



INTERNAL AUDIT DIVISION

REPORT 2016/061

Audit of inventory management in the
United Nations Interim Force in
Lebanon

Overall results relating to the effective
management of inventory were initially
assessed as partially satisfactory.
Implementation of three important
recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

27 May 2016
Assignment No. AP2015/672/02

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AUDIT REPORT

Audit of inventory management in the United Nations Interim Force in Lebanon

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of inventory management in the United Nations Interim Force in Lebanon (UNIFIL).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. UNIFIL maintains various types of inventories including centralized inventory (general supply, engineering, communications and information technology and transport equipment and spare parts), medical inventory and strategic reserves of fuel and rations. The Central Warehouse Unit of the Supply and Property Management Section is responsible for the management of centralized inventory, while the UNIFIL Medical Section is responsible for the management of the Mission's medical inventory. Strategic reserves of fuel and rations are managed by the Fuel and Rations Units respectively.
4. As at 16 February 2016, UNIFIL had an inventory level totaling \$15.9 million, comprising \$13 million for centralized inventory, \$0.6 million for medical inventory, and \$0.5 million and \$1.8 million for strategic fuel and rations reserves respectively. The Central Warehouse Unit has 47 approved staff posts including 8 international and 39 national staff; who are assisted by two military staff officers. The Medical Section, Fuel Unit and Rations Unit have 5, 15 and 8 approved staff posts respectively. The 2014/15 budgeted staff costs for the Central Warehouse Unit, Medical Section, Fuel Unit and Rations Unit were \$3.8 million, \$0.6 million, \$1.52 million and \$0.8 million respectively.
5. Comments provided by UNIFIL are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNIFIL governance, risk management and control processes in providing reasonable assurance regarding the **effective management of inventory in UNIFIL**.
7. The audit was included in the 2015 risk-based audit work plan of OIOS because of the operational and financial risks related to inventory management.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: (a) exist for monitoring and overseeing UNIFIL inventory; (b) are implemented effectively; and (c) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from December 2015 to February 2016. The audit covered the period from 1 July 2014 to 30 September 2015. Inventory balances of January and February 2016 were taken into consideration to verify accuracy of records.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The UNIFIL governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of inventory in UNIFIL**. OIOS made three recommendations to address issues identified. UNIFIL established adequate controls over the maintenance of centralized inventory and strategic reserves of fuel and rations. However, the Mission needed to put in place: (a) an action plan to ensure full implementation of the cycle count programme; (b) a comprehensive strategy to train and supervise Mission personnel assigned to the management of medical inventory; and (c) amend standard operating procedures to clarify responsibility to install and monitor closed circuit cameras in the warehouses.

13. The initial overall rating was based on the assessment of the key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of inventory in UNIFIL	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Inventory cycle count programme was not fully implemented

14. The Department of Peacekeeping Operations (DPKO) Guidelines on Warehouse Operations for Field Missions and the DPKO/Department of Field Support (DFS) Guidelines on Cycle Count of Expendable Property and Reconciliation of Discrepancies in Field Missions require missions to establish a cycle counting programme by: (a) analyzing and ranking the frequency of outgoing inventory into A, B and C classes; and (b) counting each class at least quarterly, semi-annually and annually respectively. The

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

UNIFIL standard operating procedures on expendable items stipulate that: (a) when a stock counting result shows minor variances of less than 3 per cent of quantities, the Central Warehouse Unit must obtain the approval of the Chief of Supply and Property Management to make necessary adjustments to the inventory value; (b) chiefs of self-accounting units should initiate an investigation for major variances of more than 3 per cent; and (c) the Central Warehouse Unit should obtain the chiefs' approval to make adjustments to the inventory value.

15. A review of the Galileo inventory records showed that UNIFIL had not fully established the cycle count programme and had as at 16 February 2016 ranked only 27 per cent of its inventory and carried out a cycle count for 76 per cent of the ABC ranked inventory. As a result, the Mission was not fully achieving the intended purpose of the cycle count programme to distribute the workload of managing inventory evenly over the year and minimize disruption to the Mission's operations.

16. Also, a review of major and minor inventory adjustments showed that the Central Warehouse Unit made adjustments for 374 cases of minor discrepancies with a total shortage of \$3,918 and an excess of \$1,851 without approvals of the Chief of Supply and Property Management. Further, the Unit adjusted inventory value for 649 cases of major discrepancies with a total shortage of \$28,000 and an excess of \$42,000 without approvals of the chiefs of self-accounting units where the required investigations were not carried out. As a result, UNIFIL was unable to demonstrate that above-mentioned discrepancies were properly justified.

17. This happened because the Mission did not have an adequate plan including resource requirements, training needs assessment and target implementation date, to ensure full implementation of the cycle counting programme, increasing the risk that reported inventory balances are inaccurate.

(1) UNIFIL should put in place an action plan, including training needs assessment and target implementation date, to ensure full implementation of the inventory cycle count programme without further delay.

UNIFIL accepted recommendation 1 and stated that the Central Warehousing Unit would develop an inventory cycle count programme in accordance with DFS Guidelines taking into consideration resource constraints. Recommendation 1 remains open pending receipt of evidence of implementation of the inventory cycle count programme.

Central warehouse records were accurate and development of standard procedures was near finalization

18. The DPKO/DFS Guidelines on Warehouse Operations and Cycle Count of Expendable Property and Reconciliation of Discrepancies in Field Missions require missions to develop detailed standard operating procedures on their inventory management. Also, the Guidelines require that: (a) physical stock locations in warehouses should tally with the locations maintained in the Galileo records; and (b) the Central Warehouse Unit should not issue inventory items without approved issue vouchers. The DFS Directive on property management for the financial year 2015 requires the Central Warehouse Unit to timely update all inventory transactions in Galileo.

19. A review of UNIFIL standard operating procedures on inventory management showed that the Mission identified the need to develop seven standard operating procedures to cover all aspects of inventory management. One was finalized and six were near finalization. As the Mission was taking appropriate measures to finalize the six standard operating procedures, OIOS did not make a recommendation.

20. A physical verification of 408 items totaling \$2.8 million out of 21,958 items totaling \$13 million from central inventory warehouses (2 and 22 per cent of quantity and value) showed that inventory locations and quantities were accurately matched with Galileo records. Items were released based on issue vouchers and transactions were timely updated in Galileo. OIOS concluded that the Central Warehouse Unit maintained its records accurately in accordance with the established procedures.

Write-off procedures for central warehouse inventory were complied with

21. The UNIFIL standard operating procedures for Supply Warehouse Operations - Expendable Items require: (a) a technical assessment to validate the decision to write off particular items; (b) removal of the items to be written-off from operating stock and Galileo records; and (c) investigation of the items reported as lost.

22. A review of 50 items totaling \$249,000 out of 507 items totaling \$770,000 (10 and 32 per cent of quantity and value) written off during the audit period showed that the required procedures were complied with. OIOS concluded that write-offs of central warehouse inventory were conducted in accordance with the established procedures.

Controls over medical inventory needed improvement

23. The United Nations Medical Directors Working Group Statement on Tamiflu in April 2015 requires testing of existing stockpiles and storing them according to the manufacturers' recommendations. UNIFIL must also obtain the approval of the Medical Service Division at United Nations Headquarters to write off and dispose the stockpiles of Tamiflu because of the high cost and unavailability of new supplies should an epidemic arise.

24. A review of records on the 19,970 units of Tamiflu valued at \$280,000 held by UNIFIL showed that testing was conducted and the Mission was storing them according to manufacturers' recommendations. The Medical Section during the audit started taking action to seek the approval of the Medical Services Division to dispose of expired Tamiflu; therefore OIOS did not make a recommendation in this regard.

25. The UNIFIL Medical Section is required to observe procedures on inventory management established by DPKO/DFS and the Mission for storing, recording, counting, and writing off medical inventory. Also, the UNIFIL standard operating procedures on medical inventory requires the Section to monitor its drugs due to expire in three months' time.

26. A review of 60 out of 988 items of medical supplies and drugs (6 per cent) with a value of \$97,000 out of \$646,000 (15 per cent) showed the following:

- In one case the Galileo issue vouchers indicated an issuance of 10 pieces of an antibiotic valued at \$450 but the corresponding hospital records showed a receipt of 804 pieces; 13 items valued at \$1,581 could not be located; issue vouchers made during the audit indicated items as issued to the hospital but they could not be traced to hospital records; and one box (30 pieces) of a controlled drug was issued without any records in Galileo. Relevant records were made retroactively during the audit;
- Fifty-one items were in wrong bin locations and five did not have stock numbers; Galileo records for five items indicated 335 pieces on hand but the physical count showed 700 pieces;

- Items valued at \$4,960 were issued without records, and issue vouchers were authorized two to six months retroactively; the hospital did not sign for receipts; and 12 items valued at \$2,019 recorded in Galileo as issued were not recorded by the hospital as received;
- Eleven items that had expired between February 2012 and October 2015 were still on the shelves for issuance. Five items were incorrectly recorded as expired in Galileo and 15 drug items were issued after their expiry dates. Overall, the Medical Section did not update expiry dates of drugs in Galileo;
- Except in the pharmacy, medical supplies in storage were not properly organized and labeled to facilitate physical verification; and
- Write-off procedures were not met as four items pending write-off had not been physically segregated from stock and seven items written off were still recorded as active stock in Galileo.

27. The above occurred as staff of the Medical Section had not been properly trained and supervised for storing, recording, counting, writing off, and monitoring of drug expiry dates of medical inventory. Weaknesses in controls over medical inventory could result in losses and undermine health of the Mission personnel.

(2) UNIFIL should develop and implement a comprehensive strategy to train and supervise Mission personnel assigned to the management of medical inventory.

UNIFIL accepted recommendation 2 and stated that the pharmacist in the Medical Section attended the Essential Warehousing training organized by the Supply Chain Management Section in April 2016. The Medical Section would liaise with the Training Unit to identify relevant training programmes to improve the inventory management skills of the Medical Section personnel assigned to perform inventory management tasks. Recommendation 2 remains open pending receipt of evidence that UNIFIL has developed and implemented a comprehensive strategy to train and supervise the Mission personnel assigned to the management of medical inventory.

Controls over strategic fuel and rations reserves were generally adequate

28. The United Nations International Public Sector Accounting Standards Policy Framework requires strategic reserves of fuel and rations to be physically verified in a financial year. UNIFIL Mission Support Plan and Fuel Contingency Plan require the maintenance of 42 days of strategic food rations and 28 days of strategic fuel reserves. DFS Fuel Operations Manual requires a rotation of all fuel reserves every six months.

29. A review of records showed that the Mission conducted physical verifications once and twice in the financial year for fuel and rations reserves respectively. A review of 9 of 19 fuel rotation reports during the audit period showed that fuel was being rotated every six months. Further, a physical verification of 274,014 liters of fuel, comprising 29 per cent of Mission strategic fuel reserves of 944,704 showed no major discrepancy. Also, a physical verification of 6,864 out of 119,000 (6 per cent) ration packs and 58,875 out of 875,331 liters (7 per cent) of bottled water showed no discrepancies. All items were properly stored, inspected and verified. OIOS concluded that controls over strategic fuel and rations reserves were adequate and working effectively.

Controls over central warehouse security and staff health and safety needed improvement

30. The DPKO Guidelines on Warehouse Operations for Field Missions require missions to: (a) maintain warehouse equipment properly; (b) ensure mechanical handling equipment operators are trained and licensed by the Transport Section; (c) install, mark and train staff on how to use health and safety related equipment in the warehouse such as first aid kits and eyewash stations; (d) equip warehouse staff with basic safety equipment and install adequate security measures such as emergency exits and closed circuit cameras; and (e) put in place an accident book for recording accidents and health related incidents. The DPKO policy on Field Occupational Safety and Risk Management requires missions to put in place a common safety risk management mechanism to collect and analyze workplace incident/accident data, determine incident reduction goals and supporting actions and assess the effectiveness of those efforts.

31. A review of maintenance records for 14 out of 54 pieces of warehouse equipment showed that they were regularly maintained and in good working condition, and mobile equipment were inspected and maintained within the required usage hours. Also, all mechanical handling equipment operators were properly licensed. However, first aid kits were not available in one of the eight warehouses; some first aid items had expired; consumed first aid items were not replenished; and accident books were not maintained in all eight warehouses. Further, only four of the eight warehouses had marked walkways and emergency exits and some emergency exits were blocked. In addition, warehouse security cameras were not operational in two of the warehouses and footage of the operational cameras was not reviewed and monitored.

32. The above resulted as the Occupational Health and Safety Committee of the Mission was dormant and reconstituted only in February 2016 and had not established an adequate safety risk management mechanism for warehouses. The Mission also developed an Occupational Safety Risk Assessment methodology in April 2016 to identify hazards and assess risks in warehouses. However, the Mission's applicable standard operating procedures did not indicate which Mission unit is responsible for the installation and monitoring of the closed circuit television for the warehouses.

33. As a result, the warehouses for the Engineering and Supply Section during the audit period reported a loss or theft of 24 air conditioners totaling \$6,673 and five security jackets totaling \$922.

(3) UNIFIL should amend its applicable standard operating procedures to clarify the responsibility to install and monitor closed circuit cameras in warehouses.

UNIFIL accepted recommendation 3 and stated the Mission would review and clarify the responsibility to install and monitor closed circuit cameras and amend the applicable standard operating procedures accordingly. Recommendation 3 remains open pending receipt of the amended standard operating procedures.

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the Management and staff of UNIFIL for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of inventory management in the United Nations Interim Force in Lebanon

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	UNIFIL should put in place an action plan, including training needs assessment and target implementation date, to ensure full implementation of the inventory cycle count programme without further delay.	Important	O	Submission of evidence of the implementation of the inventory cycle count programme.	31 July 2016
2	UNIFIL should develop and implement a comprehensive strategy to train and supervise Mission personnel assigned to the management of medical inventory.	Important	O	Submission of evidence that UNIFIL has developed and implemented a comprehensive strategy to train and supervise the Mission personnel assigned to the management of medical inventory.	30 September 2016
3	UNIFIL should amend its applicable standard operating procedures to clarify the responsibility to install and monitor closed circuit cameras in warehouses.	Important	O	Submission of amended standard operating procedures.	30 September 2016

²Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNIFIL.

APPENDIX I

Management Response

UNITED NATIONS
INTERIM FORCE IN LEBANON



NATIONS UNIES
FORCE INTERIMAIRE AU LIBAN

Office of the Head of Mission and Force Commander

CONFIDENTIAL

25 May 2016
UNIFIL 1176-2016/FC-06

To: Ms. Muriette Lawrence-Hume, Chief, New York Audit Service
Internal Audit Division, OIOS

From: Major General Luciano Portolano
Head of Mission and Force Commander, UNIFIL



Subject: **Draft report on an audit of inventory management in UNIFIL (Assignment No. AP2015/672/02)**

1. I refer to your memorandum on the above subject, reference No. IAD: MO160502 dated 11 May 2016.

2. Please find attached, UNIFIL's response to the recommendations contained in the subject Draft Report including action plan with target dates and responsible individuals.

Thank you and best regards.

Cc: Mr. Fabio Bendinelli, Officer-in-Charge, Mission Support Division, UNIFIL
Mr. Effendi Syukur, Chief Audit Response, Risk Management and BOI Unit, UNIFIL
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

Management Response

Audit of inventory management in the United Nations Interim Mission in Lebanon

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNIFIL should put in place an action plan, including resource requirement, training needs assessment and target implementation date, to ensure full implementation of the inventory cycle count programme without further delay.	Important	Yes	Chief Supply Chain Management Section	31 Jul 2016	UNIFIL Central Warehousing Unit will develop an inventory cycle count programme in accordance with DFS Guidelines and taking into consideration resource constraints which will commence 1 July 2016.
2	UNIFIL should develop and implement a comprehensive strategy to train and supervise Mission personnel assigned to the management of medical inventory.	Important	Yes	Chief Medical Officer	30 Sep 2016	UNIFIL Pharmacist in Medical Section attended the Essential Warehousing training organized by the Supply Chain Management in UNIFIL from 18 to 21 April 2016. The Medical Section will further liaise with the Training Unit in order to identify relevant training programmes to improve the inventory management skills of the Medical Section personnel assigned to perform these tasks.
3	UNIFIL amend its applicable standard operating procedures to clarify the responsibility to install and monitor closed circuit cameras in warehouses.	Important	Yes	OIC Mission Support Division	30 Sep 2016	UNIFIL will review the relevant Standard Operating Procedures (SOP) in order to clarify the responsibility to install and monitor closed circuit cameras in warehouses, and amend the SOP accordingly.

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.