



## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Contract management in UNIFIL**

**Overall results relating to effective management of contracts in UNIFIL were initially assessed as partially satisfactory. Management has implemented the recommendation satisfactorily.**

**FINAL OVERALL RATING: SATISFACTORY**

**15 August 2012**

**Assignment No. AP2011/672/05**

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# AUDIT REPORT

## Audit of contracts management in UNIFIL

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of contracts management 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. In UNIFIL the requisitioner is responsible for monitoring the day-to-day implementation of the contract while the Contracts Management Unit (CMU) is responsible for providing guidance and training to requisitioners on contract management. Based on feedback from the requisitioner and the CMU, the Procurement Section is required to act on behalf of UNIFIL to resolve any contractual disputes.
4. As of March 2012, UNIFIL had 162 contracts including 57 systems contracts and 105 local contracts valued at \$178 million and \$14 million, respectively. The CMU was headed by a P-4, assisted by one international and three national staff.
5. Comments provided by UNIFIL are incorporated in italics.

### II. OBJECTIVE AND SCOPE

6. The audit of contracts management in the UNIFIL was conducted to assess the adequacy and effectiveness of UNIFIL's governance, risk management and control processes in providing reasonable assurance regarding the **effective management of contracts**.
7. This audit was included in the 2011 OIOS risk-based work plan due to the importance of effective management of contracts in the delivery of goods and services.
8. The key controls tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as a control that provides reasonable assurance that policies and procedures: (i) exist to guide UNIFIL's contract management policy; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.
10. OIOS conducted this audit from September 2011 to March 2012. The audit covered the period 1 July 2009 to 31 October 2011.
11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. UNIFIL’s governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of contracts**. UNIFIL had complied with the provisions of the Procurement Manual on contracts management. However, procedures needed to be enhanced to ensure contracts were renewed or amended in a timely manner. OIOS made one recommendation to address the issue identified and UNIFIL has taken the necessary action to implement the audit recommendation.

13. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **satisfactory** as the recommendation has been implemented satisfactorily.

**Table 1: Assessment of key controls**

	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Effective management of contracts in UNIFIL</b>	Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory

#### A. Regulatory framework

Contract management procedures were generally in place

14. UNIFIL had developed and issued standard operating procedures for contract management to supplement the Procurement Manual and to clarify the roles and responsibilities of the respective units. These procedures were satisfactorily complied with. Moreover, UNIFIL evaluated vendors’ performance based on established criteria and at prescribed intervals in accordance with the terms of the contract. The CMU and requisitioners were actively involved in monitoring the performance of vendors, including providing feedback through regular meetings. Requisitioners also verified that goods or services were received in accordance with the terms of the contract prior to authorizing payments.

UNIFIL did not obtain performance bonds for two contracts valued at \$900,000

15. Of 22 local contracts reviewed, two vendors did not provide the required performance bonds even though the contracts were for a period exceeding two years. One contract was completed in September 2011, and for the other contract, UNIFIL was following up with the vendor for the required performance bond. UNIFIL also issued an Administrative Instruction reminding the Procurement Section staff on the need for vendor compliance with contractual obligations. OIOS was satisfied with the action taken by management.

Timely renewal and amendment of contracts should be improved

16. For contract renewals and amendments, while UNIFIL ensured that these requests were adequately documented and reviewed by the appropriate committees, they were not always initiated in a timely manner. For example, three contract extensions and one contract renewal were completed ex-post

facto, with delays ranging from two weeks to one month. No agreed timelines had been established for requisitioners to submit their requests to the Procurement Section to ensure that necessary action was taken before the end of the contract period.

- (1) UNIFIL, in order to avoid post facto approvals, should ensure that the Procurement Section and requisitioners establish agreed timelines for the extension and renewal of contracts recommendation.**

*UNIFIL accepted recommendation 1 and issued an Administrative Instruction to ensure that agreed timelines for the extension and renewal of contract were established. Based on the action taken by UNIFIL, recommendation number 1 has been closed.*

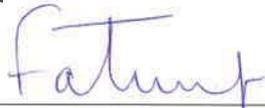
UNIFIL improved monitoring of catering contracts valued at \$1.7 million

17. For the catering vendor, the contract allowed UNIFIL to deduct up to 10 per cent of the monthly catering fee if the vendor did not attain agreed minimum performance levels in storage conditions, food preparation, and meals served. Although UNIFIL reported the vendor's failure to adhere to agreed menu plans, non-compliance with sanitary requirements and poor quality and quantity of food served, no deduction was made.

18. However, since October 2010, the CMU started monitoring key performance indicators, except for the quality and quantity of meals served, citing measuring difficulties. The vendor attributed its poor performance to inadequate kitchen equipment and facilities provided by UNIFIL. In December 2011, UNIFIL took action to address the vendor's complaint and initiated a process to conduct a survey to obtain feedback on the quality and quantity of meals served. OIOS was satisfied with the action taken.

#### IV. ACKNOWLEDGEMENT

19. 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.



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Ms. Fatoumata Ndiaye, Director  
Internal Audit Division, OIOS

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of contracts management in UNIFIL

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, in order to avoid post facto approvals, should ensure that the Procurement Section and Requisitioners establish agreed timelines for the extension and renewal of contracts.	Important	C	Action taken	Implemented

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

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNIFIL