



INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jean-Marie Guéhenno, Under-Secretary-General for
A: Peacekeeping Operations

17 January 2006

Mr. Warren Sach, Assistant Secretary-General, Controller
Department of Management

REFERENCE: AUD-83400029/06

FROM: Patricia Azarias, Director
DE: Internal Audit Division I
Office of Internal Oversight Services

A handwritten signature in blue ink that reads "P. Azarias".

SUBJECT: OIOS Audit No. AP2004/600/09: Horizontal audit of rations
OBJET: contracts in peacekeeping missions

1. I am pleased to present herewith the OIOS' final report on the subject audit, which was conducted at Headquarters from November 2004 through February 2005, and at the five selected missions (MONUC, UNAMSIL, UNMIL, UNMEE, and UNMIS) during 2004.

2. We note from your joint responses of 11 November and 15 December 2005 that you have accepted most of the recommendations. We are pleased to inform you that we have closed recommendations 3 and 5 and have withdrawn recommendations 6 and 24. In order for us to close out the remaining recommendations - recommendations 1-2, 4, 7-23, 25-39, we request that you provide us a time schedule for implementing each of the remaining recommendations as well as any additional information as indicated in the text of the report. Please refer to the recommendation number concerned to facilitate monitoring of their implementation. Please note that OIOS will report on the progress made in implementing its recommendations, particularly those designated as critical, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

3. The Internal Audit Division I 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 DPKO and PS for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to:

UN Board of Auditors
Programme Officer, OIOS

Office of Internal Oversight Services

Internal Audit Division I



Horizontal audit of rations contracts in peacekeeping missions

Audit no: AP/2004/600/09

Report date: 17 January 2006

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EXECUTIVE SUMMARY
Horizontal audit of rations contracts in peacekeeping missions
(Assignment No. AP/2004/600/09)

The Office of Internal Oversight Services (OIOS) conducted a horizontal audit of rations contracts management at Headquarters and in five field missions, namely: United Nations Organization Mission in the Democratic Republic of the Congo (MONUC); United Nations Assistance Mission in Sierra Leone (UNAMSIL); United Nations Mission in Ethiopia and Eritrea (UNMEE); United Nations Mission in Liberia (UNMIL); and United Nations Mission of Support in East Timor (UNMISET). OIOS planned, organized and conducted this audit in close coordination with the field missions involved, as well as with the Procurement Service (PS) of the Department of Management (DM) and the Department of Peacekeeping Operations (DPKO) at Headquarters. All audits were conducted in 2004 and concluded at Headquarters in February 2005. A total of thirteen auditors, nine from OIOS' network of five field audit duty stations, and four from OIOS New York Headquarters conducted the audits.

The audit's principal aim was to identify areas of weaknesses and make recommendations for enhancing the efficiency and effectiveness of rations contract procurement, management and administration processes. The audit also acknowledged areas where efforts and progress have been made and where good practices prevail.

Overall Assessment

OIOS recognized that DPKO management had undertaken several initiatives to consider ways to improve rations contract management and administration, including the revision of the Procurement Manual, the introduction of the provisional manual "Rations Management in United Nations Peacekeeping Missions", and a Start-up Kit for training of new staff members.

Notwithstanding these initiatives, the audit identified a number of weaknesses, which are detailed in this report. OIOS has concluded that, given the high risks associated with this area, more effort is needed to ascertain that the procurement process for rations and the management and administration of related contracts are effectively carried out and monitored in accordance with the UN Financial Regulations and Rules. There is also a need to strengthen the accountability of procurement officers and staff involved in the administration of rations contracts. The areas of weaknesses relate particularly to unclear roles, responsibilities and accountability for the monitoring of contracts, ineffective administration by the missions, insufficient contingency planning and the exposure (risk of manipulation) associated with a market restricted by a limited number of qualified vendors. Likewise, there is a need to complete and implement the revision of the UN Rations Scale and the Procurement Manual, make more effective evaluation of contractor performance, perform better financial analyses, and increase collaboration within and among DPKO, PS and the missions.

Major Findings and Recommendations

This report summarizes the major findings and recommendations emerging from the audit at Headquarters and captures the summary findings by mission, which are detailed in Annex III. PS' and DPKO's response to the draft report and ensuing discussions have been incorporated into the final report (in *italics*) as appropriate. A summary of the major audit findings in each area that needs improvement follows:

Procurement Planning and Contract Management (DPKO)

- Roles, responsibilities and accountability for contract management were not clearly defined between Headquarters and the field, between DPKO and Procurement Service (PS) and also within the Department. Specifically, the distinction needed to be made between procurement and contract related issues, management and administration of contracts. Of particular mention are a number of potential legal issues that have not been pursued, including an anonymous letter.
- There is a need for a plan of action to implement lessons learned and ensure that best practices are shared mission-wide. The role of the Best Practice Section, on a broad scale, and that of LSD/DPKO and PS should be clearly defined in this context.
- The lack of adequate contingency planning was evident. The joint effort of DPKO and PS to establish a global service contract was not approved by the ASG/OCSS; as such, interim contracts are increasingly being used at added cost to the Organization.
- There was no strategy or guidelines to achieve the Millennium Development Goals, in particular, to "develop a global partnership for development", which in the context of rations procurement embodies the concept of sourcing food locally when possible.
- Several policies and procedures were still in draft form; of particular note is the provisional manual "Rations Management in the United Nations Peacekeeping Missions", which was issued for implementation in 2004.
- The ration scale had not been updated since its introduction in 1994 and may, therefore, not satisfy the requirements of the troops. OIOS recognized that a review was initiated in 2003 but at the time of the audit it had not yet been finalized for implementation.
- There was insufficient monitoring of contracts, especially in following up of contractors' performance evaluations and potential legal issues with financial implications.
- There is a need to review the technical evaluation criteria to provide equal opportunity to new bidders and to broaden the market for food rations.

Contract Administration (Missions)

- There is not enough staff with the relevant expertise to effectively carry out receipt and inspection of rations and administer the complex systems contract on a whole.
- Contract Management Units/Sections were not established in all missions, and where established, their roles and place in the Organization structure were not clearly defined.
- In several cases, requisitions for rations by contingents were not submitted early enough to take advantage of contract discount clauses. This has resulted in lost opportunity to save more than \$783,000 in the missions reviewed during the audit.
- Since July 2004, there had been a claim of \$8.4 million against UNMISSET, from the contractor, and as of the audit date, the issue has not yet been resolved.
- Missions did not provide performance reports to PS on a timely basis.
- Failure to accept and act upon the Advance Notice of Award, referred to as the 'Letter of Award' in the case of UNMIL, and the consequential actions to ensure timely delivery of rations resulted in added cost to the Organization of over \$300,000.

Procurement Service (PS)

- The Procurement Manual needs to be reviewed and updated and/or procedures developed to provide more clarity in areas related to Best and Final Offer (BAFO), Advance Notice of Award and Timelines, as they relate particularly to ration contracts, presentations to the HCC, and the Millennium Development Goals.
- Notwithstanding the standing Expression of Interest (EOI) posted on the UN website, the market for food rations was dominated by two main contractors, and the number of technically feasible vendors in the vendor roster database was insufficient.
- Sliding Scales and associated Ceiling Man/day Rates (CMR) are disproportional and the range differs considerably from one mission to another, which could significantly increase the cost of rations to the UN. This was demonstrated in the case of MONUC where the cost escalated by over \$1.5 million in one year when the troop strength was lower than planned.
- Vendor Registration files need updating and better maintenance to include periodic and up to date performance and financial reports, as well as disclosure of affiliated and related parties.
- Financial analyses to determine the solvency of contractors at the registration stage of procurement and prior to the award of a contract were inadequate.

- Notwithstanding the established general procurement timelines as promulgated in the Procurement Manual, no timelines for the process specifically relating to food rations contract procurement have been established. The process for rations contracts has been slow; averaging over five months in most cases and usually fell outside of the established timelines.
- Contract terms were not always properly defined, complied with, and/or executed concerning discounts, liquidation, performance bonds, and insurance clauses. The methodology for discount clauses was not always indicated and insurance clauses were not acted upon or followed by DPKO and/or PS. Also, the performance bond requirement was not uniformly applied to all contractors, as some cover 10% of the entire contract period while others are renewed at 10% of the annual amount. Furthermore, details relating to the latter were not stated up front as part of the RFP.
- The Advance Notice of Award, referred to as the ‘Letter of Award’, in the case of UNMIL, was used as the authorization for commencing the contractor’s mobilization. The contents of this document deviated from the requirements of the Procurement Manual and needs to be investigated since it was technically binding the Organization. In this ‘Letter of Award’, Procurement Service indicated that it should be considered a “legal document”, contrary to the requirements of the Procurement Manual, which clearly states that it is not to be considered as such. Furthermore, there is no clear policy on when mobilization should commence, which, in practice, starts prior to having signed contracts in place.

Other Administrative Arrangements and Personnel Issues

- Lack of adequate human resources in DPKO, missions, and PS jeopardizes effective delivery of the procurement and contract administration function.
- Policy needed on the recruitment of personnel from contractors currently doing business with the UN in the context of any potential conflict of interest. Current case needs to be investigated.
- Need for an automated and integrated food management system to enable more effective monitoring and analysis.

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ANNEX I: Summary of Rations Contracts

ANNEX II: Timeliness of Rations Contracts

ANNEX III: Matrix of Summary of Findings in Mission Audits

Glossary of Terms

ASG	Assistant Secretary-General
BAFO	Best and Final Offer
BOP	Basis of Provisioning (Type A and B)
CMR	Ceiling Man-Day Rate
DESA	Department of Economic and Social Affairs
DM	Department of Management
DPKO	Department of Peacekeeping Operations
EOI	Expression of Interest
ES-KO	ES-KO International, Incorporated
ESS	Eurest Support Services (Cyprus) International
FRR	Financial Rules and Regulations
HCC	Headquarters Committee on Contracts
IOR	Immediate Operational Requirement
LCC	Local Committee on Contracts
LSD	Logistics Support Division
LTS	Logistics and Transportation Section
MONUC	United Nations Organization Mission in the Democratic Republic of Congo
NTE	Not to Exceed
OCSS	Office of Central Support Services
OIOS	Office of Internal Oversight Services
OLA	Office of Legal Affairs
ONUCI	United Nations Operation in Cote d'Ivoire
OPPBA	Office of Programme Planning, Budget and Accounts
PAE	Pacific Architects and Engineers
PM	Procurement Manual
PS	Procurement Service
RFP	Request for Proposal
SC	Security Council
SOP	Standard Operating Procedures
SOW	Statement of Work
SSS	Support Services Section
UNAMSIL	United Nations Assistance Mission in Sierra Leone
UNMEE	United Nations Mission in Ethiopia and Eritrea
UNMIL	United Nations Mission in Liberia
UNMISET	United Nations Mission of Support in East Timor
VDO	Vendor Database Officer

List of Field Audits forming part of this horizontal audit:

UNMISET	AP2004/682/08
UNMEE	AP2004/624/07
MONUC	AP2004/620/09
UNAMSIL	AP2004/622/06
UNMIL	AP2004/640/10

I. INTRODUCTION

1. The Internal Audit Division I (IAD) of the Office of Internal Oversight Services (OIOS) conducted a horizontal audit of rations contract management at Headquarters and in five field missions, namely: United Nations Organization Mission in the Democratic Republic of the Congo (MONUC); United Nations Assistance Mission in Sierra Leone (UNAMSIL); United Nations Mission in Ethiopia and Eritrea (UNMEE); United Nations Mission in Liberia (UNMIL); and United Nations Mission of Support in East Timor (UNMISSET). OIOS conducted the audit in accordance with general and specific standards for the professional practice of internal auditing in United Nations organizations.
2. The audit focused on procurement, contract management and administration. OIOS planned, organized and conducted this audit in close coordination with the field auditors and the Board of Auditors (BOA). The audits were conducted during the fourth quarter of 2004 and completed in the first quarter of 2005 by a total of 13 auditors, nine from OIOS' network of five field audit duty stations and four from OIOS New York headquarters.
3. The Assistant Secretary-General (ASG) for the Office of Central Support Services (OCSS) is primarily responsible for the overall procurement function¹. As part of the overall framework for the management of contracts, there is a Headquarters Committee on Contracts (HCC) with the role of rendering advice to the office of the ASG/OCSS on procurement of goods and services valued at \$200,000 or above. A Local Committee on Contracts (LCC) is also established in each field mission to address contracts below \$200,000.
4. The Procurement Service (PS) of the Department of Management (DM) has the delegated authority to procure systems contracts (including food rations contracts) in accordance with the United Nations Financial Rules and Regulations (UNFRR) and the Procurement Manual (PM). The Office of Legal Affairs (OLA) also participates in the procurement process when requested to review contracts and/or provide a view on contract issues. DPKO provides logistics and administrative support to all peacekeeping missions who are responsible for systems contract administration and is responsible for overall contract management.
5. As of 30 September 2004, the “not to exceed” total value of rations contracts was more than \$400 million (Annex I).

II. AUDIT OBJECTIVES

6. Based on the preliminary risk assessment analysis and the exposure associated with significant expenditure levels, the audit objectives were to:
 - (a) Evaluate the effectiveness of the procurement of rations contracts and management controls;

¹ Since September 2005, this function has been designated to the Controller.

- (b) Determine whether the existing procurement policies and procedures, *inter alia*, contract planning, formation, administration and management processes, are adequate and are complied with;
- (c) Assess the monitoring mechanism at Headquarters for ensuring effective administration of procurement activities and related support services provided to the missions;
- (d) Determine the level of contract management education and training;
- (e) Determine the level of automation of the contract management process; and
- (f) Identify opportunities within the rations procurement and management processes to contribute to the achievement of the Millennium Development Goals (MDG), to: (i) eradicate extreme poverty and hunger; and (ii) develop a global partnership for development.

III. SCOPE AND METHODOLOGY

7. The audit at Headquarters focused primarily on the procurement and management of the rations contracts at Headquarters and, by extension, related administrative and contractual issues in the missions. Specifically, the audit covered a review and evaluation of major rations contracts for five selected missions, namely, MONUC, UNAMSIL, UNMISSET, UNMIL and UNMEE.

8. The audit was conducted using various methods including interviewing key officers in PS, DPKO and HCC, and reviewing relevant policies and procedures, financial and administrative records maintained by the respective areas, in the context of applicable rules and regulations as well as industry standards. As part of the audit, the audit team attended one of the HCC meetings to observe the process. The findings and recommendations made during the audit of the five selected missions and Headquarters were consolidated in this report.

9. The audit reviewed the recommendations and issues from previous IAD I audits and collaborated with the Board of Auditors which also conducted an audit of rations contract management in 2004. OIOS shared with the Board the audit plan, the audit programme for the HQ audit and the audit findings and recommendations that resulted from the field audits, many of which were confirmed and reiterated by the Board.

IV. OVERALL ASSESSMENT

10. Based on the weaknesses identified by the audit, as detailed in this report, OIOS has concluded that more effort is needed to ascertain that the procurement process for rations and the management and administration of related contracts are effectively carried out and monitored in accordance with the UN Financial Regulations and Rules given the high risks associated with this area. There is also a need to strengthen accountability of officials when procurement rules have not been followed or where there have been unapproved deviations from procurement rules

and policies. The areas of concern relate particularly to unclear roles, responsibilities and accountability for monitoring of contracts, ineffective administration by the missions, insufficient contingency planning and a restricted market for food rations. Likewise, there is a need to revise the UN Rations Scale and the Procurement Manual, make more effective evaluation of contractor performance, perform better financial analyses, and increase collaboration within and among DPKO, PS and the missions.

11. OIOS recognized that the management of DPKO and PS had undertaken several initiatives to consider ways to improve rations contract management and administration, including the revision of and improvement in the Procurement Manual in 2004, the introduction of the provisional manual “Rations Management in United Nations Peacekeeping Missions”, and a Start-up Kit for training of new staff members.

12. The comments made by DPKO and DM in their responses to the draft report, as well as those emanating from subsequent discussions with OIOS are incorporated in this report as appropriate and are shown in italics.

V. FINDINGS AND RECOMMENDATIONS

A. Roles and responsibilities in procurement and contract administration

Roles and responsibilities regarding contract management are not clearly defined

13. As per the UN Financial Rules and Regulations (UNFRR) and the Procurement Manual, the ASG/OCSS is primarily responsible for the overall procurement function. As part of the overall framework for awarding contracts, the Headquarters Committee on Contracts (HCC) renders advice to the office of the ASG/OCSS on procurement of goods and services valued at \$200,000 or above. The HCC comprises a Chairman as a permanent member and three other members from OLA, DESA and OPPBA who are appointed on a rotation basis. The HCC convenes once per week and special meetings are held when warranted by circumstances, at the Committee’s discretion, to consider and make recommendations to the ASG/OCSS², on the written presentations from the Procurement Section. A Local Committee on Contracts (LCC) is established in each field mission to review the award of contracts between \$10,000 and \$200,000. Ex-post facto cases, which clearly contradict the letter of the Financial Rules and Regulations, must be reported to the LCC and/or the HCC respectively depending on the value of the contract.

14. The Procurement Service (PS) of the Department of Management (DM) has the delegated responsibility to procure rations contracts in accordance with the UNFRR and the PM. PS comprise four Sections, including Field Procurement Section (FPS), which is charged with the acquisition of goods and services for the missions, including solicitation documents, submissions of contractual instrument and invoices, preparing presentations to HCC and advice on LCC from the mission. The Support Service Section (SSS) at Headquarters provides support to both procurement sections in terms of maintaining the database and vendor registration, scheduling bid openings, the registry of requisitions operations, maintaining the bid module and reporting

² Since September 2005, this function has been designated to the Controller.

systems and computerized procurement systems, training, liaising with other UN departments and responsibility for performance monitoring and evaluation.

15. DPKO, through the Logistics Support Division (LSD), is charged with providing overall logistics and administrative support to all peacekeeping missions, including the management of systems contracts. In addition to being a member of the HCC, OLA could be requested to review contracts and/or provide a view on contract issues. The missions are primarily responsible for the implementation of the rations contracts and its administration in the field.

16. Notwithstanding these roles and responsibilities as outlined in the Procurement Manual and the UNFRR, OIOS observed that those particularly relating to contract management and coordination were not clearly defined. Also the responsibility and procedures regarding following up on contract management issues in the missions and at HQ are not outlined. There is, therefore, a need for procedures which clearly state how and when these issues should be brought to the attention of HQ or advice sought from the OLA.

Further improvement needed in collaboration within, between and among departments on monitoring issues related to rations contracts

17. There is a need for further improvement in the collaboration among DPKO, PS, Missions and OLA, particularly regarding follow-up on potential legal and/or other contract management issues. Examples of cases not adequately pursued include: (a) ES-KO's alleged involvement in illegal activity in UNAMSIL/Congo; (b) use of the UN's name by PAE/ES-KO for advertising; (c) anonymous letter concerning irregularities in regard to the rations contract with ESS in UNMIL; (d) conflict of interest issues associated with staff recruitment from firms currently doing business with the UN; and (e) potential claim of approximately \$8.4 million against UNMISSET (Items b, d and e are discussed later in the report).

18. It was observed, in UNAMSIL, that there were deficiencies in the follow-up and monitoring mechanisms for contract related issues. Just after entering into a long term rations contract with ES-KO International, a letter addressed to the Attorney General of Sierra Leone was received by PS, stating that in 1987, having concluded two catering service contracts in the Republic of Congo, ES-KO International and its managers imported toxic waste disguised as agricultural fertilizer into the country, while bribing Congolese citizens in the process. According to the attestation, as a result of an enquiry into the matter, ES-KO and its managers were "banned to date from any activity in the Republic of Congo". PS requested advice from OLA on this issue and OLA wrote a letter to the Mission of The Republic of Congo as to the authenticity of the attestation and the current status of any action described therein. The audit found no evidence on file to indicate that this issue had been investigated. The existing contract with ES-KO remained in place, as well as subsequent contracts awarded to ES-KO at other missions, at the risk of encouraging bad business ethics and potential legal action.

19. Regarding the anonymous letter in UNMIL that referenced ESS, there was no evidence on file to suggest that the issues raised in this anonymous letter were investigated. The audit noted, however, that a consulting firm was contracted to carry out an independent inspection of

the performance of the new contractor for rations, ESS, in an effort to verify performance reports received from the Mission.

20. In MONUC, an air delivery requirement was not included in the RFP although it was deemed a mandatory requirement. MONUC management indicated that this was not included in the original SOW, which is annexed to the contract, because the issue of rations air delivery was awaiting approval by the ACABQ. This issue is currently under review by ACABQ and has been since 2000, prior to the processing of the contract. OIOS noted the efforts of LSD and PS to follow-up on this matter, for which the latest correspondence was in February 2004. In the absence of a decision, the SOW of the RFP for MONUC was changed subsequent to its issuance to incorporate a revision in the specification for the mandatory requirement for air delivery, for which BAFO was used to resolve.

21. In UNMEE, OIOS noted that specific process and procedural documentation for the monitoring of rations contracts management issues need improvement and formalization. One such example is the inadequate monitoring of the payment process by HQ to ensure that missions take advantage of discounts and that payment is timely, as discussed further in this report. This process is not adequately addressed in the Standard Operating Procedures (SOPs) and/or other guidelines.

22. On 16 July 2004, ESS, the contractor for UNMISSET, sent a letter to PS regarding a potential claim of approximately \$8.4 million against UNMISSET, composed of two separate amounts: (1) \$6.7 million as compensation for failure to pay the break-bulk (splitting of pallets and re-packing for separate distribution to contingents), transportation and insurance cost portion of the CMR over the contract life (April 2000 to June 2004); and (2) \$1.7 million as additional compensation relating to a reduction in troop strength. DPKO management agreed to actively pursue this issue as recommended by OIOS as part of this audit and discussed at the exit conference. At the time of reporting, the matter was under review by OIOS upon the request of DPKO, as recommended during the audit.

Recommendations 1 to 3

DPKO should:

(i) Clearly define the responsibilities of each entity involved in contract management and establish effective follow-up and monitoring mechanisms for better coordination, particularly regarding potential legal issues (AP2004/600/09/01);

(ii) In collaboration with the Procurement Service, immediately follow-up on all contract management issues, particularly those with potential legal implications, including ES-KO's alleged involvement in illegal activity in UNAMSIL/Congo, the use of the UN's name by PAE/ES-KO for advertising, the anonymous letter from UNMIL, and other unresolved issues as noted above (AP2004/600/09/02); and

(iii) Actively pursue the outstanding issue with the ACABQ regarding the requirement for air delivery by the Contractor or by use of UN assets (AP2004/600/09/03).

23. *DPKO has accepted recommendation 1 stating that the Department and the Procurement Service (PS) are formulating a policy that clearly defines Contract Management and Contract Administration.* OIOS will close recommendation 1 in its database upon receipt and review of this policy document.

24. *DPKO has accepted recommendation 2 stating that in collaboration with PS, DPKO has forwarded to OLA for advice the allegations of malfeasance by ES-KO in the Congo. OLA requested verification of the allegations from the Permanent Mission of the Republic of the Congo. DPKO is unaware of any response. PS, in collaboration with DPKO, will pursue OLA in regard to the alleged use of the UN's name by PAE/ES-KO for advertising. DPKO, in collaboration with PS, will forward a request to ID/OIOS to investigate the circumstances surrounding the anonymous letter regarding UNMIL. PS will continue to lead on follow-up in line with delineation of responsibilities between PS and DPKO. PS advised that...with regards ES-KO's alleged involvement in illegal activity in various missions, the Procurement Service commissioned a specialized company to conduct an in-depth investigation into ES-KO activities. Procurement Service was not aware of the anonymous letter from UNMIL unless...that referred to ES-KO and the fact that the UNMIL CPO was a former employee of ES-KO... The results of the review did not provide sufficient grounds to sanction the company in any way. OIOS is of the view that this is another indication of unclear roles and responsibility and strengthens the point about the need for improvements in vendor registration and maintenance as well as timely submission and analysis of performance reports. OIOS will close recommendation 2 in its database upon receipt of documentation in respect of DPKO's review of these issues.*

25. *In response to the draft report regarding recommendation 3, DPKO commented that it has, since the audit, incorporated mechanisms in rations contracts which allow for a deliberate decision-making process to activate an option for air transport between the contractor's warehouse and the final delivery point. This option is activated only after a detailed cost-benefit analysis, HCC approval and through a formal amendment of the contract. During subsequent discussions DPKO advised that the ACABQ has since issued instructions in this regard. DPKO has provided documentary evidence to substantiate the mechanisms incorporated since the audit, and therefore, OIOS has closed recommendation 3 in its database.*

B. Planning, policies and procedures, and monitoring in the Department of Peacekeeping Operations

Ration Management guidelines issued in draft for implementation

26. In July 2004, DPKO issued a manual "Rations Management in the United Nations Peacekeeping Missions" to provide a standardized methodology. While OIOS agrees that this manual should be a living document subject to regular review, it also agrees with the BOA's recommendation that the finalization of this manual should be expedited. Additionally, OIOS

noted that there is no systematic and formally structured mechanism for incorporating lessons learned, especially those relating to rations contract management and administration. The Best Practice Section (BPS) in DPKO could be utilized in this context to ensure that best practices are shared system-wide.

Recommendation 4

DPKO, in conjunction with the Best Practices Section, should develop and document the mechanism ensuring that lessons learned are tracked and incorporated in the Rations Manual Guidelines and promulgated throughout the missions and Headquarters (AP2004/600/09/04).

27. *In response to the draft report, DPKO commented that it collects lessons learned in the management and administration of rations contracts. On a continuous basis, lessons are incorporated into the rations management guidelines and shared with all missions. Best Practices Unit is not the optimum office to centrally address such technical issues. DPKO has indicated that in the absence of formal guidance from the BPS, SSS continues to collect, review and disseminate technical and operational lessons learned relating to rations management.* OIOS noted DPKO's comments that the technical issues are to be addressed by Units other than BPS, but maintains that the BPS, in keeping with its mandate, should, together with the relevant sections in DPKO and in collaboration with PS, should be approached to establish the mechanism to ensure that lessons learned are tracked and promulgated throughout the missions and Headquarters. Following the discussion with DPKO and PS, OIOS has revised recommendation 4 as above. OIOS will close this recommendation in its database upon receipt of a documented plan regarding collaboration with the BPS on this issue.

Inadequate contingency and acquisition planning and coordination

28. Acquisition planning is described in the PM as the “cooperative process by which the efforts of the requisitioner and the Procurement office are coordinated and integrated through a comprehensive plan for fulfilling the requisitioner’s need in a timely manner and at competitive pricing.” It includes the development of an overall strategy for managing the acquisition and a detailed list of anticipated purchases over a period of time. For rations contracts, this strategic approach needs further development.

29. The lack of adequate coordination on acquisition planning among the different sections of LSD and PS may have resulted in more costly operations in the field. For example, in UNMEE the contract for food rations could have been achieved at a lower cost to the UN had there been sufficient coordination in regard to a separate contract process for the installation of a water purification plant.

30. More specifically, a review of the procurement process showed that a contract was awarded to ES-KO for one year, plus two, one-year optional extensions, for NTE \$26.1M, after approval by the HCC on 12 December 2000. This contract had a two-part requirement, one for food and one for optional drinking water. The latter was considered a significant factor in this

combined food rations and water contract, which affected the outcome of the award. The rations contract was bid as a combined contract instead of separate contracts for rations and water. However, ES-KO was the lowest bidder for the water, while ESS was the lowest bidder for the food component. Had the contract been done by separate bidding, the UN could have benefited from the lower prices for rations and water, particularly in light of the pending installation of the water purification plan. The plant was installed about three months into the contract and an amendment was made for the water element, changing it from supply to delivery only to the contingents with no adjustments made to the cost of the food rations. Notwithstanding the minimal difference in price in this case, in principle, OIOS believed that it is sufficiently important as an issue relating to planning and lessons learned.

Recommendation 5

DPKO should, in the planning phase of a mission, define the strategy for the supply of water to the Mission (either through procurement or establishment of a water purification plant) and inform Procurement Service accordingly so that the decision whether to include drinking water to the rations or not could be taken easily. If deemed necessary, a separate drinking water bidding exercise should be carried out (AP2004/600/09/05).

31. *In response to the draft reports, DPKO commented that they clearly articulate and share support arrangements during the planning phase of a mission. These arrangements are set forth in the Mission Support Plan. DPKO policy on the provision of water is clearly defined in the Operational Support Manual. Drinking water is not part of the United Nations Ration Scale; however, is included as an option in Rations Requests for Proposal. During subsequent discussions DPKO explained that the Operational Support Manual, which is developed by the Engineering Section at the outset of the mission, provides the policy of whom and how water is provided at the mission. They further explained that in many cases DPKO are unable to establish early on whether or not they will be able to drill for water and they must therefore ensure a provision for bottled water. DPKO commented that the required planning had taken place and that coordination has improved since the audit.*

32. Subsequent to the discussions between OIOS and DPKO, the Department has provided policy guidance on this issue, in the form of an extract from the Draft Administrative Manual on Water dated July 1997. In OIOS' view, and as stated in the report, the collaboration in this case was not sufficient given the outcome whereby two contracts were being procured almost concurrently and were effected within three months of each other, an indication that the option for water should have been handled differently, in the context that combining the options resulted in a more expensive rations contract when it was amended to remove the water element. Notwithstanding this, OIOS has closed recommendation 5 in its database and will follow up this issue in future audits.

Interim contracts are increasingly being used

33. There is a need for a documented and realistic plan for faster contract implementation and reduced cost to the UN. This is particularly important for start-up missions and in the event of a delay in establishing or re-bidding a contract for existing missions. Interim contracts are increasingly awarded at the cost of violating “best value for money” and “effective international competition” principles of UNFRR. In addition to the explicit cost, there are also other costs to the UN, including human resources for managing the interim contract arrangements and facilitating the transition to the new contractor if the contract is awarded to another company.

34. There was an initiative from DPKO to jointly with PS introduce a Global Service Rations Contract Management System as the means to achieve faster procurement processing. However, after some consideration, this initiative was not approved by the ASG/OCSS citing possible duplication of the existing procurement process, particularly as it related to the establishment of the vendor roster.

35. Of the five contracts reviewed, there were three interim contracts at UNMISSET, UNMIL and UNAMSIL, with outcomes as follows:

- (a) OIOS is of the opinion that the interim contractor gains competitive advantage over the other bidders for the long-term contracts, in the sense that most of the infrastructure has already been put in place. In fact, points are awarded at the Technical Evaluation Phase to the incumbent for not needing time to mobilize which is a bias towards the incumbent and does not comply with the fairness and competitive principles of the Procurement Manual and Financial Rules and Regulations.
- (b) Interim contracts resulted in duplication of mobilization costs when another contractor is awarded the long-term contract, as was the case in UNMIL and UNMISSET.
- (c) There were no written interim rations contracts for UNAMSIL and UNMISSET. The absence of written contracts could lead to misinterpretation of work requirements on the part of the vendor, unclear reference points, and could also constitute the risk of having no legal and documented proof in the event of a dispute between the contractor and the UN; an exposure that should be avoided.
- (d) In the case of UNMIL, an immediate operational requirement (IOR) basis was used. At this mission, the long-term contract was awarded to another contractor. The contract for the provision of rations, originally effective 1 January 2004, was amended to change the mobilization date effective 1 February 2004. At the time of the audit, this amendment, to correct the mobilization date and include delivery costs of rations, including bread, was not yet signed. Although in effect for one year and currently in place through 2007, this contract did not indicate the delivery costs and the rate negotiated for rations delivery. The interim contract was extended, therefore, through 31 January 2004 and the NTE was increased by

\$60,000, which represented the cost of the lease of the warehouse for the month of January 2004. However, no funds were included for the additional costs for rations and other expenses for the additional month of the amended contract. This contract has expired as of 31 January 2004, and it was noted that although an amendment to include funds for the additional costs was requested by DPKO in memoranda dated 4 February and 2 March 2004, there is no evidence on file to indicate whether this issue was resolved.

36. The Memorandum of Understanding (MOU) between Troop Contributing Countries (TCC) and the United Nations mentions the obligation of TCC's for self-sustainability of their troops for the first 60 days of deployment. In OIOS' opinion, the applicability of this provision needs to be reviewed and a cost/benefit analysis done to show its financial and other impact on the overall procurement of food rations. Currently, self-sustaining is used as a form of contingency and according to DPKO is more expensive than the cost of food rations.

37. There is no established timeframe for commencing the preparation of new bids and re-bidding for existing missions for food rations for which actual processing times usually fall outside the established timelines for procurement as stated in the PM. Such a long process is another contributing factor to the increased use of interim contracts. Contract processing takes an average of five to six months to complete. Also, there is no systematic and formal way to determine when the procurement process should begin, or how DPKO is to be informed of the passing of Security Council resolutions. Consequently, interim contract arrangements by means of short-term contracts or extensions of existing contracts are used to bridge the gap. Consideration should be given to having a contract clause that provides for an automatic extension, with a specified grace period, to bridge the gap between the expiration of one contract and the beginning of the next, in order to eliminate the need for interim contracts.

Recommendations 6 to 8

DPKO should:

- (i) Review the applicability of the provision in the MOU between Troop Contributing Countries and the United Nations regarding the self-sustainability of troops for the first 60 days of employment and take necessary action accordingly (AP2004/600/09/06);
- (ii) In collaboration with the Procurement Service, establish a comprehensive Contingency Plan that will ensure that the contractor's mobilization is completed before the deployment starts in order to reduce the use of interim contracts in new missions (AP2004/600/09/07); and
- (iii) In collaboration with the Procurement Service, review and incorporate as appropriate a contract clause, which provides for a reasonable grace period, which would oblige the incumbent

contractor to provide food rations until such time as a new long-term contract is in place and the mobilization has begun (AP2004/600/09/08).

38. *DPKO did not accept recommendation 6 stating that the MOU requirement to self sustain for 60 days or less applies to all troops which are newly deployed to a mission. UNMISSET, UNMIL and UNAMSIL are special cases where troops were already on the ground in large numbers prior to the Security Council peacekeeping mandate. As such the provisions of self-sustainment for 60 days or less does not apply – i.e. support arrangements are required to be in place immediately on the effective date of mandate. During subsequent discussions with OIOS, DPKO advised that this is principally used as a contingency and was borne out of necessity from the days when they couldn't get a contract in place quickly enough. DPKO further advised that self-sustainability is much more expensive for the Organization and not very good for the moral of the troops. Furthermore, DPKO believes that a more feasible option to ensure that contracts are in place to feed the troops would be a global rations contract.*

39. Although OIOS is of the opinion that a cost/benefit analysis would be useful to determine the applicability and efficiency of such a provision, based on DPKO's comments, OIOS has withdrawn recommendation 6.

40. *DPKO has accepted recommendation 7 stating that DPKO's and PS' effort to introduce a global standby rations contract was not approved. DPKO, in collaboration with PS, is revisiting this matter. An Expression of Interest has been issued to allow the prequalification of vendors. Requirement statements are being developed with intent to issue a Request for Proposal to the commercial market. OIOS will close recommendation 7 in its database upon receipt of their documented contingency plan.*

41. *DPKO has accepted recommendation 8 stating that since January 2005; DPKO in collaboration with PS has incorporated in rations contracts a clause increasing the period of notice prior to termination from 30 to 60 days. This increased period provides for appropriate transition planning to minimize disruption in the supply of food rations. All rations contracts require incoming contractors to store and distribute United Nations-owned transition stocks. These are procured from the outgoing contractor. PS will engage OLA to advise on contractual mechanisms to require the incumbent contractor to work in good faith during the transition period. OIOS will close recommendation 8 in its database upon receipt of documentation showing full implementation.*

Evaluation criteria need to be more objective

42. The revised PM stipulates that the Evaluation Committee in DPKO shall conduct technical evaluations, establish criteria and relative weight of the factors and associated minimum requirements. The rating system should be relevant, consistent, and fair to all prospective vendors, and involve numerical scoring and/or objective ratings as: exceptional (10), acceptable (7), marginal (4) and poor (1); with the latter two deemed as failure to meet requirements. The Evaluation Committee should submit a signed report and recommendation to PS, after which the commercial evaluation is addressed. The PM Section 11.6.7 also indicates that the criteria should be established prior to the release of the solicitation document, i.e., prior

to the RFP. The evaluation is done based on the allotment of points (1000 possible points – anything less than 750 is deemed unacceptable) and is used to establish, together with the commercial evaluation, best value for the Organization.

43. In the context of the need to broaden the vendor base, a review of some of the technical evaluation criteria, i.e., awarding up to 50 points for a mobilization plan, 50 points for prior UN experience, and 40 points for past performance with the UN, needs to be conducted. Given the marginal differences that sometimes separate the bidders, and the fact that these criteria are not applicable to new bidders and in the case of mobilization, the criterion is applicable only to the incumbent, the evaluation criteria should be reviewed.

44. In the case of first time contracts, where there is no incumbent at the evaluation criteria stage, consideration should be given to awarding the same number of points to the incumbent and other contractors who met the requirements for mobilization, whether or not there is a cost associated with it, since the cost element would be addressed at the commercial evaluation stage. The areas of poor past performance with the UN and experience in the field should also be given consideration where all bidders have had prior UN experience and especially when exercising the option to extend, in the context of liquidating damages and when conducting performance evaluations and updating the vendor roster at the contract renewal stage. However, consideration of poor performance should be duly noted and weighted during the evaluation stage. The current approach restricts the already limited vendor base, crowds out new entrants and tends to create a monopolized market. To supplement this, DPKO should also review and analyse the overall cost of mobilization for the Organization, establish a mechanism for compulsory handover from one contractor to another, to ensure better coordination and smooth transition between them, when there is a change of contractor. This would allow for the new contractor to avail itself of existing facilities used by the previous contractor, which may reduce the overall mobilization cost.

Recommendations 9 and 10

DPKO should:

- (i) In consultation with Procurement Service, review and improve the evaluation criteria, particularly in the areas of mobilization, experience in the field, and previous performance with the UN, and in the context of a broader vendor base, to give new vendors equal opportunity to participate in the bid. (AP2004/600/09/09); and
- (ii) Establish a mechanism for effecting compulsory coordination and handover between outgoing and incoming contractors (AP2004/600/09/10).

45. *In its response to the draft report, DPKO commented that in collaboration with PS, DPKO uses objective, weighted criteria for commercial and technical evaluation. The technical evaluation consists of assessment of the proposals against criteria established prior to the release of the solicitation documents. The weighting of each criterion is established in*

consultation with PS prior to opening of bids. The evaluation takes into account the specific circumstances and requirements of the mission at issue. During subsequent discussions with OIOS, DPKO further stated that a risk mitigating strategy is applied during the technical evaluation, and it is the utmost importance to assure that the troops are fed. DPKO acknowledges that there is a need to broaden the number of vendors. In this regard, OIOS reiterates recommendation 9 clarifying its position that all applicants should have equal opportunity, regardless of prior UN experience once they fall within the criteria outlined in the SOW. OIOS has revised recommendation 9 as above which has been accepted by DPKO. The expected implementation date is 30 June 2006. OIOS will close recommendation 9 in its database upon implementation.

46. *DPKO has accepted recommendation 10 advising OIOS that it had been implemented. OIOS will close recommendation 10 in its database upon receipt of the documentation outlining the mechanism and guidelines to be followed for effecting coordination and handover between contractors.*

The Rations Scale is outdated and the revision exercise should be expedited

47. The Rations Scale is a tool for providing peacekeeping troops with a reasonably priced, wholesome, nutritionally balanced diet that is appropriate and acceptable to the contingents. It sets a monetary 'ceiling man-day rate' (CMR) for consumption of food by each member of a military contingent. The Rations Scale was launched in 1994 and has not been updated since, although a review was initiated by DPKO in 2003. There have been complaints that certain foods basic to the diet of some troops are not on the list, which caused dissatisfaction among those troops. In addition, consumption patterns of some troops do not align with the scale unit, which not only leads to excess food storage and unnecessary costs, but also paves the way for abuse by contingents such as trading excess food on the local market. The observations of the resident auditors in the current audits at UNAMSIL, MONUC and UNMEE support the above-mentioned criticisms (Annex III). This was also noted in the audit of UNAMSIL in 2001, which requested the mission to bring the issue to DPKO's attention. Management has indicated that they were in the process of reviewing and revising the rations scale. The CMR varies for the 2 Basis of Provision (BOP A-Non-western menu and BOP B-Western menu) options presently used.

Recommendation 11

DPKO should expedite the revision of the UN rations scale, which commenced in 2003 for immediate implementation (AP2004/600/09/11).

48. *In its response to the draft report, DPKO commented that they initiated a review of the rations scale in 2003. Following extensive consultations with member states and field missions, the revised scale was approved on 1 May 2005 and an implementation plan has been formulated. Based on discussions with DPKO, OIOS has revised recommendation 11 as noted above, which has been accepted by DPKO. DPKO has provided the revised and approved UN rations scale*

dated 15 March 2005. OIOS will close recommendation 11 in its database upon receipt of the implementation plan.

Established strategy for meeting Millennium Development Goals

49. The United Nations Millennium Declaration, which was adopted by Member States of the United Nations with the passing of General Assembly resolution 55/2 on 8 September 2000, embodies a large number of specific commitments aimed at improving the lot of humanity in the new century. It contains eight Millennium Development Goals (MDGs), including (i) eradicating extreme poverty and hunger; and (ii) developing a global partnership for development, which in the context of ration procurement embodies the concept of sourcing food locally.

50. However, there is no action plan to identify opportunities within the rations procurement and management processes to contribute to the achievement of the MDG. In fact, the current market for food rations is dominated by a few suppliers (as detailed in this report) and therefore not aligned with the MDGs. Although, the Rations Scale includes about 400 various food commodities, the supply of individual food commodities from various suppliers is not considered as contracts for food rations but instead are considered as turnkey operations. Management should consider other ways of inviting and getting proposals from new companies in order to increase the number and diversity of the contractors being awarded. One alternative for increasing diversity might be a consideration of encouraging partnerships/consortium for specific rations contracts. For example, a company specializing in the food industry might come together with a logistics company and such a partnership would meet most of the requirements of the project. Whereas partnerships may contain some business risks relating to coordination, responsibilities etc., these could be outweighed by the benefits associated with development. Still another alternative would be developing a procedure for the purchase of fresh rations (e.g. bread, vegetables, fruit, meat, etc.) and water from local vendors of the countries where the missions are established.

51. Additionally, Part B of the PM on the Procurement Process, particularly source selection process provisions 11.6.1 on Objectives and 11.6.7 on General Evaluation Criteria, underscore the “best value for money” and “past experiences of the prospective vendor” concepts. Likewise, Part C of the UNFRR 5.12 on General Principles of Procurement lists “best value for money” as one of the requirements in the procurement process. Both of these requirements render it difficult for companies in underdeveloped countries to compete effectively. Furthermore, a strategy for the MDG is not specifically addressed in the PM but is covered under the broader caption of the Global Compact.

Recommendation 12

PS, in collaboration with DPKO, should further develop and document strategies to encourage the realization of Millennium Development Goals (MDGs) in rations contracts, to the extent possible and within the European Union (EU) health and

hygiene requirements, standards, and other related constraints (AP2004/600/09/12).

52. *In its response to the draft report, PS commented that Chapter 5 of the Procurement Manual regarding the Global Compact addresses such Millennium Goals as human rights, labour and environment. Local purchase of fresh rations by the UN rations contractors is encouraged provided there is adherence to specifications, contractual health and hygiene standards. During the subsequent discussion with OIOS, PS asserted that they have tried to encourage use of local food products, although not with much success.*

53. OIOS clarified that the purpose of this recommendation was to draw attention to the MDGs, regardless of the tools used to achieve this, given the volume of rations procurement and the opportunity to impact the local economy. OIOS acknowledged that attempts were made, but noted the absence of a strategy and have therefore revised recommendation 12 as noted above, which has been accepted by PS. OIOS will close recommendation 12 in its database upon receipt of documentation outlining a strategy to encourage the realization of the MDGs.

Monitoring, reporting and performance meetings at field missions is less than adequate

54. According to Section 7.11 of the PM, contract performance reports are required once a year for those contracts that exceed \$200,000. Furthermore, Section 15.1 of the PM states that a satisfactory vendor performance report, in accordance with Section 7.11 of the PM, should be prepared before an amendment is made to a contract. In most of the cases we reviewed, the conduct and timely submission of performance reports were inadequate, as were the minutes of the performance meetings held. For example, it was noted that "Minutes of Performance Meetings for 2004" were sent from UNMISSET to LSD on 16 November 2004, upon the reminder of the latter. Likewise, a "Performance Report of 2004" was received by LSD/PS only upon a request to UNAMSIL. This issue was also raised in the recent report of the Board of Auditors.

55. The UNMIL rations contract, Section 21.3 of the SOW outlines the "performance standards" and "performance assessment criteria and method" to be applied when monitoring and measuring contractor performance. There are eight indicators of performance. OIOS' review revealed that there was no agreement between the contractor and the mission on how to apply these indicators. This provoked tensions between parties involved because of the varied interpretation and application of the performance indicators between the contractor (ESS) and UNMIL. A private consulting firm (SGS) contracted to provide an independent inspection and evaluation service of the contractor of food rations at UNMIL stated: "Although the contract provides key performance indicators that should be applied to evaluate the Contractor, they have not been applied consistently neither by the contractor, nor by the Food Cell. There was also no agreement how the indicators should be calculated.... explanation (or real life examples) about the way to interpret the calculation should be provided by UNPD in New York." Consideration should be given to issuing guidelines for interpretation and application of the evaluation criteria.

Recommendations 13 and 14

DPKO should:

- (i) Establish an effective mechanism for ensuring that the missions submit timely minutes of performance meetings and performance reports, and that it monitors and assesses them in a timely manner (AP2004/600/09/13); and
- (ii) Review the concept of performance indicators as outlined in rations contract SOWs, with a view to revising the contractual performance criteria to ensure that they are more clearly defined and unambiguous, taking into consideration recommendations outlined in the SGS report, and issue guidelines for interpretation (AP2004/600/09/14).

56. *In its response to the recommendation 13, DPKO stated that since July 2004, the Rations Management Guidelines require minutes of performance meetings to be submitted to DPKO and that more recently, it has instituted mechanisms for monthly reporting by all missions on contract management issues, including performance; since January 2005, all ration contracts mandate agenda items for monthly performance meetings between the mission and the contractor.*

57. During subsequent discussions, OIOS advised that it considered that DPKO has accepted this recommendation as the established mechanisms to which they refer were implemented after the audit field work was completed and findings and recommendations brought to the attention of DPKO management. OIOS advised that problems with performance reporting were duly noted at both exit conferences by DPKO and PS. During the audit, it was noted that performance reports were not received in a timely manner; some were not received at all, although there was a requirement to do so. Subsequent to the discussions with OIOS, DPKO have provided copies of various guidelines and instructions informing missions of their responsibilities in regard to ensuring that minutes of performance meetings and performance reports are submitted, monitored and assessed in a timely manner. OIOS acknowledges the on-going efforts relating to performance monitoring and reporting; and also the instructions and guidance in this regard. However, OIOS maintains that while some of the instructions and guidance were available during the audit, there is still no effective mechanism to ensure that they are followed and it was noted that they were not. OIOS further acknowledges that DPKO has instituted mechanisms for monthly reporting as instructed in its Rations Management Guidelines; however, OIOS reiterates this recommendation stressing that there is still no effective mechanism. Therefore, OIOS will close recommendation 13 in its database upon receipt of proof of an effective mechanism ensuring that performance reports and minutes are monitored and assessed in a timely manner.

58. *In its response to the draft report concerning recommendation 14, DPKO commented that based on best practice, experience and third party independent review, DPKO has completed its assessment and incorporated revised performance indicators in all new rations contracts since June 2004. The revised performance indicators are clearer, more defined and*

unambiguous. DPKO has approached PS on how to incorporate these changes into old contracts. Subsequent to this, DPKO advised that performance indicators will continue to be reviewed and refined as part of the rations tender exercise in UNMIL, UNMIS, UNDOF, UNIFIL, ONUCI, MINURSO and ONUB; and the review of performance indicators is an ongoing process conducted during tender solicitation. OIOS has revised recommendation 14 and considers it partially implemented. OIOS will close recommendation 14 in its database upon receipt and review of the revised performance indicators and documentation outlining how they will be incorporated into old contracts.

Non-acceptance of the ‘Letter of Award’ by the mission resulting in extra cost to the Organization

59. According to the contract Statement of Work in UNMIL, “Requisitions specifying the mission’s rations requirements for a twenty-eight (28)-day provisioning period will be issued to the contractor not less than forty-two (42) calendar days prior to the specified date of delivery to the delivery point.” According to the PM, an Advance Notice of Award form or a letter should be used when a notification of award in the usual format of a purchase order or contract cannot be delivered on time. However, letters of award are used for rations contracts that require early mobilization to ensure a state of readiness at the time of troop deployment.

60. In the case of UNMIL, an Advance Notice of Award, referred to as a ‘Letter of Award’ was sent directly from PS to the contractor, Eurest Support Services. There was no evidence on file to indicate that this ‘Letter of Award’ was copied to DPKO and/or the Mission. Although this Letter clearly indicated that the contractor should proceed with mobilization arrangements immediately, the Letter was not accepted by UNMIL management who refused to submit the initial requisition to ESS to enable the contractor to initiate mobilization citing the lack of a signed contract. The end result was that the former rations contractor had to airfreight the rations to enable the troops to have their supply, at a cost of \$300,000 for a one-week supply.

61. In OIOS’ opinion, the implications of such action by the Mission are far-reaching and a decision of this nature should not have been taken at the mission level and should be investigated. It is evident that there are ambiguities in the execution of the use of Advance Notice of Awards, which are not clarified by the PM, and there were different perceptions of this clause by different parties involved.

Recommendations 15 and 16

DPKO, in collaboration with Procurement Service, should:

- (i) Immediately issue a directive to all missions and establish procedures for acting on the Advance Notice of Award, in the case of UNMIL referred to as the ‘Letter of Award’, which was used to initiate mobilization by the rations contractors (AP2004/600/09/15); and

(ii) Review and/or investigate the circumstances surrounding non-acceptance of the 'Letter of Award' by UNMIL to determine the reasons for such action (AP2004/ 600/09/16).

62. *DPKO accepted recommendation 15 stating that they will remind all missions that the provisions of paragraph 11.8 of the Procurement Manual are to be followed.* OIOS will close recommendation 15 in its database upon receipt of the reminder issued.

63. *DPKO accepted recommendation 16 stating that in collaboration with PS, DPKO will review the lessons learned from this issue and provide necessary procedural guidance.* OIOS will close recommendation 16 in its database upon receipt of the procedural guidance issued.

C. Rations procurement process

The Procurement Manual needs to clarify certain provisions

64. The Procurement Manual (PM) is a very comprehensive document, which, in conjunction with the UNFRR, serves as a guide for the procurement process. In particular, Regulations 5.12 through 5.14, and Rules 105.13 through 105.19 and 105.22 through 105.23, govern the procurement activities conducted by the HQ or missions. OIOS recognized that Version 2 of the revised PM, which was issued in 2004, showed significant improvement.

65. Notwithstanding this revision, OIOS observed that the PM needs further review to address unclear areas and to include specific food rations contract related issues (unless specific procedures have been developed to address food rations contracts). It was noted that the PM lacks clear definitions and procedures in the following areas, particularly as they relate to rations contracts:

- (a) Best and Final Offer (BAFO): Although the procedure outlined for BAFO in the PM is improved since the revision, it remains vague and ambiguous, and subject to various interpretations and erroneous application. BAFO was used for several contracts including those for MONUC, UNAMSIL and UNMEE prior to the change in the Manual in 2004 and will continue to be used in the future. There have been, therefore, varying interpretations regarding its use. For example, in MONUC, where there was a change in the requirement for delivery of rations, LSD suggested pro-rating the original submitted cost for the 12 months for the three months. PS suggested the use of BAFO and HCC members opted for re-bidding. The request for BAFO did not clearly state what variables the contractors were allowed to change to ensure consistency. As such, ES-KO's price dropped significantly by 10 percent, a price differential of about \$10 million and was deemed the lowest. This large difference (which resulted from the change in prices by ESKO for both air and sea delivery versus ESS', who only changed the price for sea delivery) was not analysed. Thus, there is a need for further review and revision, giving consideration to how the request should be made and communicated to the contractors on an "equal basis" and the number of bidders who should be engaged in a BAFO exercise. Section 11.6.8 of the PM mentions, "The Procurement Officer may decide to engage in competitive negotiation with a

sufficient number of qualified proposals that have a reasonable chance for award, to ensure effective competition”. It also states that the Procurement Officer should provide an opportunity to each prospective vendor in the competitive range to improve its proposal using different interpretations of BAFO;

- (b) Headquarters Committee on Contract: The PM does not clearly state how decisions should be taken by the HCC and what constitutes a vote of “recommendation for approval” by the Committee. In practice, decisions are taken based on consensus. OIOS noted a case for MONUC wherein the Chairperson was the only dissenting voice on a critical issue of the appropriate use of BAFO and whether the contract should have gone for re-bidding. In this case all the members recommended re-bidding based on a significant change in specification regarding air delivery, which was made after the commercial evaluation was completed. However, the Chairman dissented and forwarded a recommendation to award the contract to ES-KO as presented, which was approved by the ASG.
- (c) Advance Notice of Award: The Advance Notice of Award, as it applies to food rations contracts which usually require mobilization before the contract is signed, is used as a formal instrument for the contractor to commence mobilization. However, the contents of the Advance Notice of Award, referred to as a ‘Letter of Award’ in the case of UNMIL rations contract, deviated from that of the sample Advance Notice of Award in the PM. This is deemed as non-compliance with procurement procedures and should be investigated. The sample Advance Notice of Award in the PM indicates: “This contract award will be subject to both parties agreeing to mutually acceptable terms and conditions. Please note that no legal obligation exists until the contract is finalized and signed by both parties.” On the other hand, the ‘Letter of Award’ sent to the contractor in UNMIL instructed as follows: “Please treat this Letter as a formal notification of contract award and proceed with the mobilization arrangements immediately.” The latter binds the Organization prior to any agreed upon contract.
- (d) Timelines: Notwithstanding the standard timelines in the Procurement Manual, there is no established and documented timeline for the rations contract procurement process to ensure timely conclusion of contracts and minimize the use of interim contracts and short-term extensions. The process has been taking an average of six months, from date of the Security Council Resolution to the signing of the contract (see Annex. III);
- (e) Contingency planning: The absence of terms of reference for the use of interim contracts and contingency planning was noted.
- (f) Termination of Contract: There was a lack of a policy and procedure regarding termination of contract when the option to extend is not exercised. Based on our observation at the HCC meeting, if the UN is not exercising the option to extend,

there is a need for clear criteria and steps to be taken to ensure that a new contract will not be more costly.

Recommendations 17 and 18

The Procurement Service should:

- (i) Review and revise the United Nations Procurement Manual to incorporate specific details outlining procedures and guidelines regarding BAFO and Contingency Planning; analyze the procurement of rations process to determine how they may more effectively comply with established timelines; and in collaboration with the HCC, review the modus operandi of the HCC for updating the Procurement Manual (AP2004/600/09/17); and
- (ii) Review the reason(s) for the deviation from the standard Advance Notice of Award as set forth in the Procurement Manual Section 11.8, enforce the use of the standard Advance Notice of Award as outlined in the Procurement Manual, and in collaboration with DPKO establish a clear criteria and mechanism for mobilizing the awarded contractor pending the signed contract, in the context of the need for timely delivery of rations (AP2004/600/09/18).

66. *The Procurement Service accepted recommendation 17 stating that the Procurement Manual outlines relevant procedure in paragraphs 11.6.8 (BAFO), 11.8 (LOA), 8.2.2 (Timeline), 8 (Acquisition Planning), Annexes D-9 and D-10 (Termination as part of General Conditions) and 12 (HCC). PS will further review the BAFO provision.*

67. *During subsequent discussions with OIOS, PS advised that based on their practice, they are unable to reduce the rations timelines and therefore unable to meet the timelines as outlined in the PM. OIOS noted PS' plans for reviewing and improving the PM regarding BAFO and clarified that those specific guidelines should be established for these areas. In view of this, OIOS has revised recommendation 17 as noted above. OIOS will close recommendation 17 upon receipt of documentary evidence outlining its implementation.*

68. *In its response to recommendation 18 of the draft report, PS commented that the standard Letter of Award for rations contracts (Annex 25 of the Procurement Manual) has already been cleared by OLA and is used by PS in connection with all rations contracts. During subsequent discussions, OIOS clarified that the Advance Notice of Award, referred to as the 'Letter of Award' that was used in UNMIL and was not acted upon by UNMIL management, deviated from the template as illustrated in the Procurement Manual and approved by OLA. PS indicated that this was a special case and agreed that deviations from the PM should be approved at a higher level (ASG) indicating the reasons for the deviation. PS also agreed that it is not prudent to mobilize based on a 'Letter of Award'. OIOS contends that this deviation is a critical one and should be investigated.*

69. Furthermore, OIOS commented that if this is intended to be the modus operandi whereby mobilization is expected to take place before contract signing (as in the recent case of Sudan), and then this should be cleared by OLA. *Based on these discussions, as well as subsequent comments from PS in which they indicated that a review of the reason(s) for non-acceptance of the 'Letter of Award' by the responsible officials at UNMIL is not part of the procurement operation and as such does not fall within PS' purview, OIOS has revised recommendation 18 as noted above.* Whereas the primary department responsible for the implementation of recommendation 18 is PS, OIOS agrees that a review of the non-acceptance of the 'Letter of Award' at UNMIL should be carried out by DPKO. OIOS will close recommendation 18 in its database upon receipt of documentation outlining PS' review of the reasons for the deviation from the standard Advance Notice of Award; DPKO's review of the reasons for the non-acceptance of the 'Letter of Award' used in UNMIL; a copy of the PS instruction issued to procurement officers to enforce the use of the standard Advance Notice of Award, as outlined in the Procurement Manual; and a copy of the criteria and mechanism developed by PS for mobilizing the awarded contractor pending the signed contract.

The market for food rations is restricted

70. As at November 2004, 13 food rations contracts were awarded for nine missions; six to ESS, four to ESKO, one to Economat De L'Armee and one to Supreme GMHB. Of the seven contracts audited in the five missions reviewed, four were awarded to ESS and three to ES-KO.

Figure 1: Eligibility of Rations Vendors

Mission	Response to Expression of Interest	Invited No. of Vendors	No. of Responses	Technically Eligible	Eligible Vendors	Awardee
UNAMSIL	n/a	65	7	2	ES-KO,ESS	ES-KO
UNMISSET	n/a	65	5	1	ESS	ESS
UNMEE	69	16	12	5	Economat, ES-KO, ESS, PAE and Supreme	ESS
	n/a	n/a	5	3	ES-KO, ESS, Supreme	ES-KO
MONUC	n/a	14	5	3	ES-KO, ESS, Supreme	ES-KO
	69	16	3	2	ES-KO,ESS	ES-KO
UNMIL	69	16	5	2	ES-KO,ESS	ESS

71. OIOS recognized PS' efforts to increase the market by posting Expressions of Interest (EOI) on its website to encourage participation in the complex and very specialized rations contract market. However, technically eligible vendors in the roster were generally limited to two or three vendors. This poses the risks of bid rigging and procurement fraud. As illustrated in Figure 1, not only the responses to invitations were low, but also the technically eligible ones which raises the question whether invited vendors in the roster were among the targeted rations suppliers. If these vendors in the roster are not appropriate in terms of technical capacity, then it does not make much sense to keep them in the rations roster. An exercise like pre-qualification of such vendors would be carried out so as to maintain a sound database. PS should increase

efforts for increasing the desired profile of vendors in the roster. Advertising through The Economist magazine, Food Publications and other widely distributed publications would be an option to access the targeted vendors.

72. It was also observed that only a limited number (two in most cases) of the same contractors were awarded the contracts. These same companies, mainly from developed countries, are dominating the food rations market and crowding out potential suppliers. In practice, all companies that respond positively to the EOI are immediately approved (provisionally) and invited to submit an RFP. PS management indicated that a company which is likely to be awarded the contract would be actively encouraged to complete the registration process, which suggests that such companies would be alerted that their contract proposals are being seriously and/or favourably considered.

Recommendation 19

The Procurement Service should, in addition to posting EOI on the website, make rigorous market research and develop alternative ways, such as advertising thorough other media and publications in an overall effort to establishing a pre-qualified vendor roster for rations contract (AP2004/600/09/19).

73. *PS accepted recommendation 19 stating that PS is continuously extending the vendor base by innovation means developed in concert with DPKO. Currently, a prequalification process and seminars on how to conduct rations business for the UN are being planned to vigorously inform the marketplace of our requirements and encourage wider participation. This, however, is a labour-intensive process, which may require additional staffing.* OIOS will close recommendation 19 in its database upon receipt of documentary evidence of the above-mentioned initiatives.

Vendor registration and database maintenance needs improvement

74. The PM stipulates that performance reports should be copied to the vendor registration case file. The PM also indicates that Procurement Officers/Assistants and other UN staff involved in the procurement process are required to indicate in writing to the Vendor Database Officer (VDO) any relevant information regarding non-compliance and poor performance of registered vendors. It was noted, however, that the vendor registration case file for Eurest Support Services (ESS) did not contain any performance reports or information thereof, although ESS has had numerous contracts with the United Nations. A review of the vendor registration case file for ES-KO also revealed that performance reports and/or other relevant documentation were missing from the vendor registration case file maintained by the VDO.

Recommendation 20

The Procurement Service should ensure that, in accordance with Procurement Manual Section 7.11.2, all Performance Evaluation Reports and relevant information are copied to the

Vendor Roster Section for inclusion in the Vendor registration case file (AP2004/600/09/20).

75. *In its response to the draft report, PS commented that the Vendor Registration Unit (VRU) within PS is responsible for maintaining vendor files. The performance reports are being filed with VRU as they become available from DPKO or through the annual PS performance reporting process. During subsequent discussions with PS, OIOS advised that in the cases of ESS at UNMIL as well as ESS at UNMISSET no Performance Reports were found in the files during our audit. PS advised that because of performance issues with the contractor, these reports may have been with the PS officers, who were reviewing the cases, and therefore not on the files. However, during subsequent discussions with PS, OIOS produced the copy of a fax dated 15 November 2004 from Chief Supply Section, LSD, OMS, to the CAO UNMISSET, which outlined numerous reminders requesting minutes of performance meetings with the contractor. PS stated that they would review the files to determine if performance reports were available. OIOS reiterates that as VRU within PS has the ultimate responsibility for these files and that PS must develop a mechanism to ensure that the files are up to date. Based on our discussions, OIOS has revised recommendation 20, which has been accepted by PS. OIOS will close recommendation 20 in its database upon receipt of assurance of an effective mechanism to ensure that all performance reports are filed and up to date.*

Limited verification of contractor's financial position and updating of vendor records and information

76. Although general financial information is gathered through Dun and Bradstreet reports before the award of a contract, there is no periodic review of the financial position of the contractor during the contract period. However, vendor information is not regularly reviewed and updated. For example, ESS' financial data has not been evaluated since its inclusion in the UN vendor roster in 1997. Since 1997, ESS has changed from Eurest Australia International to ESS under their parent company "Compass Group PLC" and finally to Eurest Support Services (Cyprus) International. In 2001, ESS submitted an interim financial report of their parent company "Compass Group PLC". Although a name change to Eurest Support Services (Cyprus) International was approved by PS in September 2001, no evaluation of financial status was ever undertaken. The failure to review and update financial information constitutes serious financial risks to the UN if the contractor becomes financially insolvent. In another case, a letter was received from a bank in the United Kingdom requesting the UN to make all its rations-related payments directly to the bank and not to ES-KO, the vendor with which the UN has the rations contract. Subsequent to that, a follow-up letter was received by PS from ES-KO, the contractor, explaining that this was a normal banking transaction, i.e., assignment of the receivables of ES-KO from the UN against a loan agreement. In OIOS' opinion, such a request supports the concern that the vendor may be in an uncertain financial position and should be investigated. PS should consider adding a clause to the RFP requesting prospective contractors to attach their latest audited financial statements to the proposal, and develop an effective mechanism for evaluating/monitoring the financial strength of prospective vendors and develop a mechanism to ensure that all updated information is forwarded to the Vendor Roster Section for inclusion to their files and that vendor's registration case files.

77. The PM also sets out the criteria to be taken into account in evaluating the vendor roster application, including financial soundness, negative events such as deficit in net worth, bankruptcy proceedings, insolvency, receivership, major litigation, etc. The Manual further states that failure to submit financial data capable of being adequately evaluated shall normally disqualify the applicant. The PM also states that the VDO shall, at reasonable intervals from the date of the registration, review and verify vendor records and information. Although, PAE, a rations vendor, has not responded to the last three RFPs, it remains on the vendor roster and is invited to bid. According to the PM, a company that has not responded to three consecutive requests should be removed from the vendor roster.

Recommendations 21 and 22

The Procurement Service should:

- (i) Obtain periodic audited/certified financial statements for current rations contractors and periodically evaluate them to gain assurance of the soundness of their financial position (AP2004/600/09/21); and
- (ii) Adhere to the PM rule that companies who have not replied or acknowledged three previous invitations to submit solicitations should be removed from the database, and review its vendor database (AP2004/600/09/22).

78. *In its response to the draft report, PS commented that Dunn and Bradstreet (D&B) reports and other relevant financial information are obtained on a regular basis, particularly in connection with new solicitations. The United Nations Vendor Registration database, United Nations Global Marketplace (UNGM) requires vendors to update their own profiles and submit information relating to any change as and when they occur. Additionally, UNGM sends out an email reminder to this effect every six (6) months. As of July 2005, PS informs vendors in its notice of successful registration that it is the vendor's obligation to update its financial information. The new PS vendor management system will also require Procurement Staff to check such issues prior to award of contract and on a regular basis throughout the term of the contract.*

79. *During subsequent discussions with OIOS, PS advised that they would check files to see if updated audited financial statements are there. PS asserted that they never had issues of non-performance because of financial standing. PS stated that they do as much as they can within their current resources and that more staff would be needed for further analysis. PS also indicated that it has had use of special integrity review of financial statements and enquired whether this would be acceptable to OIOS. OIOS advised that, as noted in the draft report, at the time of the audit the financial information in the D&B reports were inadequate or missing. Over the course of a rations contract, which is usually three to five years, no evidence of PS' periodic review of updated audited/certified financial statements was found. OIOS maintained that certified/audited financial statements must be periodically reviewed and analyzed over the course of the contract and they must be placed on the vendor registration file. Based on discussions,*

OIOS has revised recommendation 21, which has been accepted by PS. OIOS will close this recommendation in its database pending evidence of implementation.

80. *PS has accepted recommendation 22 stating that this procedure is followed using a time-consuming manual process. PS will continue to explore the feasibility of automating the process; however, this issue will be more efficiently addressed in the new procurement management system to be implemented by the end of 2006.* OIOS will close recommendation 22 in its database upon implementation. PS should provide evidence that the database has been reviewed and “cleaned up”/culled of the vendors in accordance with the requirements.

Need for prospective contractors to disclose related parties

81. Two of the vendors on the roster, namely, ES-KO and Pacific Architect Engineer (PAE) were listed in the vendor roster separately by DPKO as acceptable potential ration suppliers and have also been invited separately by PS to submit RFPs for rations contracts. However, there was inadequate disclosure regarding these related parties when establishing the vendor roster and formulating the list of potential suppliers for a specific RFP. PS is aware of the website run by ES-KO/PAE and has received a joint response to RFP from them. For example, the legal relationship between ES-KO and PAE has not been verified and it was noted that PAE used ES-KO as a food sub-contractor for the interim contract for ration packs in ONUCI in 2004 without any evidence of prior approval by the UN, as required by the terms of the contract. OIOS concludes that the current practice of not disclosing related parties could lead to manipulation of the market and/or abuse of the procurement process.

Recommendation 23

The Procurement Service should require contractors, at the time of registration and when updating profiles, to disclose affiliated companies and related parties providing similar goods and services (AP2004/600/09/23).

82. *In its response to the draft report, PS commented that this requirement is included in the UN General Conditions of Contract. However, a review of the UN General Conditions of Contract determined that there is a requirement to disclose sub-contractors, but there is no requirement for contractors to disclose affiliated companies and/or related parties.* In order to further clarify the recommendation, OIOS has revised recommendation 23 as noted above, which has been accepted by PS. OIOS will close recommendation 23 in its database upon receipt of documentation outlining its implementation.

Presentation to the Headquarters Committee on Contracts could be improved

83. The Terms of Reference of the HCC regarding compliance with the Financial Rules and Regulations requires that the HCC “...ensure that the proposed procurement is based, inter alia, on fairness, integrity and transparency, and as such are impartial and unambiguous...”, and “whether proposed procurement actions are in accordance with Financial Rules and Regulations”. A review of the PS presentations for rations contracts revealed that there is a need

for improvement in order to give adequate assurance to the HCC that the procurement process was in compliance with the requirements of the Procurement Manual and that there was due diligence in the process, particularly relating to contractor performance and financial solvency.

84. Also, the HCC requires Procurement Service and DPKO to present an agreed upon position in the submissions to HCC. There were several notes to the file that suggest this requirement was not always met. For example, concerning the MONUC ration contract presentation, LSD claimed that their position was not adequately presented to the HCC.

Recommendations 24 and 25

The Procurement Service should:

- (i) Ensure that information concerning the vendor's past performance and financial solvency is formally included as part of the presentation submitted to the HCC, to facilitate the exercising of proper due diligence (AP2004/600/09/24); and
- (ii) Ensure that the presentations to the HCC clearly document all pertinent discussions and particularly any critical dissenting positions, in the context of the HCC requirement to present an "agreed upon position" (AP2004/ 600/09/25).

85. *In its response to the draft report, PS commented that they include information on vendors' past performance in all HCC presentations. Verifying solvency is part of PS' mandate, and not HCC's mandate; nonetheless, this information is also conveyed to the HCC.* Based on PS' response, OIOS has withdrawn recommendation 24.

86. *Concerning recommendation 25, PS commented that DPKO and PS do collaborate in HCC submissions and that HCC submissions have improved. PS also explained that with regard to the case of MONUC as referenced, there were various positions, including that of ACABQ on this issue.* Based on PS' response and subsequent discussions, OIOS has revised recommendation 25 in its database.

Contract Terms were not always complied with and the relevance of some needs revision

87. A contract discount clause allows the mission to take discounts if certain conditions are met. This clause is not included in all contracts, and where included, is not always implemented. For example, in the UNAMSIL, UNMEE, UNMIL and MONUC contracts, there was a clause stating that discounts of 0.5 and 0.65 percent would be applied to requisitions for rations forwarded in 60 and 90 days respectively before delivery. These missions were not able to take advantage of the discounts, which resulted in lost opportunity of potential savings. For example, in UNAMSIL, the mission missed discounts of \$535,996 (discount for 60 days) to \$969,795 (discount for 90 days). In the case of MONUC, Organization opportunity cost was \$247,000. For UNMEE's second contract, the discount rate was not stipulated.

88. However, effective management detailed planning and coordination among contingents and Food Cell, and precise forecast of the troop sizes and structure, together with adequate guidelines from DPKO and adequate staff resources, are the indispensable factors for enabling the missions to take advantage of the discounts. These elements were generally lacking at the missions. The applicability and implementation of the discount clause need to be determined.

Recommendation 26

DPKO should issue the appropriate guidelines and require missions to take advantage of the discount clause when provided for in the contract. If there is no agreed upon amount with the contractor, then PS should remove the standard clause from the contract (AP/2004/600/09/26).

89. *In its reply to the draft report, DPKO commented that the UNAMSIL contract does include an early ordering discount. Not taking advantage of the early-order discounts is often unavoidable, given a variety of factors: (i) the missions must wait for the contingents to precisely indicate their troop strength before an order can be placed, (ii) changing security conditions on the ground; (iii) downsizing of missions; and (iv) troops being on leave. During subsequent discussions DPKO informed that the contractor is not always willing to provide a discount and that this is a standard clause, which is in all contract templates and should be taken out by PS when not applicable, as sometimes the standard clause is included without any specific details regarding methodology and criteria. OIOS has revised recommendation 26 as noted above, which has been accepted by DPKO. DPKO has indicated the expected implementation date as 30 June 2006. OIOS will close recommendation 26 in its database upon implementation.*

No quality assurance inspections had been conducted

90. Quality assurance is required to ensure that the contractor has a mechanism in place to minimize risk to the programme and to maximize the possibility for delivery within the agreed time and cost of a sufficient quality produce or service, failure of which could result in overall increased costs to the Organization. The PM provides for such quality assurance to be carried out at different levels of the contract and include independent testing to determine compliance with ISO standards and requiring proof of adherence on the part of the contractor to high quality assurance levels. Additionally, contracts stipulate inspection of the sources of supply, factories, storage facilities and transportation equipment by either the UN or the UN's appointed Inspection Company to be performed any time within the duration of the services. OIOS' review indicated that neither laboratory checks were ever performed, nor were these clauses complied with.

Recommendation 27

DPKO should conduct and/or ensure that 3rd party random laboratory checks and inspections of location of sources are conducted to obtain assurance that contractors adhere to the minimum standards outlined in the contracts (AP2004/600/09/27).

91. Subsequent to discussions with both PS and DPKO, recommendation 27 has been revised as noted above and addressed to DPKO.

92. *DPKO has commented that this is not necessary and should be done on an "as required" basis.* However, in OIOS' opinion, as part of contract management, it is necessary to obtain assurance that high quality is maintained throughout the life of the contract. *Subsequent comments from DPKO have indicated that they have accepted this recommendation and the expected implementation date is 30 June 2006.* OIOS will keep recommendation 27 open in its database pending implementation.

Acquirement of Performance Bonds was not consistently applied

93. The procurement officers shall exercise professional judgement to ensure that adequate safeguards are in place to protect the interest of the Organization throughout the term of the contractual obligation and the solicitation process. According to the PM, contract performance bonds equivalent to 10 percent of the contract amount must be obtained from the contractor. Contracts for UNAMSIL and UNMISSET respectively, did not have a performance bond securing the rations service for the 3rd and 4th years respectively. It is also stipulated that the performance bond shall be reviewed on an annual basis for the life of the contract. OIOS concluded that as a result of non-compliance with this provision, the UN was exposed to a financial risk for the remaining life of the contract. Furthermore, the requirement for performance bonds was not consistently applied. This policy should be clearly documented. For example, in the case of MONUC, despite OLA's advice not to deviate from the terms of the RFP after the fact, the performance bond was calculated at the amount of \$2.2 million. This represented 10 percent of the annual NTE, instead of a total NTE \$63.6 million for the life of the contract.

Recommendation 28

The Procurement Service should ensure that rations contracts are adequately secured by performance bonds and those requirements are consistently applied to all contracts (AP2004/600/09/28).

94. *In its response to the draft report, PS commented that the contractual mechanisms are in place in all recent rations contracts,* an indication of PS acceptance and implementation since the audit. Additionally, OIOS further explained that at the PS/OIOS exit conference PS had indicated that this was an oversight on their part due to work volume. Based on subsequent discussions, OIOS has revised recommendation 28 as above, which has been accepted by PS. OIOS will close recommendation 28 in its database upon receipt of documentary evidence of implementation.

No methodology for the application of liquidated damages was developed

95. The PM requires that the solicitation document include a clause for liquidated damages as a protection against failure of the contractor to perform in accordance with the contract and to

ensure timely contract performance. Normally the liquidated damages cost is a fixed percentage of the contract value per week when rations deliveries are delayed, up to a reasonable maximum percentage of the contract value, normally 10 percent. Liquidated damages should be considered in the context of the impact that it can have on pricing, competition and contract administration. They should not be punitive in nature, but compensate the Organization in a reasonable manner.

96. According to the contract in UNMIL, "The United Nations reserves the right to take action as provided in the resulting contract including the assessment of liquidated damages and termination of the contract." However, there is no mechanism or methodology for the practical application of such liquidated damages since no fixed amount was stipulated.

97. In UNMIL, the contractor was not performing satisfactorily in accordance with the contract, including poor delivery cycles, poor quality of food and substitutions, lack of adequate fresh fruits and vegetables, no notification or documentation regarding disposal of rejected food, inadequate warehousing, etc. This was communicated both verbally and in writing to the contractor. Although there is documented evidence of poor performance, there is no evidence of any sanctions or application of liquidated damages clause. Furthermore, the contractor continued to be invited to bid for future UN contracts.

Recommendation 29

DPKO, in collaboration with PS and upon the advice of OLA, should include in the contract criteria and methodology for applying liquidated damages for rations contracts (AP2004/600/09/29).

98. *In its response to the draft report, PS stated that in all recent contracts, liquidated damages provisions are included, in accordance with Procurement Manual Section 13.6.3(3)(i). During subsequent discussions with PS and DPKO, PS advised that the methodology and criteria for determining the liquidated damages must be in collaboration with, and upon the advice of DPKO. DPKO stated that from a legal/contractual point of view, this clause is necessary, although operationally it is difficult to implement. DPKO agreed that this should be reviewed. DPKO further mentioned that liquidated damages might be attached to evaluation criteria in the future. For now, the Department believes there are other mechanisms in place for immediate remedial action and liquidated damages can be used when the vendor under performs on a frequent and long-term basis. OIOS maintains that their application should not be a judgment decision made independently without guidelines and that the responsibility for implementation lies with DPKO. OIOS reiterated that DPKO should establish criteria for application of liquidated damages; including how and when it should begin. OIOS has revised recommendation 29 to reflect this. DPKO has accepted recommendation 29 and advised that the expected implementation date is 30 June 2006. OIOS will keep recommendation 29 open in its database pending implementation.*

No insurance certificates were found on file

99. In most rations contracts, the contractor is required to provide insurance against all risks, including war risks, food rations, equipment, etc; workmen's compensation insurance; and

liability insurance for third party claims and name the United Nations as additional insured. The contract clause did not clearly indicate who the owner of the property is prior to delivery. Neither did it clearly state the UN as beneficiary. There were no copies of insurance documents in the files and there was also no evidence of follow-up by the UN.

Recommendation 30

The Procurement Service should strictly enforce their existing mechanism to ensure that all risks inherent to rations contract services are insured and that the contractor submits certifying insurance documents as stipulated in the contract (AP2004/600/09/30).

100. *In its response to the draft report, PS stated that provisions mandating insurance are already in place in all rations contracts. Contracts stipulate that insurance certificates may be required to be produced upon request. It is a contractual obligation of the vendor to issue such certificates and the lack of them would constitute a breach of contract.* During follow-up discussions, OIOS noted the client's response but reiterated the need for enforcing the mechanism to ensure compliance. Recommendation 30 was revised to recognize the existing mechanism, and PS has accepted it as such. OIOS will close recommendation 30 in its database upon receipt of documentary evidence indicating that the certifying documents pertaining to rations contractors, as stipulated above, have been received on file.

Contract amendments were not always timely

101. There were several cases where amendments to contract were not done in a timely manner. UNMISSET's rations contract expired in June 2004 and the same contractor rendered catering services without a formal contract until November 2004. The catering contract was awarded without competitive bidding and this was criticized at HCC Meeting No. 04/73 held on 2 November 2004 as "noted with concern the deficient manner in which the case was handled by the mission". For MONUC, the 9.25 percent surcharge for the contract relating to troop strength of 3001-5000 was omitted from the contract, which was signed on 4 February 2004. However, the omission was not discovered until August 2004 and was brought to the attention of PS by LSD; the amendment was made shortly after.

102. Rations contracts are requirements-based contracts and each time the contract limit is fully utilized, approval from HCC is sought to increase the amount, which is called the 'not to exceed' (NTE) amount. In UNAMSIL, a total of \$101,340,913 had been expended as at 31 March 2004 on the rations contract, while the NTE amount stood at \$89,491,069; the expenditures exceeded the maximum NTE amount by \$11,849,844 or 13 percent. In September 2003, the mission requested DPKO to amend the contract by increasing the NTE amount, and this request was verbally granted to UNAMSIL. However, there was no response from DPKO until February 2004. It was only on 19 March 2004 that the contract was eventually amended to extend its validity and to raise the NTE amount to \$113,667,776.

Recommendation 31

The Procurement Service should ensure that all contract amendments and/or new contracts are signed on time and before contract expirations and expenditures exceeding the maximum contract amount, to avoid ex-post facto cases (AP2004/600/09/31).

103. *In its response to the draft report, PS commented that in collaboration with DPKO, PS maintains a contract database showing contract expiration dates. PS indicated that it has developed a system that automatically provides notice six months prior to the expiration of the contract term. PS advised that the new system was developed a year ago.* However, OIOS maintained that at the time of the audit, no system was in place. During subsequent discussions OIOS noted that the UNMIL rations contract took over one year to be signed, and the Sudan rations contract was still not signed. Recommendation 31 has been revised, which has been accepted by PS. OIOS will close recommendation 31 in its database upon receipt of evidence indicating that recent contracts and amendments are signed in a timely manner.

Unauthorized use of the United Nations name in advertisement

104. It was observed that the PAE ES-KO website uses the United Nations good name as an advertising mechanism. The standard terms and conditions of the contract stipulate that: "The contractor shall not advertise or otherwise make public the fact that it is a contractor with the UN, nor shall the contractor, in any manner whatsoever, use the name, emblem or official seal of the United Nations or any abbreviation of the name of the United Nations in connection with its business or otherwise". Furthermore, there was no indication that prior authorization and/or clearance was sought and obtained from the United Nations, and PS had not addressed this issue, despite its awareness of the practice of ES-KO and PAE.

Recommendation 32

The Procurement Service should immediately require PAE ES-KO to comply with Article 33 of the contract regarding advertisement and use of UN's name (AP2004/600/09/32).

105. *PS has accepted recommendation 32 stating that PS has consulted OLA on this matter and, on receipt of advice, will proceed with appropriate action, if any, against PAE/ESKO.* OIOS will close recommendation 32 upon receipt of the advice from OLA to PS.

Sliding scales and associated Ceiling Man-Day Rates (CMR) are disproportional

106. A method of 'sliding scales' are used in rations contracts when a new 'ceiling man-day rate' is to be applied against changes in the troop strength. It was observed that the Sliding Scale is not logical in all contracts and sometimes works against the interest of the UN. As illustrated below, the rations contract clause has disproportional CMR, which are determined by changes in the troop strength. When the sliding scale is applied, the incremental total cost to the UN

associated with a drop in troop strength is significantly higher than the incremental savings associated with an increase in troop strength.

Figure 2: Sliding scale and associated changes in CMRs

Mission	+40 to 50	+31 to 40	+21 to 30	+10 to 20	Auth. Present Troop	-10 to 20	-21 to 30	-31 to 40	-41 and below
UNMISSET	n/a	-1.5 %	-1%	-0.75%	0	15%	25%	35%	n/a
UNAMSIL	n/a	-1.45%	-1.15%	-0.85%	0	1.25%	1.62%	2.49%	n/a
MONUC	-1.45%	-1.09%	-0.73%	-0.36%	0	3.81%	6.72%	9.29%	11.86%

107. For example, in UNMISSET, UNAMSIL and MONUC, disproportional rates applied. Furthermore, the range for the increase in CMR in UNAMSIL's rations contract was from +1.25 to +2.49 percent, which is quite narrow when compared to the range in UNMISSET's contract, which was +15 to +25 percent ranges, those for MONUC ranged from 3.81 to 11.86 percent.

108. As illustrated in the above tables, the application of the sliding scale could sometimes lead to unreasonable results. For example, according to the UNMISSET contract sliding scale, using 10,000 troop strength as a base with a \$6 CMR, the daily total rations cost would be: $10,000 \times \$6 = \$60,000$. If we assume a 10 percent reduction in the troop strength (i.e., strength becomes 9,000), the CMR rate increases up to \$6.90 (6×1.15) and the daily total cost becomes: $9,000 \times \$6.90 = \$62,100$. In other words, by decreasing the number of troops to be fed, the mission actually pays more to the contractor.

109. Rations food cost is a variable cost to the contractor whereas fixed costs like warehousing; mobilization, etc. are paid separately. Therefore, this much fluctuation in the rates when the troop sizes decrease cannot be fully justified by "economies of scale". In MONUC, for example, troop strength for the first three years of the contract were significantly below the authorized troop strength of 5,037, which caused the sliding scale levels to be applied and as such a troop strength much higher than the actual troop strength was used for calculating the CMR, resulting in a higher price to the UN, to the extent of over \$1 million. As a result of the delayed deployment factor, an 11.86 percent increase in CMR was applied based on the sliding scale. The CMR increased from 12.01 for the first three months to 13.43 per man-day for air delivery, and from 7.44 to 8.32 for delivery by land, with a respective increase from 5.4M to 6.0M and 9.0M to 10.07M, a total of \$1.67M in the first year. This translated into an overall increase from \$14.4M to \$16.07M for year one, almost \$5M for the three years; since there was no attempt to renegotiate the price or to re-bid the contract. In this case, it was based on the mandated troop strength of 5,000, and for the first three years of the contract, the strength averaged about 2,500, a decrease of more than 40 percent. According to PS, although the deployment schedule was available, the RFP and contract has to be based on the mandated troop strength in the event that there is rapid and full deployment occurs. This suggests a greater need for better negotiation on the surcharges relating to the ranges of troop strength, to reduce the risks of exposure at the contract negotiation phase.

Recommendation 33

The Procurement Service should obtain a copy of the deployment schedule and aggressively negotiate the sliding scale rates for all new rations contracts in order to minimize significant increases in the cost of rations (AP2004/600/09/33).

110. *PS accepted recommendation 33 stating that the sliding scale rates are applicable only to the food costs within a rations contract. For example, a reduction in troops from 15,000 to 10,000 (i.e., a third) does not correlate to a reduction of storage space by a third, as rent must still be paid for the whole warehouse. PS, in collaboration with DPKO, will standardize the increments in new rations contracts to (i) facilitate analysis during 'best value' discussions between PS and DPKO and (ii) to obtain a base line for aggressive negotiation during contractual negotiations. OIOS will close recommendation 33 upon receipt of the revised sliding scale rates for rations contracts.*

Legal capacity of the signers needs to be verified

111. There were no supporting documents as to the legal capacity of the persons signing the rations contracts on behalf of the contractor companies in any of the five contracts reviewed. Although a requirement for proof of signature capacity is not addressed in any guideline, OIOS believes that there could be a risk in the case of a dispute between contracting parties. Lack of proof validating the signatory of the contract could result in a financial loss to the UN, without recourse.

Recommendation 34

As a general business practice for each contract, the Procurement Service should obtain proof of the legal capacity of the signatory either at the "Request for Proposal" stage or during the vendor registration process, and this proof be maintained on file and kept up-to-date by the Vendor Database Officer (AP2004/600/09/34).

112. *PS accepted recommendation 34 stating that documentation to accredit the legal capacity of a company is requested as part of the vendor registration procedures. PS will consult with OLA on this matter to ensure that language is developed to obtain, during the RFP or vendor registration, proof of the legal capacity of the signatory to a contract. OIOS will close recommendation 34 in its database upon receipt of documentation outlining its implementation.*

D. Contract administration by missions

113. A number of areas for improving the contract administration at field level were identified in the five audits conducted in the mission. These are summarized in Annex III in the following seven (7) broad headings: (a) Requisition; (b) Delivery; (c) Inspection; (d) Warehousing; (e)

Invoicing and payments; (f) Performance evaluation; and (g) Other contractual issues. Separate detailed audit reports were issued to DPKO for each of the five missions and DPKO should ensure that recommendations are implemented.

E. Personnel and administrative arrangements

Training Plan Required

114. Contract administration is intensive and involves many delivery points, and therefore requires a pool of experienced personnel in the mission including inspectors. It is observed that there is a lack of a formal training programme especially for rations contract management and administration personnel. The audit noted that training was organized for both food officers and inspection officers in the field, and Contract Procurement Officers in the missions and Headquarters during the two sessions held each year. Also, a one-week training session for field Procurement Officers is held in New York each year, while the Headquarters Procurement Officers are trained externally.

Recommendation 35

The Procurement Service should develop a formalized and documented training plan for both HQ and field staff (AP2004/600/09/35).

115. *PS accepted recommendation 35 stating that PS is implementing a certification programme for procurement staff in Headquarters and Field missions. OIOS will close recommendation 35 in its database upon receipt of a copy of the PS training plan.*

Conflict of interest recruitment policy needed

116. OIOS noted that an officer at ES-KO working with the UNAMSIL rations contract in Sierra Leone and also for UNMIL's interim rations contract in Liberia was appointed on a fixed-term contract with the United Nations as an FS-5, Logistics Officer, with UNMIL in Liberia. The Director of Administration, UNMIL, advised that the officer was not assigned to the Food Cell and his only involvement related to movement of food to the Sectors and in future, his function as a Logistics Officer would not relate to (food) activities. However, there was evidence on file to show that the staff member was copied on email correspondence relating to rations contracts.

117. OIOS finds this to be a possible conflict of interest in that a recent employee of a vendor contracted by the United Nations would be privy to information in regard to troop strengths, food patterns, logistics, performance, etc., which could be perceived as compromising the integrity of bidding processes in other UN missions where the same monopoly of rival vendors are bidding against one another and also relating to performance reporting by the mission. It also raises issues of fairness and ethics in regard to the recruitment process. There is no procurement policy on conflict of interest as it relates to the hiring of personnel from existing contractors with the UN. Consideration should be given to setting a period of time that should lapse. Interviews with

DPKO staff revealed that “specialized expertise” is needed, hence the reason for recruiting vendor employees. OIOS questions the rationale of hiring someone for “specialized expertise” and then placing the staff member in a position where the UN will not be able to benefit from this “specialized expertise” due to possible conflicts of interest.

Recommendations 36 and 37

DPKO should:

- (i) Request OHRM to clarify and/or develop and enforce a conflict of interest policy on the recruitment of persons employed by companies under systems contracts, including rations (AP2004/600/09/36); and
- (ii) Further review the circumstances surrounding the recruitment by the mission of the staff member who was previously employed by a current vendor (AP2004/600/09/37).

118. *DPKO accepted recommendation 36 stating that PMSS has been requested on 11 October 2005 to clarify the policy on recruiting contractors' personnel and contractors recruiting UN staff members. OIOS will close recommendation 36 in its database upon receipt and review of PMSS' response to DPKO's request.*

119. *In its response to the draft report on recommendation 37, DPKO commented that the Department had reviewed the circumstances of the specific recruitment. The staff member was assigned to other functions so as to avoid any appearance of conflict of interest. DPKO advised that they had written to OHRM for advice, but had not received any response to date. During subsequent discussions, OIOS advised that there may in fact have been a conflict of interest since a note to the file indicated that the staff member was copied on an email, the subject of which was food rations. OIOS also informed DPKO that this matter would be referred to the Investigations Division, OIOS.*

120. OIOS has revised recommendation 37 to clarify that a further review of this issue is required. *DPKO has accepted recommendation 37 and advised OIOS to refer this issue to the Administrative Services Division (ASD). OIOS maintains, however, that as ASD is part of the Department of Peacekeeping Operations, the Department should review the circumstances surrounding this staff member's recruitment. OIOS will close recommendation 37 in its database upon receipt of DPKO's review report.*

Human Resource Management needs improvement

121. Based on observations of OIOS resident auditors, it is concluded that high turnover rates and/or inadequate staff resources in the missions among those who were assigned rations related tasks cause problems in the overall administration of the rations contract. For example, in UNAMSIL, there have been three changes of the Head of the Food Cell and five changes of The Quality Control/Quality Assurance Administrator since 1999. The Quality Control/Quality

Assurance Administrator was a military staff appointed from one of the troop-contributing countries, and as such, his duty period was limited to that of his contingent, which varies from 6 to 12 months.

122. At Headquarters, the Field Supply Team, which is part of the Field Procurement Section in PS, is charged with procuring all systems contracts for field missions, including rations contracts. However, there was only one professional staff (until the recent recruitment of a P-3 at the time of the audit) in PS to carry out these functions. In DPKO, Office of Mission Support (OMS), there are two sub-divisions, including the Logistics Support Division (LSD) which has responsibility for food rations contracts. The Food Rations Section is a sub-unit of SSS under LSD, which also is tasked with processing other major systems contracts such as fuel. The lack of adequate staff, a contributing factor to effectively carrying out all rations contract related functions, was demonstrated in several areas: financial analysis, taking advantage of discount clauses, timely amendments to contracts, and follow-up on contract management issues.

Recommendation 38

Given the high risks associated with the rations contract procurement process, DPKO should further review the adequacy of human resources at the missions and both DPKO and PS should review the same within their respective areas at Headquarters for rations-related posts and take necessary actions to maintain the continuity and sufficiency of staff (AP2004/600/09/38).

123. *In its response to the draft report, DPKO commented that as part of each mission's budget review process, DPKO continuously reviews allocation and availability of the human resources at the missions. Any approved additional staffing requirements are reflected in the mission budgets.* OIOS reiterated that lack of staff resources at both Headquarters (in DPKO, PS and Missions) and high staff turnover (Mission) were cited as some of the reasons for not being able to efficiently carry out functions and deal with workload. OIOS noted the client's response that such requirements are assessed at each budget review, but also observed that these are not always implemented as budgeted. OIOS has revised recommendation 38 as noted above which has been accepted by DPKO and PS. OIOS will close recommendation 38 in its database upon receipt of proof that the assessment has been done (by DPKO, missions and PS) and a proposal put forward as part of their respective mission budgets and/or support account, requesting and justifying additional resources.

F. Automation and streamlining of tasks

Improvement through automation of the procurement process

124. It is concluded from OIOS resident auditors' findings that it is very hard to administer rations' contracts without automation of the various processes. For example, putting purchase orders on time or early enough to receive discounts, keeping accurate inventory records and avoiding excess stocks, preventing expiry of rations (particularly compo rations) etc. would be improved and standardized among missions as a result of automating the processes. LSD

management indicated that the 2006 Budget includes a request for funding for an electronic rations system. Not only are the consolidation and submission of requisitions for hundreds of items labour intensive, time consuming and subject to errors, but also a lack of inventory records at contingent food stores and/or warehouses leads to excess storage and unnecessary costs. Taking into consideration the lack of adequate human resources, contract administration without IT support becomes more difficult, as does reconciliation and tracking of payments.

125. The vendor roster in PS is not automated. Consideration should be given to implementing an automated system that has the ability to flag incomplete registration status, do preliminary financial statistical analysis and produce letters to be sent to vendors requesting documentation. Also, the audit took note of the initiative by DPKO to develop an internal Electronic Contract Performance Database.

126. However, there is no directive requiring both Field and Headquarters staff to use this as the official tool to monitor performance. It is currently being used on an ad-hoc and unsystematic basis. Also, these systems are not integrated and the relevant procedures have not been developed.

Recommendation 39

DPKO management should expedite the development of the ration management tool and liaise with PS to ensure interface with PS' database, which is being developed separately (AP2004/600/09/39).

127. *In its response to the draft report, DPKO commented that in collaboration with PS, DPKO maintains a Lotus Notes-based Contractor Performance Database, accessible to all missions. During subsequent discussions between DPKO and OIOS, it was mentioned that at the exit conference, DPKO stated that it anticipated that funding would be made available in 05/06 budget to develop an electronic tool to facilitate the monitoring of contractors' performances. The database in place which is referenced as proposed Electronic Contractor Performance Database and has not been formally rolled out, with a directive issued requiring officers to use it as an official tool. OIOS has revised recommendation 39 for clarification, and it has been accepted by DPKO. Subsequently DPKO has advised OIOS that: the Secretariat Project Review Committee approved the procurement of a commercial off-the-shelf food management system for DPKO on 14 December 2005. It is envisaged that initial roll out of the system will commence 1 July 2006 with full implementation in all PK missions having rations contracts scheduled for 1 July 2007. Concerning the Performance Database, DPKO is coordinating with PS in the development of a single report that meets both parties' requirements. The expected implementation date is 30 June 2006. OIOS will close recommendation 39 in its database upon receipt of documentary evidence of implementation of the planned roll out of the food management system in 2006 and the completion of the single referenced report.*

VI. ACKNOWLEDGEMENT

128. We wish to express our thanks and appreciation to the staff of the Procurement Service and the Department of Peacekeeping Operations and the missions audited for the courtesy and assistance provided to the auditors during the course of their audit.



Patricia Azarias
Director
Internal Audit Division I, OIOS

Summary of Rations Contracts

Contract No.	Mission	Contractor	Country	Start date	Expiry date	NTE Amount (in US\$)
PD/C0007/03	UNIFIL	Eurest Support Svcs (Cyprus) Intl	CYP	1 Apr 03	30 Mar 06	5,722,470.00
PD/C0008/03	“	Eurest Support Svcs (Cyprus) Int	CYP	1 Apr 03	30 Mar 06	3,086,594.00
PD/C0027/00	UNMISET	Eurest Support Svcs	UK	17 Feb 00	1 Mar 05	61,434,541.00
PD/C0054/00	UNAMSIL	ES-KO International Inc	MNC	1 Apr 00	31 Dec 04	113,667,777.00
PD/C0087/04	ONUC	Supreme Sales GMBH	GER	1 Jun 04	31 May 06	24,409,567.00
PD/C0127/04	MINUSTAH	ES-KO International Inc.	MNC	4 Jul 04	3 Jul 06	5,336,447.00
PD/C0128/04	ONUB	Eurest Support Svcs (Cyprus) Int	CYP	1 Jul 04	30 Jun 06	44,455,380.00
PD/C0194/03	“	ECONOMAT DE L'ARMEE	FRA	1 Aug 03	31 Jul 06	4,842,172.00
PD/C0249/00	MONUC	ES-KO International	MON	12 Mar 01	11 Mar 2004	38,158,641.00
PD/C0286/03	UNMIL	Eurest Support Svcs	UK	1 Jan 03	31 Dec 06	37,964,965.00
PD/C0300/03	“	ES-KO International Inc.	MNC	13 Mar 04	12 Mar 07	63,573,712.00
PD/C0310/03	UNMEE	Eurest Support Svcs	UK	1 Feb 04	31 Jan 06	24,409,567.00
TOTAL						\$427,061,833.00

Timeliness of Rations Contracts

MISSION	SCR (Number and date)	DPKO's request for bidding	Date Of PS's issue of RFPs	Date of Closing	Date of DPKO Technical Evaluation	Date HCC Approval	Interim Contract Date	Contract Date
MONUC	SCR 1291 / 2000		22/03/2000	19/5/2000	20/07/2000	29/08/2000	n/a	13/03/2004
	SCR 1463 / July'03	31/10/2003	23/09/2003	31/10/2003	11/11/2003	18/11/2003	n/a	
UNAMSIL	Res.1270 / 22/10/1999	24/10/1999	19/01/1999	06/01/2000	31/01/2000	29/02/2000	Feb. 2000	01/04/2000
UNMIS/ET	Res. 1264 / 15/09/1999	28/10/1999	18/11/1999	17/01/2000	02/02/2000	08/02/2000	Feb. 2000	01/03/2000
UNMIL	Res.1497- 01/08/2003 Res.1509-19/09/2003	05/09/2003	12/09/2003	23/10/2003	27/08/2003	11/11/2003	Aug. 2003	25/11/2003
UNMEE	S/RES/1312 31/07/2003	27/08/2003	16/09/2003	27/10/2003	06/11/2003	09/12/2003	n/a	09/12/2003

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	MISSIONS				
		UNMIL	MONUC	UNAMSIL	UNMEE	UNMISET
1.	Requisition	<p>i. OIOS found that all the 42 contingents were preparing requisitions based on their full strength, instead of the feeding strength. OIOS' review showed that the Food Cell does not monitor troop strengths because the required troop strength reports are not received regularly.</p> <p>ii. OIOS' analysis showed that original requisitions were placed well before the 40 days timeline set in the contract. However, the contractor received amendments to the original orders only 7 to 37 days in advance (21 days, on an average).</p>	<p>i. Requisitions were generally submitted (AP2003/620/02).</p> <p>ii. Restricting the requisition of food items by commodity group instead of the old practice of control by overall total CMR (AP2003/620/02).</p>	<p>i. There is need to amend the contact to align with Mission draw down, in accordance with Resolution 1537, and significant reduction in troop strength.</p> <p>ii. No evidence that the Mission had advised the Contractor on the imminent reduction of troop strength.</p> <p>iii. During rotation periods, food rations requisitioned for the rotating contingent was insufficient</p> <p>iv. The Mission was not taking advantage of the provision i.e. CMR and unit prices shall decrease when requisition is forwarded at least 60 or 90 days prior to delivery resulting in approximately \$535,996 to \$696,795 in discounts.</p> <p>v. Only unit prices were discounted for the increase in troop strength while the CMRs were left unadjusted.</p>	<p>i. Visit to the four large contingent units (IndBatt, JorBatt, KenBatt and FinCon) revealed dissatisfaction in the new requisition procedures. According to them, they have lost their flexibility in their choice of food item to suit their needs. For example the IndBatt used to substitute more vegetables and condiments for meat items while the JorBatt prefer more rice, bread and meat. With the restriction within each commodity group, these contingent units stated that they have gone into requisitioning food items which they normally do not consume just to make full utilization of their total CMR eligibility by commodity groups. They have indicated that this will lead to waste of food items in future.</p> <p>ii. Mission not taking advantage of discounts as provided for in Statement of Works - Part I - Section 6.1</p>	

¹ Outstanding issues from prior audit.

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	MISSIONS				UNMISET AP2004/682/08
		UNMIL AP2004/640/10	MONUC AP2003/620/02 & AP2004/620/09	UNAMSIL AP2004/622/06	UNMEE AP2004/624/07	
2.	Deliveries	<p>i. OIOS noted that the delivery notes prepared by the contractor do not indicate the unit cost and total value of the commodities delivered.</p>	<p>i. No controls were in place to ensure that the Contractor delivers 100 percent of the food orders or to ensure that the Contractor remedies the shortfalls and defects (AP2003/620/02).</p> <p>ii. Delivery of poor quality food items that has resulted to discontentment among the troops and financial loss to the Organization (AP2003/620/02).</p> <p>iii. While there were thriving agricultural field adjacent to their camps, the auditors noted that the contingents in Bukavu received imported vegetables and fruits (AP2003/620/02).</p> <p>iv. There have been a number of instances where unwanted substitutions were supplied to contingent due to lack of verifiable communication between MONUC Food Cell and the contingents (AP2003/620/02).</p> <p>v. Troops use their own resources to buy items that are</p>	<p>i. Contingents were not aware of substitute and alternate food items; as a result, the contingents continued to raise Inability Pro Forma for undelivered item.</p> <p>ii. Undeliverable shortfalls in food items after the end of consumption cycle</p>	<p>i. Items supplied more than the requisitioned quantity and less than the requisitioned quantity.</p> <p>ii. Contractor requested Mission's approval for re-export \$87,466 worth of food items rejected by the Mission, but there is no evidence that these food items were actually re-exported.</p>	

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	MISSIONS				UNMSET AP2004/682/08
		UNMIL AP2004/640/10	MONUC AP2003/620/02 & AP2004/620/09	UNAMSIL AP2004/622/06	UNMEE AP2004/624/07	
3.	Inspection	<p>i. The Mission could not provide information concerning the authorized staffing of the Food Cell,</p> <p>ii. Inspections are conducted at the contingent drop-off points except in the case of food transported by air, where preliminary inspections are conducted by an R& I inspector in the presence of the contractor's representative inside the cargo aircraft</p>	<p>i. Lack of continuity in quality control and quality assurance functions</p>	<p>i. All contingents complained on the quality of fruits and vegetables supplies. This could be due to transportation by road taking long hours and also due to improper packing into the containers. A photo submitted by KenBatt evidences this. At FinCon delivery was witnessed by audit and found items with following discrepancies, which reflected on the quality of R&I: fruits partly smashed, tempered biscuit pack.</p>	<p>i. No formal inspection on the deliveries of food rations</p>	

SUMMARY OF AUDIT FINDINGS

ISSUES		MISSIONS		MISSIONS	
NO.	DESCRIPTION	UNMIL	MONUC	UNAMSIL	UNMEE
	AP2004/640/10	AP2003/620/02 & AP2004/620/09	AP2004/622/06 AP2004/620/09	AP2004/624/07	AP2004/624/07
	and reflect any discrepancy or irregularity with respect to quality and quantity of food rations delivered**.	<p>iv. A survey of food inspectors showed that only two of the six inspectors had undergone relevant training on food inspection. OIOS also noted that food inspectors had not been provided with weighing scales and temperature probes to ascertain whether weight and specifications were met.</p> <p>v. The audit showed that delivery notes supporting the payments made to Es-Ko did not bear item inspection markings similar to those seen in the delivery notes supporting payments to ESS. Upon verification, it was found that UNMIL did not inspect deliveries made by Es-Ko as there was no R&I Unit at the time.</p>			

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	MISSIONS		UNMEE	UNMISET
		UNMIL	MONUC		
4.	Warehousing	AP2004/640/10	AP2003/620/02 & AP2004/620/09	<p>i. Stock balance reports are not being submitted to the Food Cell on a weekly basis.</p> <p>ii. The contingents' failure to comply with required temperature standards for food results in lowering the foods' shelf life and nutritive value.</p> <p>iii. There is no assurance that the present stocks are adequate in the event of an emergency, since no force logistic directive has been issued to establish the reasonable number of days' reserve stocks, which should be kept by the Mission.</p>	<p>i. There is a need to compute and document the savings derived from the establishment of a warehouse facility in Entebbe (AP2003/620/02).</p> <p>ii. Combat ration stocks held by most contingents were below the 14-day requirement (AP2003/620/02).</p> <p>iii. Some contingents had unused food items and other food items the quantities of which were excessive to their requirements (AP2003/620/02).</p> <p>iv. Inventory record keeping practices varied broadly (AP2003/620/02).</p> <p>v. The analysis of ES-KO's stock report for June 2004 revealed that while the overall "end of period" stock balance appeared to be more than adequate, the actual stock reserve stock for individual</p>
				<p>i. Majority of contingent units did not maintain inventory records in their food stores, and those who maintained were unreliable.</p> <p>ii. The Staff Officer for Food had no knowledge of contingent companies, which accumulated rations in excess of seven days. This affected Requisitioning.</p> <p>iii. The German Generator Team accumulated excess stock.</p> <p>iv. Conditions in messes were not always adequate as evidenced by the variation in food menus, kitchen facilities and poor hygiene conditions in the dining rooms and kitchens.</p> <p>v. Varying scope of inspection;</p> <p>Record Keeping</p> <p>v. There were cases of excess stocks being held by various contingents, albeit without stock records</p>	<p>i. Contractor's workers handling food without hand gloves and head cover, gloves and head cover;</p> <p>ii. The R&I staff doing inspection without hand gloves;</p> <p>iii. Cold room facilities not established. Hence, repacking and sorting of food items done in the open air;</p> <p>iv. Weighing equipment not calibrated. Discrepancies found in the methodology for the measurement resulted in error in computing the contractor's performance. A score of 50 for weightage for "conformity with orders" instead of 51; and for "provision of Critical Items" a weightage of 6 instead of 5 was used.</p> <p>iv. Excess balance of food rations kept without informing the Ration Management Cell (RMC).</p> <p>v. Varying scope of inspection;</p> <p>vi. Recommended checklist not used as a basis of inspection; the inspection report on 26/06/04 states:</p>

SUMMARY OF AUDIT FINDINGS

ISSUES		MISSIONS			UNMISET	
NO.	DESCRIPTION	UNMIL	MONUC	UNAMSIL	UNMEE	AP2004/682/08
	AP2004/640/10	AP2003/620/02 & AP2004/620/09	items, such as, meat and alternatives, was not adequate, with at least 14 days' reserves for the total troop strength, e.g., 64 of the 73 items had a reserve of less than three days (AP2004/620/09).	"The warehouse management is meanwhile encouraged to implement verbal suggestions made by the inspection team". Hence, there is no audit trail to follow-up on what is to be implemented by the contractor.	v. Lack of supporting documents in order to verify full accounting of the quantities imported by the contractor.	

SUMMARY OF AUDIT FINDINGS

ISSUES NO.	DESCRIPTION	MISSIONS		UNMEE AP2004/624/07	UNMISET AP2004/682/08
		UNMIL AP2004/640/10	MONUC AP2003/620/02 & AP2004/620/09		
				issuances and balance) were not maintained at FinCon and IndBatt	
5. Invoicing/ Payments	i. Delays in the processing of invoices were attributable to the Mission's verification process, which was, in effect, repeating the steps that should have been performed by the contractor before invoices were prepared.	ii. All invoices reviewed showed that they were presented one month after the consumption period. In order to avail prompt payment discounts (0.15% in 2004), CMU needs to be proactive and consider having an invoice processing officer to visit the locations to expedite the processing of invoices immediately on receipt (AP2004/620/09).	i. Loss of approximately one-half million dollars in savings from early requisition discounts. The Mission did not take advantage of the provision for discount in the contract. ii. MONUC did not take		

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	MISSIONS				UNMISET AP2004/682/08
		UNMIL AP2004/640/10	MONUC AP2003/620/02 & AP2004/620/09	UNAMSIL AP2004/622/06	UNMEE AP2004/624/07	
			advantage of the discount offered by the Contractor and the Organization was missing out on possible savings of approximately \$247,000 annually (0-25% in 2003) (AP2003/620/02).			
6.	Monitoring Performance Evaluation	i. Performance evaluations were not in conformity with the applicable methodology in that only one sub-factor (i.e., conformity with orders) was used.	i. MONUC's Contracts Management Unit needs to develop a real-time process to input the performance of the contractor in a database to facilitate the analysis and reporting of the contractor's performance in a timely manner, e.g. delay in finalizing performance assessment of ES-KO, although \$5.8 million was already paid to them in May and June 2004 (AP2004/620/09).			

SUMMARY OF AUDIT FINDINGS

NO.	DESCRIPTION	ISSUES		MISSIONS				UNMISET AP2004/682/08
		UNMIL AP2004/640/10	MONUC AP2003/620/02 & AP2004/620/09	UNAMSIL AP2004/622/06	UNMEE AP2004/624/07			
7.	Contract Terms	i. During October 2003, there was no contract in place for the supply of food rations to the Mission.	ii. While the contractor's disposal process and documentation appeared to be adequate, the Mission needs to ensure that rejected items are not sold tax-free in the local market.	i. Delays in amending the contract to reconcile the maximum contract amount with cumulative expenditures.	ii. Currently, only manual procedures are in place to administer the contract, which is exhaustive and susceptible to errors.	iii. Inadequate monitoring of CMR in the execution of the contract.		
8.	Communication			i. It was noted that a number of contingents are more proficient in French than in the English language resulting in difficulties when handling communications with the Food Cell, since ration order forms were not provided in French (AP2004/620/09).	ii. The OIOS survey sent out to 31 Contingent Food Officers (CFOs) generated responses from 15 CFOs (or 48 per cent) and revealed that: (a) although seven CFOs were in position for more than six months, only			

SUMMARY OF AUDIT FINDINGS

ISSUES	NO.	DESCRIPTION	MISSIONS			UNMEE AP2004/624/07	UNMISIL AP2004/622/06	UNAMSIL AP2003/620/02 & AP2004/620/09	UNMISET AP2004/682/08
			UNMIL AP2004/640/10	MONUC	UNAMSIL				
				two had attended the Food Officers Workshop in October 2003. (Three other CFOs who did not respond to the questionnaire had also attended); and (b) Five CFOs had not received any instructions or guidance from MONUC staff on how to properly fill in a food (AP2004/620/09).					
9. Other		i. OIOS' review of the Food Cell Standard Operating Procedures (SOP) Manual indicated that the manual does not provide specific guidance on procedures to be performed in relation to various activities.		i. SOP for contingents was issued in draft (AP2004/620/09). ii. Unfamiliarity with provisions of new rations contract, additions to the rations scale and seasonality charge for fresh fruits (AP2004/620/09).					

UNITED NATIONS**OIOS Client Satisfaction Survey****Audit of: Horizontal audit of rations contracts in peacekeeping missions**(AP2004/600/09)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>				
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>				
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>				
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>				
• Clarity and conciseness;	<input type="checkbox"/>				
• Balance and objectivity;	<input type="checkbox"/>				
• Timeliness.	<input type="checkbox"/>				
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>				
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>				
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>				

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:

Ms. Patricia Azarias, Director, Internal Audit Division-1, OIOS

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By E-mail: iad1support@un.org