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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

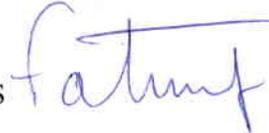
TO: Mr. Lamberto Zannier
A: Special Representative of the Secretary General
United Nations Interim Administration Mission in Kosovo

DATE: 20 April 2010

REFERENCE: IAD: 10-

00278

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AP2009/650/05 – Audit of procurement management in UNMIK**

OBJET:

UNMIK generally complied with procurement regulations, rules and procedures

1. I am pleased to present the report on the above-mentioned audit which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. Based on your comments, we are pleased to inform you that we will close recommendations 1 and 2 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.

EXECUTIVE SUMMARY

Audit of procurement management in UNMIK

OIOS conducted an audit of procurement management in the United Nations Interim Administration Mission in Kosovo (UNMIK). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over procurement activities. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UNMIK generally complied with the relevant procurement regulations, rules and procedures regarding procurement management. However, OIOS identified the following areas that required improvement:

- Management did not ensure that staff members of the Procurement Section and self-accounting units receive adequate training to carry out effective procurement management.
- Twenty-six per cent of procurement case files reviewed did not contain the relevant statement of awards. Additionally, some details such as not-to-exceed (NTE) amounts, exchange rates, case approval dates, etc., were in some instances missing leading to difficulties in monitoring procurement cases.

OIOS has made recommendations to address the weaknesses identified and to strengthen internal controls over procurement management in UNMIK.

I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of procurement management in UNMIK. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing

5. The United Nations Financial Regulations and Rules, in particular Regulations 5.12 to 5.14 and Rules 105.13 through 105.22, govern the procurement functions in the United Nations. Additionally, all staff members involved in procurement activities are required to comply with the provisions of the Procurement Manual and other policies and guidelines issued by the Procurement Division at the United Nations Headquarters (UNHQ) and Mission Management.

6. The Procurement Section comprises two units, namely Purchasing and Support and Contracts Management. The Purchasing and Support Unit is responsible for receiving and reviewing requisitions; reviewing and approving quotations and bid abstracts; approving contracts including purchase orders (PO) within the approved delegation of authority; preparing Local Committee on Contracts (LCC) presentations; and participating in all vendor meetings. The Contracts Management Unit is responsible for launching expressions of interests, issuing solicitation documents, conducting financial evaluations of offers received, and awarding contracts to successful bidders.

7. There are seven self-accounting units (SAUs) that participate in the procurement process in the Mission including:

- (a) Communications and Information Technology Sections (CITS)
- (b) Department of Public Information (DPI)
- (c) Engineering Section (ES)
- (d) General Services Section (GSS)
- (e) Personnel Section (PS)
- (f) Supply Section (SS)
- (g) Transport Section (TS)

8. The procurement budget for the Mission for the financial year 2008/09 was \$21 million.

9. Comments made by UNMIK are shown in *italics*.

II. AUDIT OBJECTIVES

10. The main objectives of the audit were to assess the adequacy and effectiveness of internal controls over procurement activities.

III. AUDIT SCOPE AND METHODOLOGY

11. The audit covered procurement activities for the period from 1 January 2008 to 30 June 2009. Specifically, the audit reviewed procurement planning for all the seven SAUs, requisitioning and sourcing, evaluations and contract awards, management of the vendor database and the procurement support functions. The sample sizes examined

included 23 requisitions, 29 LCC case presentations with related evaluations and 34 purchase orders and contracts. The audit did not include the review of system contracts administered from UNHQ.

12. The audit process involved the review of procurement case files and other procurement documents, review of Mercury System transactions, and interviews with relevant staff in procurement and requisitioning officers to obtain an understanding of the procurement systems and processes. The audit process also involved the follow-up of prior audit recommendations including implementation of the Board of Auditors' recommendations.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Procurement operations

Internal controls

13. OIOS conducted tests of controls over acquisition planning, requisitioning and sourcing, evaluations and contract awards, LCC operations, and vendor database operations to assess the adequacy and effectiveness of controls. Based on the tests performed and the scope of work examined, there were no material control findings except those detailed in the paragraphs below.

Staff training

14. Staff members involved in procurement activities are required to have an in-depth knowledge of procurement regulations, rules and procedures to ensure efficient and effective execution of their duties.

15. Following the reconfiguration of the Mission, Management did not conduct a training needs assessment of staff of SAUs, the Procurement Section and those appointed to serve on standing committees such as the Tender Opening Committee and the LCC to ascertain training requirements. OIOS noted that two new staff appointed to serve on the LCC had not received training on LCC operations. Similarly, staff responsible for procurement acquisition planning and requisitioning in the GSS, CITS and SS had not received training. Management explained that the two staff would be undergoing training in February 2010.

16. Lack of appropriate training in procurement and LCC operations may result in delays in the procurement process and the acquisition of inappropriate goods and services.

Recommendation 1

(1) The UNMIK Office of Mission Support should conduct training needs assessment of staff involved in procurement activities and provide training accordingly to ensure effective procurement management.

17. *The UNMIK Administration accepted recommendation 1 and stated that the new Chief Procurement Officer will conduct training for all UNMIK Procurement staff members. Based on the action taken by UNMIK, recommendation 1 has been closed.*

B. Compliance with procurement regulations, rules and guidelines

Statement of award

18. Rule 11.22 of the UN Procurement Manual requires that, for contract awards exceeding \$2,500, the Procurement Officer will prepare a written record, in the form of a statement of award, of the facts on which the decision to make the particular award was based.

19. OIOS noted that the Procurement Section generally maintained comprehensive records. However, statement of award forms were missing in eight case files out of a sample of 31. Further, the statement of award forms reviewed showed that some details including currency exchange rate, aggregate obligation details, revised NTE amount, date case reviewed by LCC and case approval by the Chief of Mission Support were not always indicated. Procurement staff may not properly monitor the procurement cases when case files contain incomplete information.

Recommendation 2

(2) The UNMIK Office of Mission Support should ensure that the Procurement Section maintains complete and updated statement of awards in each case file in compliance with the Procurement Manual.

20. *The UNMIK Administration accepted recommendation 2 and stated that the section has continued updating and reinforced its efforts towards ensuring filing of duly completed and signed statements of award in each procurement case file. Based on the action taken by UNMIK, recommendation 2 has been closed.*

Reconciliation of budgeted amounts

21. The Mission uses the Mercury System for managing procurement operations. The system, among other things, indicates funds available when SAUs initiate requisitions. Discussions with five programme managers revealed that sometimes the system does not allow them to process requisitions as it shows negative balances even though the funds have not actually been expended. This is due to system errors generated particularly when requisitions are amended. Additionally, the exchange rate module produces errors when converting foreign currencies.

22. Management explained that the technical team for the Mercury System in Brindisi had been informed, but the problems had not been resolved. The Budget Section has commenced preparation of monthly reports on expenditure and balances and circulating to all SAUs to facilitate the procurement processes.

Recommendation 3

(3) The UNMIK Office of Mission Support should continue to follow-up with the Mercury team in Brindisi to ensure that the causes of errors in the system are identified and rectified.

23. *The UNMIK Administration accepted recommendation 3 and stated that CITS will continue to monitor and act on errors brought to its attention by the SAUs by seeking corrective action by the Mercury team in Brindisi. Recommendation 3 remains open pending verification of follow up and corrective action on errors.*

V. ACKNOWLEDGEMENT

24. We wish to express our appreciation to the Management and staff of UNMIK for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Bernard Lee, Chief of Mission Support, UNMIK
Ms. Camille Curtis, Chief Administrative Services, UNMIK
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
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STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNMIK Office of Mission Support should conduct training needs assessment of staff involved in procurement activities and provide training accordingly to ensure effective procurement management.	Human resources	Moderate	C	Action taken.	Implemented
2	The UNMIK Office of Mission Support should ensure that the Procurement Section maintains complete and updated statement of awards in each case file in compliance with the Procurement Manual.	Compliance	Moderate	C	Action taken	Implemented
3	The UNMIK Office of Mission Support should continue to follow-up with the Mercury team in Brindisi to ensure that the causes of errors in the system are identified and rectified	Information technology	Moderate	O	OIOS verification of CITS follow up and corrective action taken on errors identified by SAUs.	Not provided

1. C = closed, O = open

2. Date provided by UNMIK in response to recommendations.

ANNEX 2

*Use this page if the orientation of Annex 2 is portrait. If the orientation is landscape, insert a section break at the end of Annex 1 and continue on the new page. (On the **Insert** menu, point to **Break**, select **Next page** under **Section break types**.) Leave the page blank if not required; do not delete it.*