



INTERNAL AUDIT DIVISION

AUDIT REPORT

Warehouse operations in UNMIL

Internal controls over warehouse activities needed improvement. Annual physical inventories were not done and discrepancies found during periodic stock counts were not followed up and adjusted accordingly in the records

16 February 2011
Assignment No. AP2010/626/04

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

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

TO: Ms. Ellen Margrethe Løj
A: Special Representative of the Secretary-General
United Nations Mission in Liberia

DATE: 16 February 2011

REFERENCE: IAD: 11- 00173

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



SUBJECT: **Assignment No. AP2010/626/04 - Audit of warehouse operations in UNMIL**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendation 3) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Hubert Price, Director of Mission Support, UNMIL
Mr. Kofi Johnson, Chief, Integrated Support Services, UNMIL
Mr. Mark Weston, Audit Focal Point, UNMIL
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
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INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of warehouse operations in UNMIL

The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse operations in the United Nations Mission in Liberia (UNMIL). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over warehouse operations. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Internal controls over warehousing operations needed to improve. The main audit results were as follows:

- A security assessment had not been done for the Mission's warehouses, precluding it from identifying potential security breaches and subsequently implementing mitigating measures to safeguard stock against loss through theft.
- The controls over inventory management were weak; annual inventory counts were not conducted, adjustments to inventory records after discrepancies were found during stock counts were not systematically made, and there was inadequate monitoring of stock levels and stock movements.

OIOS has made five recommendations to address the weaknesses identified in the audit and to improve the management of warehouse operations.

TABLE OF CONTENTS

| Chapter | Paragraphs |
|---|------------|
| I. INTRODUCTION | 1-5 |
| II. AUDIT OBJECTIVES | 6 |
| III. AUDIT SCOPE AND METHODOLOGY | 7-8 |
| IV. AUDIT RESULTS | |
| A. Management of warehouses | 9-17 |
| B. Inventory management | 18-32 |
| ACKNOWLEDGEMENT | 33 |
| ANNEX 1 – Status of Audit Recommendations | |

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse operations in the United Nations Mission in Liberia (UNMIL). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The UNMIL Integrated Support Services (ISS) is responsible for the efficient, uninterrupted supply of goods and services to the Mission. This is done through an asset management system that aims to ensure that vehicles, generators, supplies, construction materials, spare parts, computer equipments etc, are always available to support the Mission's operational activities. Self-accounting units (SAUs) are responsible for managing their respective warehouses with the exception of the engineering warehouse, which is managed by the Materials Management Unit (MMU) of the Supply Section (SS).
3. The Galileo Inventory Management System (Galileo) is the primary system for recording and managing inventory. As of 22 November 2010, there were 21,798 expendable items valued at \$33 million in the four warehouses covered by the audit. The breakdown of the expendable inventory is shown in Table 1.

Table 1: Inventory at selected warehouses

| SAU Warehouses | Line Items | Qty. in stock (total units) | Total value \$ |
|--|------------|-----------------------------|----------------|
| Communication and Information, Technology (CITS) | 672 | 89,656 | 3,864,582 |
| Engineering | 5,111 | 1,055,548 | 11,358,301 |
| Supply | 1,382 | 6,123,548 | 9,337,573 |
| Transport | 14,633 | 402,484 | 8,614,646 |
| Total | 21,798 | 7,671,237 | 33,175,102 |

4. Warehouse operations in UNMIL are governed by the Department of Field Support (DFS) Guidelines on Warehousing Operations (the Guidelines), and complemented by Mission-specific Standard Operating Procedures (SOPs).
5. Comments made by UNMIL are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over warehouse operations in UNMIL.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered warehouse operations during the period 1 July 2008 to 30 November 2010. Items in the warehouses were categorized as expendable and non-expendable items and the audit focused on expendable items in the following selected warehouses: (a) Supply; (b) CITS; (c) Transport; and (d)
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Engineering. The audit did not cover items in the fuel or rations warehouses as these will be the focus of separate audits.

8. The audit methodology included inspections of warehouse premises, interviews with key staff, review of relevant warehouse records and documents, and inventory test counts.

IV. AUDIT RESULTS

A. Management of warehouses

Standardization of warehouse procedures

9. To streamline and achieve uniformity of warehouse operations, UNMIL was standardizing its warehouse procedures. This was important as the audit identified some inconsistencies in the procedures adopted by staff in warehouses. This included the use of bin cards at some locations but not at others, and the process of conducting physical verification of stock.

Absence of formal warehouse security reviews

10. Paragraph 6.2 of the Guidelines stipulates that a full security plan be setup in conjunction with the Security Section of the Mission. No security assessment of warehouses was conducted, and security measures were normally only taken in response to specific incidences at warehouses. These measures included for example, the removal of security guards when they were suspected of colluding in stealing items, and the sealing of exits/entrances to reduce incidents of theft.

11. A formal review or assessment will identify possible security breaches and required controls.

Recommendation 1

(1) The UNMIL Management should conduct formal security reviews of the Mission's warehouses to identify potential security threats and strengthen controls over the warehouses to ensure access is restricted only to authorized personnel as appropriate.

12. *The UNMIL Management accepted recommendation 1 and stated that it was conducting security assessments of all warehouses in Monrovia with the view to improving security arrangements based on the recommendations from the exercise.* Recommendation 1 remains open pending confirmation that a security assessment has been done for warehouses, and evidence that access to stock in warehouses is restricted to authorized personnel.

Absence of performance indicators for warehouse operations

13. Section 7 of the Guidelines specifies five areas of performance measurement for warehouses, including inventory accuracy, productivity, storage space utilization, customer service and health and safety. Each mission is required to use these standards to assess the performance of its warehouse management.

14. Contrary to the Guidelines, the Mission had not established performance measures. Also, warehouses staff were not gathering the relevant information to evaluate their performance as they had not been specifically directed to do so by the Mission's Management.

15. The absence of performance measures and goals along with mechanisms to monitor their achievement makes it difficult for Management to objectively assess whether a warehouse is effectively and efficiently managing its operations.

Recommendation 2

(2) The UNMIL Management should establish clear performance targets and implement procedures to ensure that appropriate data is collected in order to monitor the achievement of those targets.

16. *The UNMIL Management accepted recommendation 2 and stated that it will establish key performance indicators including a monitoring system for all warehouses.* Recommendation 2 remains open pending the receipt of performance indicators and the description of processes for gathering data to be used in monitoring achievement against established targets.

Unsatisfactory operating conditions in the warehouses

17. OIOS' review of the general conditions of the warehouses noted that there was inadequate lighting, poor ventilation, poor/corroded roofs resulting in leaks, inadequate exits, and blocked aisles not allowing easy access to inventory for monitoring purposes. Management informed OIOS that it was preparing a plan to address the poor conditions of the warehouses by the end of 2011.

B. Inventory management

Lack of adequate procedures over inventory management

18. Galileo is used to maintain warehouse inventory records relating to, among other things, the receipt and movement of stock and stock balances.

19. OIOS established that the Galileo records were incomplete and the data recorded therein were inaccurate. This was due to weak internal controls and non-compliance with the Guidelines and the Mission-specific SOPs, as follows:

- From 1 July 2008 to 30 November 2010, UNMIL did not conduct a complete physical verification of its stock. Also, discrepancies between the results of physical stock count and asset records were not followed up and investigated, and stock records were not adjusted accordingly.
- No formal instructions were given to individuals responsible for counting stock; therefore, different procedures were followed, which was ineffective and did not assure that good practices were followed. For example, there were instances where warehouse staff were counting stock that they were responsible for managing.

Results of OIOS’ counts

20. OIOS sample test counts identified a number of differences between the physical inventory and the Galileo records as follows:

Table 2: Inventory sample count

| | Engineering | Supply | Transport | CITS | |
|-------------------------------|-------------|--------|-----------|------|-----|
| | | | | COMS | EDP |
| Total line items counted | 24 | 27 | 32 | 20 | 30 |
| Line items with discrepancies | 6 | 10 | 18 | 3 | 5 |
| Percentage with discrepancy | 25% | 37% | 56% | 15% | 17% |

21. There were also discrepancies between the locations recorded in Galileo and the actual physical location of the sampled items. Moreover, items for disposal were not adequately segregated from those intended for use in the Supply warehouse.

22. The United Nations Board of Auditors (the Board), in its recent Management Letter for the year 2009/2010, also reported that stock from CITS, Engineering, Supply and Transport totalling \$13.6 million had not been physically verified during the period. UNMIL agreed with the Board to perform annual stock verifications at all warehouses to ensure the proper recording and safeguarding of stock, as well as strengthen the management and control of expendable property to ensure complete and accurate records are maintained. Considering the proposed action by UNMIL, OIOS does not make a specific recommendation.

Inadequate monitoring of the use of Inventory Cycle Vouchers to adjust stock differences

23. From 1 January 2010 until the end of the audit, Inventory Cycle Vouchers (ICVs), which are used to adjust discrepancies between the results of physical verification and entries in Galileo, were processed for assets valued at about \$2 million in the four warehouses covered by the audit.

24. The Guidelines state that a warehouse manager is authorized to write off (without investigating) any discrepancy under \$250 or one that is two per cent or

less of the stock line quantity. Any difference that is above this threshold needs to be reported to the concerned section chief, investigated, and an appropriate adjustment made to the inventory records. These procedures were not followed as indicated below:

- In the CITS and Supply warehouses, ICVs were not issued for differences between physical counts and Galileo records. Also, missing items were not followed up and investigated.
- In the Transport warehouse, although ICVs were issued, there was no evidence that differences were investigated.
- In all warehouses, for all adjustments made in Galileo for the identified discrepancies, the related ICVs were authorized by the warehouse manager or another warehouse staff member. No ICV was given to a section chief for approval and investigation.

Recommendation 3

(3) The UNMIL Management should strengthen internal controls over the adjustment of stock records to ensure that all differences between the results of physical counts and the Galileo records are investigated and the inventory records updated accordingly.

25. *The UNMIL Management accepted recommendation 3 and stated that a system had been put in place where all discrepancies found during annual cycle counts are reported to the respective section chiefs and, where appropriate, to the Chief of Security for investigation. Records will be subsequently corrected. Recommendation 3 remains open pending the receipt of evidence indicating that procedures have been put in place to report and investigate discrepancies between the results of physical counts and the entries in Galileo.*

Inadequate monitoring of stock levels

26. The Guidelines specify that stock should be at an optimal level. UNMIL did not fully comply with this requirement, and there was no procedure in place to regularly monitor stock levels. The Board also identified this as an area where internal controls needed to be strengthened. UNMIL agreed with the Board to monitor minimum and maximum stock levels to ensure they are maintained at an optimal level. In addition, OIOS noted that there were no management reports generated from Galileo to monitor slow-moving or obsolete stock.

27. OIOS extracted reports from Galileo for each of the warehouses and noted the following, as outlined in Table 3 below:

Table 3: Stock level monitoring in percentage

| Condition | Engineering | Supply | Transport | CITS | |
|---|-------------|--------|-----------|------|-----|
| | | | | COMS | EDP |
| Percentage of items with Min/Max stock levels not defined | 0.13 | 2 | 20 | 0.75 | 2 |
| Percentage of zero stock balance with min / max defined | 5 | 11 | 13 | 0.75 | - |
| Percentage of items with no movement in last 12 months or no issue stock voucher issued | 59 | 39 | 83 | 58 | 55 |
| Percentage of items below minimum stock level | 38 | 59 | 18 | 21 | 25 |
| Percentage of items above maximum stock | 24 | 17 | 29 | 10 | 10 |

28. Properly implemented warehouse inventory monitoring procedures should ensure that stock is available when needed and that obsolete and slow moving items are identified and the necessary action taken to deploy/dispose of them in a timely manner.

Recommendation 4

(4) The UNMIL Management should ensure that procedures are implemented to regularly monitor stock balances and stock movements so that: (a) stock is available when needed; and (b) excess, slow-moving and obsolete stock is identified and dealt with in a timely manner.

29. *The UNMIL Management accepted recommendation 4 and stated that procedures to identify and deal with various categories of inventory are being implemented.* Recommendation 4 remains open pending confirmation of the procedures implemented to better monitor stock levels in warehouses.

Inadequate controls over the issuance of items from the warehouses

30. Established internal controls over the issuance of stock from warehouses were not consistently complied with. The Engineering and Supply warehouses staff prepared issue vouchers for the dispatch of goods, but these were not approved by a supervisor or independent person. Moreover, the issue vouchers were not stamped to indicate that the items were counted and inspected prior to release from the warehouse. The following was noted:

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- Of the 10 vouchers obtained from the Transport warehouse, only eight could be located. From these eight vouchers, only five were approved.
 - Of the 10 vouchers obtained from the Supply warehouse, only four could be located. From these four vouchers, only two were approved.
 - Of the 10 vouchers reviewed in the Engineering warehouse, while these were approved, only six of them were stamped evidencing that the items dispatched had been counted and inspected prior to release from the warehouse.
 - Of the 20 vouchers reviewed in the CITS warehouse, four had no supporting e-Requests or other documentation.

31. Inadequate control over the issuance of items from the warehouse could result in financial loss.

Recommendation 5

(5) The UNMIL Management should strengthen internal controls over the issuance of items from warehouses by ensuring that: (a) issue vouchers in respect of all items dispatched are approved by a warehouse supervisor or independent person; and (b) the vouchers are stamped to evidence that the goods issued from the warehouse have been counted and inspected.

32. *The UNMIL Management accepted recommendation 5 and stated that the use of manual stamps on Galileo vouchers has been discontinued and Management is exploring the possibility of getting an E-Gate pass system to integrate with the Galileo Issue Voucher as a control for the release of items from the warehouses. In the interim, Galileo reports are used as the final documents for issuing materials. Recommendation 5 remains open pending the receipt of evidence indicating that an appropriate system has been implemented for issuing items from the warehouse.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

| Recom. no. | Recommendation | Risk category | Risk rating | C/O ¹ | Actions needed to close recommendation | Implementation date ² |
|------------|---|---------------|-------------|------------------|--|----------------------------------|
| 1 | The UNMIL Management should conduct formal security reviews of the Mission's warehouses to identify potential security threats and strengthen controls over the warehouses to ensure access is restricted only to authorized personnel as appropriate. | Operational | Medium | O | Pending confirmation that a security assessment has been done for warehouses, and evidence that access to stock in warehouses is restricted to authorized personnel. | June 2012 |
| 2 | The UNMIL Management should establish clear performance targets and implement procedures to ensure that appropriate data is collected in order to monitor the achievement of those targets. | Governance | Medium | O | Pending the receipt of the performance indicators and the description of processes for gathering data to be used in monitoring achievement against established targets. | May 2011 |
| 3 | The UNMIL Management should strengthen internal controls over the adjustment of stock records to ensure that all differences between the results of physical counts and the Galileo records are investigated and the inventory records updated accordingly. | Operational | High | O | Pending the receipt of evidence indicating that the procedures have been put in place to report and investigate discrepancies between the results of physical counts and the entries in Galileo. | Not provided |
| 4 | The UNMIL Management should ensure that procedures are implemented to regularly monitor stock balances and stock movements so that: (a) stock is available when needed; and (b) excess, slow-moving and obsolete stock is identified and dealt with in a timely manner. | Operational | Medium | O | Pending confirmation of the procedures implemented to better monitor stock levels in warehouses. | February 2011 |
| 5 | The UNMIL Management should strengthen internal controls over the issuance of items from warehouses by ensuring that: (a) issue vouchers in respect of all items dispatched are approved by a warehouse supervisor or independent | Operational | Medium | O | Receipt of evidence indicating that an appropriate system has been implemented for issuing items from the warehouse. | December 2011 |

| Recom. no. | Recommendation | Risk category | Risk rating | C/O ¹ | Actions needed to close recommendation | Implementation date ² |
|------------|--|---------------|-------------|------------------|--|----------------------------------|
| | person; and (b) the vouchers are stamped to evidence that the goods issued from the warehouse have been counted and inspected. | | | | | |

1. C = closed, O = open

2. Date provided by UNMIL in response to recommendations.

