



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Inventory management in UNMIS

Non-expendable and expendable properties were not adequately monitored, controlled and safeguarded

16 March 2011

Assignment No. AP2010/632/11

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: Mr. Haile Menkerios
A: Special Representative of the Secretary-General
United Nations Mission in Sudan

DATE: 16 March 2011

REFERENCE IAD: 11- **00287**

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

Fatoumata

SUBJECT: **Assignment No. AP2010/632/11 - Audit of inventory management in UNMIS**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the remaining 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 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Nicolas Von Ruben, Director of Mission Support, UNMIS
Ms. Anne Marie van den Berg, Chief Integrated Support Services, UNMIS
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
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Ms. Eleanor T. Burns, Chief, Peacekeeping Audit Service, OIOS
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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 inventory management in UNMIS

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

Non-expendable and expendable properties were not adequately monitored, controlled and safeguarded. The main audit results were:

- There was no evidence that the transferred of over 293 sea containers of non-expendable and expendable properties to Juba was properly planned and that adequate procedures were in place to account for the contents of the shipments. On arrival in Juba, the containers were haphazardly stored inhibiting easy access to them. Also, 10 of the containers belonging to the Engineering Section were found open and placed in a flooded and bushy area exposing their contents to adverse weather conditions and theft.
- Self-accounting units did not conduct the required full annual physical inventory to ascertain the existence and condition of items in warehouses. As a result there were significant discrepancies between physical inventory and the Mission's records.
- The Communication and Information Technology Section (CITS) submitted four incident reports between September 2009 and April 2010 to the Special Investigation Unit for investigation into 1,051 missing non-expendable items valued at \$2.16 million. At the time of the audit, action was still required to account for 305 CITS items valued at about \$904,000.
- There were delays in reporting and investigating theft or loss of assets increasing the risk of financial loss to the Organization.

OIOS made 10 recommendations to address the issues identified during the audit and to improve inventory management in UNMIS.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of inventory management in the United Nations Mission in Sudan (UNMIS). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. Self-accounting units (SAUs) including the Engineering, Communication and Information Technology (CITS), Transport and Supply Sections are required to ensure that inventories are properly recorded and controlled. The Property Management Section (PMS) monitors and reports on assets in the Mission and advises the Chief Integrated Support Services (CISS) and the SAUs on the management of properties. The PMS is comprised of the Property Control and Inventory Unit (PCIU), Property Disposal Unit (PDU) and Support Unit. The PCIU oversees property management by the SAUs and ensures proper accounting and recordkeeping.
3. The Local Property Survey Board (LPSB) is responsible for the review of cases of write-off to determine whether such write-off was due to normal wear and tear or to other circumstances. The Headquarters Property Survey Board (HPSB) reviews cases not within the delegated authority of the Mission and recommends disposal of the related assets.
4. As of 1 September 2010, there were 41,790 items of non-expendable property in use and 16,890 items in stock. The aggregate value of these items was \$293.4 million. The value of expendable property was \$91.38 million.
5. Comments made by UNMIS are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of the internal controls over inventory management in the Mission.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered the management of non-expendable and expendable property during the period from 1 January 2009 to 31 October 2010. The audit included a review of: (a) inventory recording and monitoring; (b) warehousing; and (c) disposal of property. The audit did not cover medical stores and medical equipment which were audited by OIOS in 2010 (AP2010/632/01).
 8. The audit methodology included: (a) review of relevant records and documents and analysis of applicable data; (b) interviews with key Mission personnel; (c) verification of the integrity of inventory data recorded in the Galileo database; and (d) physical verification of selected items in the El Obeid, Juba and Khartoum warehouses.
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IV. AUDIT RESULTS

A. Warehousing and physical verification of inventory

Relocation of warehouse operations

9. In January 2010, to reduce the scale of operations in North Sudan, four SAUs, namely the Engineering, CITS, Supply and Transport Sections began moving their inventories from the El Obeid logistics base to Juba. The Mission Management informed OIOS that meetings had been held and a plan of action was developed for the relocation. However, the results of the meetings were not documented and there was no written plan for the relocation. Therefore, no assurance could be provided that the relocation of non-expendable and expendable properties was adequately planned to account for and properly safeguard these assets during their transfer and on arrival in Juba.

10. At the time of the audit, the Mission had transferred over 293 sea containers to Juba. These containers were haphazardly stored in a busy area behind the transport workshop, inhibiting easy access to them. In addition, 10 of the containers belonging to the Engineering Section were open and placed in a flooded and bushy area exposing their contents to adverse weather conditions and theft. The Officer-in-Charge, CISS, stated that there were plans to build a concrete yard in order to store the containers.

Recommendation 1

(1) The UNMIS Office of Mission Support should ensure that any further transfer of properties to Juba is adequately planned and that transferred properties are properly stored to safeguard them against theft and extreme weather conditions.

11. *The UNMIS Office of Mission Support accepted recommendation 1 and stated that the construction of a log base in Juba was in-progress and part of it already completed. Suitable areas have been identified for containers. In the meantime, existing containers have been relocated to a suitable area and are safeguarded against theft and exposure to extreme weather conditions. Recommendation 1 remains open pending confirmation that future transfers of assets are properly planned, documented and monitored, as well as verification that a secured logistics base has been constructed to adequately safeguard properties.*

Storage of assets

12. The DFS Guidelines on Warehousing Operations for Field Missions (the Guidelines) state that efficient and effective inventory management requires location accuracy and good inventory procedures. To facilitate location accuracy, the Assets Database Bin Location Management module in the Galileo Inventory Management System should be used.

13. OIOS visited and inspected nine of the 21 warehouses located in El Obeid and Juba and 175 of the 502 containers located in El Obeid, Juba and Khartoum. These warehouses and containers belonged to the Transport, Engineering, Supply and CITS Sections.

14. The items in warehouses and containers of the Engineering, Supply and CITS Sections were not appropriately placed in racks or shelves. Bin locations were recorded in Galileo with respect to the warehouses visited. However, the inventories were not clearly demarcated. Furthermore, the physical quantities of items available in the bins did not match the quantities reported in Galileo. The SAUs concerned stated that they were unable to ensure location accuracy of inventory due to inadequate planning for periodic stocktaking, lack of sufficient racks / shelves and trained staff.

15. Inaccurate information regarding location of assets resulted in difficulties in identifying and retrieving items from the warehouses, and therefore increased the risk of unnecessary high levels of inventory.

Recommendation 2

(2) The UNMIS Office of Mission Support should ensure that inventory in warehouses are properly organized and the Galileo System is used to record the location of assets so that they can be easily retrieved when needed.

16. *The UNMIS Office of Mission Support accepted recommendation 2 and stated that the establishment of proper two-level bin locations has already started at sector warehouses while the establishment of bin locations in the main Supply Warehouse and Distribution Center in Juba was pending the delivery of the new pallet racking system and wooden pallets.* Recommendation 2 remains open pending confirmation that inventory in warehouses have been properly organized and the records in Galileo have been up-dated to denote the actual location of property.

Physical verification of inventory

17. The Guidelines require warehouse management to conduct 100 per cent physical checks at least once in a year.

18. From 1 January 2009 to 30 June 2010, SAUs did not conduct the required physical inventory of non-expendable and expendable items in any of the nine warehouses visited by OIOS. As a result discrepancies between the actual quantities of stock and the quantities reported in the inventory records were not detected to ensure corrective action was taken in a timely manner. OIOS' inventory test checks identified the following:

- Fifty-two of the 108 (48 per cent) sampled items selected in Juba, 54 of the 218 (25 per cent) sampled items in El Obeid and 29 of the 188 (15 per cent) sampled items in Khartoum could not be found.

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- OIOS' physical count of items did not agree with inventory balances reported in Galileo. There was an average of 26 per cent discrepancy rate for non-expendables and an average of 16 per cent discrepancy rate for expendable items.

Recommendation 3

(3) The UNMIS Office of Mission Support should ensure that periodic physical inventories are conducted by the self-accounting units in compliance with the Guidelines on Warehousing Operations for Field Missions.

19. *The UNMIS Office of Mission Support accepted recommendation 3 and stated that the PCIU has completed 86 per cent physical verification of non-expendable property as of 18 February 2011 and is expected to achieve the 100 per cent target by 30 June 2011. Recommendation 3 remains open pending confirmation that a 100 per cent physical inventory has been done and Galileo up-dated accordingly.*

Reconciliation of missing CITS assets

20. The Guidelines provide that the result of physical inspections should be reconciled with the relevant records, and that Galileo is updated within 30 days.

21. The Mission could not account for 1,051 non-expendable CITS items valued at \$2.16 million. The CITS submitted four incident reports to the Special Investigation Unit (SIU) from 1 September 2009 to 30 April 2010 on these missing items. The CITS subsequently found 91 items valued at \$270,385 and another 190 items were investigated and reported to the DMS, who approved write-off action. The PCIU stated that 465 items valued at \$403,007 were identified as in UNMIS' operations in Darfur, and that UNMIS and the United Nations-African Union Mission in Darfur (UNAMID) were working together to reconcile these assets. However, the balance of 305 missing CITS items valued at \$903,939 had not been investigated to establish accountability.

22. The PCIU stated that it was partly responsible for the disparity in the inventory records of the CITS as it had not been sending monthly reports in the last financial year to the SAUs to update their records.

Recommendation 4

(4) The UNMIS Office of Mission Support should ensure that missing items are investigated by the Special Investigation Unit and based on the results appropriate action is taken to address accountability.

23. *The UNMIS Office of Mission Support accepted recommendation 4 and stated that UNMIS has a vigorous monitoring system in place for missing items. For example, bi-weekly reports are sent to the SAUs for follow-up and corrective action. By 30 June 2011, all missing items will either be located and Galileo*

database updated accordingly or investigations will be initiated. The final write-offs must be completed within 360 days, which includes the necessary time for investigation, claims and write-off action. OIOS takes note that steps have been taken to strengthen internal controls over missing assets. Recommendation 4 remains open pending receipt of a copy of the results of the investigation into the missing CITS items valued at \$903,939.

Sea containers

24. The Container Management Unit of the Supply Section had not tracked and maintained adequate records of container movements. This was due to a lack of coordination between the Movement Control Section (MovCon) and SAUs. As a result, the whereabouts of 400 of the Mission's 1,400 containers were not known.

Recommendation 5

(5) The UNMIS Office of Mission Support should locate the missing 400 containers, and ensure that an adequate system to track and control the movement of containers is implemented.

25. The UNMIS Office of Mission Support accepted recommendation 5 and stated that the Supply Section has already established accountability for 200 of the containers. Additionally, all verified containers used for storage are being issued to custodians while those used for shipments are being allocated to MovCon. The Supply Section has also introduced a control for newly arrived containers where end users are identified at the early stage of the receiving and inspection process. Recommendation 5 remains open pending OIOS verification of the measures put in place to track and control the movement of containers.

Training

26. The Guidelines provide that the scope and sophistication of warehousing responsibilities demands that the Mission's warehouses are sufficiently and appropriately staffed with competent and experienced personnel. However, 14 out of 22 warehouse staff interviewed by OIOS had not been trained in warehouse operations, impacting on the effectiveness of inventory management controls.

Recommendation 6

(6) The UNMIS Office of Mission Support should provide training for all warehouse staff to improve their skills in warehouse operations.

27. The UNMIS Office of Mission Support accepted recommendation 6 and stated that the PCIU had been assigned the task of training warehouse staff in the performance of their duties. Warehouse training will be completed by the end of July 2011. Team site visits are pending approval of the PCIU's budget as current funding levels are insufficient. A two-day training in the use of Galileo

was conducted by the PCIU staff for the Supply Section's warehouse staff from Juba and the sectors in mid-January 2011. Recommendation 6 remains open pending confirmation that training has been provided to warehouse staff to improve their skills in warehouse operations.

B. Loss of assets

28. During the period 1 January 2009 to 31 October 2010, the SAUs generated 15,882 cargo movement requests (CMRs) to ship cargo within the Mission. Ten of the 38 (26 per cent) CMRs reviewed showed discrepancies relating to items that had either been lost or damaged in transit. Six of the 10 CMRs had discrepancies that were attributed to damages in transit. The remaining four pertained to 112 items valued at \$58,874 that had been lost in transit from Entebbe to El Obeid and Khartoum between 1 August 2009 and 30 September 2010. All four cases were under investigation by the SIU.

29. The loss of assets during shipment was attributed to the following lax controls: (a) pilfer-proof packing such as shrink wrapping was not used to protect cargo shipment; and (b) except for dangerous and hazardous goods, the current procedures do not require MovCon's inspection of the contents of packages. OIOS also observed weaknesses in physical security measures, such as the lack of closed circuit television cameras in MovCon warehouses in Khartoum.

Recommendation 7

(7) The UNMIS Office of Mission Support should review the procedures for packing and shipping cargo within the Mission and take appropriate steps to safeguard cargo during shipment.

30. *The UNMIS Office of Mission Support accepted recommendation 7 and stated that the procedures for packing and shipping cargo within the Mission will be reviewed and responsibilities defined for SAUs and MovCon. This will ensure that appropriate steps are in place to safeguard cargo during shipment.* Recommendation 7 remains open pending a copy of the procedures established for packing and shipping cargo within the Mission and the delineation of responsibilities for packing and shipping cargo.

Freight database

31. MovCon had a freight database that could be used by the SAUs to track their shipments. However, some SAUs were not aware of the system and therefore did not use it. Other SAUs, including the CITS, that had access to the database expressed concerns over its reliability and hence its usefulness. OIOS also established that the database did not capture information on goods that had been damaged or lost in transit.

Recommendations 8 and 9

The UNMIS Office of Mission Support should:

- (8) Ensure that all self-accounting units are trained in using the freight database to track their respective cargo; and**
- (9) Review the database for tracking freight with the view to improving and making it more useful for the self-accounting units to monitor their shipments**

32. *The UNMIS Office of Mission Support accepted recommendation 8 and stated that all SAUs will be trained in the use of the UNMIS freight database to track their respective cargo.* Recommendation 8 remains open pending receipt of evidence of training given to SAUs on the use of the freight database.

33. *The UNMIS Office of Mission Support accepted recommendation 9 and stated that the freight database will be reviewed for tracking freight, with the view to capturing more data for use by SAUs.* Recommendation 9 remains open pending confirmation that improvements have been made to the freight database so that it captures more useful information for SAUs.

C. Write-off actions

34. The Guidelines provide that write-off actions should be initiated through the LPSB, which is responsible for ensuring that any loss, deficiency, surplus, or other irregularity is investigated and reported. The DMS wrote-off 3,170 items valued at \$2.75 million from 1 January to 30 September 2010. Of these, 3,008 items valued at \$2.61 million related to CITS assets.

35. OIOS' review of 54 (36 per cent) out of 150 write-off cases comprising of 1,437 items valued at \$1.25 million revealed delays in reporting and investigating thefts and losses as follows:

- Out of the 54 reviewed write-off cases, 28 related to theft/loss that were investigated by the SIU as required. In 18 of the 28 (64 per cent) cases, staff members delayed providing incident reports to the SIU for investigation. The delays ranged from 38 to 466 days.
- Only six of the 54 write-off cases reviewed were concluded within the stipulated four days and 21 cases were delayed for periods ranging from 125 to 500 days. SIU attributed the delays to the backlog of cases, inadequate staffing and difficulties in getting witnesses.

36. Delays in reporting and investigating losses and theft cases may result in financial losses.

Recommendation 10

(10) The UNMIS Office of Mission Support should ensure that staff members promptly report cases of theft/loss to the Special Investigation Unit and that the Unit conducts its investigations in a timely manner to improve accountability.

37. *The UNMIS Office of Mission Support accepted recommendation 10 and stated that the Office is expected to issue an Administrative Instruction whereby losses will be followed-up by the PCIU, with SAUs to initiate SIU reports on behalf of the user, if the user does not take appropriate action within 90 days, as per current regulations. Recommendation 10 remains open pending receipt of a copy of the Administrative Instruction on the procedures and timelines to follow to ensure SIU conducts its investigations in a timely manner.*

V. ACKNOWLEDGEMENT

38. We wish to express our appreciation to the Management and staff of UNMIS 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 UNMIS Office of Mission Support should ensure that any further transfer of properties to Juba is adequately planned and that transferred properties are properly stored to safeguard them against theft and extreme weather conditions.	Operational	Medium	O	Confirmation that future transfers of assets are properly planned, documented and monitored, as well as verification that a secured logistics base has been constructed to adequately safeguard assets.	30 April 2011
2	The UNMIS Office of Mission Support should ensure that inventory in warehouses are properly organized and the Galileo System is used to record the location of assets so that they can be easily retrieved when needed.	Operational	Medium	O	Confirmation that inventory in warehouses have been properly organized and the records in Galileo have been up-dated to record the actual locations of property.	30 June 2011
3	The UNMIS Office of Mission Support should ensure that periodic physical inventories are conducted by the self accounting units in compliance with the Guidelines on Warehousing Operations for Field Missions to have control over their inventories in warehouses.	Compliance	Medium	O	Confirmation that 100 per cent physical inventory has been done and Galileo up-dated accordingly.	30 June 2011
4	The UNMIS Office of Mission Support should ensure that missing items are investigated by the Special Investigation Unit and appropriate action is taken to address accountability.	Operational	Medium	O	Receipt of a copy of the results of the investigation into the missing CITS items valued at \$903,939.	30 June 2011
5	The UNMIS Office of Mission Support should locate the missing 400 containers, and ensure that an adequate system to track and control the movement of containers is implemented.	Operational	Medium	O	Verification of the measures put in place to track and control the containers.	30 June 2011
6	The UNMIS Office of Mission Support should provide training for all warehouse staff to improve their skills in warehouse operations	Human resource	Medium	O	Confirmation that warehouse staff have been provided with training to improve their skills in warehouse operations.	31 July 2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
7	The UNMIS Office of Mission Support should review the procedures for packing and shipping cargo within the Mission and take appropriate steps to safeguard cargo during its shipment.	Operational	Medium	O	Receipt of a copy of the procedures established for packing and shipping cargo within the Mission and the delineation of responsibilities for packing and shipping cargo.	31 May 2011
8	The UNMIS Office of Mission Support should ensure that all self-accounting units are trained in using the freight database to track their respective cargo.	Human resource	Medium	O	Receipt of evidence of training offered to the self-accounting units on the use of the freight database.	31 May 2011
9	The UNMIS Office of Mission Support should review the database for tracking freight, with the view to improving and making it more useful for the self-accounting units to monitor their shipments	Operational	Medium	O	Confirmation that the freight database is capturing more useful data for SAUs to monitor shipments.	31 May 2011
10	The UNMIS Office of Mission Support should ensure that staff members promptly report cases of theft/loss to the Special Investigation Unit and that the Special Investigation Unit conducts its investigations in a timely manner to improve accountability.	Compliance	Medium	O	i) Issue of administrative instructions to follow up losses. ii) Evidence that Security Investigation Unit conducts its investigations in a timely manner.	31 March 2011

1. C = closed, O = open

2. Date provided by UNMIS in response to recommendations.