



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Assets disposal relating to
MINURCAT's liquidation

Assets reconciliation and movement remain
incomplete as at the close of the Mission

18 May 2011

Assignment No. AP2010/636/09

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. Aboubakrine Dieye, Acting Director of Mission
A: Support and Liquidation Coordinator
MINURCAT

DATE: 18 May 2011

REFERENCE: IAD: 11- 00404

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



SUBJECT: **Assignment No. AP2010/636/09 – Audit of assets disposal and other procedures relating to**
OBJET: **MINURCAT's liquidation**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on the comments received during and after the audit, no recommendations have been made.

cc: Mr. Nabeel Arif, Director, Logistics Support Division, DFS
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, DFS
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Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

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 assets disposal relating to MINURCAT's liquidation

The Office of Internal Oversight Services (OIOS) conducted an audit of assets disposal relating to the liquidation of the United Nations Mission in Central African Republic and the Republic of Chad (MINURCAT). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Due to inadequate planning of the liquidation, some United Nations - owned equipment (UNOE) was not properly accounted for or physically verified prior to request for write-off. The Mission informed OIOS that it was not cost effective to account for these assets and therefore, a decision was made to abandon them. There were also significant delays in the movement of UNOE out of the country. However, in order to expedite the movement of UNOE, additional transport arrangements were entered into locally.

The environmental clearance certificates for six of the sites handed over by MINURCAT had not been witnessed by a representative from the Government central authority and the certificates were printed and signed by the Regional Governors on MINURCAT's letterhead. Consequently, if environmental problems arise, the validity of the certificates may be questioned. The Mission informed OIOS that it was addressing this issue.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1-4
II. AUDIT OBJECTIVE	5
III. AUDIT SCOPE AND METHODOLOGY	6-8
IV. AUDIT RESULTS	
A. Donation of assets	9-12
B. Détachement Intégré de Sécurité (DIS) Trust Fund	13-17
C. Unaccounted assets	18-25
D. Finalization of field liquidation	26-28
E. Mandated infrastructure projects	29-31
V. ACKNOWLEDGEMENT	32

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of assets disposal relating to the liquidation of the United Nations Mission in Central African Republic and Chad (MINURCAT). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. MINURCAT was established under Security Council resolution 1778 of 25 September 2007. By resolution 1923 of 25 May 2010, the Security Council terminated MINURCAT's mandate, effective 31 December 2010. The Mission moved into a period of liquidation as of 1 January 2011.

3. The Mission prepared a Preliminary Asset Disposal Plan (PADP) in line with the DFS Liquidation Manual. This plan categorized assets for the purpose of disposal during the drawdown and liquidation phases. As at 22 November 2010, MINURCAT had grouped 23,727 assets with a total value of \$153.7 million, which recorded a depreciated value of \$92.3 million. The grouping in the Mission's PADP is set out in Table 1 below:

Table 1: Number and value of assets per group as of 22 November 2010

<u>PADP Group</u>	<u>Definition</u>	<u>Number of assets</u>	<u>Value \$'million</u>
Group I	Equipment in good condition that conforms to established standardization, or is considered compatible with existing equipment, will be re-deployed to other peacekeeping operations or will be placed in reserve.	11,424	98.8
Group II	Equipment not required for current or future peacekeeping operations may be redeployed to other UN activities funded from assessed contributions, provided there is a need.	998	5.7
Group III	Equipment not required for current or future peacekeeping operations or other UN activities funded from assessed contributions, but which may be useful for UN agencies, or international organizations will be sold to such agencies or organizations at the depreciated value.	227	2.9
Group IV	Equipment or property not required or which is not feasible to dispose as above, or which is in poor condition will be subject to commercial disposal in accordance with the procedures applicable to other UN equipment or property.	8,175	22.0
Group V	Assets that have been installed in a country and which, if dismantled, would		

	set back the rehabilitation of that country shall be provided to the Government for compensation in a form to be agreed by the Organization and the Government. Refers to airfield installations and equipment, buildings, bridges, and mine clearance equipment. Where such assets cannot be disposed of in this manner or otherwise, they will be contributed free of charge to the Government of the country concerned. Such contributions require the prior approval of the General Assembly.	2,786	23.1
To be determined		117	1.2
Total		23,727	153.7

4. Comments made by MINURCAT are shown in *italics*.

II. AUDIT OBJECTIVE

5. The main objective of the audit was to assess the adequacy and effectiveness of internal controls in managing risks relating to the disposal of assets.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from 31 October 2010 to mid-March 2011 and the process of assets disposal during the drawdown and liquidation phases of the Mission.

7. The audit process involved discussions with key managers and staff, and members of the liquidation and drawdown teams. It also included a review of the PADP, the process for the handover of camps to the host Government and other relevant documents. Controls tested were documented in the United Nations Liquidation Manual, Property Management Manual, and established United Nations Financial Regulations and Rules and other instructions.

8. The audit did not cover contingent owned equipment, which was under the control of troop contributing countries.

IV. AUDIT RESULTS

A. Donation of assets

Donation of assets to host governments

9. United Nations Financial Regulation 5.14 (e) states that “any assets which have been installed in a country and which, if dismantled, would set back the rehabilitation of that country shall be provided to the duly recognized Government of that country in return for compensation in a form to be agreed by the Organization and the Government. This refers in particular to airfield installations and equipment, buildings, bridges and mine-clearing equipment. Where such assets cannot be disposed of in this manner or otherwise, they will be contributed free of charge to the Government of the country concerned. Such contributions require the prior approval of the General Assembly”.

10. United Nations Financial Rules 105.22 (e) states that “sales of supplies, equipment or other property declared surplus or unserviceable shall be based on competitive bidding, unless the relevant Property Survey Board determines that the interests of the United Nations will be served through the disposal of the property by gift or by sale at a nominal price to an intergovernmental organization, a Government or governmental agency or some other non-profit organization”.

11. The Mission gifted 1,380 assets with purchase value of \$12.9 million (depreciated value of \$7.8 million) to the governments of the Republic of Chad and Central African Republic. Another group of 1,588 assets located in Abeche and N’Djamena with purchase value of \$11.3 million (depreciated value of \$6.9 million) was also expected to be gifted to the Government of the Republic of Chad. At the time of the audit, they had not been handed over.

12. The MINURCAT Management stated that in July 2010, the DFS Assistance Team advised the Mission to dispose of assets in accordance with Financial Regulation 5.14 during the liquidation period and Financial Rule 105.22 during the drawdown phase. In addition, the Mission was advised to treat United Nations-owned equipment (UNOE) in the regions as surplus and dispose of them pursuant to Financial Rule 105.22 during the drawdown period. In particular, UNOE should be gifted to governments of the Republic of Chad and Central African Republic upon recommendation of the Local Property Survey Board (LPSB)/HPSB and approval of ASG/OCSS and the Controller. The Mission also confirmed that following resolution 1923, MINURCAT started pre-liquidation activities, as opposed to liquidation activities, therefore, it was appropriate to gift surplus assets to host governments under Financial Rule 105.22. Moreover, as the gift packages were approved by the ASG/OCSS and Controller, the Mission was of the view that a certificate of temporary possession as recommended by DFS was irrelevant and it was not issued. OIOS takes note of the action taken, and does not make a recommendation in view of the prevailing circumstances.

B. Détachement Intégré de Sécurité (DIS) Trust Fund

Handover of inventory DIS

13. Paragraph 23 of the terms of reference for the Trust Fund for the support of activities of MINURCAT provides that “ownership of equipment, supplies and other property financed from the Trust Fund shall be vested in the United Nations. On the termination or expiration of this Trust Fund, ownership will be determined in accordance with the provisions of the applicable agreement; or should the applicable agreement not contain any such provisions, then the matter will be determined by the Programme Manager and the Controller”.

14. In December 2010, four containers of spare parts (purchase orders 10MCT-20100375 and 10MCT-20100446) valued at \$317,952 were handed over to the Liaison Office of the Government of the Republic of Chad (CONAFIT) by the Chief of the Property Control and Inspection Unit (PCIU). The handover documents were signed by a representative of CONAFIT, MINURCAT and the Country Representative of United Nations High Commissioner of Refugees (UNHCR) acting as a witness. This was done without the approval of the Controller.

15. While it was likely that spare parts would be handed over to representatives of the Government of the Republic of Chad, this should have been in accordance with the terms of reference of the Trust Fund and in line with the requisite approval procedures. OIOS will follow-up on this issue as part of a future audit of the completion of MINURCAT’s liquidation.

Unauthorized use of peacekeeping budget resources for Trust Fund activities

16. OIOS’ report of the audit of Trust Fund for the support of the activities of MINURCAT (AP2010/636/08) identified the use of \$4.13 million of assessed peacekeeping budget funds for the activities of the Trust Fund without approval of the Controller. This audit identified further expenditures of about \$1.45 million for which only \$429,251 was charged back to the Trust Fund. Table 2 shows a summary of the type of items provided to DIS.

Table 2: Expendable and non-expendable property issued to DIS

Self-accounting Unit	Purchase cost \$	Charged back to Trust Fund \$
CITS	724,724	100,127
Supply (other items)	8,524	8,524
Supply (fuel)	437,455	246,614
Transport	280,982	31,000
Other (steel tank)	-	42,986
Total	1,451,685	429,251

17. For ICT equipment, vehicles and other non-expendable property, OIOS recommended that approval should be sought for the write-off of assets handed over to the DIS and ensure that they were subsequently accounted for as

donations to DIS. With regards to the charging of expenditure to assessed funds, DFS informed OIOS that it is further reviewing those charges. OIOS will follow-up on this issue as part of a future audit of the completion of MINURCAT's liquidation.

C. Unaccounted assets

Write-off of assets abandoned in Iriba

18. The United Nations Financial Regulations and Rules and the DFS Property Management Manual requires property to be fully accounted for, and any loss should be followed up and investigated.

19. In November 2010, MINURCAT gifted its camps in Iriba to the Government of the Republic of Chad. On 17 January 2011, the Officer-in-Charge of the Engineering Section wrote to the Acting Director of Mission Support and Liquidation Coordinator (ADMS/LC) seeking approval to write-off an additional 232 items located in Iriba. These items included kitchen containerized accommodation, sea containers and generators totaling over \$800,000, and that had not been included in the gift package to the Government, as shown in Table 3 below:

Table 3: Summary of assets requested for write off

Category of Case	No. of items	Purchase Value \$	Residual Value \$
Administrative write off (AW)	122	82,984	49,482
Administrative (A)	107	482,596	228,566
Survey Board (SB)	3	251,569	144,093
Total	232	817,149	422,141

20. The reason for the write-off given in the presentation to the LPSB was that the property was uneconomical to recover, and the assets were fixed on government/leased property. However, the true value of these items was not properly accounted for, since a physical inventory was done and there was no official hand-over. A Board of Survey was conducted in Iriba prior to the handover of the site, but the inspections were limited to those assets already identified in the package for donation to the Government. Therefore with better planning all assets could have been physically verified prior to hand-over. The LPSB recommended that the 232 items valued at over \$800,000 be written off without follow-up or investigation.

21. As the Mission operated in six other regions, for which camps were also handed over to the Government, a similar situation may have occurred with the Mission subsequently requesting abandoned assets to be written off.

22. In an observation dated 3 March 2011, OIOS recommended that the full extent of assets/property that were abandoned in the sites vacated by MINURCAT be determined and appropriate write-off action initiated.

MINURCAT stated that the assets in Iriba had already been written off, and at the other regions, there were minimal assets and it was uneconomical to recover them, therefore they were abandoned. For Iriba, a cost-benefit analysis was done and it was determined that: (a) the transport cost back to Abeche would exceed the residual value for the sea containers; (b) the kitchen (containerized accommodation) was damaged; and (c) the generators needed major repair. OIOS takes note of MINURCAT's actions to determine the cost-effectiveness of moving assets in Iriba and other regions and does not make a recommendation.

Deployment of UNOE

23. During the liquidation phase, the Mission was faced with significant challenges in shipping and moving UNOE. For example:

- As at 28 February 2011, there were still 990 twenty-foot units of equipment, 420 light vehicles and 53 heavy vehicles/transport assets that required shipment out of the Republic of Chad. Ninety per cent of these assets were located in Abeche. It was planned that the camp would be handed over to the government by 31 March 2011, giving limited access to MINURCAT's staff.
- Truck convoys were sometimes delayed by government officials.
- There were instances of denying access to the military apron of the N'Djamena airport prohibiting the loading of MINURCAT's cargo.

24. Given the limited time available to liquidate the Mission, there was a risk that the UNOE would not be redeployed by 30 April 2011. OIOS suggested that a contingency plan be developed on how to deal with UNOE, if the deadline of 30 April could not be achieved.

25. Subsequent to the audit, OIOS was informed that DFS sent a Note Verbale to the Permanent Mission of the Republic of Chad in New York seeking their continued support to provide access to the required facilities in Abeche through to 30 April 2011, as well as to facilitate full access to the airport. Also, in order to expedite the movement of UNOE, additional transport arrangements were entered into locally. MINURCAT envisaged that all UNOE would be transferred to contractors for storage and shipped, prior to 30 April 2011. OIOS will follow-up on this issue as part of a future audit of the completion of MINURCAT's liquidation.

D. Finalization of field liquidation

Lack of effective environmental clearance

26. DFS Environmental Policy for United Nations Field Missions requires each field mission to integrate environmental measures into its planning and operations to minimize the impact of its activities on the environment.

27. MINURCAT had developed plans to conduct environmental assessments at all sites prior to their handover to ensure the proper disposal of hazardous substances, and the cleaning of all sites prior to handover to landlords/ Government. Environmental clearance certificates needed to be obtained, as well as environmental clearance from the Government environmental authorities. This is required to protect the Mission from any future liability, especially considering the fact that some abandoned assets were not identified in the donation to the Government (see paragraphs 19-22).

28. As of February 2011, MINURCAT had received environmental clearance certificates for six of the sites handed over. From a review of the certificates, it was noted that: (a) a representative from the Government central authority was not present at the inspections and therefore did not sign the certificates; and (b) the certificates signed by the Regional Governors were on MINURCAT's letterhead. Consequently, if environmental problems arise, the validity of the certificates may be questioned. OIOS was informed that steps were being taken to address this matter. OIOS will follow-up on this issue as part of a future audit of the completion of MINURCAT's liquidation.

E. Mandated infrastructure projects

Completion of mandated projects after MINURCAT liquidation

29. Security Council resolution 1923 dated 25 May 2010 mandated MINURCAT to construct certain infrastructure projects within the Republic of Chad. Some of these projects were originally expected to be completed after MINURCAT's liquidation on 30 April 2011, as follows:

- Construction of 15 water wells for the DIS. The project was scheduled to start after the rainy season in October 2010, and be completed by May 2011.
- Construction of six police stations at Abeche, Bahai, Iriba, Guereda, Farchana and Goz Beida. These were originally scheduled to be completed before May 2011.
- Construction of 13 police posts. While 11 of the 13 identified sites had been handed over to construction contractors, two police posts had been delayed by the procurement process. The scheduled completion date for all 13 posts was 30 April 2011.

30. OIOS audit of liquidation planning in MINURCAT (AP2010/636/08) identified that there were delays in these projects and recommended that a strategy be developed to ensure that mandated infrastructure projects are completed within the established timeframe. In response, MINURCAT stated that target dates for completion were brought forward to February/March 2011, and therefore, it was expected that all projects would be completed by the end of the liquidation period. However, Table 4 shows that this was too ambitious a target, as all projects were considerably delayed.

Table 4: Status of construction projects as of mid-February 2011

Site/Project Name	Percentage completed	Status
Bahai Police Station	21	Delayed
Iriba Police Station	20	Delayed
Guereda Police Station	25	Delayed
Abeche Police Station	46	Delayed
Farchana Police Station	13	Delayed
Goz-Beida Police Station	8	Delayed
Oure Cassoni Police Post	22	Delayed
Am Nabak Police Post	20	Delayed
Mile Police Post	23	Delayed
Kounoungou Police Post	22	Delayed
Gaga Police Post	55	Delayed
Farchana Police Post	17	Delayed
Bredjing Police Post	56	Delayed
Treguine Police Post	41	Delayed
Djabal Police Post	36	Delayed
Goz Amer Police Post	35	Delayed
Koukou Police Post	40	Delayed
Iridimi Police Post	n/a	Excavation work commenced
Touloum Police Post	n/a	No progress
Wells for DIS	n/a	Not yet mobilized

31. MINURCAT further explained that with the assistance of DFS, UNHCR has agreed to take over the supervision and management of the construction projects. Also, DFS has written to the Department of Management seeking approval for financial arrangements to allow UNHCR to manage and monitor the implementation of these projects. UNHCR has confirmed its willingness and capability to monitor the projects, and a Memorandum of Understanding is being prepared to be agreed and signed by both parties. OIOS will follow-up on this issue as part of a future audit of the completion of MINURCAT's liquidation.

V. ACKNOWLEDGEMENT

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

ANNEX 2

*Use this page if the orientation of Annex 2 is portrait. If the orientation is landscape, insert a section break at the end of Annex 1 and continue on the new page. (On the **Insert** menu, point to **Break**, select **Next page** under **Section break types**.) Leave the page blank if not required; do not delete it.*