

Statement by André Pruniaux
to the United States Senate
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
February 15, 2005

Mr. Chairman and distinguished Members of the Subcommittee, thank you for inviting me to speak today. My name is André Pruniaux. I served as Senior Vice President of Cotecna Inspection S.A. between 1998 and 2004. As such, I managed Cotecna's operations in Africa and the Middle East, including its work as independent inspection agent for humanitarian goods in the United Nations' Oil-for-Food Program ("UN-OFFP").

Today, I will discuss three subjects:

- (1) the negotiation and execution of the December 31, 1998 contract between the UN and Cotecna;
- (2) Cotecna's implementation and performance of the contract; and
- (3) internal (Cotecna) and external (UN) monitoring and oversight of Cotecna's performance, with a particular focus on how, during the authentication process itself, daily interaction between Cotecna and the Office of the Iraq Program ("UNOIP") responded to circumstances presented at the border sites.

In addressing these three subjects, I will concur with all that Mr. Robert Massey has said but hope to add more details substantiating his statement that Cotecna did its job well and fully in accordance with its mandate.

I. Negotiation and Execution of Cotecna's December 31, 1998 Contract

To begin with the negotiation and execution of Cotecna's December 31, 1998 contract, I would make two main points, in addition to Mr. Robert Massey's "big-picture" observation that the scope of our work was, by virtue of the program's design, ultimately misconceived: first, that a vaguely worded RFP complicated Cotecna's early contract negotiations; and second, that miscommunication between separate UN units—specifically the UNOIP, the Procurement Division ("PD") and the Office of Legal Affairs ("OLA")—made contract amendments sometimes occur sporadically, by oral agreement or ad hoc written communication, rather than by formal documentation, and created long delays in the decision-making process on the ground. Both the vague RFP and the failure to formalize the UN's evolving instructions to Cotecna caused at times a disconnect between the formal contract language and our contractual

obligations (e.g., there were no clear definitions in the formal contract for such terms as “Fit for Human Consumption” and “Authentication”).

A. Contract Negotiations as Complicated by a Vague RFP

First, the UN worded its 1998 RFP very broadly [*see* the UN’s October 9, 1998 RFP, SA012845-63]. For example, the RFP did not impose on bidders any information technology system or specific telecommunications obligations. For this reason, and because the 1998 RFP also set forth an unusually short initial contract duration of only six months, Cotecna based its original 1998 bid (\$499 per inspector per day) on Cotecna’s own proposed information technology systems and telecommunication facilities.

In December 1998, however, the United Nations revealed, for the first time, a specific requirement for the contractor to use Lotus Notes instead of Cotecna’s own systems, which we had developed over a number of years for a variety of inspection projects and tended to customize depending on project demands. We would be pleased to provide the Subcommittee with details of the type of technology that our original bid anticipated if this would be helpful. Because Lotus Notes would involve large, previously unforeseen operating expenditures (for example, telecommunication costs) associated with the time-consuming replication requirement that the Lotus Notes systems demand, Cotecna and the UN’s PD on December 24, 1998 agreed that the UN would pay Cotecna additional compensation to address the Lotus Notes issue. This agreement became Amendment 1, which Cotecna did not sign until 29 March 29, 1999 and the PD until April 21, 1999 [Amendment 1 to PD/CON/324/98, SA006344-49; notes and e-mails regarding Amendment 1 and related Dec. 1998 negotiations appear in SA012792-809, SA012819-25, SA012921-24, SA012932 and SA012934-62].

Cotecna thus did not learn about the Lotus Notes requirement until December 1998, when Cotecna visited New York three times. Two of those visits took place after the UN had shortlisted the company for consideration. During the first visit, which Mr. Robert Massey led, Cotecna had presented its proposal. During the second and third, led by Mr. Elie Massey and me, respectively, negotiations sought to clarify the limited, technical role in more detail and to address the unexpected imposition of Lotus Notes (with related cost and communication implications).

From the outset Cotecna would have preferred for the original RFP to have set out a more detailed scope of work—especially as, in hindsight, the UN was requesting non-standard services, as contrasted with traditional Pre-Shipment Inspection and Destination Inspection, in a harsh and unstable operating environment. Furthermore, the UN insisted that tenders be submitted on a fixed per man day pricing basis, which was also to accommodate significant up-front capital expenditure. As such Cotecna assumed very significant risks. Indeed, the vagueness of the UN’s 1998 RFP in the context of a program which had been in operation for two years was not standard business practice. It is therefore surprising in retrospect that the UN did not provide a more detailed and comprehensive specification as regards information technology and communications requirements, physical infrastructure, existing and required, as

well as Standard Operating Procedures (“SOPs”). This specification would also have ensured that the UN analyzed tenders on the basis of a common understanding and even playing field.

B. Fragmented UN Approach

Second, separate UN offices handled contract negotiation (PD), operational issues (UNOIP) and legal services (OLA). These three UN departments did not necessarily agree or communicate with each other. As a result, UN decisions routinely “amending” Cotecna’s obligations, after our performance began on February 1, 1999, did not always cement themselves in formal written amendments. Like the ambiguities in Cotecna’s mission, about which Mr. Robert Massey has already spoken, this institutional fragmentation can explain some of confusions that have swirled around public perceptions of Cotecna’s duties and performance. One should not misconstrue as non-performance by Cotecna the UN departments’ failures to communicate with each other and record operational adjustments. In no material instance did Cotecna act without the instruction and agreement of the UN, to which our contract obliged us to report exclusively in all aspects of our duties.

II. Implementation and Performance of Cotecna’s Contract

My second subject for today’s testimony concerns implementation of the contract and performance of Cotecna’s contractual obligations.

A. Implementation

With regard to implementation, I would highlight five initial hurdles that Cotecna overcame:

- (1) handover issues;
- (2) generally harsh conditions;
- (3) a continual need to clarify contractual obligations;
- (4) differing views about how best to perform the job without compromise;
and
- (5) limitations of the Lotus Notes database.

First, regarding handover issues: Upon winning the contract, Cotecna received no existing operational documentation from Lloyd’s or the UN, including SOPs. Those OFFP records that Cotecna did inherit were in disarray. Nor did Cotecna receive information regarding the performance of Lloyd’s. We now know, for example, based on an OIOS audit report that the Independent Inquiry Committee (“IIC”) into the UN-OFFP posted on its website January 10,

2005, that the UN did audit the performance of Lloyd's [see AP98/17/5]. Despite this prior audit, Cotecna did not gain, in any meaningful or coordinated way, the benefit of the trial and error of the preceding two years of work as carried out by Lloyd's and the UNOIP.

Second, regarding generally harsh conditions: I have already publicly testified, in another forum, that the general working and living conditions for Cotecna inspectors were harsh, and the environment hostile [see André Pruniaux's October 5, 2004 testimony before the U.S. House of Representatives, Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform].

Once on the ground Cotecna found conditions to be worse than the company had foreseen or the RFP had made clear. In part these severe conditions arose because the 1998 bombing had caused Lloyd's to evacuate the sites at short notice, leaving them vulnerable to decay through lack of maintenance. Furthermore, the senior Lloyd's inspectors and team leaders were almost all British and were precluded from returning to the sites by the Iraqi authorities, acting in response to the UK's involvement in the abovementioned bombings. As such, it is fair to say that there was a "brain drain" as certain sites were understaffed or staffed with inexperienced, recently hired Lloyd's inspectors. This situation persisted for approximately three months. The consequences included a significant loss of know-how and a backlog of data to be processed.

Finally, Lloyd's had developed a parallel IT system (SAMDS—a relational database in Microsoft Access 97) for tracking OFFP trade, which Lloyd's used due to the difficulties associated with the Lotus Notes System. When Lloyd's lost the contract, Lloyd's removed this system and the data contained in it from the sites. These factors hindered a smooth handover from taking place.

Accordingly, at significant financial cost, Cotecna needed to reestablish the requisite infrastructure. Please note, we signed the contract on December 31, 1998 and started work on site on February 1, 1999. Problems resulting from the short lead time were exacerbated by the delays in obtaining visas for new inspectors, which resulted in initial staffing shortages. Similar and often worse delays were associated with obtaining import permissions for critical equipment (V-Sats and radios). Cotecna also absorbed high insurance costs (to the extent that insurance was available), costly security measures, and tremendous telecommunications service and equipment expenses.

Many other harsh conditions that Cotecna faced had non-financial implications but led to significant procedural hurdles. In particular we had to navigate relations—via the UN's Office of the Humanitarian Coordinator for Iraq ("UNOHCI")—with Iraqi authorities, port officials, and Iraq's Ministry of Trade ("MOT"), in order to process visas, requests for dismissal, etc. We also needed to maintain a positive working relationship with the UN Iraq-Kuwait Observation Mission ("UNIKOM"), for help during accidents and evacuations, and with Kurdish authorities (as well as with the Jordanian and Turkish officials). Particular logistical challenges resulted from direct pressure by Iraqis and travel restrictions when inspectors rotated between sites—all of which rotations needed to take into account that entry visas were available only in Amman and the travel permits, which were required if inspectors needed to move between sites, were issued only in Baghdad.

Third, regarding a need for continuing clarification of contractual obligations: Mr. Robert Massey has already described the imprecision of such non-standard procedures and terminology as “authentication” and “fit for human consumption.” In the absence of an established threshold or procedures, Cotecna took great pains to develop standards from scratch. Mr. Robert Massey has likewise described Cotecna’s recognition that the OFFP’s design had limitations (with respect to Cotecna’s function, an absence of price verification at point of import, etc.). UN resistance, however, prevented Cotecna from changing the system. Twice we offered price verification services but were turned down by the UN on both occasions.

Fourth, regarding differing views about how best to perform the job: What Cotecna’s contract required (when this was clear) did not always match what Cotecna believed its mandated duties to be. For example, in early 1999 Jonas Larsen of the UN once urged Cotecna to use risk assessment, an approach that would have had Cotecna visually inspect not 100% of OFFP goods, as we did, but only those goods deemed “high-risk.” But risk assessment did not suit a sanctions regime. Risk assessment works only when information exists to determine which shipments contain high-risk goods. More to the point, risk assessment is typically used as part of a customs function, where the aim is to ensure the accurate collection of duties—i.e., mitigating a fiscal risk—and where post-entry audit is possible. Risk assessment does not suit a system partly intended to restrict the importation of dual-use items—i.e., mitigating weapons of mass destruction risks. We note, in passing, that one of the arguments apparently used against Bureau Veritas—a French inspection company that Lloyd’s had beat out during the 1996 tender, was that Veritas had proposed risk analysis, which did not conform to the 1996 RFP [see February 3, 2005 IIC Interim Report, p. 99]. Furthermore, Cotecna and the UN sometimes disagreed over the scope of work and level of Cotecna’s authority. Typically, when working with governments, Cotecna acts in conjunction with customs officials. That is, there is a governmental enforcement entity. Here no enforcement function was present, because Iraqi customs had no interest in enforcing a UN sanctions program. Exacerbating the problem, staffing levels rigidly set by the UN at each site sometimes clashed with the needs that the reality on the ground demanded, whereby certain sites, most notably Umm Qasr, experienced greater traffic than others.

Fifth, regarding limitations of the Lotus Notes database: Without going into technical details, which I have particularized in Appendix A to my written statement,¹ let me summarize by saying that the UN imposed a system that was fundamentally unsuited to the task at hand.

Lotus Notes is primarily a document management and e-mail system. Indeed IBM, the current owner, does not recommend Lotus Notes as a database tool. Clearly a task that involved the authentication of hundreds of thousands of shipments (and the data associated with them) requires a system that can efficiently analyze, communicate and track large volumes of information and most of all easily link relevant data sets. The Lotus Notes system that the UN imposed on us could not do this. For example:

¹ See Appendix A, “Oil For Food Lotus Notes Database Appendix,” including a diagram of the Lotus Notes system that the UN imposed, contrasted with a system that would have linked key pieces of information and provided a more satisfactory audit trail. This document has been prepared by Cotecna’s legal and technical team.

- (1) Replication, the means by which the UNOIP New York and Cotecna Iraq synchronized OFFP information via Lotus Notes, took place over telephone lines and often took days to be complete—even crashing at times. This had very significant cost implications and also compromised data and left data gaps.
- (2) The Lotus Notes system did not link key pieces of information to each other. Most importantly, the Lotus Database itself did not integrate the actual authentication information. This recordation Cotecna did on paper, transmitted via fax or sent by e-mail. As such we often had to fax up to 2,000-3,000 pages per night and needed to develop on the ground reports for our own purposes when, for example, individual contracts involved multiple shipments. Some contracts involved thousands of individual shipments over lengthy periods of time.
- (3) As a result of the above, the Lotus Notes system did not provide an automated audit trail. It was only possible to generate an audit trail of sorts by a lengthy and largely manual process. This weakness of Lotus Notes, of course, makes monitoring performance and reporting almost impossible.

It is also worth noting that the UN did not have the requisite experienced Lotus Notes administrator until 2000, at which point the UN recruited a competent expert.

Furthermore, the UN throughout insisted that it retain complete control over the data entry and the structure of the database. Indeed, the data entry that Cotecna undertook was very limited and restricted to shipment inspection forms. Any corrections or amendments noted by Cotecna would be passed on to the UNOIP via fax or e-mail, and then corrections would be made by the UNOIP directly and passed back to Cotecna further to a successful replication.

B. Performance

With regard to our performance of the contract, I would stress the efforts Cotecna made to do the best job possible given our narrow mandate and the challenges presented by the realities of implementation and the tools the UN gave us.

The recently released 2003 OIOS Audit Report made 25 recommendations, some of which have been interpreted as criticizing Cotecna's performance. We attach, as Appendix B, a detailed response to all 25 recommendations contained in the Audit Report. Please, let no one say that Cotecna has failed to address the Audit Report. We have addressed it.

Instead of going through our appended written responses one by one, I will here make only four general observations. First, the Audit Report's recommendations sometimes fail to grasp the larger context that Mr. Robert Massey and I have described today: Cotecna's limited, technical role, our unsuccessful efforts to assist in price verification, the limited design of our

mission, the vague RFP, the failure of certain operational adjustments to record themselves as formal contract amendments, and so on. In short, the Audit Report sometimes misunderstands the OFFP itself. Second, the Audit Report's recommendations sometimes arise from misinterpretation of our contractual obligations. This misinterpretation is, however, understandable—as I have said—given not only the contract's imprecision but also the program's evolution from 1998 to 2003. Third, the Audit Report does not as often describe inadequate performance by Cotecna as inadequate contract drafting or monitoring by the UN. When, for example, the Audit Report complains that the UN at first failed to realize a two percent discount on the contract price because it did not pay Cotecna's invoices within 15 days, the Report is not raising any concern whatsoever over Cotecna's performance. Fourth, as I will explain in more detail later, UNOIP staff communicated regularly, even daily, with senior Cotecna staff. At no time did the UN tell Cotecna, in so many words, that it was not fully discharging its contractual obligations. The UN did not give Cotecna a copy of the Audit Report, about which the company first learned through media coverage of its release on a website mid 2004. Only one out of 58 OIOS audit reports raises observations and recommendations relating to Cotecna's performance. Moreover, this Audit Report was an interim and internal working document and was the only Audit Report that was unofficially released to the press. Cotecna until today has not had the opportunity to respond officially to the misunderstandings in the UN Audit Report. Now we feel free to do so, as the IIC has officially released the report.

In any event, as shown by our detailed written response to the Audit Report, as well as the thousands of pages of documents that we have submitted to this Subcommittee, we never acted in the performance of our contract without either specifically obtaining clearance from the UN or acting at its instruction.

III. Internal (Cotecna) and External (UN) Monitoring and Oversight

My mention of the Audit Report leads into my third and final subject today, internal monitoring and oversight by Cotecna, and external monitoring and oversight by the UN. I will describe internal and external controls separately, then conclude with certain observations on how, during the authentication process itself, daily interaction between Cotecna and the UNOIP responded well to circumstances presented at the border sites.

A. Internal Controls Provided by Cotecna Itself

As a matter of standard procedure, Cotecna develops SOPs consistent with the International Organization for Standardization ("ISO") reporting structure and standard. Cotecna followed this practice in the OFFP work as well. By way of a small example, Cotecna produced status reports weekly for UNOIP. These reports reflected the number of trucks and vessels processed, the staffing levels at each site, security observations again site by site, and any significant events that occurred over the course of the week in question.

As regards the important function of authentication, we provided authentication sheets to UNOIP once a week until April 2001, after which period we switched to daily authentication.

We also provided reports on the pending authentications (typically authentications fell into this group if there were discrepancies that required resolution—for example, documentary issues, database errors and pending actions from suppliers). This means that UNOIP was aware on a regular basis (i.e., weekly until April 2001 and daily thereafter) as to the precise level of authentications being conducted by Cotecna at every site.

Cotecna implemented a three-tier management structure to ensure that suitable checks and supervision were in place at all times. Cotecna stationed a Team Leader and a Deputy Team Leader on each site and an overall Contract Manager first in Geneva until April 2000 and then in Amman until the end of the contract. The Contract Manager would visit and audit the sites on average every two months and maintained permanent contact with all sites from Amman. One of the Contract Manager's main functions was to ensure that SOPs were being consistently and strictly adhered to—in particular as regards the Field Inspection Manual (“FIM”). Please note that this position was created by Cotecna to ensure efficiency of contract implementation but was not contractually required. Further, Cotecna absorbed entirely the cost of this position. Cotecna also had, in line with its contractual obligations, a senior liaison officer in Baghdad and a Field Manager in Amman. In addition all inspectors as a matter of course transited through Amman.

A final check was the supervision and review by the Geneva Headquarters at Senior Vice President level, supported by an Assistant Contract Manager. As Senior Vice President, I would regularly visit all the sites in Iraq, and we would organize a management/operational meeting with Team Leaders, IT managers and the Baghdad Liaison Officer in Baghdad and/or Amman every three to six months. As possible, these meetings were attended by UNOIP staff when they were on mission in Iraq.

Finally, regular (i.e., occurring two to three times per year) working sessions would take place with the UNOIP in New York.

Cotecna made constant efforts to conduct technical internal audits of the contract on a regular basis out of Amman, as well as on ad hoc basis from the Geneva Headquarters.

Cotecna also hired external auditors as needed to look at specific areas that required third party expertise. For example, an external auditor examined the financials in Amman. In addition, Cotecna recognized when the need would arise to bring in specialist consultants. For instance, we hired Dermot Jennings, a former senior Irish customs officer, as a technical consultant to provide analysis when we needed help resolving point-of-entry issues and delays at Umm Qsar.

To emphasize, the line between Cotecna and UNOIP oversight may be misleading. We were in constant contact and discussions with the UNOIP to develop a modus operandi that reflected our evolving contractual obligations and indeed exceeded them in several instances. For example, we successfully encouraged the UN to permit daily authentication by secure e-mail protocol to address the growing volume of cargo going into Iraq, as faxing authentications was proving too cumbersome for both sides. Four other examples of internal quality-improvement leap to mind: our development of SOPs, our adjustment of staffing levels at the different sites,

our modification of sampling methodologies and our overcoming of problems related to Lotus Notes.

First, primarily through Cotecna's extensive knowledge of field inspection procedures but also through discussion with the UNOIP and knowledge transfer from the former Lloyd's employees whom we hired for their relevant experience, we developed SOPs that served as a practical guideline for authentication. We did not permit our inspectors to deviate from these SOPs other than in circumstances where the UNOIP specifically instructed us to do so. This is clearly demonstrated on numerous occasions and documented extensively.

Second, we attempted to manage staffing shortages by transferring staff from lower traffic sites to Umm Qasr, but only after consultation with and agreement by UNOIP. The UN initially refused to deviate from the staffing levels set out in the RFP and only after repeated negotiations agreed to increase staff levels. This subject has given rise to some misinformed press comment and was alluded to in the OIOS Audit Report. Lost in the reporting is the fact that Cotecna was internally raising its level of performance, not lowering it. A pertinent example is that Cotecna had in place a surplus of inspectors (at one time up to 30 individuals) paid by Cotecna but not charged to UNOIP. These surplus inspectors allowed us to exceed the staffing requirements stipulated and facilitated appropriate recuperation periods for field staff and meeting strenuous shift requirements (e.g., at Umm Qasr at times up to three eight-hour shifts were required to meet authentication demands).

Third, with UN approval, we adjusted sampling methodologies to take into account staffing limitations and yet allow for 100 per cent visual inspection of deliveries for authentication. We agreed on appropriate quantity assessment methodologies with the UNOIP. Cotecna proposed this level as authentication was, to our understanding, designed to perform a number of functions, one of which was to mitigate the risk of dual-use items entering into Iraq, another being to ensure that payment to suppliers by the UN was made only on verification of the arrival of goods. We did not feel that less than 100 per cent visual inspection would be adequate control. Indeed, the UN expressed on at least one occasion at the beginning of our contract the view that this threshold was overzealous and that a risk-based approach would be acceptable. Cotecna rejected outright this suggestion as we did not consider it at all appropriate given the context of our mandate.

Fourth, as regards the shortcomings of the technology, as early as mid-1999 we had in place a permanent Lotus Notes administrator on site in Iraq, as well as IT specialists on each site, in the hope that their knowledge of Lotus Notes could help overcome associated problems. We also encouraged the UNOIP to appoint an experienced Lotus Notes administrator in New York, which the UNOIP finally did toward the end of 1999. Indeed, we did learn about that system. However, we could not fully overcome the fundamental shortcoming of using an inappropriate platform. It continued to make our job more difficult and certain key processes more time-consuming. Indeed, the weaknesses of the Lotus Notes database meant that even the UNOIP could not easily perform statistical analysis of the authentication process. The UN accordingly approached us on several occasions to assist it by providing general statistics, and our information technology staff on the ground was able to extract data and run the requested analysis. Indeed on a few occasions we sent our Lotus Notes administrator and paid for our

external experts to visit UNOIP in New York to assist UNOIP in resolving certain Lotus Notes problems. Ultimately, despite the shortcomings of Lotus Notes for the purposes to which the OFFP put it, Cotecna was able to manage the IT operations sufficiently to ensure that we fulfilled our contract obligations in full. In fact, the Coalition Provisional Authority (“CPA”) relied on our IT support also from November 21, 2003.

B. External Monitoring and Oversight by the UN

With regard to external monitoring and oversight by the UN, there was no formal or standardized audit procedure of Cotecna by the UN, to our knowledge. There was no UNOIP person on the ground in Baghdad. Furthermore, the project was managed from New York and in a different time zone.

However, UNOCHI in Baghdad was always aware, for security and visa considerations, of precisely how, when and where Cotecna inspectors were located in Iraq. We also had regular security briefings and audits by the UNOCHI security manager who was located in Baghdad. Further, all hiring decisions, visa applications and procedural amendments were with the agreement or at the instruction of the UN. In this sense, oversight by the UNOIP was a constant, and a constant that we for our part welcomed. Field reports were issued as a result of the UNOIP site visits that took place on average every several months and typically lasted for two weeks. These visits resulted in suggestions, amendments and improvements to the contract implementation and also performance. Many of these were at our suggestion or were worked out in conjunction with the UNOIP. Further, the short duration of contract periods—six months—meant that good performance was essential to put us in a strong position to be re-hired. Face-to-face meetings in New York followed up the UNOIP’s reports based on its visits to the inspection sites, the Baghdad Liaison Office and the Amman Field Office.

As I mention above, Cotecna was able to develop a good working relationship with UNOIP, despite or perhaps because of the challenges that the job presented. We were in daily contact with the responsible parties within that organization, particularly the UNOIP Customs Experts, whom we found professional and helpful, and with whom we maintained a constant dialogue. This dialogue allowed us not only to refine and reconcile our understanding of our duties, as reflected in the various amendments to the contract, both written and oral, but also to resolve in real time logistical and political problems caused by conditions on the ground. The UNOIP intervened on occasion on Cotecna’s behalf with the UN humanitarian agencies and the Government of Iraq to diffuse tensions or resolve problems, as quickly as possible.

In performing our task of authentication, we remained in daily contact with the UNOIP by fax, telephone and e-mail despite time differences (please note that when the UNOIP staff would arrive at work between 8:00 am and 9:00 am it would already be 4:00 pm to 5:00 pm in Iraq). When we spotted data errors or anomalies in the database, we reported these to UNOIP in New York to get data corrected and or amended. We were precluded from making any amendments to the data ourselves. The Cotecna inspectors were adept at addressing issues arising when drivers presented incorrect documentation and for the most part were able to authenticate goods once the reason for mismatches had been identified—such as entry at a

different border site than the UN documentation indicated. At no time, did Cotecna authenticate goods without the correct documentation or with missing documentation, other than in a few instances when instructed to do so by the UN. It is worth mentioning that authentication is ultimately a “black and white” process and leaves no room for reservation. For this reason, we were meticulous in obtaining specific instructions from the UNOIP whenever needed.

When discrepancies occurred regarding individual shipments, Cotecna immediately referred these as a matter of course to the UNOIP. The UNOIP would then determine how to resolve them. These discrepancies, if minor, were resolved directly between the relevant site and UNOIP. The Contract Manager in Amman would become involved only if the discrepancies were deemed significant. In the event of major concerns, then Cotecna Geneva would also be alerted and involved. Cotecna kept reports detailing these discrepancies onsite and at Cotecna’s Geneva headquarters as appropriate.

Let me not mislead you with such talk of “discrepancies,” though. Discrepancies rarely happened and typically related to irregularities in the documentation presented. Often discrepancies resulted from the mis-keying of information by the UN or a change of border post. Accordingly, the vast majority could be easily resolved. UNOIP kept complete control of the Lotus Notes database and was the only party that could enter and amend contract information.

IV. Conclusion

As I near the end of my statement, I observe that I am not alone in reporting that Cotecna did its job well. The UNOIP staff commended us for our performance on several occasions, and this continued on into the CPA period. As a testament to our good performance and keen pricing, Cotecna had its contract renewed three times and won subsequent re-tenders. Indeed our contract was carried over by the CPA and the current government, ending only on October 8, 2004 when Cotecna handed the task over to the local authorities.

I have discussed three subjects today:

- (1) the negotiation and execution of the December 31, 1998 contract;
- (2) Cotecna’s implementation and performance of the contract; and
- (3) monitoring and oversight of Cotecna’s performance, with a focus on the interaction between Cotecna and the UNOIP.

If you forget any of the details in my presentation, please remember the following: Despite Cotecna’s limited, technical role, our unsuccessful efforts to expand the scope of work, the ambiguities in the design of our mission, the vague RFP, the failure of operational adjustments to record themselves as formal contract amendments, and so on, Cotecna did its job well and fully in accordance with its mandate, in a very difficult local and delicate political environment.

Appendix A

Oil For Food Lotus Notes Database Appendix

In late 1998, Cotecna submitted a successful bid in response to the RFP issued by the UN for provision of inspection services under the OFFP. Cotecna did so on the basis that their own IT and communications solutions would be implemented. In hindsight these would have been efficient in terms of data exchange and processing time as well as significantly more cost effective. The cost of implementing and operating these proposed solutions was included in the fixed man day price quoted of \$499.

However, during contract negotiations it became apparent that the UN insisted on the use of an existing Lotus Notes Database ("LN") system. It became clear that LN would have communications cost implications when used to monitor such a program and especially so in the Iraqi environment. As such, the UN agreed to an increase of the fixed man day price.

Once on the ground Cotecna became aware that the insistence of using LN not only resulted in communication cost increases but also led to processing difficulties. The three main difficulties can be summarized as follows:

1) Replication Delays and Failures

Replication in LN is the process whereby remote servers are synchronized with information and data from a master server (in this case the master server was located at UN offices in New York). The LN process of replication involves the following:

- Comparing all the information or data between two different computers
- Defining the differences between the two computers
- Synchronizing the information on both computers

Due to the volume of data being replicated and the poor communications environment in Iraq, this often took a significant amount of time (sometimes days) to complete. It was also common for the replication process to fail which resulted in starting the process of replication again from scratch. Using a more suitable database

platform would have allowed for a more efficient "replication" process to occur in that either newly introduced data or recently edited information would be the only information included in the synchronization process. This would have improved the stability of replication as well as reduced time and communication costs.

2) Data Gaps and/or Anomalies

A direct result of replication failure was data gaps and anomalies between what was available at the UN master server and the local servers in Iraq. Further, there were gaps and anomalies, often significant, within the UN contract details themselves. Specifically, there were differences between the contract summaries and the individual items that these contracts consisted of.

The data gaps and anomalies between the UN master server and the local servers in Iraq can be primarily attributed to the following:

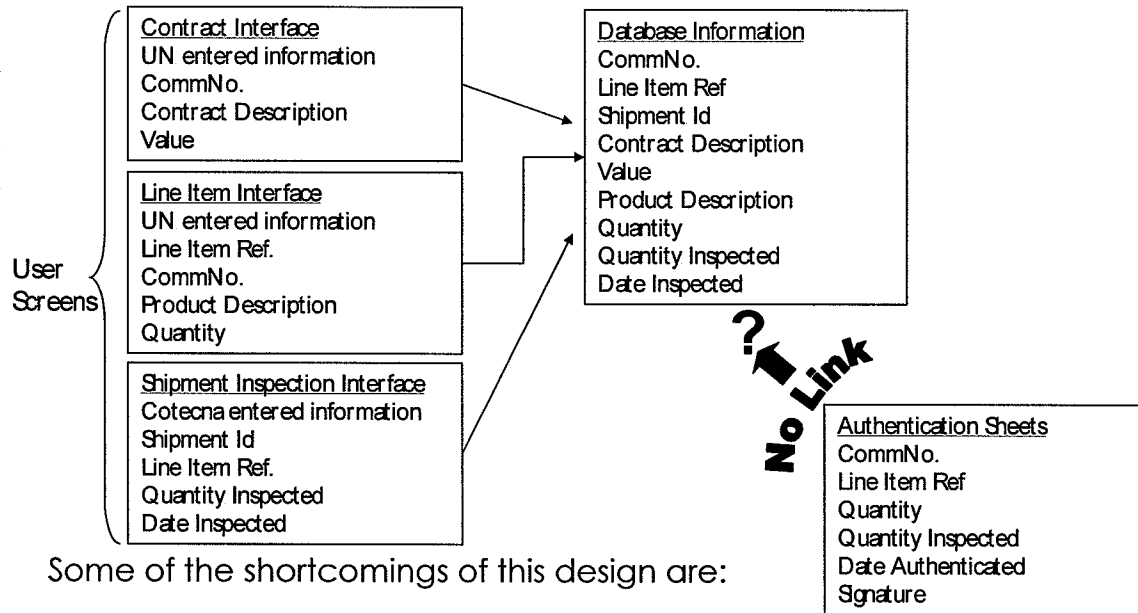
- Replication failures mentioned above
- UN failure to enter relevant information (for the purpose of minimizing the amount of data to be synchronized in the replication process and thereby expediting the replication process)
- Site specific data replication, whereby a contract delivery showed up for inspection at a border other than what was planned. Each border did not have access to information/contracts that were scheduled to arrive at other borders.

In order to resolve the data gaps and anomalies there was an extensive amount of correspondence involved with the UN as well as ultimately additional attempts to update local computers via replication attempts.

3) Authentication Data not Linked to Contract Information

This is perhaps the most significant issue relating to the LN system design. Payment for contracts was based on authentication sheets that were generated from the LN system. The LN system does not link the generated authentication sheets to the stored electronic contract information. That is, there is no relevant information to track authentication sheets such as date of authentication, date the authentication sheet was emailed/faxed or if an authentication sheet

was generated at all. As a result, all that can be generated is at best a highly manual and time consuming audit trail or at worst a non-existent audit trail. Below, is a diagram describing the infrastructure of the LN system:



Some of the shortcomings of this design are:

- Related information must be viewed through multiple screens/interfaces. People performing work manually not using computer to facilitate workload.
- No link between final authentication and work leading up to an authentication (no complete audit trail)
- Inefficient storage of information making computer searches time consuming
- QC reports and summary reports not possible without some sort of manual interaction

We provide as an end note¹ an example what steps are needed to be undertaken to complete an audit trail of authenticated goods. You will note that this is almost entirely manual and that it could take hours if not days to recreate a trail for a single comm. Number.

We feel that the primary reasons for problems encountered as a result of the implemented UN IT system can be summarized as follows:

- 1) The UN insisted on using an inappropriate software package, LN, to implement a “Data and Information Management” system. The stated primary purpose of LN is for emailing, messaging, calendar scheduling and document management. As such:

- a. LN is an unstructured platform and not a relational database system which would have been the appropriate platform to have put in place.
- b. There are size constraints as regards data volumes that can be handled

Furthermore, it is our understanding that IBM which owns LN, markets another of their products called DB2 for this type system.

- 2) The database design itself had some fundamental issues that needed to be met by either manual intervention or by developing separate tools – most significantly
 - a. All essentially associated groups of information were not linked.
 - b. There were no controls to identify anomalies such as UN entered contract summary vs. UN entered individualized line items
 - c. No Quality Control checks/reports
 - d. Obtaining line item reports is cumbersome and tedious
 - e. The process of faxing and emailing signed authentication sheets was manual, time consuming and meant that the authentication details were not recorded within LN.

Conclusion

We are of the opinion that the UN chose an IT platform that was fundamentally unsuited to the task at hand. The problems of using an inappropriate system, were then compounded the difficulties by implementing a poorly designed database structure.

This led to data gaps which compromised the integrity of the database (data gaps, manual/incomplete audit trail, reduced quality control and oversight).

No complete list of authentication sheets or a summary of all authenticated shipments can one be generated from the Lotus Notes database. The shortcomings of the system implemented by the UN were also identified by the UN agencies in Iraq. The Lotus Notes system did not provide an automated report or method that would allow the agencies to summarize shipments that had been inspected on a daily basis. They therefore commissioned Cotecna to provide this information. Cotecna could only do so by creating there own software solution that could summarize the information taken from the Lotus Notes database

(information which of course had to be gathered manually and re-entered into the new system).

There is no reason that a system could not have been developed using a more suitable relational database platform (e.g. DB2, SQL Server or Oracle) to meet the challenges of this program.

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ⁱ Audit trail for one specific contract (CommNo.) – necessary steps:

- 1) Use Lotus Notes interface to search for specified CommNo. This is an ascending list of all CommNo.s. To find a specific CommNo, a user is required to scroll through to the specified number. The CommNo.s range from 1 to 1,320,016, making the process a slow and tedious one.
- 2) Once the specific CommNo is found, details of the contract can be viewed by selecting its number.
- 3) Further details can be displayed about a contract by expanding a section of line items. It is a list in no particular order of specific product details within a contract's shipment.
- 4) Each line item's details can be viewed by selecting it from the list. From this view there is still no information about whether the item has been authenticated or not.
- 5) Further details can be displayed about a line item by expanding a section of shipment inspection details. Each shipment inspection entry must be reviewed to determine how much of a line item has been inspected / authenticated.
- 6) Each shipment inspection entry details can be viewed by selecting it from the list.
- 7) Once an authentication or inspection date is obtained about an individual line item, a manual review of either email records or faxed documents is required to locate electronic images of signed authentication sheets.
- 8) The specific border where the authentication occurred must be determined. This is not always captured by the database as it was not a required field of entry.
- 9) The email log for the specific border is accessed. In cases where the specific border is not captured, a review of all logs for all borders is required.
- 10) Sort the log by date

11) Scroll to a date close to the authentication date. Scrolling to the specific date of authentication is not always appropriate as authentication sheets may not have been sent on the actual day of authentication because:

- a. Replication problems with the UN master server
- b. Data entry delays as a result of local LN database not being up to date with information from UN master server
- c. Data entry delays as a result of poor database performance in speed limitations

In some instances, an email will not exist. This could be due to:

1. Early stages of project faxing was the UN's designated protocol for sending authentication sheets
2. Due to replication problems sometimes faxing was used instead of emailing

12) Identify all emails with attachments on and after the authentication date

13) Open each individual attachment and search for specified CommNo.

14) Review the description for the specified CommNo. To determine if it is the specific line item.

15) Ensure the quantity tallies up to the expected quantity detailed in line items of the contract. If the totals do not tally, then repeat the email review process starting at step 5.

Repeat Steps 4 through 15 for each individual line item within a specific CommNo.

Audit trail for one specific contract using a more appropriately designed system

- 1) User types in the CommNo. on an audit screen
- 2) User clicks a button to generate a report that shows:
 - a. The CommNo.
 - b. The related line items
 - c. The related shipment inspection forms
 - d. A summary of the authentication sheet (an image of the actual authentication sheet could also be produced)

Appendix B

RESPONSES TO 2003 OIOS AUDIT REPORT ON COTECNA

The 2003 internal audit report discusses 25 recommendations. Below, we have briefly summarized and addressed each recommendation.

Recommendation 1. Suggesting that procedures were not in place to verify Cotecna's attendance records, the audit report recommends that OIP independently verify them.

Response. The United Nations could already verify attendance records by comparing monthly invoices with UNOCHI visa entry records or by examining records in the Amman office. Whether the United Nations in fact did so Cotecna does not know. However, we know that UN-OIP-NYC directly and regularly checked, at random, the number of Cotecna inspectors on each site. Regular visits by OIP to all Cotecna sites typically occurred every six months and lasted two weeks.

Recommendation 2. Stating that staff strengths were lower than the contract stipulated, the audit report recommends that OIP and the Procurement Division amend the contract to include a penalty clause for understaffing.

Response. Early in the contract period, OIP agreed to certain understaffing, so long as Cotecna's invoices accurately reflected this fact, authentications did not suffer, and the understaffing was only temporary. The United Nations agreed to this temporary arrangement because of various factors including: the probationary status of inspectors hired from Lloyd's, delays in the granting of visas, illnesses, etc. Authentications did not suffer and Cotecna's invoices accordingly reflected any shortages. Staffing soon reached and even surpassed contract requirements at no additional cost to the United Nations.

Recommendation 3. Observing that the United Nations failed to realize a two percent discount on the contract price because Cotecna did not receive payment on its invoices within 15 days, the audit recommends that OIP management create internal controls to ensure timely payment.

Response. This recommendation does not raise any "concern over Cotecna's performance" and, in fact, the two percent discount was regularly applied later on.

Recommendation 4. Noting that UNOHCI provided Cotecna with a free-of-charge office in the Canal Hotel, Baghdad, and did not charge Cotecna for medical services, the audit report recommends that OIP quantify the value of these items and bill Cotecna accordingly.

Response. The United Nations did not charge Cotecna for its use of the office at the Canal Hotel because the Government of Iraq, in turn, had not charged the United Nations. Meanwhile, the bombing of the Canal Hotel and subsequent withdrawal of UNOHCI from Iraq prevented the United Nations from seeking reimbursement for medical costs. Given Cotecna's readiness to reimburse the United Nations for any proven costs, the fact that the United Nations

never sought such reimbursement, again, does not raise any “concern over Cotecna’s performance.” However, UNOHCI regularly charged Cotecna for monthly telecommunication costs from the Canal Hotel, and Cotecna did in fact reimburse the UN.

Recommendations 5-10. Six of the audit report’s recommendations arise from its conclusions that the OIP inadequately monitored Cotecna’s performance, and that Cotecna inadequately performed, with regard to “Inter-Agency Humanitarian Programme supplies [13 per cent account goods] in Northern Iraq.” The audit also proposes recovery of moneys from Cotecna for not providing the convoy control and passport collection services for the 13 per cent account goods arriving through Ibrahim Khalil, Zakho as well as whether UNOHCI should continue to provide convoy control services at Zakho at all. Finally, the audit recommends providing induction training for all new inspection agents.

Response. When Cotecna first inherited the contract from Lloyd’s in 1999, Cotecna found, as the OIOS audit report itself puts it, a “Lack of clarity in the Contract concerning the specific obligations of the Contractor in relation to the 13 per cent account goods” (p. 8). Indeed, authentication of 13 percent goods, unlike that for goods approved under the 59 percent account, was not a prerequisite for payment to the supplier. OIP in the end broadened and clarified Cotecna’s authentication responsibility to include 13 per cent goods. OIP did so not to control entry of such goods into Kurdish territory or to control payments to suppliers but to gather information and obtain reliable statistics. It is essential to understand that Cotecna due to its nature as a private sector UN contractor performed a limited “authentication” function. As such it had no enforcement duties or capabilities. Cotecna’s mandate did not authorize it to stop trucks or vessels but only to “authenticate” goods voluntarily presented. Cotecna therefore relied on suppliers to present goods and information. Discrepancies that the audit report tabulates between Cotecna and UN figures arose because some UN agencies and contractors who delivered 13 percent goods did not present their goods to Cotecna. Cotecna had no ability to force the UN agencies to comply with the requirement to present goods for “authentication” but rather relied on the cooperation of the UN agencies. To solve such problems and facilitate the matching of statistics, UNOHCI organized monthly meetings in Baghdad with Cotecna and all UN agencies. Cotecna did not request, and OIP did not pay, additional compensation for the extra work necessitated by Cotecna’s obligation to inspect 13 per cent goods.

As to the recovery of costs for convoy control and passport collection services for the 13 per cent account goods arriving, OIP, Cotecna and UNOHCI eventually agreed that UNOHCI could best provide the convoy of 13 per cent goods.

Dramatic changes in the program following the implementation of Resolutions 1472 and 1483 after the war prevented the United Nations and Cotecna from implementing the kind of induction package for new inspectors that the audit report recommends. Even so, Cotecna did at that time distribute the OIP’s guidelines concerning revised procedures to all staff and developed Standard Operating Procedures (“SOPs”) for the first time as Lloyd’s had none. Cotecna’s SOPs were approved by OIP before implementation. Additionally, new inspectors were given extensive on-the-job training and were closely supervised, never working alone during the training period.

Recommendations 11 and 12. Stating that the OIP inadequately monitored Cotecna's performance, and that Cotecna inadequately performed, with regard to the contract's "24-hour duty requirement" at Zakho and Trebil, the audit report recommends either ensuring 24-hour coverage at those sites or seeking to recover fees for reduced hours.

Response. At all sites, Cotecna's inspectors were available 24 hours a day, 7 days a week. With OIP approval, shifts in Zakho and Trebil corresponded to border opening and closing times when Iraqi officials were available to clear goods. Even when these borders were not open, however, the authentication work of Cotecna's inspectors continued—including data processing, archiving, faxing and otherwise communicating with OIP until at least midnight in Iraq to accommodate the time difference with New York.

Recommendations 13 and 14. Stating that the program lacked equipment adequate to ensure "independent" authentications, the audit report recommends making Cotecna obtain such equipment and making the United Nations in future statements of work specify required equipment more expressly.

Response. Both recommendations appear to misinterpret Cotecna's role under the contract and the equipment required to do so. The OIOS also confuses authentication and commercial inspection. Cotecna had all the necessary equipment to take samples of foodstuffs and to inspect other shipments. An example of the audit report's confusion is its claim that Cotecna was responsible for "the unloading and reloading of containers" (p. 11). Cotecna's contract does not state this as being Cotecna's duty in its capacity as independent inspection (authentication) agent.

Recommendations 15 and 16. Noting that the UN's RFP had not disclosed the Government of Iraq's providing certain facilities free of charge (with such disclosure possibly reducing contract bids), the audit report recommends negotiating a contract reduction with Cotecna and providing such free-facility information in future RFPs.

Response. It is worth noting that the RFP did not provide specifications relating to the precise infrastructure available to the bidder. Further, when Cotecna took over from Lloyd's, the sites and cabins were not in good living condition. Cotecna therefore purchased equipment and materials from Lloyd's, invested in new cabins and continued to make capital improvements in the facilities throughout the duration of its contracts. Basic research by those who submitted proposals responding to the UN's 1998 RFP revealed that Iraq provided offices to Lloyd's free of charge. At the same time, OIP could not ensure that Iraq would continue to provide the offices for free. These circumstances diminish the audit report's assertion that the sites were "free" and the implication that Cotecna received a windfall.

Recommendation 17. For efficiency's sake, the audit report recommends moving Cotecna's Contract Manager from Amman to Baghdad, where he could share an office with the Liaison Officer and communicate more directly with the UNOHCI.

Response. As the audit report itself acknowledges, the contract does not require a Contract Manager, a position that Cotecna initiated on its own, absorbing the associated

additional costs. Also, the Contract Manager's attendance at monthly UNOHCI meetings in Baghdad satisfied the audit report's concerns. Furthermore, moving the Contract Manager to Baghdad was not acceptable to UN-OIP for security and confidentiality reasons.

Recommendations 18 and 19. Recognizing that increased flexibility would improve the contract's efficiency, the audit report recommends drafting new contract provisions that would enable staffing and remuneration to correlate more closely with the varying volumes of cargo presented for authentication at each site.

Response. Indeed, Cotecna itself sought more flexibility in transferring inspectors between the sites because not all sites were equally busy all the time. When Cotecna first inherited the program from Lloyd's, Cotecna sought to avoid such overstaffing and understaffing. For whatever reason, OIP did not give Cotecna the flexibility to move inspectors around. Moreover, the political situation in Iraq did not make movement between sites an easy matter, and it would take some three days to commute between the sites.

More generally, Cotecna would have appreciated written variations to the contract as it changed and written definitions of new and/or amended concepts to provide clarity to the scope of work—e.g., definitions of "Fit for Human Consumption" and "Authentication." Cotecna's requests for such, however, were not welcome.

Recommendation 20. Alleging that Cotecna's hiring of inspectors through Romcontrol (a Romanian provider of personnel) and its request that Iraq put Cotecna on its accreditation list constituted "unprofessional conduct" violating the contract's prohibitions against subcontracting and potential conflicts of interest, the audit report recommends a formal reprimand.

Response. Cotecna sought and obtained OIP's prior written approval and clearance for every individual inspector that it hired through Romcontrol and went on to employ directly. In this sense, "subcontracting" describes only the channel through which these inspectors were paid, not the manner of their appointment nor their employment. In fact, even Cotecna's proposal responding to the 1998 RFP includes the CVs of one Romcontrol chemist and seven Romcontrol inspectors.

As to the potential conflict of interest in simultaneously serving as independent inspection agents and possibly offering commercial inspection services, admittedly, the request that Iraq put Cotecna on its accreditation list was an error, arising from a misunderstanding by Cotecna's commercial division about the company's OFFP contract. Cotecna's Senior Vice President steadfastly reminded employees about the prohibition. The error in this case was immediately rectified, and the person involved was dismissed.

Recommendations 21-23. Expressing dissatisfaction that the United Nations and Cotecna amended their contract before Cotecna began to perform, the audit report recommends that the United Nations ensure that future contract provisions allowing amendment not contradict contract provisions making stated prices all-inclusive, that the United Nations craft future RFPs such that they more accurately identified all requirements in advance, and that it recover from

Cotecna a \$95,000 payment for certain equipment's residual value, pursuant to the first contract amendment.

Response. With regard to Recommendation 23, and pursuant to Amendment 1, Cotecna reimbursed \$95,000 to the United Nations in May 2003, thereby enabling Cotecna to retain ownership of the relevant equipment at the end of the program. Meanwhile, as with so many other items that the audit report identifies, Recommendations 21 and 22 raise no "concern over Cotecna's performance." Rather, they instruct the United Nations to draft its contracts and RFPs differently. The context for these recommendations is as follows. The 1998 UN RFP was not a detailed document and, for example, did not impose on bidders any information technology replication scheme or specific telecommunications obligations. Cotecna therefore based its original 1998 bid (\$499 per inspector per day) on Cotecna's own proposed IT systems and telecommunication facilities. In December 1998, however, the United Nations revealed, for the first time, a specific requirement for the contractor to use Lotus Notes instead of existing communications systems. Because Lotus Notes would involve large, previously unforeseen capital expenditures and telecommunication costs associated with the replication of the Lotus Notes system—never mentioned in the 1998 Request for Proposals—, Cotecna and the UN's Procurement Department on 24 Dec. 1998 agreed that the UN would have to pay Cotecna additional compensation to address the Lotus Notes issue. This agreement became Amendment 1, which Cotecna signed on 29 Mar. 1999, and the UN Procurement Division on 21 Apr. 1999.

Cotecna would have welcomed a more detailed RFP. The program had been in operation for two years with Lloyd's as the contractor, so it is especially surprising in retrospect that the UN did not provide a more detailed and comprehensive specification as regards its information technology and communications requirements, physical infrastructure (existing and required) as well as SOPs.

Recommendations 24-25. Two recommendations call "inappropriate" a "price increase [from \$499 to \$600 per inspector per day, effective 1 February 2000] on account of accommodation, communications and fee for retention of agents."

Response. Cotecna documented its costs for the rehabilitation of camps, inflation, telecommunications, employment of inspectors with special qualifications (such as electrical engineering), etc. As stated in the report itself, OIP was therefore satisfied that Cotecna's costs had actually increased. The audit report objected not to the payment but to the merging of such increased costs with the per-man-day fee structure. This merging of expenses risked overpayment if the \$600 fee per inspector day continued longer than necessary to reimburse Cotecna's investment. Cotecna's per man day fee dropped back down from \$600 to \$520 in 2001, however, eliminating the problem that the audit report anticipated. In any case, the United Nations, not Cotecna, bears responsibility for the choice to merge the increased costs with the per-man-day fee structure. In this context, it should be noted that the complexity of the program and the volume and value of goods authenticated between 1999 and 2002 increased dramatically, necessitating also an increase in the number of inspectors from 54 in February 1999 to 67 in November 2002.