OIOS

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of UNON Property Management

16 April 2008
Assignment No. AA2007/211/01

TO:
A:
Mrs. Anna Tibaijuka, Director General
United Nations Office at Nairobi

DATE: 16 April 2008

REFERENCE: IAD: 08- C1237

FROM:
DE:
Dagfinn Knutsen, Director
Internal Audit Division, OIOS

SUBJECT:
OBJET:
Assignment No. AA2007/211/01 – Audit of UNON Property Management

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 critical (i.e., recommendations 1, 3, 4, 6, 8 and 9), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. A. Barabanov, Director, Division of Administrative Services
        Ms. V. Glavind, Chief of Support Services Service
        Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
        Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
        Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
        Mr. Byung-Kun Min, Programme Officer, OIOS
        Mr. Christopher F. Bagot, Acting Chief, Nairobi Audit Service, 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).

CONTACT INFORMATION

DIRECTOR:
Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185, e-mail: knutsen2@un.org

DEPUTY DIRECTOR:
Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388, e-mail: ndiaye@un.org

ACTING CHIEF, NAIROBI AUDIT SERVICE:
Christopher Bagot: Tel: +254.20.762.4097, Fax: +254.20.762.4125, e-mail: christopher.bagot@unon.org

EXECUTIVE SUMMARY
Audit of UNON Property Management

OIOS conducted an audit of property management in United Nations Office at Nairobi (UNON). The overall objective of the audit was to evaluate the effectiveness and efficiency of arrangements for property management. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

UNON is responsible for managing its property as well as those owned by the United Nations Environment Programme (UNEP) and United Nations Human Settlement Programme (UN-HABITAT). It had established standard operating procedures and assigned the responsibility for property management to dedicated staff. However, the arrangements in place to ensure the reliability and integrity of property data and compliance with United Nations Regulations and Rules were ineffective and inefficient. In particular:

- Adequate consideration had not been given to the human resource and Information Technology (IT) support required. The human resources issue had been partially addressed during the audit by the creation of a temporary Chief of Property Control and Inventory Unit at the P-3 level. UNON has also begun exploring the extent of IT support required;

- The current arrangements for recording and labeling assets were inadequate. It was not possible to confirm whether the database was complete and accurate. UNON has initiated an exercise involving an external firm to address this issue;

- No assurance could be provided that assets were efficiently and timely received, inspected, recorded, labeled, insured and distributed;

- There was no evidence that property data were reconciled periodically to the results of physical verification of assets and action taken on discrepancies;

- The arrangements to ensure the proper tracking and recording of transfers of property among staff members, offices and organizations, as well as returns to stock, were inadequate; and

- The arrangements for the disposal of property and for ensuring that items destined for use outside of the compound were properly authorized and their movements tracked were also inadequate.

TABLE OF CONTENTS

I. INTRODUCTION

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of property management in United Nations Office at Nairobi (UNON). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2.   The property management function, which included the management of all internal stores and materials inventories for United Nations Environment Programme (UNEP) and United Nations Human Settlement Programme (UN-HABITAT) and UNON itself, was carried out by the Property Control and Inventory Unit (PCIU) which reported directly to the Chief of Procurement, Travel and Shipping Section within UNON Support Services Service in the Division of Administration. For the audited period the Chief, PTSS was responsible for the property management function.

3.   The PCIU comprised seven General Service staff: a warehouse (store) supervisor, two inventory assistants, two inventory / supply assistants and two receiving and inspection assistants. UNON recently created a temporary post of Chief, PCIU, which was still under classification at the time of the audit.

4.   There are two types of United Nations property: non-expendable and expendable property. Non-expendable property is property that has a useful life of five years or more and is valued at $1,500 or more per item/unit. This category also includes special items of property or equipment (such as cameras, mobile phones, calculators, televisions, computers etc.) that are considered to be of an attractive nature and easily removable from the premises, cost a minimum of $500 and have a serviceable life of more than three years. In addition, non-expendable property also includes group inventory items such as furniture regardless of value. Expendable property is property that costs less than $1,500, irrespective of its anticipated useful life, or costs $1,500 or more but has a useful life of less than five years.

Table1: Non-expendable property balances for UNEP, UN-HABITAT and UNON

	2004	2005	2006
Opening balance at 1 January	$24,627,495	$29,449,030	$32,258,947
Total acquisitions	4,729,189	3,381,375	1,125,404
Dispositions	-	-	(177,775)
Write offs	(132,883)	(4,308)	(708,450)
Donations	(640,337)	(1,572,702)	-
Transfer to other offices/missions	(108,095)	-	-
Adjustments	973,661	1,005,554	472,339
Closing balance as at 31 December	**$29,449,030**	**$32,258,947**	**$32,970,465**

Source: PCIU – Regular Budget Financial report

5.   Comments made by UNON are shown in *italics*.

II. AUDIT OBJECTIVES

6.   The major objectives of the audit were to:

(a)   Evaluate the effectiveness and efficiency of arrangements for property management;

(b)   Evaluate the degree of compliance with United Nations Financial Regulations and Rules, and Administrative Instructions in the conduct of property management activities; and

(c)   Determine the reliability and integrity of the property data.

III. AUDIT SCOPE AND METHODOLOGY

7.   The audit, which focused on the arrangements put in place by UNON for property management, covered activities occurring in the period January 2004 to November 2007. The audit included an assessment of property management internal control systems based on interviews with staff, analyses of applicable data and reviews of relevant documentation available at the time of the audit.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Organizational arrangements

Delegation of authority

8.   The organizational arrangements for managing property at the Nairobi duty station were not clear, increasing the likelihood of weak accountability for property. At the time of the audit PCIU did not have an approved organization structure in place. The mandate, roles and responsibilities and reporting lines were unclear to staff and were not documented or communicated to those involved with property management, inside or outside UNON. The situation was partly related to lack of clarity of UNON's delegated authority. The Director of Administrative Services had been delegated authority, in accordance with the ST/AI/2004/1 "Delegation of Authority under the Financial Regulations and Rules of the United Nations" for UNON property management. In the case of UNEP and UN-HABITAT, while there was no explicit delegation in place, UNON did undertake this function on their behalf, on the basis that ST/SGB/2000/13 "Organization of the United Nations Office at Nairobi" states in Section 6.2(c) that UNON is responsible for providing administrative and related support services to UNEP and UN-Habitat. However, while UNON recorded inventory for UNEP and UN-HABITAT offices in Nairobi, it did not undertake any property management activities for outposted offices but only reconciled property related requests of Offices Away from Headquarters (OAH) with those of the Nairobi headquarters. The roles and responsibilities for property management of UNEP and UN-HABITAT outposted offices were unclear.

ST/SGB/2000/13 also states that UNON is responsible for providing support services to the United Nations complex in Nairobi, including inventory control. What this means in practice has not been established.

<u>Supervision</u>

9.   No staff member had been identified to assume direct supervisory responsibility for property management. This increased the risk of non-compliance with the rules and absence of proper control to ensure that property was adequately accounted for.   UNON took action to rectify this issue and created a temporary post of Chief, PCIU.

10.   While job descriptions were up to date and in line with current responsibilities, UNON was unable to explain the basis for the current staffing levels, which was clearly linked with the absence of clear picture of organizational arrangements.

> **Recommendation 1**
>
> **(1)   The UNON Administration should undertake a review of the organizational arrangements for property management, including its delegated authority and staffing levels, and produce a document setting out the mandate, roles, responsibilities, reporting lines and linkages of the Property Control and Inventory Unit, in the management of property inside and outside Nairobi.**

11.   *The UNON Administration accepted recommendation 1 and stated that it was in the process of implementing it.* Recommendation 1 remains open pending receipt of the results of the review of organizational arrangements for property management.

B. Policies and procedures

<u>Standard operating procedures (SOP)</u>

12.   PCIU had a set of SOPs which were in line with United Nations Regulations and Rules, and covered all the main functions, duties and responsibilities of PCIU staff. The current arrangements could be strengthened by assigning responsibility for update and maintenance of the SOPs and placing it on the UNON Intranet where it would be available to all staff with responsibility for property management.

13.   While PCIU staff were aware of the SOPs, some important aspects were not being adhered to, including failing to bar code equipment and conduct of regular physical counts. The failure to adhere to the SOPs was attributed to the absence of any supervisory controls which has been rectified by the temporary appointment of the Chief, PCIU.

Recommendations 2 and 3

The UNON Administration should:

(2)   Place the policies and procedures guiding the work of property management on its intranet to ensure that they are accessible to all staff with responsibility for property management.

(3)   Assign responsibility for the upkeep of the policies and procedures on property management.

14.   *The UNON Administration accepted recommendations 2 and 3 and stated that it was in the process of implementing them.* Recommendation 2 remains open pending notification that the policies and procedures on property management have been placed on the UNON intranet. Recommendation 3 remains open pending notification that the responsibility for the upkeep of the policies and procedures has been assigned to an identified staff member.

C.   Inventory control

Accuracy and Completeness

15.   At the time of the audit an accurate record of inventory owned by UNON, UNEP and UN-HABITAT did not exist as there was no mechanism to ensure completeness and integrity of inventory data, and UNON had embarked on an exercise, using an external firm, to identify and record non-expendable property owned by the Organization. This was mainly attributed to inadequate organizational arrangements for property management leading to a failure to put in place adequate controls to monitor and ensure that property was safeguarded and accounted for. The following weaknesses were identified:

    –   Assets were written off or adjustments made without undertaking any physical verification;

    –   There was no periodic reconciliation of property listings with the results of physical verification of assets to record action taken on discrepancies;

    –   Absence of any checks to ensure proper transfer of inventory for staff members leaving the organization;

    –   Absence of guidelines for determining special attractive items under the $1,500 threshold, as such guidance should be established by each department/organization;

    –   With the exception of computers and other attractive items, kept on a separate database by the Information and Communication Technology Service (ICTS), there was no record of information relating to the location of property assigned to staff. *Ad hoc* modules in the

contracts and procurement management system that could have been used for this purpose were not updated;

–   ICTS relied on information provided by staff members to update its database with no physical verification taking place; and

–   No reporting to property holders on the results of inventory checks was undertaken.

Recommendation 4

(4)   The UNON Administration should review and revise its property control procedures for ensuring accuracy and completeness of the inventory. The revised procedures should include guidance on: frequency of physical checks, use of a common database for all categories of property; and transfer of property when staff leave their section/office.

16.   *The UNON Administration accepted recommendation 4 and stated that it was in the process of implementing it.* Recommendation 4 remains open pending receipt of the revised procedures for ensuring the accuracy and completeness of inventory.

Insurance

17.   There were inadequate arrangements for insurance at the time of the audit. The following were absent:

–   Complete lists of items for which insurance is required: lack of an accurate inventory meant that UNON, UNEP and UN-HABITAT were not in a position to compile a complete list of assets for which insurance may be required;

–   Procedures dealing with the recording and retention of insurance related documentation: UNON had difficulty finding the insurance policies and demonstrating that all paper work was filed. It is possible that equipment may have been lost for which no claims were filed or the property not recorded under the insurance; and

–   Procedures dealing with level and amount of insurance coverage requested: there was no evidence of any review of the value assigned to property initially and at each insurance renewal. In the case of buildings and contents insurance, the sum insured had remained the same for five years despite the sustained growth in the local economy and property values, and the continuous process of acquisition and disposal of the contents of buildings.

Recommendation 5

> **(5)   The UNON Administration should review and revise its insurance procedures. This should include maintenance of database of all items which are insured, guidelines on the creation and retention of insurance related documentation, and policies on valuing property initially and at insurance renewal.**

18.   *UNON Administration accepted recommendation 5 and stated that it was in the process of implementing it.* Recommendation 5 remains open pending receipt of documentation showing issuance of revised insurance procedures.

Staff awareness of their responsibilities for property management

19.   There was little evidence to suggest that staff had been made aware of their responsibilities for property assigned to them and the need to account for losses and breakages. It was also not clear that management was exercising control in this area.

Recommendation 6

> **(6)   The UNON Administration should institute a campaign to make staff aware of their responsibilities and to issue guidelines to members of the Local Property Survey Board and managers on handling property lost / damaged by staff.**

20.   *The UNON Administration accepted recommendation 6 and stated that it will publish the guidelines on the handling of property lost/damaged by staff on its website and ensure that LPSB members receive a copy.* Recommendation 6 remains open pending notification that the guidelines on handling lost/damaged property have been published on the intranet and proof of receipt by LPSB members.

Movement of property

21.   The procedures in place for monitoring and tracking movements of assets into, within and out of the United Nations complex in Nairobi were weak. There was limited assurance that assets were efficiently and timely received, inspected, recorded, labeled and distributed to requisitioning offices; that transfers of property among staff members, offices and organizations, as well as returns to stock, were properly recorded and tracked, and that items destined for use outside of the compound were properly authorized and their movements effectively monitored by the Security Services. Contributory factors were:

  −   Receiving and inspection activities were not supported by adequate logistics, staffing and technological resources to comply with the United Nations property management manual requirements. A new

Central Materials Management Facility was under construction, which may help to address this issue;

–   No mechanism was in place for training and monitoring whether property custodians were aware of and were discharging their roles and responsibilities properly;

–   There was lack of clarity on the respective roles and responsibilities of offices and UNON for controlling movement of property;

–   Individual offices were not fully aware of the requirements for the movement of property or did not fully comply with requirements for return to stock and for authorization of use outside of the compound; and

–   Security staff did undertake random checks but the effectiveness of their efforts were reduced because of the absence of central guidance to staff on the procedures to move assets into and out of the compound.

Recommendation 7

(7)   The UNON Administration should review and revise its property control procedures for tracking movement of property. The review should include: adequacy of resources and arrangements for receiving and inspection; arrangements for training and co-ordinating the work of property custodians; and guidance to staff on the requirements for moving assets.

22.   *The UNON Administration accepted recommendation 7 and stated that it was in the process of implementing it.* Recommendation 7 remains open pending receipt of documentation on control procedures for tracking movement of property.

D. Disposal of property

Non-Information Technology related items

23.   There were inadequate arrangements for ensuring that non-IT related assets were identified and disposed of in a timely manner which increased the likelihood of unauthorised removal of items for disposal:

–   Asset life cycle: no arrangements were in place to track and identify when assets were due for disposal. No evidence of any planning for replacement of assets to get economies of scale from purchases as asset life cycle was not tracked;

–   Adequacy of resources: disposals were handled by one GS staff reporting directly to the Chief, PTSS. This may not be adequate for

disposal actions, including donations and transfer to other missions, accounting for almost $3 million in the period under review;

– Procedures: there was no SOP describing roles, responsibilities and processes to be followed for disposals. Staff were not aware of what to do to initiate a disposal action. Some assets were just left in corridors or put into roof archive space;

– Reflecting disposals in inventory: no evidence that disposals were properly recorded in the inventory. UNON was often disposing of untagged assets abandoned by UNEP and UN-Habitat. It was not clear how adjustments to non-expendable property records were made as in the case of untagged furniture;

– Reporting: absence of arrangements for reporting to UNEP and UN-HABITAT on disposal action undertaken.

Recommendation 8

(8)   The UNON Administration should review and revise its procedures for disposal of property. This should include identification of the roles and responsibilities, an assessment of the resources required and guidelines on the conduct of disposals which take into account the expected useful life of an asset.

24.   *The UNON Administration accepted recommendation 8 and stated that it was in the process of implementing it.* Recommendation 8 remains open pending receipt of revised procedures for disposal of property.

Information Technology equipment

25.   ICTS was responsible for disposal of IT equipment and similar problems to those discussed in the previous section were observed. In addition there were inadequate systems to ensure compliance with provision 1.7 of ST/AI/2001/4 "Disposal of Computer Equipment at United Nations Headquarters" on deletion of software and data on hard disks through re-writing them to prevent sensitive information, both organizational and private, being accessed by unauthorized personnel.

Recommendation 9

(9)   The UNON Administration should review and revise its procedures for disposal of information technology assets. This should provide guidance on the deletion of software and data to ensure compliance with ST/AI/2001/4.

26.   *The UNON Administration accepted recommendation 9 and stated that it was under discussion with ICTS for implementation.* Recommendation 9 remains

open pending receipt of revised procedures for disposal of information technology assets.

<u>Local Property Survey Board (LPSB)</u>

27.   The LPSB was not conducting its activities in compliance with the terms of the delegated authority granted to UNON in 2005 to operate an LPSB. While the errors mentioned below related mainly to procedural matters, OIOS is concerned at the absence of accurate documentation for cases presented and the inability of UNON to confirm that all disposal cases, other than administrative write offs, were presented to the LPSB:

–   Composition: there was no mechanism in place to ensure compliance with section 8 of the delegation of authority dated 19 May 2005, which stated that members should be Finance Officers, Programme Officers, Legal Advisers, Property Control Officers, or staff with comparable responsibilities;

–   Length of Service: three members had served on the LPSB for a longer period than the maximum term of two years;

–   Roles and responsibilities: there were no arrangements in place to ensure that new members were briefed and had access to information on the functioning of LPSB;

–   Frequency of meetings: LPSB met quarterly instead of bi-monthly. While guidelines permit exceptions when there are no cases for discussion, based on a sample of 14 cases, OIOS computed the time lag between recorded presentation of cases and a related meeting to address the case and found that average waiting time was 112 days, with a minimum of four days and a maximum of 320 days;

–   Quorum: though the LPSB guidelines require a quorum of three members, nothing is said about taking decisions when there is no representation of an organization whose property is being considered for disposal. In a meeting in September 2007, UNEP was not represented despite UNEP cases being included in the agenda;

–   Meeting documentation: meeting documentation were not always signed by the appropriate officials and distributed to all concerned parties. A complete record of documentation was also not always present; and

–   Cases presented: there were no mechanisms in place to check and ensure that all disposal cases were presented to the LPSB.

Recommendation 10

(10)   The UNON Administration should review and revise its procedures for operating the Local Property Survey

Board (LPSB) to ensure compliance with the delegated authority issued on 19 May 2005. The revised procedures should include how senior management will review and ensure that LPSB is complying with the terms of the delegated authority and the measures to be put in place to ensure that all disposal actions are properly reported through LPSB in a timely manner.

28.   *The UNON Administration accepted recommendation 10 and stated that it was in the process of implementing it.* Recommendation 10 remains open pending receipt of revised procedures for operating the LPSB to comply with the delegated authority issued on 19 May 2005.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/ O[1]	Actions needed to close recommendation	Implementation date[2]
1	O	Receipt of the results of the review of organizational arrangements for property management.	August 2008
2	O	Notification that the policies and procedures on property management have been placed on the UNON intranet.	August 2008
3	O	Notification that the responsibility for the upkeep of the policies and procedures has been assigned to an identified staff member.	August 2008
4	O	Receipt of the revised procedures to ensure the accuracy and completeness of inventory.	June 2008
5	O	Receipt of documentation showing issuance of revised insurance procedures.	December 2008
6	O	Notification that the guidelines on handling lost/damaged property have been published on the intranet and proof of receipt by LPSB members.	September 2008
7	O	Receipt of documentation of control procedures for tracking movement of property.	June 2008
8	O	Receipt of revised procedures for disposal of property.	September 2008
9	O	Receipt of revised procedures for disposal of information technology assets.	September 2008
10	O	Receipt of revised procedures for operating the LPSB to comply with the delegated authority issued on 19 May 2005	September 2008

1. C = closed, O = open
2. Date provided by UNON in response to recommendations.