



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the management of expendable stores in UNMIS

27 May 2008

Assignment No. AP2007/632/05

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. Ashraf Jehangir Qazi
A: Special Representative of the Secretary-General
United Nations Mission in the Sudan

DATE: 27 May 2008

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



REFERENCE: IAD: 08- 01338

SUBJECT: **Assignment No. AP2007/632/05 – Audit of the management of expendable stores in UNMIS**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendation 6 in the OIOS recommendations database as indicated in Annex 1. 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, particularly those designated as critical (i.e., recommendations 1, 4 and 7), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Kiplin Perkins, Director of Mission Support, UNMIS
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Mr. Prances Soosa, Chief Resident Auditor, UNMIS

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 Management of Expendable Stores in UNMIS

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of expendable stores in the United Nations Mission in the Sudan (UNMIS). The overall objective of the audit was to determine whether adequate and effective internal controls were in place to ensure that expendable property was properly safeguarded and recorded accurately and in a timely manner. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The Mission spent \$61.8 million on expendables from July 2005 to June 2007. The total value of expendable items in store as of 30 June 2007 was \$35.5 million. Expendable property comprises low value items such as spare parts, desks, chairs and cabinets, as well as consumables that are not reusable.

Generally, the Mission was able to meet its daily operational requirements. However, there is a need to significantly improve internal controls over the safeguarding of goods in stock. Record keeping was assessed as poor, and there was insufficient consolidated information to enable management to make informed decisions. The failure to establish proper internal controls may expose the inventories to loss, theft or fraud.

Due to an acute shortage of staff, periodic physical inventories were not conducted, exposing the Mission to the risk of loss through theft, which may not be easily detected due to the lack of up-to-date records and standard periodic spot checks. OIOS also found huge discrepancies between the physical tests it carried out and inventory records.

In August 2007, the Mission issued Administrative Instruction No. 16/2007, establishing the Property Management Section (PMS), with responsibilities to monitor non-expendables and consumables and advise Mission management on issues related to the utilization of stock, materials resource planning, consumption rates and other matters. At the time of the audit, there were a number of vacancies in the Section.

OIOS is issuing six recommendations to the Mission to address the issues identified during the audit.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of expendable stores in the United Nations Mission in the Sudan (UNMIS) from June to August 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. The Mission spent a total of \$61.8 million on expendables from July 2005 to June 2007. As at 30 June 2007, the total value of expendables in stock as reflected in the Galileo system was about \$35.5 million (see Table 1 below).

Table 1: Value of expendables in Galileo as at 30 June 2007

Self-accounting Units (SAUs)	Number of line items	Value (\$)
Engineering	7,597,008	11,630,268
Supply	6,536,459	10,228,323
CITS	177,654	7,276,022
Transport Section	233,251	6,364,665
Total	14,544,372	35,499,278

3. These dollar values are subject to review because the Galileo records had not been fully updated. Although the Mission became operational in March 2005, the El Obeid logistics base was not fully established until September 2006. The Receiving and Inspection (R&I) reports from March 2005 were input into the database system in November 2006. UNMIS also maintains minimum stocks in other sectors/regions including Khartoum and Juba.
4. Comments made by UNMIS Administration are shown in *italics*.

II. AUDIT OBJECTIVES

5. The major objective of the audit was to determine whether adequate and effective internal controls were in place to ensure that expendable property was properly safeguarded and recorded accurately and in a timely manner.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit included a review of the internal controls for the receipt and issue of expendable stores for the period 1 July 2005 to 30 June 2007. OIOS analyzed Galileo records, conducted physical inspections of warehouses in El Obeid, Khartoum and Juba where a majority of the expendable properties are stored and interviewed key staff members of the R&I Unit and Self Accounting Units (SAUs) This audit did not assess the management of information and communication technology (ICT) expendables since it was already covered in the audit of the management of ICT in UNMIS (AP2006/632/06; 25 October 2007).
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IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Meeting operational requirements

7. The Mission was able to meet its daily operational requirements for expendable property. However, a shortage of spare parts and tools in the Transport Section meant that: (a) ten vehicles were in the workshop in Khartoum for one to three months due to the lack of spare parts; and (b) vehicle batteries, which are regularly in demand, had to be purchased locally by the Mission. These shortages resulted, in part, as there was no stock monitoring mechanism to identify when items were reaching critically low levels, and therefore were not re-ordered with sufficient lead-time.

8. In order to improve the system, warehouse managers responsible for expendables should periodically report to sections on stock levels. The report should also include alert section managers to: (a) stock items reaching their economic re-order levels; (b) slow moving items; and (c) items nearing their expiration date. Concise and up-to-date reports should assist managers in making better decisions and ensuring that there are no shortfalls affecting the smooth running of operations.

9. OIOS surveyed end users to solicit their views on whether their demand for expendables was met. Of the 27 users surveyed, 9 responded, all of whom complained about delays in receiving requested items. OIOS observed that the Supply Section prepared requests manually. This may account in some way to the delays.

Recommendations 1 and 2

The UNMIS Mission Support should:

(1) Develop a supply module in the information management system to enable end users to order on-line and to allow warehouse managers to track pending orders effectively and efficiently; and

(2) Request warehouse managers to periodically report on expendable items to alert section managers about: (a) stock items reaching their economic re-order levels; (b) slow moving items; and (c) items nearing their expiration date.

10. *The UNMIS Mission Support accepted recommendation 1 and stated that an e-request system exists for Supply items however it is not linked to Galileo. As the mission is unable to change the functions of Galileo, it has submitted this suggestion to the Galileo help desk for consideration by the Change Management Group to include this functionality.* Recommendation 1 remains open pending the response from the Galileo help desk on the request made by the Mission.

11. *The UNMIS Mission Support accepted recommendation 2 and stated that Self Accounting Units (SAUs) have access to Galileo and are able to monitor stock levels and consumption rates prior to raising a requisition. The Property Management Section is in the process of compiling historical consumption data to identify possible surpluses, and once completed will be disseminated to SAUs. There is currently no support in Galileo to classify items by expiry date, which is particularly relevant for medical supplies. To remedy this, the Medical Unit proposed to put in place a database to further support medical data shown in Galileo by 30 June 2008. Recommendation 2 remains open pending confirmation that a system has been established to readily identify surplus stock and those items reaching their expiry date.*

B. Inventory records and physical stock balance

12. Proper inventory management requires continuous updating of records to ensure accuracy and completeness of data, as well physical counts to verify the existence and condition of stock items. In addition, the standard operating procedures (SOP) for the Supply Section, state that sector officers, warehouse supervisors and asset managers are to conduct a 6-monthly review of all expendable stock items held in their warehouses/storage areas. The aim of the review is to identify: items which have a high demand; excessive stock balances; and obsolete items and unusable items. The Engineering Section SOP also states that ordinarily physical counts should be done annually; however, additional spot checks may be conducted if the situation warrants it.

13. No inventory counts had been conducted by the Supply or Engineering sections at the El Obeid logistics base or in the sectors within the last two years.

14. OIOS physically verified a sample of items from Galileo. The results showed that there were a high number of discrepancies between the book balances and the physical stock. OIOS' discussions and evidence reviewed showed that many of the differences resulted from Galileo not being regularly updated. Of 733 line items tested the physical and the book balances only agreed in 395 cases (54 per cent). In 103 cases the physical count exceeded the book count; while there were shortages in 235 line items (See Tables 2 and 3 below).

Table 2: Line items physically verified by OIOS

Warehouse	No of line items verified	No. of line items		
		In agreement	With shortages	With surplus
Engineering	131	51	46	34
Transport	183	66	91	26
Supply	204	132	46	26
Medical	215	146	52	17
Total	733	395	235	103

Table 3: Inventoried items with large discrepancies

Item Description	Item within warehouse	Book balance	Physical balance	Surplus/ (Shortage)
Drawer Unit	Supply	138	1,280	1,142
Computer Table	Supply	1,036	558	(478)
File (hanging)	Supply	995,369	174,650	(820,719)
Pencil	Supply	2,266	318	(1,948)
Clip Binder 32mm	Supply	13,115	9,799	(3,316)
Metrinidazole 250mg Tablets	Medical	13,000	1,264	(11,736)
Amoxicillin 500mg- Tablets	Medical	5,000	3,778	(1,222)
Paracetamol 500mg tablets	Medical	3,810	1,600	(2,210)
Bulb Incandescent 60watt	Engineering	6,585	37	(6,548)
Trunking 38×25mm	Engineering	1,500	500	(1,000)
CCGI roofing nail 2.5”mm	Engineering	180	14,000	13,820
Cap PVC 200mm	Engineering	76	744	668
Ear plug	Engineering	2,150	1,180	(970)
Filter Engine Oil	Transport	302	30	(272)
Nut wheel steel	Transport	200	242	42
Shock absorbers, front	Transport	52	26	(26)
RR Bumper piece	Transport	22	0	(22)

15. OIOS is concerned that while the surpluses/shortages may be attributed to unposted vouchers and clerical errors, they could have also included an element of theft. Without adequate and complete records, that are regularly updated, management cannot rely on the information presented or have assurance that expendable items are properly safeguarded against loss through theft.

Recommendations 3 and 4

The UNMIS Mission Support should:

(3) Ensure that warehouse managers conduct periodic physical counts of all expendable stocks held in their warehouses to verify physical existence and determine the condition of stocks, and initiate corrective action, where necessary; and

(4) Follow up on and investigate the large discrepancies identified in the Supply Section and initiate appropriate action if necessary.

16. *The UNMIS Mission Support accepted recommendation 3 and stated that it is a part of the normal course of warehouse business which is presently being carried out and that a schedule/tracking mechanism for physical counts will be*

prepared imminently and the procedure will be incorporated in the Property Management Section Standard Operating Procedure. Recommendation 3 remains open pending OIOS' verification of the scheduling and actual taking of physical counts of expendable stocks.

17. *The UNMIS Mission Support accepted recommendation 4 and stated that the cited discrepancies are currently being investigated and appropriate action will be taken at the outcome of the investigation. Recommendation 4 remains open pending the completion of the investigation on the stock discrepancies.*

Physical storage facilities

18. OIOS' review of the warehouses and other storage facilities found that:

- At El Obeid Logistics Base, stock items have been stacked in sub-halls and several containers. There were inadequate internal controls in place, as goods were not properly catalogued, and descriptions of bin locations were unclear. Controls in general were weak, with no system in place to track the movement and storage of items in an accurate and timely manner.
- For the Engineering Section, goods were stored in facilities making it difficult to easily identify and test check stock items. The Engineering Section also lacks adequate trained staff to assist in managing the stock records. This is a critical issue, as the Mission expended \$34.5 million on engineering expendables within the last two years, constituting about 56 per cent of the total expendable budget for the mission.
- For the Transport Unit, there was no SOP to guide staff in its inventory management activities. Galileo had not been updated, and some items in stock, especially Nissan and Toyota parts with the same item description and part numbers were recorded as separate line items.
- For the Supply Section, the concerns with the large number of discrepancies were already noted above (see Table 2). Also, there had not been any regular physical inventories taken. Moreover, many items had been deposited in containers without an adequate listing, making it extremely difficult to what was actually in storage.
- For the Medical Section, all consumables including drugs were recorded and controlled on an Excel spreadsheet. OIOS would caution against the use of such a system as it can be prone to errors that are not easily detected. Inventory records were not updated and physical counts not done on a regular basis. Considering the commodity, due to the weak internal controls, this poses a high risk of loss through theft.

Incorrect coding and description in database

19. OIOS also noted a number of anomalies in the codification of selected items in Galileo. There were differences in the reference numbers on the purchase orders, R&I reports and Galileo inventory database. Inconsistent descriptions can cause problems in matching items listed in Galileo to the source documents.

Recommendations 5 and 6

The UNMIS Mission Support should:

(5) Establish a reliable warehouse facility in El Obeid to be used by self-accounting units to stock all items still held in containers; and

(6) Resolve the errors in codifying items and update the records in the Galileo system regularly to ensure completeness and reliability of expendable inventory reports.

20. *The UNMIS Mission Support accepted recommendation 5 and stated that the Mission recognizes that there has been a lack of adequate warehousing. The Mission has established this as one of the Mission Priority Projects for 2008-2009 period. Recommendation 5 remains open pending confirmation that adequate warehousing has been established to properly safeguard expendable items.*

21. *The UNMIS Mission Support accepted recommendation 6 and stated that complete review of expendable items in Galileo is ongoing and all errors are constantly being corrected. Property Management Section together with Receipts and Inspection Unit will however monitor this area closely. Based on the action taken by UNMIS Administration recommendation 6 has been closed.*

C. Staffing requirements for Property Management Section

22. UNMIS established a Property Management Section (PMS) in September 2007 based at El Obeid Logistics Base to improve expendable and non-expendable property controls in a more comprehensive and coordinated manner. PMS was assigned the responsibilities of monitoring mission consumables and advising the Chief of Integrated Support Services and the Director of Mission Support on issues related to the utilization of stock, material resource planning, consumption rates and analysis. The adequacy of PMS' staffing, which totaled 95 posts to carry out these and other functions, is being reviewed by the Mission. Nonetheless, at the time of the audit, there were 18 international and 10 national post vacancies. In line with the Mission's overall policy of realigning existing resources to the greatest extent possible, the transfer of staff from other Sections to fill vacancies in PMS was underway and was expected to be completed by end of October 2007.

Recommendation 7

(7) The UNMIS Mission Support should expedite the filling of vacant posts in the Property Management Section to ensure property management is carried out in a more comprehensive and coordinated manner and appropriate internal controls are strengthened.

23. *The UNMIS Mission Support accepted recommendation 7 and stated that it is in the process of filling the staff vacancies. It is noted that the recruitment process is slow. For example, the head of warehousing was interviewed in April 2007 but only arrived in the Mission in February 2008. Recommendation 7 remains open pending the filling of critical vacant posts.*

D. Warehouse security

24. While, El Obeid erected fences in an attempt to provide adequate security, the SAU warehouses within the logistics base were not sufficiently secured to deter unauthorized entry. The warehouses are temporary sheds made of tarpaulin. There were no secured entrances, or security cameras to prevent pilferage and loss. Most of the expendable items have been stacked in containers, which, as shown below, are positioned on bare ground exposing them to water and other damage.



Containers exposed to flash flood during rainy season in Khartoum

25. The lack of adequate security and secured warehouses for managing and protecting expendables exposes the Mission to high risk. OIOS has already recommended (recommendation 4) for the Mission to ensure there is adequate, reliable and secure warehousing.

V. ACKNOWLEDGEMENT

26. 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.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Submission to OIOS of response from the Galileo help desk with regard to request from the Mission to changes on the database	Not provided
2	O	Submission to OIOS of inventory reports generated that highlight slow moving items and those that are nearing expiry dates and reorder levels	30 April 2008
3	O	OIOS' verification of the scheduling and actual taking of physical counts of expendable stocks	1 September 2008
4	O	Submission to OIOS of a copy of the final report on the investigation of the discrepancies identified and the appropriate action taken	30 April 2008
5	O	Confirmation by the Mission of the completion of the construction of warehouse facilities for expendables at El Obeid Logistics Base	31 July 2008
6	C	Action completed	Implemented
7	O	Confirmation by the Mission of the filling of the remaining international and national staff vacancies	Not provided

¹ C = closed, O = open

² Date provided by UNMIS in response to recommendations