



## INTERNAL AUDIT DIVISION

# REPORT 2014/132

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

Overall results relating to effective management of procurement activities were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

15 December 2014  
Assignment No. AP2014/672/03

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# AUDIT REPORT

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

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement activities in the United Nations Interim Force in Lebanon (UNIFIL).
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. Procurement activities in UNIFIL were governed by United Nations Financial Regulations and Rules and guided by the United Nations Procurement Manual. The Procurement Section was responsible for managing local procurement activities based on requisitions received from self-accounting units. The Procurement Section was headed by a Chief at the P-5 level and had 15 international and 11 national staff. The UNIFIL budgets for procurement of goods and services for fiscal years 2012/13 and 2013/14 were \$68.7 million and \$67.3 million respectively.
4. Comments provided UNIFIL are incorporated in italics.

### II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of UNIFIL governance, risk management and control processes in providing reasonable assurance regarding the **effective management of procurement activities in UNIFIL**.
6. The audit was included in the 2014 risk-based audit work plan of OIOS due to the financial and operational risks relating to procurement activities.
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (i) exist to guide 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 April to June 2014. The audit covered the period from 1 July 2012 to 31 March 2014. OIOS reviewed : (a) the acquisition plans for fiscal year 2012/13 and 2013/14; (b) 438 (with a value of \$45.6 million) out of 1,237 (with a value of \$110.1 million) purchase orders; (c) 10 (with a value of \$4.2 million) out of 53 (with a value of \$13.6 million) formal solicitations; and (d) 21 (with a value of 64.7 million) out of 192 (with a value of \$100.0 million) contracts.
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 and analytical reviews, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

11. The UNIFIL governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of procurement activities in UNIFIL**. OIOS made five recommendations to address the issues identified. UNIFIL implemented adequate procedures for developing source selection plans and conducting bidding exercises. UNIFIL was also in the process of completing competitive procurement process for communication services. However, UNIFIL needed to: (a) provide further training and guidance to requisitioners to ensure that goods and services were procured and received in a timely manner; (b) ensure that evaluations of vendors’ proposals were conducted effectively; (c) conduct vendor performance evaluations regularly; (d) establish procedures to monitor vendors’ compliance with contract terms and conditions; and (e) monitor and supervise contract amendments and extensions.

12. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of five 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
<b>Effective management of procurement activities in UNIFIL</b>	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### Regulatory framework

#### Development of acquisition plan and issuance of requisitions needed improvement

13. The Procurement Manual required self-accounting units (requisitioners) to prepare acquisition plans to optimize the acquisition of goods and services. Requisitioners were required to establish the time at which an identified need was to be fulfilled. Requisitioners were also responsible for taking into account all the steps of the procurement process to ensure goods and services are received when needed.

14. All seven self-accounting units had developed their respective annual acquisition plans for fiscal years 2012/13 and 2013/14. However, a review of 438 of 1,237 requisitions raised in the audit period indicated that self-accounting units did not certify requisitions in a timely manner. For example, 70 of the 438 cases took between 20 and 153 days to be certified by the responsible officers; but no reasons for these delays were documented. Additionally, requisitioners established unrealistic delivery due dates.

<sup>1</sup> A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist 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.

For example, a review of 438 requisitions indicated: (a) 35 requisitions requested delivery dates earlier than the requisition date; and (b) 66 requisitions requested delivery due date 7 days or less from the requisition date.

15. The above resulted as UNIFIL had not provided sufficient guidance and training to requisitioners on the acquisition planning and requisitioning process. Consequently, delivery of 87 per cent (638 out of 737 purchase orders) of the procured goods and services for fiscal year 2012/13 was delayed by an average of 128 days. As a result, self-accounting units did not receive goods and services when needed. OIOS could not assess the timeliness of procurements for fiscal year 2013/14 due to incomplete delivery information resulting from Umoja implementation.

**(1) UNIFIL should provide guidance and training to its self-accounting units to improve acquisition planning and requisitioning of goods and services.**

*UNIFIL accepted recommendation 1 and stated that the Procurement Section in coordination with the Training Unit would organize training for requisitioners to improve acquisition planning and requisition handling. Recommendation 1 remains open pending receipt of evidence that adequate guidance and training on acquisition planning and requisitioning of goods and services have been provided to requisitioners.*

Communication services were now being procured competitively

16. The Procurement Manual required that only officials with delegated procurement authority should enter into financial commitments relating to procurement activities on behalf of the United Nations. The Procurement Manual also required all procurement activities above \$40,000 to be undertaken through competitive bidding exercises except in exigency cases when the requisitioners were unable to foresee the need reasonably. Exigency cases were to be approved by the Local Committee on Contracts and Director of Mission Support and reported to DFS.

17. A review of all self-accounting units' acquisition plans against payment records indicated that nine contracts, totaling \$1.9 million annually, for the provision of internet, landline, mobile telephone and messaging services in two countries were entered into without competitive bidding. Also, eight of the nine contracts exceeded the \$40,000 threshold, with annual expenditures for each contract ranging from \$93,000 to \$850,000. This situation happened because the former Chief of the UNIFIL Regional Information and Communication Technology Service and an administrative officer had, without the required delegated authority, signed four contracts and entered into five verbal contracts with vendors during the period from December 2007 to February 2013. These staff entered into these agreements due to a lack of understanding of the procurement process.

18. A review of minutes of the meetings of the Local Committee on Contracts indicated that all nine communication service contracts were submitted to the Committee and approved by the Director of Mission Support on an ex post facto basis. UNIFIL, in reporting these contracts as ex post facto cases to DFS in January 2014, stated that seven of the nine procurement cases were based on exigencies. This was because UNIFIL was of the view that a possible disruption of communication services was an exigency. However, OIOS was of the view that requirements for these services were foreseeable, and UNIFIL could have planned accordingly. The lack of a competitive procurement process resulted in UNIFIL not being able to demonstrate that it obtained best value for money in its previous procurement of communication services.

19. Since July 2014, UNIFIL had taken action to correct the procurement of communication services and had conducted a new procurement process. UNIFIL was in the process of signing contracts with

service providers and obtaining approvals from the host government. Additionally, in October 2014, the Director of Mission Support issued an administrative instruction reminding all UNIFIL personnel of the procedures governing the exercise of delegation of procurement authority. Based on the action taken by the Mission to regularize the procurement of communication services, OIOS did not make a recommendation.

Controls over developing source selection plans were adequate

20. The Procurement Manual required the Procurement Section and requisitioners to jointly develop a source selection plan for each solicitation. A review of 10 (or 19 per cent) of the 53 solicitations issued during the audit period indicated that source selection plans were adequately developed. OIOS concluded that satisfactory controls were in place over source selection planning.

Quality and timeliness of technical and commercial evaluations needed improvement

21. The Procurement Manual required UNIFIL to establish a technical evaluation team to review and assess proposals submitted by potential vendors against criteria established in the source selection plans. Commercial evaluation teams also needed to be established to evaluate and compare commercial proposals. All team members were also required to adhere to established timelines and sign evaluation reports to ensure accountability in the process.

22. A review of 10 of 53 solicitations conducted during the audit period indicated: (a) two cases where names of the technical and commercial evaluation team members were not indicated; (b) three cases where technical evaluation reports were not signed; (c) eight cases where commercial evaluation reports were not signed; (d) one technical evaluation with a number of inconsistencies and flaws in the evaluation process; and (e) six cases whose evaluation took on average 18 days longer than stated in the relevant source selection plans.

23. The above resulted as UNIFIL had not provided adequate training to commercial and technical evaluation teams and the Procurement Section did not adequately monitor the quality of the evaluations being done. The lack of an adequate evaluation process increased the risk that vendors were not properly evaluated.

**(2) UNIFIL should provide adequate guidance and training to staff members serving as part of technical and commercial evaluation teams to improve quality and timeliness of evaluations.**

*UNIFIL accepted recommendation 2 and stated that it would provide additional training to self-accounting units and the Procurement Section to improve quality and timeliness of technical and commercial evaluations. Recommendation 2 remains open pending receipt of evidence that staff members serving on technical and commercial evaluations have been provided adequate guidance and training.*

Improvement needed for evaluating vendor performance

24. The Procurement Manual required requisitioners to evaluate and report on the performance of vendors. In particular, the Manual required the completion of a contract performance report once a year for: each contract valued at \$200,000 or more, or long term contracts of two years or more in duration.

25. A review of 25 contracts subject to annual performance reports indicated that the self-accounting units completed only 10 (or 40 per cent) of the required performance reports. In addition, for 3 of the 10

completed reports, self-accounting units incorrectly evaluated vendors' performance on delivery timelines by applying the delivery due date of the freight forwarders, instead of the delivery due date expected from the vendors concerned. Thus, delivery delays caused by the vendors were not assessed and were omitted from the contract performance reports.

26. This resulted as UNIFIL had not implemented procedures to monitor the quality and timeliness of vendor performance evaluations. Consequently, there was an increased risk of UNIFIL continuing to award contracts to vendors with a history of poor performance.

**(3) UNIFIL should establish a monitoring system to ensure that contract performance reports are completed in a timely manner and in accordance with required procedures.**

*UNIFIL accepted recommendation 3 and stated that the Procurement Section had been developing a comprehensive contract log online as a monitoring tool to ensure timely completion of contract performance reports by the self-accounting units. Recommendation 3 remains open pending receipt of evidence that the monitoring tools for contract performance reports have been implemented.*

Terms and conditions of contracts were not systematically complied with

27. The Procurement Manual required UNIFIL to establish adequate measures to protect the interest of the United Nations against unsatisfactory vendor performance, including obtaining performance bonds from vendors, imposing liquidated damages or withholding payments in accordance with contractual provisions.

28. A review of 21 (or 11 per cent) of the 192 contracts issued during the audit period indicated that: (a) the required insurance documents for nine contracts had expired or had not been provided by the vendors; (b) performance bonds for seven contracts totaling \$9.5 million had expired or had not been provided. Additionally, for a contract for provision of printers and digital imaging products, UNIFIL did not invoke liquidated damages totaling \$25,000 for a delay in the delivery of goods by 62 days. Instead, UNIFIL raised a change order to revise the delivery due date to a later date as UNIFIL accepted the vendor's claim that the receipt of an export license was the cause of the delay. OIOS noted that an export license was not used by the vendor to deliver the goods to the Mission.

29. The above resulted as the Procurement Section did not establish adequate contract management procedures to monitor and address vendors not meeting the terms and conditions of contracts. As a result, UNIFIL was exposed to financial losses and operational disruptions in the event of vendors' failure to perform their obligations.

**(4) UNIFIL should establish procedures for monitoring vendors' compliance with contract terms and conditions and for addressing vendor performance issues.**

*UNIFIL accepted recommendation 4 and stated that it would establish contract management procedures for monitoring vendors' compliance with contract terms and conditions and to address and mitigate the impact of unsatisfactory vendor performance on the Mission's operations. Recommendation 4 remains open pending receipt of evidence of procedures implemented for monitoring vendors' compliance with contract terms and conditions.*

Controls over contract amendments and extensions needed improvement

30. The Procurement Manual allowed contracts to be amended and extended, if properly justified, to modify delivery of goods and services or prices. The Procurement Section needed to indicate in signed

contracts the nature of modifications and justifications for amending or extending contracts and report such changes to the Local Committee on Contracts and also to the Headquarters Committee on Contracts when the amended contract value exceeded prescribed thresholds.

31. A review of 21 (or 11 per cent) of the 192 contracts issued during the audit period indicated that the Procurement Section had reported amendments and extensions to the committees on contracts as required. However, the following was noted:

- UNIFIL agreed to a contract amendment for cleaning services to incorporate a 16 per cent price increase following a government decree to increase the minimum wage. However, although requested by UNIFIL, the vendor did not provide the required payroll information for UNIFIL to verify that the vendor was paying its employees the higher wage rate;
- UNIFIL contract for the provision of steel products required prices to be adjusted if the published market rates for two products fluctuated by more than 5 per cent from the initial contract price in March 2011. The Procurement Section did not properly verify the vendor's claim on the published market rates when extending the contract, resulting in an overpayment of \$53,800 to the vendor; and
- UNIFIL did not have adequate justifications for extending a contract totaling \$2.2 million for chartering a vessel. In August 2012, UNIFIL entered into the contract for the rotation of troops by sea and for the evacuation of personnel in the event of a crisis. However, the UNIFIL security restrictions of group movement by road was already lifted in July 2012 and UNIFIL was renting buses for troop rotations. UNIFIL never used the vessel during evacuation drills. UNIFIL extended the contract twice to August 2015, even though the vessel was no longer used for the rotation of troops, UNIFIL extended the contract twice to August 2015.

32. The above resulted as the Procurement Section was not adequately supervising the contract management process, resulting in overpayments to vendors and potential waste of financial resources.

**(5) UNIFIL should: (a) adequately supervise contract amendments and extensions to ensure that they are justified, and recover overpayments of \$53,800 from the vendor related to the contract for the provision of steel products; and (b) evaluate the need for further extension of the chartered vessel contract.**

*UNIFIL accepted recommendation 5 and stated that the Procurement Section was considering measures to strengthen supervision over contract amendments to ensure they were raised and maintained in a coherent and consistent manner. UNIFIL added that as the vendor refused the attempt of the Mission to recover \$53,800, the Mission had referred the case to its Legal Office for advice. UNIFIL would also evaluate the need for further extension of the chartered vessel contract according to the Mission's requirements. Recommendation 5 remains open pending receipt of evidence of: (a) supervisory procedures implemented on contract amendments and the results of the recovery of \$53,800 from the vendor relating to the contract for the provision of steel products; and (b) results of the Mission's evaluation on the need for a chartered vessel.*



#### **IV. ACKNOWLEDGEMENT**

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

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

## STATUS OF AUDIT RECOMMENDATIONS

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

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	UNIFIL should provide guidance and training to its self-accounting units to improve acquisition planning and requisitioning of goods and services.	Important	O	Receipt of evidence that adequate guidance and training on acquisition planning and requisitioning of goods and services have been provided to requisitioners.	30 June 2015
2	UNIFIL should provide adequate guidance and training to staff members serving as part of technical and commercial evaluation teams to improve quality and timeliness of evaluations.	Important	O	Receipt of evidence that staff members serving on technical and commercial evaluations have been provided adequate guidance and training.	30 June 2015
3	UNIFIL should establish a monitoring system to ensure that contract performance reports are completed in a timely manner and in accordance with required procedures.	Important	O	Receipt of evidence that the monitoring tools for contract performance reports have been implemented.	31 January 2015
4	UNIFIL should establish procedures for monitoring vendors' compliance with contract terms and conditions and for addressing vendor performance issues.	Important	O	Receipt of evidence of procedures implemented for monitoring vendors' compliance with contract terms and conditions.	30 April 2015
5	UNIFIL should: (i) adequately supervise contract amendments and extensions to ensure that they are justified; and recover overpayments of \$53,800 from the vendor related to the contract for the provision of steel products and (ii) evaluate the need for further extension of the chartered vessel contract.	Important	O	Receipt of (i) supervisory procedures on contract amendments and the results of the recovery of \$53,800 from the vendor relating to the contract for the provision of steel products and (ii) the Mission's evaluation on the need for a chartered vessel.	30 June 2015

<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 UNIFIL in response to recommendations.

# **APPENDIX I**

## **Management Response**



Inter Office Memorandum

05 December 2014

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

From: Major General Luciano Portolano  
Head of Mission and Force Commander  
UNIFIL



Subject: **Draft report on an audit of Procurement Activities in UNIFIL (Assignment No. AP2014/672/03)**

1. We refer to your memorandum on the audit of procurement activities in UNIFIL, reference IAD: 14-00747 dated 21 November 2014. Please find attached UNIFIL's response to the recommendations contained in the subject draft audit report.

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

Best regards.

Cc: Mr. Milan Trojanović, Acting Director of Mission Support, UNIFIL  
Mr. Effendi Syukur, Chief Risk Management, Compliance and BOI Unit, UNIFIL  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

## Management Response

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

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementatio n date	Client comments
1	UNIFIL should provide guidance and training to its self-accounting units to improve acquisition planning and requisitioning of goods and services.	Important	Yes	CPO	30 June 2015	The Procurement Section in coordination with Training Unit will prepare and organize training to its self-accounting units to improve acquisition planning and requisitioning of goods and services. In order to set up suitable trainings, assistance from Field Procurement Liaison Team and Procurement Division has been requested.
2	UNIFIL should provide adequate guidance and training to staff members serving as part of technical and commercial evaluation teams to improve quality and timeliness of evaluations.	Important	Yes	OIC CM Unit	30 June 2015	The Contract Management Unit in coordination with Procurement Section and Training Unit will prepare and organize training to its self-accounting units to improve quality and timeliness of technical and commercial evaluations.
3	UNIFIL should establish a monitoring system to ensure that contract performance reports are completed in a timely manner and in accordance with required procedures.	Important	Yes	CPO	31 January 2015	The Procurement Section has been developing the Comprehensive Contracts Log where both valid and expired contracts are transparently posted on the Procurement Section Intranet Site: <a href="https://me.cosmos.dfs.un.org/UNIFIL/sites/Procurement/Comprehensive%20Contract%20Log/Forms/AllItems.aspx">https://me.cosmos.dfs.un.org/UNIFIL/sites/Procurement/Comprehensive%20Contract%20Log/Forms/AllItems.aspx</a> The Log includes all relevant contract information and information related with the pertaining Contractors Performance Reports, i.e. date of receipt and period covering. All the SAUs can review the Log and should ensure continuous and timely updates while Procurement Section can simply refer to the Log shortcomings and request Self Accounting Units to provide updates accordingly. This efficient monitoring tool will

<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.

## Management Response

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

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementatio n date	Client comments
						ensure transparent and timely fulfillment of contract performance reports in accordance with the required procedures.
4	UNIFIL should establish procedures for monitoring vendors' compliance with contract terms and conditions and for addressing vendor performance issues.	Important	Yes	OIC CM Unit	30 April 2015	UNIFIL will establish contract management procedures for monitoring vendor's compliance with contract term and condition and to address and mitigate the impact of unsatisfactory vendor performance on the Mission's operations.
5	UNIFIL should: (i) adequately supervise contract amendments and extensions to ensure that they are justified; and recover overpayments of \$53,800 from the vendor related to the contract for the provision of steel products and (ii) evaluate the need for further extension of the chartered vessel contract.	Important	Yes	CPO (i)          Chief MovCon (ii)	30 June 2015	(i) UNIFIL's Procurement Section is considering the necessary measures to strengthen supervision over contracts amendments and to ensure that all amendments are raised and maintained in a coherent and consistent manner. With this regard the CPO's Executive Instruction has been issued (attached). Following the preliminary OIOS findings, UNIFIL's Procurement Section attempted to recover the amount of US\$53,800.00 from the vendor of the contract in subject. However, the vendor refused to reimburse and disputed the UNIFIL position regarding the alleged overpayment since an amendment to the contract was duly signed by both parties. In view of the said dispute, UNIFIL will consult and seek advice to relevant Office to address this matter.  (ii) UNIFIL will evaluate the need for further extension of the chartered vessel contract according to the Mission's requirements prior to the expiry of its contract.