

United Nations Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jean Arnault,
A: Special Representative of the Secretary-General,
UNAMA

DATE: 13
7 June 2005

REFERENCE: 7-5: 9
AUD- (D 335 /05)

FROM: Ms. Patricia Azarias, Director
DE: Internal Audit Division I, OIOS

P. Azarias

SUBJECT: **OIOS Audit No. AP2004/630/02: UNAMA Procurement Activities**
OBJET:

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during July to December 2004.
2. We note from your response to the draft report that UNAMA has generally accepted the recommendations. Based on your response, we are pleased to inform you that we have closed recommendations 4, 5, 7, 9, 12 and 14 in the OIOS recommendations database. In order to close the remaining recommendations (1, 2, 3, 6, 8, 10, 11 and 13), we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e. recommendations 7 and 14) in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the management and staff of UNAMA for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Ms. Hazel Scott, Director, ASD/DPKO
Mr. Patrick Devaney, Chief Administrative Officer, UNAMA
UN Board of Auditors
Programme Officer, OIOS
Mr. R. Manohar, Chief Resident Auditor, UNAMA

Office of Internal Oversight Services

Internal Audit Division I



UNAMA Procurement Activities

Audit no: AP2004/630/02
Report date: 7 June 2005
Audit team: R. Manohar, Chief Resident Auditor

EXECUTIVE SUMMARY
UNAMA Procurement Activities (AP2004/630/02)

OIOS conducted an audit of procurement activities in the United Nations Assistance Mission in Afghanistan (UNAMA) during July to December 2004. The main objective of the audit was to assess the adequacy of internal controls in ensuring compliance with the procedures laid down in the United Nations Procurement Manual and in the Financial Regulations and Rules.

UNAMA's Procurement Section procured goods and services totaling \$20.39 million since the Mission's inception in March 2002 till end December 2004. Given the prevailing insecurity in the region, UNAMA Procurement Section has done a commendable job in procuring goods and services to further the mandate of the mission. There is however, a need to strengthen procurement planning, draw up specifications or product descriptions, widen the list of vendors to foster more competition, and enforce the contractual obligations of the vendors.

OIOS noted inadequate controls in the screening of potential vendor applications and in managing the vendor database. Advance payments amounting to \$48,533 were made to vendors in contravention of the established United Nations Financial Rules, and the contract clause relating to liquidated damages was not invoked for late deliveries of goods. Short-form purchase orders amounting to \$94,239 were used for procuring goods and services in contravention of established procurement procedures by splitting the invoices.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 – 4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6 – 7
IV. OVERALL ASSESSMENT	8
V. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Vendor registration and evaluation	9 – 12
B. Procurement planning	13 – 23
C. Solicitation documents	24 – 29
D. Bid submissions	30 – 33
E. Local Committee on Contracts	34 – 36
F. Other issues	37 – 40
VI. ACKNOWLEDGEMENT	41

I. INTRODUCTION

1. OIOS conducted an audit of procurement activities in the United Nations Assistance Mission in Afghanistan (UNAMA) during July to December 2004. The audit was conducted in accordance with the standards for the professional practice of internal auditing in the United Nations organizations.

2. The UNAMA Procurement Section procures goods and services to support the activities of the Mission. The objective of the Procurement Section is to obtain good quality products and services that meet the specifications at competitive prices and within the time frame required. The Chief Procurement Officer (CPO) heads the Procurement Section. Four international staff and four local staff assist the CPO.

3. UNAMA was established in March 2002. From March 2002 to end December 2004, the Mission had procured goods and services amounting to \$20.39 million, as summarized below:

Year	Total No. of Purchase Orders	Value in \$ million
2002-03	685	11.69
2004-05	476	8.70
TOTAL	1,161	20.39

4. The comments made by the Management of UNAMA on the draft audit report have been included in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

5. The objective of audit was to assess the adequacy of internal controls in ensuring compliance with the procedures laid down in the UN Procurement Manual and the UN Financial Regulations and Rules.

III. AUDIT SCOPE AND METHODOLOGY

6. The scope of audit included review of procedures and practices relating to registration of vendors, acquisition planning, solicitation documents, submission and evaluation of bids. The audit did not cover contract administration and disposal of property through sale. The audit reviewed procurement activities from 1 January 2003 to 31 December 2004. A total of 50 purchase order files were selected at random and reviewed.

7. The audit methodology included interviews with responsible staff, review of documentation and actual observation of practices.

IV. OVERALL ASSESSMENT

8. The UNAMA Procurement Section's functioning is hampered by the lack of procurement planning. Other control weaknesses noticed were in the areas of vendor management and

enforcement of contractual obligations. Despite these limitations, the Mission's Procurement Section has managed to deliver goods and services to support the activities of UNAMA.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Vendor registration and evaluation

9. The CPO is required to designate a staff member as a Local Vendor Database Officer (LVDO), whose duties include administering and maintaining the vendor database, evaluation of vendor registration applications, and advising the Local Vendor Review Committee (LVRC) on the status of vendor evaluations.

10. The LVDO is required to review the vendor registration application in accordance with Section 7.5 (2) of the Procurement Manual. OIOS' review of 20 applications registered with UNAMA revealed that in 16 cases the latest certified/audited financial statements were not attached to the vendor registration applications; documentation in support of the vendor's technical capability was not available in 9 cases; and the license of incorporation of business was not available in 13 cases. In the absence of financial statements, it is difficult to establish the sound financial credentials of a prospective vendor. Similarly, the technical capability of the prospective vendor cannot be assessed without the supporting documentation.

11. The vendor database maintenance was not satisfactory, as it was being regularly updated. Only recently, the Mission started the practice of rating the performance of select vendors. The LVRC has not yet been set up. Acknowledgements of receipt of completed vendor registration applications were not always traceable. Upon inquiry, OIOS was informed that there was shortage of staff in the start-up phase of the Mission, and the local staff were inexperienced and lacked training. The CPO informed that there are plans to establish the LVRC, but it was difficult to evaluate the vendor registration applications as institutional arrangements are lacking in Afghanistan. In his experience, some of the vendors had provided inaccurate information unintentionally due to ignorance of the English language and the UN system, and at times even false information was provided by prospective vendors. While this situation may have affected the screening of vendors based in Afghanistan, there should be no reason for not evaluating vendors in regions outside Afghanistan.

Recommendations 1, 2 and 3

OIOS recommends that the UNAMA Chief Procurement Officer:

- (a) Establish a Local Vendor Review Committee to evaluate and recommend the suspension, removal or reinstatement of registered vendors in accordance with the provisions of the Procurement Manual (AP2004/630/02/001);
- (b) Ensure that the Local Vendor Database Officer regularly updates the vendor profile and database (AP2004/630/02/002); and

- (c) Evaluate the vendors' applications on the basis of clear criteria, such as financial stability, technical competence, business experience and capacity, to determine their suitability for registration as potential vendors (AP2004/630/02/003).

12. *UNAMA accepted recommendations 1, 2 and 3 and stated that steps would be taken to implement them.* Recommendations 1, 2 and 3 remain open pending confirmation by the Mission that they have been fully implemented.

B. Procurement planning

13. Procurement planning is essential for the effective and timely solicitation of bids or proposals, award of contracts and delivering of the goods and services required. To this end, requisitioners are responsible for the development of short-term, long-term and annual procurement plans in collaboration with the procurement officers.

14. The Officers-in-charge of Supply and Engineering Sections, and the Chiefs of Communications and Information Technology and Procurement Sections indicated that no acquisition planning was conducted since the Mission's inception. The Officer-in-charge of Engineering stated that planning was not possible due to the ad-hoc nature of works tasked to the Engineering Section. The Chief of Communication and Information Technology (CITS) was not aware of the need to formulate procurement plans as he had presumed that the information provided to the Budget Section would serve as the procurement plan for a given year. The CPO had, however, initiated the process to prepare procurement plans for 2005.

Requisitions

15. Comprehensive and unambiguous technical specifications or descriptions are required to be developed and attached to the requisitions (paragraph 8.3.1 (4) of the Procurement Manual). Except for proprietary items, specifications developed should be generic. OIOS' review of 20 requisitions revealed that in four cases, specifications referred to particular brand names. Some other issues noted during the audit are as follows:

- Taking into consideration the prevailing security situation, Supply Section requested (requisition no. SUP3-151) the acquisition of level III helmets. While placing the purchase order (AMA3-668), the Procurement Section downgraded the specification to level II. There was no record to indicate whether the requisitioner was consulted before effecting this change.
- The Supply Section raised a requisition (no. SUP5-1) on 19 January 2004 to procure, as an immediate operational requirement (IOR), fire extinguishers of a particular brand. Based on the lowest offer, the Procurement Section placed the order (PO no. AMA5-116 dated 14 March 2004) for a different brand. There was no record to indicate whether any technical evaluation had been made. Furthermore, no opportunity was given to other vendors to quote for the brand selected. The CPO indicated that the downgrading of

specifications had to be resorted to due to the fund constraints. The Officer-in-charge of Engineering stated that it was difficult to develop specifications for engineering items because of a lack of in-house capacity. Instead, brand names are indicated, and in case of products for which it is difficult to develop specifications, the rules permit references to “equivalent” products.

Recommendation 4

OIOS recommends that the UNAMA Procurement Section ensure that requisitioners perform technical evaluations documenting the technical suitability of the bids received, and provide equal opportunity to other vendors in the event of any changes to the original requirements (AP2004/630/02/004).

16. *UNAMA accepted recommendation 4 and stated that the Procurement Section always involves requisitioners during the evaluation of bids and proposals. The Mission also provided additional explanations concerning the specific cases noted during the audit.* Based on the Mission’s response, OIOS has closed recommendation 4.

Procurement of ballistic blankets

17. OIOS found undue delays in requisitioning essential security equipment. On 9 February 2004, the Security Management Team instructed all the UN agencies in Afghanistan to equip their vehicles with ballistic blankets by 1 May 2004. Requisition no. SUP5-33 was raised on 12 April 2004 and approved on 10 May 2004 for procuring the ballistic blankets on IOR basis. The bid exercise had to be rushed through with limited vendors. Subsequently, the Mission had to conduct a fresh bidding exercise, further delaying the acquisition of the equipment. In OIOS’ opinion, the delay in acquisition of ballistic blankets could have been avoided if the requisition had been raised and approved expeditiously.

Recommendation 5

OIOS recommends that the UNAMA Chief Administrative Officer advise requisitioners to submit requisitions in time to enable the Procurement Section to conduct the bidding exercise without having to rush through the process unnecessarily (AP2004/630/02/005).

18. *UNAMA accepted recommendation 5 and stated that on 5 May 2005, the Mission’s procurement plan for 2005-06 had been finalized and transmitted DPKO.* Based on the action taken by the Mission, OIOS has closed recommendation 5.

19. Section 7.8 (1) of the Procurement Manual stipulates that as a general rule, requisitioners should not recommend vendors. OIOS noted that the Chief Security Officer had recommended the name of the vendor to procure ballistic blankets. Such practice undermines the principle of segregation of responsibilities between requisitioning and procurement entities.

Recommendation 6

OIOS recommends that the UNAMA Chief Administrative Officer ensure that the prescribed segregation of responsibilities between requisitioning and procuring entities is maintained (AP2004/630/02/006).

20. UNAMA accepted recommendation 6 and stated that necessary instructions would be issued to all requisitioners. Recommendation 6 remains open pending receipt of such instructions issued by the Mission.

Short form purchase orders

21. OIOS found that requisitioners often used short form purchase orders (SFPOs) to circumvent the normal procurement process. This was done by splitting invoices for related items or invoices from a single vendor to keep individual payments below the prescribed limit of \$2,000. The following table indicates the acquisition of goods through the SFPO arrangement in contravention of Financial Rule 110.5.

Serial No.	Section	Period	Vendor	Items	Amount in USD \$
1	Engineering	Oct. 03 to Mar. 04	Hamed Habib Trading Store	Building Materials	34,424.10
2		Mar. 04 to Aug. 04	Hamed Habib Trading Store		21,106.88
3		16 Aug. 2004	Rahmatullah Store	Construction Materials	4,263.25
4		11 Aug. 2004	Pachakhil Esmat Trading		4,511.30
5		7 Sept. 2004	Afghan National Integrated Service	Building Materials	4,503.08
6	Supply	Jun. 03 to Apr. 04	Fushang Trading Co.	Window Blinds	12,171.00
7	Medical	Oct. 03 to Apr. 04	Nazer Pharmacy	Medicines	13,259.68
TOTAL					94,239.29

22. Although the CPO and the Chief Finance Officer (CFO) had repeatedly advised the Engineering Section about the need for use of open-ended contracts through competitive bidding, the use of SFPOs continued. Upon inquiry, OIOS was informed that there was no comprehensive plan for construction of buildings and facilities, and items were procured on an ad hoc basis. The Engineering Section also attributed inherent delays in the procurement process and shortage of warehousing capacity as reasons for the use of SFPOs.

Recommendation 7

OIOS recommends that the UNAMA Chief Administrative Officer conduct periodic reviews of short form purchase orders and

ensure full compliance with the established procurement procedures, including acquisition planning and competitive bidding (AP2004/630/02/007).

23. *UNAMA accepted recommendation 7 and stated that the need to comply with related administrative instructions had been impressed upon the Engineering Section. Goods and services required for an engineering project currently underway had been requisitioned for competitive bidding by the Procurement Section. Based on the Mission's response, OIOS has closed recommendation 7.*

C. Solicitation documents

Global Compact

24. The UN encourages all its vendors to participate in the Global Compact, which seek to promote the principles covering human rights, labour and the environment. Procurement Officers are required to include the text of the Global Compact in the solicitation documents. OIOS found that none of the solicitation documents issued by UNAMA had any mention of the Global Compact. Upon inquiry, the CPO stated that he was not aware of this requirement.

Recommendation 8

OIOS recommends that the UNAMA Chief Procurement Officer ensure that procurement staff incorporates the text of the Global Compact in all solicitation documents issued to vendors (AP2004/630/02/008).

25. *UNAMA accepted recommendation 8 and stated that action will be taken accordingly. Recommendation 8 remains open pending receipt of samples of solicitation documents issued by the Mission incorporating the text of the Global Compact.*

Payment terms

26. The payment terms indicated in UNAMA solicitation documents state that payments would be made 30 days upon receipt of goods. The Financial Regulations and Rules preclude advance payment and payments by letter of credit. These terms are specifically mentioned in the solicitation documents issued to the vendors. OIOS noted that in three POs (AMA 5-55, AMA 5-88 and AMA 5-94), advance payments amounting to \$48,533 had been made to vendors. In two offers, the vendor sought 20% of the total value in advance and also put a condition that the prices are subject to change by the manufacturer. Instead of rejecting the conditional offer, UNAMA placed purchase orders on the vendor (POs AMA 5-88 and AMA 5-94). Besides, the vendor failed to meet the stipulated delivery schedule.

Recommendation 9

OIOS recommends that the UNAMA Procurement Section reject all conditional offers and discourage vendors insisting on advance payments (AP2004/630/02/009).

27. *UNAMA accepted recommendation 9 and stated that procurement staff had been advised accordingly.* Based on action taken by the Mission, OIOS has closed recommendation 9.

Liquidated damages

28. UNAMA's solicitation document includes a clause for liquidated damages to ensure timely delivery of goods/services. A sum equivalent to two percent of the delivered price of the delayed goods/services for each week of delay, up to a maximum of 20 percent of the purchase order/contract value, is stipulated in all the purchase orders. OIOS' review of 20 cases of requests for payments, based on invoices and receiving inspection reports, showed that in eight cases no liquidated damages were levied even though there were delays in delivery of goods ranging from 1 month and 24 days to 3 months and 18 days. In one case (invoice no 0409692) the vendor, on his own volition, gave a discount of 3% due to the inability to deliver the goods within the promised schedule. The CPO stated that it was difficult to source goods and services into Afghanistan, and as most of the vendors were traders, it was difficult to invoke the liquidated damages clause. By not invoking the liquidated damages clause, there is no incentive on the part of the vendor to perform/deliver the goods and services on time.

Recommendation 10

OIOS recommends that the UNAMA Procurement Section enforce the liquidated damages clause to ensure timely delivery of goods and services (AP2004/630/02/010).

29. *UNAMA accepted recommendation 10 and stated that action will be taken accordingly.* Recommendation 10 remains open pending confirmation by the Mission that it is being fully implemented.

D. Bid submissions

30. Solicitation documents issued to vendors provide for submission of bids by mail, courier service, hand delivery or fax. UNAMA has in place a system for receipt and safeguarding of bids. A dedicated fax machine is available and kept in a secure area in the Finance Section. The bids received are stamped manually indicating the time and date of receipt of the bid. Though no deviations were noticed, manual operations are susceptible to overrides. It may be prudent to install an electronic time and date stamping machine.

Recommendation 11

OIOS recommends that the UNAMA Chief Administrative Officer consider installing an electronic time and date stamping machine to enhance the integrity of the procedure for receiving bids (AP2004/630/02/011).

31. *UNAMA accepted recommendation 11 and stated that necessary action would be taken.* Recommendation 11 remains open pending confirmation by the Mission that it has been implemented.

32. The solicitation documents issued by UNAMA do not provide for electronic submissions. However, five bids were submitted by e-mail directly to the buyers in Procurement Section. The reason put forward by the bidders was that UNAMA's fax machine was not receiving their fax quotes. Procurement staff thus had access to the sensitive price information thereby compromising the confidentiality required to be maintained in terms of Section 10.1.3 of the Procurement Manual.

Recommendation 12

OIOS recommends that the UNAMA Chief Procurement Officer advise his staff not to accept any deviations from the prescribed procedure for submission of bids to maintain the integrity of the procurement process (AP2004/630/02/012).

33. *UNAMA accepted recommendation 12 and stated that all procurement staff were reminded and instructed to strictly comply with the UN procurement procedures. All bids must be sent to a dedicated facsimile machine at the Finance Section (Chairman of the Tender Committee).* Based on the Mission's response, OIOS has closed recommendation 12.

E. Local Committee on Contracts (LCC)

34. The Mission's LCC deliberated on 19 cases in 2003 and 22 cases in 2004. OIOS' review of 20 cases revealed one case of a related requisition, which in total exceeded the annual threshold value of \$50,000 (AMA 3-43 and AMA 3-543 total value \$57,535), that was not submitted for review by LCC. With regard to case no. LCC/AMA/02/13 of 6 January 2003, the LCC had concluded that the case presentation was inadequate due to the complexity of the case and the lack of essential documents and information. The LCC directed the resubmission of the case for further deliberation. There are no records to indicate whether the case was resubmitted.

Ex-post facto purchase orders

35. According to Section 12.1.8 (3) of the Procurement Manual, all ex-post facto cases (including partial ex-post facto) originating at Missions should be presented to the respective LCC, regardless of the dollar amount. The audit showed that furniture costing \$9,759 was procured on 6 November 2004 and the PO (AMA5-416) was issued on 8 November 2004. The items were procured from a single source without obtaining 3 quotations. In another case, a

change order (AMA3-416) was issued ex post-facto to reflect the increase of the total amount by \$21,158.

Recommendation 13

OIOS recommends that the UNAMA Chief Procurement Officer review all ex-post facto (including partial ex-post facto) cases and submit such cases for review by the LCC. Furthermore, case no. LCC/AMA/02/13 should be resubmitted to the LCC for its review (AP2004/630/02/013).

36. *UNAMA accepted recommendation 13 and stated that steps will be taken to implement it.* Recommendation 13 remains open pending receipt of documentation confirming that it has been fully implemented.

F. Other issues

37. In response to Bid 3-55, the successful bidder had quoted \$18,000 towards cost of airfreight of two generators. After the purchase order (PO No. AMA 3-373) was issued, the vendor requested an increase in freight costs by \$7,000 on the ground that their freight forwarder quoted a very high price and another freight forwarder was willing to transport the generators for \$25,000. A change order (AMA 3-374 Rev 1) was issued to increase the freight charges from \$18,000 to \$25,000. There was no documentation to show that the Procurement Section took any action to enforce the originally quoted freight costs.

38. In response to Bid 3-209 for supply of desktop computers and monitors, the vendor offered the price as per the system contract no. PD/C0028/03. A week later, on 22 September 2003, the vendor improved the price and also submitted package pricing for the products solicited by UNAMA. The vendor informed UNAMA that the latest package proposal was under approval at Procurement Division in New York. UNAMA did not exercise the package option and thereby lost an opportunity to save \$500. Reason for not exercising the package option was not available on record.

39. Bid 5-69 was issued on 18 April 2004 to procure medicines and the bidding exercise was concluded on 26 April 2004. However, a fresh vendor was contacted on 10 May 2004 to procure the same medicines. Reasons for approaching a new vendor were not available on record.

Recommendation 14

OIOS recommends that the UNAMA Procurement Section enhance its efforts to safeguard the interests of the Organization by striving to effect economical purchases (AP2004/630/02/014).

40. *UNAMA accepted recommendation 14 and provided examples to show that it had been implemented.* Based on the Mission's response, OIOS has closed recommendation 14.

VI. ACKNOWLEDGEMENT

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

Patricia Azarias, Director
Internal Audit Division I, OIOS