



INTERNAL AUDIT DIVISION

REPORT 2015/106

Audit of management of the rations contract in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo

Overall results relating to the effective management of the rations contract in the United Nations Stabilization Mission in the Democratic Republic of the Congo were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

29 September 2015
Assignment No. AP2014/620/15

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-6
Regulatory framework	3-6
IV. ACKNOWLEDGEMENT	6
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of management of the rations contract 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 the management of the rations contract 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. MONUSCO provides rations to its 19,000 military contingents and formed police units under a three-year turnkey system contract entered into on 13 August 2013. The not-to-exceed amount of the contract is \$262.22 million. The contractor has seven warehouses in Kinshasa, Goma, Bukavu, Uvira, Dungu, Beni and Bunia, and supplies rations to troops at 158 delivery points.
4. The MONUSCO Rations Unit is responsible for managing the rations contract to ensure that the contractor adequately fulfills food orders received from contingents. The Rations Unit was headed by a Chief at the P-4 level, who reported to the Chief, Supply Section at the P-5 level. The 2013/14 authorized staffing for the Unit was 26, comprising 10 international staff, 8 national staff and 8 United Nations volunteers. The Contracts Management Section monitors the contract to ensure adherence to its terms. The Contracts Management Section was headed by a Chief at the P-5 level who reported to the Deputy Director of Mission Support. The 2013/14 authorized staffing for the Section was 27, comprising 12 international staff, 11 national staff and 4 United Nations volunteers.
5. The 2013/14 and 2014/15 budgets for rations were \$73.24 million and \$79.54 million respectively.
6. Comments provided by MONUSCO are incorporated in italics.

II. OBJECTIVE AND SCOPE

7. 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 the rations contract in MONUSCO**.
8. The audit was included in the 2014 risk-based work plan of OIOS because of the financial and operational risks related to the provision of rations to MONUSCO contingents.
9. 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: (a) exist to guide the management of the rations contract in MONUSCO; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
10. The key control was assessed for the control objectives shown in Table 1.

11. OIOS conducted the audit from January to April 2015. The audit covered the period from 1 August 2013 to 31 December 2014.

12. 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

13. The MONUSCO governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of the rations contract in MONUSCO**. OIOS made three recommendations to address the issues identified. MONUSCO implemented controls to ensure that the rations contractor: maintained sufficient performance security and insurance coverage; fully met contingents' rations requirements; maintained a certified quality management system; regularly calibrated its measuring equipment; and achieved the mobilization milestones. MONUSCO also implemented adequate procedures over the review and evaluation of the contractor's performance and the review of invoices. However, MONUSCO needed to: (a) conduct spot checks and regular reviews of United Nations ration reserves; (b) calculate and retroactively recover performance credits for the period from August 2013 to October 2014; and (c) periodically verify disposal methods of damaged and expired rations by the contractor and its subcontractors.

14. The initial overall rating was based on the assessment of key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of two 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 the rations contract in MONUSCO	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

¹ 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

Regulatory framework

Adequate performance security and insurance coverage was in place

15. The rations contract requires the contractor to obtain a bank guarantee of \$25 million as performance security to protect the United Nations in the event the contractor fails to perform its contractual obligations. The contractor is also required to maintain insurance coverage for various risks.

16. A review of the two bank guarantees obtained by the contractor indicated that they were adequate and valid for the duration of the contract. A review of the contractor's insurance certificates also indicated that they were up-to-date and covered the risks identified in the contract. OIOS concluded that MONUSCO implemented adequate controls to ensure the contractor maintained sufficient performance security and insurance coverage.

The contractor was meeting contingents' rations requirements

17. The rations contract requires MONUSCO to issue food orders to the contractor for each consumption period of 28 calendar days, and the contractor to establish regular weekly delivery schedules to fulfill food orders. MONUSCO is also required to inspect all rations delivered against food orders and to sign delivery notes as evidence of receipt.

18. A review of food orders and delivery records for 14 out of 158 delivery points, interviews with staff of the Rations Unit and the contractor, and observation of the delivery process in four field offices indicated that MONUSCO issued food orders for consumption periods of 28 days and the contractor prepared and communicated to MONUSCO its delivery schedules. Also, MONUSCO staff assigned to the contractor's warehouses conducted pre-delivery inspections of the rations collected by the contractor for delivery to contingents and was adequately confirming that deliveries agreed to the relevant food orders. In addition, visits to 14 of 158 delivery points indicated that contingents checked the accuracy of rations delivered by the contractor against delivery notes, which were signed by MONUSCO staff at the pre-delivery inspection.

19. OIOS concluded that MONUSCO implemented adequate controls to ensure that the contractor fully met contingents' rations requirements.

The contractor regularly reviewed and certified its quality management system

20. The rations contract requires the contractor to maintain a certified quality management system for its core food handling operations. The contractor is also required to regularly calibrate its measuring equipment.

21. A review of quality management documents at four contractor warehouses indicated that each warehouse had been awarded an International Organization for Standardization (ISO 22000:2005) certification in November 2014 by an accredited entity. The contractor also conducted audits to ensure continuous compliance with the certification requirements.

22. A review of the calibration process and related documentation indicated that the contractor calibrated all equipment that required calibration, in compliance with the provisions of the contract. The calibration certificates indicated that thermometers and master temperature loggers were calibrated semi-annually and weighing equipment were calibrated annually by accredited national and regional quality bureaus in Uganda and the Democratic Republic of the Congo. The contractor, using the master

temperature loggers, calibrated all digital loggers used to monitor the temperatures of its cold rooms and delivery trucks on a monthly basis.

23. OIOS concluded that MONUSCO implemented adequate controls to ensure that the contractor maintained a certified quality management system and regularly calibrated its measuring equipment.

Adequate controls were in place to ensure satisfactory achievement of the mobilization milestones

24. The rations contract contains three milestones for mobilization by the contractor, and a payment schedule for mobilization fees. MONUSCO is required to certify achievement of each milestone before paying the contractor.

25. A review of mobilization records indicated that MONUSCO certified the contractor's achievement of the first milestone in August 2013, the second and third milestones in August 2014, and paid the correct amount of mobilization fees to the contractor only after certifying achievement of the milestones. OIOS concluded that MONUSCO had implemented adequate controls to ensure that the contractor achieved the mobilization milestones.

United Nations rations reserves needed to be reviewed regularly

26. The rations contract requires the contractor to maintain a supply of United Nations reserve stock for a minimum of 28 days, and provide evidence of compliance to MONUSCO. In May 2013, MONUSCO communicated to the contractor food items and quantities to be maintained as United Nations reserves at each warehouse based on the prevailing troop strength. MONUSCO is required to conduct spot checks to ensure that the contractor maintains the required levels at all times.

27. A review of MONUSCO monitoring activities, including minutes of all 19 performance review meetings held from June 2013 to December 2014, and periodic reporting by the contractor indicated that the contractor submitted the required weekly stock compliance reports for each warehouse. In August 2014, MONUSCO conducted spot checks and certified that the contractor had established reserves at the required levels. However, after certifying achievement of the second milestone in August 2014, MONUSCO did not conduct spot checks to verify the accuracy of reserves reported by the contractor. The Mission had also not reviewed and adjusted the requirement for minimum reserve levels following recent changes in troop strength due to the reconfiguration of the Mission. This was because MONUSCO had not established procedures on spot checks and regular reviews of reserves.

28. A review of a sample of nine stock compliance reports for four warehouses in Bukavu, Bunia, Goma and Kinshasa for the months of January and September 2014 indicated that the contractor maintained rations reserves at the required levels. However, the lack of periodic spot checks and review of reserves increases the risk of insufficient resources being held.

(1) MONUSCO should develop and implement procedures to ensure spot checks and regular reviews of United Nations rations reserves.

MONUSCO accepted recommendation 1 and stated that it implemented the procedures for conducting spot checks and review of reserves and that its staff were conducting these checks. Based on the action taken by MONUSCO, recommendation 1 has been closed.

MONUSCO implemented adequate controls on the review and evaluation of the contractor's performance

29. The rations contract requires MONUSCO to convene a performance meeting after every delivery cycle to measure and evaluate the contractor's performance against indicators specified in the contract.

30. A review of minutes of all the 19 performance review meetings held from June 2013 to December 2014 indicated that meetings were convened as required and attended by representatives from MONUSCO and the contractor. The contractor's performance issues were discussed and areas requiring remedial actions were identified and followed up in subsequent meetings. OIOS concluded that MONUSCO implemented adequate controls on the review and evaluation of the contractor's performance.

There was a need to calculate and recover performance credits from the contractor

31. The rations contract requires MONUSCO to deduct performance credits from payments to the contractor where it failed to attain agreed minimum acceptable performance levels. MONUSCO uses the United Nations rations standard tool issued by the Department of Field Support to generate goods received reports which compute the performance credits for each delivery.

32. A review of 30 goods received reports for rations valued at \$134,733 out of rations valued at \$54.4 million received from the contractor during the period from August 2013 to October 2014 indicated that MONUSCO did not deduct performance credits amounting to \$6,282 from payments made to the contractor. A further review of the invoice reconciliation register indicated that MONUSCO was not recovering performance credits from the contractor during this period. This was due to the absence of controls and procedures to regularly calculate performance credits from goods received reports and recover them from payments to the contractor.

33. As a result, MONUSCO did not recover an unknown and potentially significant amount of performance credits from the contractor. During the audit in February 2015, MONUSCO took action and recovered performance credits of \$68,485 from the contractor for deliveries valued at \$9.01 million for consumption periods from November 2014 to January 2015. Based on this recovery, and assuming that there was a similar pattern of unrecovered performance credits, OIOS estimated that MONUSCO could recover up to \$400,000 in respect of rations valued a \$54.4 million that it received from the contractor from August 2013 to October 2014.

(2) MONUSCO should calculate and recover all performance credits for the period from August 2013 to October 2014 from the contractor.

MONUSCO accepted recommendation 2 and stated that calculations of the performance credits for the outstanding periods was ongoing. Recommendation 2 remains open pending receipt and verification of evidence of recovery of performance credits from the contractor for the period from August 2013 to October 2014.

Controls for the review of invoices were adequate

34. The rations contract requires the contractor to invoice only for goods and services delivered and accepted by the United Nations. Upon completion of the acceptance process, the Rations Unit is to prepare a goods received report which compares the value of the final food orders and actual deliveries, and forms the basis for invoice verification.

35. A review of 20 invoices valued at \$577,806 for four field offices indicated that the Rations Unit reviewed and certified them. Subsequently, the Supply and Contracts Management Section was reviewing related invoices prior to submitting them to the Finance Section for payment. OIOS concluded that MONUSCO implemented adequate controls over the review of invoices prior to payment.

MONUSCO needed to verify the contractor's disposal of damaged and expired rations

36. The rations contract requires the contractor to dispose of damaged and expired rations in accordance with the local environmental laws and regulations in cooperation with local health authorities. MONUSCO is required to be represented to witness and verify in writing all disposal actions.

37. A review of 35 disposal actions and related certificates indicated that MONUSCO staff properly witnessed the unpacking and coating of damaged and expired food items with non-toxic materials to make them inedible. MONUSCO also delivered these items to the contractor's waste disposal subcontractors for disposal. MONUSCO; however, did not observe actual disposals by the subcontractors to confirm that they were conducted in accordance with established standards and local regulations. Rather, MONUSCO relied on assurances and certificates from the disposal subcontractors. This was due to the lack of adequate procedures, such as MONUSCO oversight on the disposal of damaged and expired rations. As a result, there was an unmitigated risk of subcontractors disposing of damaged and expired rations in an environmentally unfriendly manner.

(3) MONUSCO should implement adequate procedures such as spot checks to verify the appropriateness of the disposal of damaged and expired rations by the contractor and its subcontractors.

MONUSCO accepted recommendation 3 and stated that its staff were conducting random spot checks and witnessing the destruction/disposal of damaged and spoilt rations. Recommendation 3 remains open pending receipt of a copy of the procedures implemented and documentation relating to the spot checks already conducted.

Close out procedures for the previous rations contract were completed satisfactorily

38. The United Nations Procurement Manual requires the Procurement Division to close out a contract upon completion of performance and payment and return any security.

39. A review of documents and correspondences on the closure of the previous rations contract that expired on 12 August 2013 indicated that the Contracts Management Section confirmed the satisfactory completion of contractual obligations of both the contractor and the United Nations, and that all payments had been settled. Moreover, the Rations Unit prepared a close out report to highlight lessons learned from the management of the contract. The Procurement Division confirmed the satisfactory closure of the contract and would make arrangements to return the performance bond. OIOS concluded that MONUSCO implemented adequate controls to ensure the satisfactory closure of rations contracts.

IV. ACKNOWLEDGEMENT

40. 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, Acting Head
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

**Audit of management of the rations contract in the
United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	MONUSCO should develop and implement procedures to ensure spot checks and regular reviews of the United Nations rations reserves.	Important	C	Action taken.	Implemented
2	MONUSCO should calculate and recover all performance credits for the period from August 2013 to October 2014 from the contractor.	Important	O	Receipt and verification of evidence of recovery of performance credits from the contractor for the period from August 2013 to October 2014.	31 December 2015
3	MONUSCO should implement adequate procedures such as spot checks to verify the appropriateness of the disposal of damaged and expired rations by the contractor and its subcontractors.	Important	O	Receipt of a copy of the procedures implemented and documentation relating to the spot checks already conducted.	14 August 2015

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 MONUSCO in response to recommendations.

APPENDIX I

Management Response



PROTECT

STABILIZE

CONSOLIDATE PEACE

INTEROFFICE MEMORANDUM

14 August 2015
Ref. ODMS/15/OM/02848

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

From: Guy Siri
Director of Mission Support
MONUSCO

Subject: Management comments on Draft Audit Report - Management of the rations contract in MONUSCO (Assignment No. AP2014/620/15)

1. Your interoffice memorandum reference IAD-15-7-5-7(16) dated 31 July 2015 on the above-mentioned audit report has reference.
2. Attached please find the Mission comments. Supporting documents will be provided to the Resident Audit Team.

Kind regards.

Cc Mr. Philip Compte, Deputy Director of Mission Support, MONUSCO
Mr. Rajesh Chadha, Officer-in-Charge, Integrated Support Services, MONUSCO
Mr. Bolton Tarleh Nyema, Chief, Peacekeeping Audit Service, IAD/OIOS
Mr. Richard Johnson, Chief of Supply, MONUSCO
Mr. Tom Amolo, Chief Rations Unit, MONUSCO
Mr. Pierpaolo Prati, Contracts Management Section, MONUSCO
Ms. Jacoba Genis, Audit Focal Point, MONUSCO
Ms. Cynthia Avena-Castillo, Professional Practices Section, IAD/OIOS

Attachment: Appendix I - Management Response

Peace it!

MANAGEMENT RESPONSE

**Audit of management of the rations contract in the
United Nations Organization Stabilization Mission in the Democratic Republic of the Congo**

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	MONUSCO should develop and implement procedures to ensure spot checks and regular reviews of the United Nations rations reserves.	Important	Yes	Chief Rations Unit	Implemented	MONUSCO Rations Unit has implemented procedures and staff is conducting regular reserve stock spot checks and verifications of the rations reserves. Supporting documentation has been provided to the audit team.
2	MONUSCO should calculate and retroactively recover all performance credits for the period from August 2013 to October 2014 from the contractor.	Important	Yes	Chief Rations Unit	31 Dec 2015	The Mission has started with the recovery process of the performance credits and the calculations for the period 10/14 and 9/14 have been forwarded to Contract Management Section for the deduction from the contractor invoices. Supporting documentation has been provided to the audit team. The calculations for the outstanding periods are ongoing. The Mission has to verify the historical data before it can be used in the calculations and this is a time consuming process. .
3	MONUSCO should implement adequate procedures such as spot checks to verify the appropriateness of the disposal of damaged and expired rations by the contractor and its subcontractors.	Important	Yes	Chief Rations Unit	Implemented	MONUSCO Rations Unit has implemented procedures and staff is conducting random spot checks witnessing the destruction/disposal of damaged and spoilt food. Supporting documentation has been provided to the audit team.

¹ Critical recommendations address critical and/or pervasive deficiencies 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.

² 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.