



## INTERNAL AUDIT DIVISION

### REPORT 2016/082

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Audit of United Nations property and contingent-owned equipment in the United Nations Disengagement Observer Force

Overall results relating to the effective management of United Nations property and contingent-owned equipment were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

11 August 2016  
Assignment No. AP2016/670/01

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# AUDIT REPORT

## Audit of United Nations property and contingent-owned equipment in the United Nations Disengagement Observer Force

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations property and contingent-owned equipment in the United Nations Disengagement Observer Force (UNDOF).
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. As at February 2016, UNDOF property comprised 2,577 non-expendable items, 4,811 expendable line items and 99 items of real estate with purchase value of \$45.4 million, \$4.7 million and \$34 million respectively. Two troop-contributing countries provided 189 pieces of contingent-owned equipment (COE) for which they were reimbursed approximately \$2.1 million annually.
4. UNDOF was in the process of implementing supply chain management as directed by the Department of Field Support (DFS). Once implemented, the Supply Section will be responsible for the central warehouse and expendable property. Self-accounting units (Transport, Engineering, Supply and Communication and Information Technology Sections) were responsible for managing applicable non-expendable property. In addition, the Engineering Section was responsible for managing real estate. The Property Control and Inventory and COE Units were responsible for verifying non-expendable property and COE respectively.
5. The approved budget for UNDOF was \$52 million for the fiscal year 2015/16. UNDOF had 1,459 authorized personnel comprising 1,302 military and 49 international and 108 national civilian staff. After withdrawal from Camp Faouar in September 2014 following its evacuation, UNDOF operates from Camp Ziouani and an administrative office in Katzrin in the Golan Heights, a representation office in Damascus, Syria and seven military positions.
6. Comments provided by UNDOF are incorporated in *italics*.

### II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNDOF governance, risk management and control processes in providing reasonable assurance regarding the **effective management of United Nations property and COE in UNDOF**.
8. The audit was included in the 2016 risk-based work plan of OIOS because of the financial and operational risks relating to the management of the United Nations property and COE.
9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as one that provides reasonable assurance that policies and procedures: (i) exist to guide the management of United Nations property and COE; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

10. The key control was assessed for the control objectives shown in Table 2.

11. OIOS conducted the audit in February and March 2016. The audit covered the period from 1 September 2014 to 29 February 2016. The audit was conducted at UNDOF Headquarters in Camp Ziouani, Golan Heights.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews and analytical reviews, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. For the purpose of this audit, OIOS classified United Nations property into non-expendable and expendable property, corresponding to the classification in the Galileo database, and real estate. Table 1 below indicates the sample sizes reviewed.

**Table 1: Audit sample sizes**

Assets	Total population		Samples selected			
	Quantity	Purchase cost \$	Quantity	%	Purchase cost \$	%
Non-expendable property	2,577 items	45.4 million	308 items*	12	4.3 million	9
Expendable property	4,811 line items	4.7 million	378 line items	8	478,000	10
Real estate	99 items	34 million	10 items	10	1.9 million	9

\*Includes 156 items that were reviewed based on photographs provided by UNDOF

### III. AUDIT RESULTS

13. The UNDOF governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of United Nations property and COE in UNDOF**. OIOS made two recommendations to address issues identified. UNDOF established adequate controls over real estate, COE, and fuel and rations reserves. Write-off of assets lost in September 2014 due to the evacuation of the Mission was processed in accordance with the established procedure. However, UNDOF needed to develop and implement: (a) guidance to strengthen the management of United Nations property by self-accounting units; and (b) a comprehensive action plan to roll out the central warehousing and cycle count programmes.

14. The initial overall rating was based on the assessment of the key control presented in Table 2. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

<sup>1</sup> 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.

**Table 2: 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
<b>Effective management of United Nations property and COE in UNDOF</b>	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## **Regulatory framework**

Controls over COE, fuel and rations reserves, real estate and property write-off were satisfactory

15. UNDOF was responsible for administering and managing COE, fuel and rations, and real estate as prescribed by the COE Manual and the United Nations policy framework for International Public Sector Accounting Standards (IPSAS). Additionally, the DFS delegation of authority on property management to UNDOF required strict adherence to the established write-off procedures.

16. OIOS review of Mission records showed that there were memoranda of understanding for COE of all troop-contributing countries of the Mission. Also, the Mission conducted quarterly inspections of COE and submitted duly approved operational readiness inspection reports to DFS. A physical verification of 169 pieces of COE, representing 99 per cent of the annual reimbursement to troop-contributing countries, indicated that all were present and operational. Although the Mission did not constitute a Central Memorandum of Understanding Management Review Board due to staffing constraints and the low and stable number of COE, the Chief of Mission Support and military chief of staff carried out the Board functions when necessary.

17. UNDOF did not have any strategic reserves to be classified as financial inventory under IPSAS. However, fuel records showed that UNDOF maintained the required operational reserve levels of fuel and rations. The Mission also implemented proper controls to meet the required quality standards for fuel and ration reserves.

18. OIOS review of 10 buildings valued at \$1.9 million (9 per cent of 99 real estate items totaling \$34 million) indicated that 8 of them were accurately recognized as real estate in Umoja. The remaining two did not meet the IPSAS threshold of \$100,000 and were therefore expensed.

19. The DFS delegation of authority on property management to UNDOF stated that the Chief of Mission Support was authorized to write off individual items up to \$3,000 in depreciated value. The Local Property Survey Board had authority to approve a write-off up to \$25,000.

20. OIOS review of records on write-off of Mission assets that were lost during the evacuation from Camp Faouar in September 2014 (expendable and non-expendable property with a total purchase cost of \$25 million and real estate with a total depreciated value of \$17.3 million) showed that the Mission compiled the required detailed information on the lost items and the circumstances of their loss. The Mission convened meetings of the Board of Inquiry and Local Property Survey Board as required. Cases below \$3,000 and \$25,000 were duly processed by the Chief of Mission Support and Local Property Survey Board respectively. Cases exceeding \$25,000 were presented to the Headquarters Survey Property

Board in accordance with established procedures and the Mission was awaiting their approval. OIOS concluded that the controls over COE, fuel and ration reserves, real estate and write-offs were satisfactory.

Controls over non-expendable property needed to be strengthened

21. The Property Management Manual of the Department of Peacekeeping Operations/DFS and the delegation of authority to UNDOF on property management require the Property Control and Inventory Unit to physically verify all non-expendable property at least once a year to ensure their existence. The DFS directive on property management for the financial year 2014/15 requires maintenance of accurate data on property and equipment. Further, the Property Management Manual requires missions to develop their own standard operating procedures based on mission specific environment.

22. OIOS review of documentation showed that the Property Control and Inventory Unit physically verified all non-expendable property for the financial year 2014/15. However, UNDOF did not have adequate standard operating procedures on the management of non-expendable property. The Mission's procedures provided guidance on the management of non-expendable property only for the Supply Section; there was no guidance to self-accounting units.

23. OIOS verification of 308 non-expendable items showed that:

- 47 items (15 per cent) were initially not located. Galileo records indicated their location at warehouses in Camp Ziouani as unit stock. However, these items were either already in use or placed elsewhere without their location in Galileo being accurately updated. All 47 items were subsequently located and accounted for; and
- 22 items (7 per cent) with a total purchase value of \$101,500 were not located. The Mission explained that two of them were located on Mount Hermon but this could not be verified during the audit due to bad weather.

24. The above discrepancies occurred because the Mission did not establish proper procedures for self-accounting units to timely update the locations of non-expendable items in Galileo and monitor compliance. Also the work plans for managers of self-accounting units did not indicate their responsibility for managing and maintaining records on non-expendable property, despite their high value and operational importance. This could result in lack of accountability and loss of United Nations property.

**(1) UNDOF should develop and implement guidance to strengthen the management of United Nations property by self-accounting units, including appropriate measures to monitor and enforce compliance.**

*UNDOF accepted recommendation 1 and stated that it would develop a detailed work plan to specify responsibilities and to enhance monitoring of property management through corporate reports, as required by DFS directives on property management. Recommendation 1 remains open pending receipt of evidence that appropriate guidance and measures have been implemented to strengthen the management of United Nations property.*

Controls over expendable property and cycle counts needed to be strengthened

25. The DFS Guidelines on Cycle Count of Expendable Property and Reconciliation of Discrepancies in Field Missions issued in July 2013 require missions to establish a cycle count programme by: (a) analyzing and ranking outgoing expendable stocks into A, B and C classes depending on the frequency of issuance; and (b) counting each class at least quarterly, semi-annually and annually respectively. The DFS Supply Chain Management Blueprint requires UNDOF to implement a central warehousing programme, which, amongst others, requires integration of all warehouses into one central warehouse.

26. OIOS review of Galileo records showed that UNDOF had not fully established the central warehousing and cycle count programmes. The Supply and Communication and Information Technology Sections (CITS) had implemented central warehousing but the Transport and Engineering Sections had not. Classification of stocks into A, B and C classes had not started. The Transport and Supply Sections performed cycle counts once and four times respectively during the audit period; however, CITS and the Engineering Section did not perform any cycle counts.

27. The above occurred because there was no Mission-wide plan to implement the central warehousing and cycle count programmes. The Mission also experienced staffing shortage as 100 of 108 local staff were unable to perform duties in Camp Ziouani because of their nationality. As a result, the Mission was not fully achieving the intended purpose of the cycle count programme of distributing the workload of managing physical inventory evenly over the year and minimizing disruption to the Mission's operations.

**(2) UNDOF should develop and implement a comprehensive action plan to roll out the central warehousing and cycle count programmes, including allocating resources and establishing target dates for implementation.**

*UNDOF accepted recommendation 2 and stated that the Mission had raised concerns on the staffing requirements to implement the supply chain management concept to DFS. Nevertheless, it had developed an organizational structure that partly meets the DFS Supply Chain Management Blueprint. Recommendation 2 remains open pending receipt of evidence of implementation of the central warehousing and cycle count programmes.*

#### **IV. ACKNOWLEDGEMENT**

28. OIOS wishes to express its appreciation to the Management and staff of UNDOF 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 United Nations property and contingent owned equipment in the United Nations Disengagement Observer Force

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	UNDOF should develop and implement guidance to strengthen the management of United Nations property by self-accounting units, including appropriate measures to monitor and enforce compliance.	Important	O	Submission of evidence of implementation of guidance and measures to strengthen the management of United Nations property.	30 October 2016
2	UNDOF should develop and implement a comprehensive action plan to roll out the central warehousing and cycle count programmes, including allocating resources and establishing target dates for implementation.	Important	O	Submission of evidence of implementation of central warehousing and cycle count programmes.	30 October 2016

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by UNDOF in response to recommendations.



# **APPENDIX I**

## **Management Response**

  
**UNITED NATIONS      NATIONS UNIES**  
**Disengagement Observer Force**

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**FACSIMILE TRANSMISSION**

<b>Outgoing Fax No:</b>	<b>Date:</b> 03 August 2016
<b>To:</b> Ms. Muriette Lawrence-Hume Chief, New York Audit Service Internal Audit Division, OIOS	<b>From:</b> Bernard Lee <i>James Park</i> Chief of Mission Support UNDOF Syrian Arab Republic
<b>Attn:</b> Mr. Daeyoung Park Chief Resident Auditor Middle East Resident Audit Office Internal Audit Division, OIOS	
<b>Fax No: via eMail</b>	<b>Fax No:</b> 0012129639930
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<b>Subject:</b> Draft report on an audit of United Nations property and contingent owned equipment in the United Nations Disengagement Observer Force (Assignment No. AP2016/670/01)	

With reference to your facsimile ref MO160701 of 18 July 2016 on the subject, please be informed that UNDOF has accepted both recommendations of Appendix 1 of the draft audit report. Accordingly, please find attached Appendix 1 completed by UNDOF.

Best regards.

Cc: Major General J.S. Menon, HOM/FC UNDOF  
 Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

<b>Drafted by:</b>	<b>Authorized by: Bernard Lee</b>
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## Management Response

## Audit of United Nations property and contingent owned equipment in the United Nations Disengagement Observer Force

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNDOF should develop and implement guidance to strengthen the management of United Nations property by self-accounting units, including appropriate measures to monitor and enforce compliance.	Important	YES	CMS	30 October 2016	With the implementation of Supply Chain Management and the concept of the Centralized Warehouse, UNDOF will implement a detailed Work plan in order to specify responsibilities and to enhance the monitoring tools through the corporate reports as per the LSD Directives on Property Management.
2	UNDOF should develop and implement a comprehensive action plan to roll out the central warehousing and cycle count programmes, including allocating resources and establishing target dates for implementation.	Important	YES	CMS	30 October 2016	Please note the Mission has raised concerns to UNHQ on the blueprint of Small missions under the SCM concept, where we have identified the deficiencies on staff required to implement SCM, however to move forward UNDOF has developed an organizational structure that partly meets the Blueprint, which has enabled the Mission to progress.

<sup>1</sup> 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.

<sup>2</sup> 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.