were inadequate. Documents were not filed in accordance with the table of contents and the files were not reviewed periodically therefore deficiencies were not identified and rectified. The Chief Engineer explained that the Section was reducing its use of paper records and saving important documents in the shared drive. However, review of the digital case files also indicated incomplete files as mentioned above. For example, UNAMI experienced difficulties in timely retrieval of supporting documents for construction projects under both general and trust funds. This occurred due to inadequate management attention to maintaining adequate audit trails of project activities. The Mission initiated action to establish a systematic classification and filing system of documents including those relating to construction projects. In view of this, the audit did not make any recommendation at this stage.

D. Trust fund management

UNAMI needed to submit annual reports to donors and Headquarters

44. The United Nations Financial Regulations and Rules require missions to submit annual substantive activity reports to donors by 31 March annually, with a copy to the Field Budget and Finance Division (FBFD)/DFS and the Peacekeeping Finance Division. Missions should also submit financial reports to the Peacekeeping Finance Division through the FBFD to Director of Accounts Division for verification and certification prior to submission to the donors.

45. UNAMI had not submitted annual substantive and financial reports on progress and completion of projects to the FBFD/DFS, the Peacekeeping Finance Division and donors since establishment of the trust fund in 2009. In July 2013, the Ministry of Foreign Affairs of Iraq and the Controller at United Nations Headquarters requested for an update on the implementation of the integrated compound project. In June 2016, instead of submitting annual reports, the Mission sent a note verbale listing completed and ongoing projects, as well as projects under design to the Ministry. The project budget officer advised that reports were not sent to the Controller because the information was available in Umoja. The audit considers these comments are contrary to the Field Finance Procedure Guidelines, which require missions to submit annual reports in a prescribed template and that availability of financial data in Umoja does not absolve UNAMI of its reporting responsibilities. PMC need to ensure that programme managers regularly submit substantive and financial reports to FBFD/DFS and donors in accordance with their TORs.

(7) UNAMI should submit annual substantive and financial reports on trust fund activities to donors and relevant Headquarters divisions.

UNAMI accepted recommendation 7 and stated that the Mission would engage Headquarters in New York to ensure full compliance with donor reporting requirements as per the signed memorandum of understanding. Recommendation 7 remains open pending receipt of evidence of compliance with applicable reporting requirements.

IV. ACKNOWLEDGEMENT

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

(Signed) Eleanor T. Burns
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Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNAMI should implement measures to ensure that the Project Management Committee convenes regularly and strengthens review and oversight of construction projects.	Important	O	Submission of evidence of regular meetings of the PMC.	28 February 2019
2	UNAMI should update the engineering standard operating procedures to provide requisite guidance on prioritization and planning of construction projects.	Important	O	Submission of updated engineering SOPs.	28 February 2019
3	UNAMI should strengthen the monitoring mechanism for construction projects and ensure timely submission of periodic progress and close-out reports to the Project Monitoring Committee for review.	Important	O	Submission of evidence of regular and timely periodic progress and close-out reports to the PMC.	28 February 2019
4	UNAMI should implement mechanisms, including additional training, to: (i) conduct market surveys to obtain proper cost estimates against which to benchmark reasonableness of commercial proposals; (ii) further improve the technical and commercial bid evaluation processes to achieve best value for money; (iii) ensure vendors bids are in accordance with the current level of their registration; and (iv) standardize the period of posting solicitation documents.	Important	O	Submission of guidelines and evidence of training of relevant staff involved in the procurement process.	31 March 2019
5	UNAMI should: (i) review the recruitment of individual contractors for construction projects without requisite qualifications and skills and take appropriate corrective measures; and (ii) obtain ex-	Important	O	Submission of evidence of review and resolution of the cited IC recruitment cases.	28 February 2019

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.

³ C = closed, O = open

⁴ Date provided by UNAMI in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	post facto approval of the Project Management Committee for engagement of consultancy services and of the Controller for engagement of an information technology technician.				
6	UNAMI should develop checklists to ensure proper processing of construction vendors' invoices including: (i) reconciling final as-built bills of quantities with signed punch lists; and (ii) submitting vendor payment requests to the Finance Section through Chief Engineer by the Project Engineer.	Important	O	Submission of copies of checklists introduced to ensure proper processing of construction vendors' invoices.	28 February 2019
7	UNAMI should submit annual substantive and financial reports on trust fund activities to donors and relevant Headquarters divisions.	Important	O	Submission of evidence of compliance with applicable donor reporting requirements.	28 February 2019

APPENDIX I

Management Response



United Nations Assistance Mission for Iraq (UNAMI)

بعثة الأمم المتحدة لمساعدة العراق (يونامي)

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To: Ms. Muriette Lawrence-Hume, Chief
New York Audit Service
International Audit Division, OIOS

Date: 05 Dec 2018
Ref.: CMS-018/034

From: Harish Joshi
Chief Mission Support
UNAMI HQ, Baghdad

Subject: UNAMI Revised Management Response on Audit of Construction Projects in UNAMI (AP2017/812/03)

1. I refer to your IOM dated 24 Oct 2018 on the above-mentioned draft report on an audit of construction projects in UNAMI.
2. Please find attached UNAMI revised Management Response indicating our acceptance of 7 out of 8 provided recommendations.
3. UNAMI takes this opportunity to thank you for the positive collaboration and guidance.

cc: Mr. Mark Rutgers, Chief of Staff, UNAMI
Mr. Saeed Ahmed, Senior Administrative Officer, UNAMI
Mr. Farouk Kozah, Chief Engineering Officer, UNAMI
Mr. Nicholas Rees, Chief Procurement Officer, UNAMI
Ms. Huda M. Shahwan, Chief Human Resources Officer, UNAMI
Mr. Ferdinand Schafner, Audit Focal Point, UNAMI
Mr. Zulfiqar Gill, Chief Resident Audit Office Kuwait, Internal Audit Division, OIOS
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
1	UNAMI should implement measures to ensure that the Project Management Committee convenes regularly and strengthens review and oversight of construction projects.	Important	Yes	CMS	28/02/2019	UNAMI will ensure that the Project Management Committee convenes regularly to review and have oversight on construction projects.
2	UNAMI should update the engineering standard operating procedures to provide requisite guidance on prioritization and planning of construction projects.	Important	Yes	Chief Engineering Officer	28/02/2019	Prioritization construction projects is decided by the Project Steering Committee after review and analysis of proposals. Mission will review and make necessary improvements to SOPs and guiding documents in consultation with stakeholders.
3	UNAMI should strengthen the monitoring mechanism for construction projects and ensure timely submission of periodic progress and close-out reports to the Project Monitoring Committee for review.	Important	Yes	Chief Engineering Officer	28/02/2019	UNAMI will ensure timely submission of periodic progress and close-out reports to the Project Monitoring Committee, for its review.
4	UNAMI should implement mechanisms, including additional training, to: (i) conduct market surveys to obtain proper cost estimates against which to benchmark reasonableness of commercial proposals; (ii) further improve the technical and commercial bid evaluation processes to achieve best value for money; (iii) ensure vendors bids are in accordance with the	Important	Yes	Chief Procurement Officer	31/03/2019	Mission will review and make necessary improvements by providing trainings, as necessary to ensure full compliance with the provision of procurement manual and best practices, to obtain proper cost estimates, evaluation of technical and commercial bid evaluation, receipt of bids from registered vendors and

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.

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
	current level of their registration; and (iv) standardize the period of posting solicitation documents.					<p>compliance to posting periods of solicitation documents.</p> <p>Mission accepts this recommendation with intention to review its compliance with the procurement manual and best practices and fill any gaps, however, mission would like to state that:</p> <p>(i) Mission follows established mechanisms as indicated in the Procurement manual version 7.0.</p> <p>(ii) In order to achieve Best Value for Money, Procurement Staff diligently and consistently follow the mechanism established within the UN Rules and Regulations laid down in the Procurement Manual Chapter 11, Part 1: (Source Selection Process).</p> <p>(iii) All UNGM registered vendors can participate in an open bidding competition. During the solicitation process, Procurement actively informs vendors of the need to register in UNGM at the appropriate financial level. In cases where a level 1 registered vendor is applying for a level 2 award, the vendor is advised to</p>

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
						<p>submit all relevant documents to the Vendor Register (UNGM) for review and approval. If approval is still under review by the time an award is recommended, Procurement directly advises the Vendor Registration Unit in New York HQ that the case is pending and requests immediate review. In circumstances where vendors do not yet have an approved level 2 clearance and the award is pending, Procurement will issue a request to the Vendor Registration Unit to grant a special (one time) level 2 approval, please see the attached 4.1.</p> <p>(iv) Guidelines have been issued all Section Chiefs and Procurement Staff reiterating estimated times required for solicitation and EOI posting periods. However, and within delegated authority, posting periods may be reduced for immediate operational requirements (IOR), as deemed necessary. The circumstances warranting IOR are noted in the respective case files. It should also be noted that the Procurement Manual does not provide standardized solicitation posting periods, it provides</p>

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
						estimated guidelines, please see the attached 4.3.
5	UNAMI should provide guidance on applying liquidated damages consistently on defaulting contractors.	Important	No	Chief Procurement Officer	N/A	<p>The guidance and application for the use of Liquidated Damages is described in the Procurement Manual Chapter 9 - Section 9.35 and is incorporated in all UNAMI Contracts. UNAMI procurements conforms diligently and consistently with the guidance and procedures provided in the Procurement Manual and does not see the relevance or need for developing and implementing other guidance on applying liquidated damages on defaulting contractors.</p> <p>In respect to documenting application of liquidated damages, detailed calculations are part of the recovery documentation. Review of the case files show that documents related to liquidated damages and forfeiture of performance bonds are on file. Mission will continue to ensure that all documents are properly filed in the relevant project case file timely.</p> <p>When imposing a liquidated damage provision for late deliveries or late completion of projects the OLA will</p>

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
						<p>be consulted if a conflict arises between the Vendor and UNAMI, when agreeing and establishing the levels of damage incurred and the subsequent liquidated damage remedy to be imposed. If a vendor agrees with the liquidated damage remedy, the Procurement Officer will exercise professional judgement as to the use of the remedy. The OLA is therefore not consulted in these instances because the premise for imposing the liquidated damage remedy is already explicit in the Contract. Chapter 15 - Contract Management and Administration of the Procurement Manual recommends prior consultation with the OLA in deciding whether to invoke a remedy and in determining which remedy to apply. However, it is not a mandatory requirement and as mentioned above, the liquidated damages provision and applicable remedy is already explicit in the Contract.</p>
6	UNAMI should: (i) review the recruitment of individual contractors for construction projects without requisite qualifications and skills and take appropriate corrective	Important	Yes	Chief Human Resources Officer	28/02/2019	i) In respect to recruitment of individual contractors, UNAMI applies established procedures to

Management Response

Audit of construction projects in the United Nations Assistance Mission for Iraq

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
	measures; and (ii) obtain ex-post facto approval of the Project Management Committee for engagement of consultancy services and of the Controller for engagement of an information technology technician.					<p>ensure compliance to the relevant regulations and rules. HR sent out a broadcast through “Newsletter on hiring ICs & Consultants” (please see the attached 6.1) reminding hiring managers and highlighting mandatory compliance to respective guidelines and procedures which have to be considered for all upcoming recruitment processes of ICs & consultants.</p> <p>ii) The post of information technology technician has been approved by the Controller’s Office in the allotment for the trust fund, please see the attached 6.2.</p>
7	UNAMI should develop checklists to ensure proper processing of construction vendors’ invoices including: (i) reconciling final as-built bills of quantities with signed punch lists; and (ii) submitting vendor payment requests to the Finance Section through Chief Engineer by the Project Engineer.	Important	Yes	Chief Engineering Officer	28/02/2019	UNAMI will develop checklists to ensure proper processing of construction vendors’ invoices including: (i) final reconciliation of as-built bills of quantities with signed punch lists; and (ii) submission by the Project Engineer of vendor payment requests to the Budget & Finance Section through Chief Engineer.
8	UNAMI should submit annual substantive and financial reports on trust fund activities to donors and relevant Headquarters divisions.	Important	Yes	Chief Budget & Finance Officer	28/02/2019	Donor reporting is generally handled at the headquarters level by the UN Controller’s Office. Mission will take up the matter with respective office in UNHQ New York to review meeting

Management Response**Audit of construction projects in the United Nations Assistance Mission for Iraq**

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Revised - Client comments
						donor reporting requirements as per MOU signed between the Government of Iraq and the United Nations for the construction of UN integrated house in Baghdad.