



INTERNAL AUDIT DIVISION

REPORT 2016/124

Audit of property management
activities at the United Nations Office
at Geneva

Compliance with procedures for investigation
of losses and write-off of property needed to
be strengthened

27 October 2016

Assignment No. AE2016/310/03

Audit of property management activities at the United Nations Office at Geneva

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective management of property survey and disposals at the United Nations Office at Geneva (UNOG). The audit covered the period from January 2014 to February 2016 and included a review of disposal activities from the initiation of write-offs to the final disposal of items approved for write-off including: (a) timeliness in identification of items to be written off; (b) approval of the write-off requests and removal of items written off from the asset records; (c) processing of discrepancies identified during physical verification exercises; (d) local property board composition and working arrangements; and (e) investigation of losses and assignment of responsibilities for the losses.

UNOG had established an appropriate framework for processing property write-offs and disposals. The Property Management Sub-Unit was established in 2012 with dedicated resources to oversee property management activities. The Local Property Survey Board was also properly established and met regularly to review cases. Further, UNOG had put in place appropriate arrangements for conducting physical verification exercises. However, UNOG needed to strengthen compliance with procedures for investigation of losses and write-off of property.

OIOS made four recommendations. To address issues identified in the audit, UNOG needed to:

- Investigate and process the write-off of items not found in the 2014 and 2015 physical verification exercises;
- Involve senior management of its clients in overseeing and ensuring that discrepancies identified during the physical verification exercises are adequately investigated by their designated property custodians;
- Strengthen the arrangements for assessing gross negligence for lost, stolen or missing items; and
- Establish and document procedures and control mechanisms for processing external transfers from Geneva to field offices to ensure that appropriate evidence of receipt of the items by the field offices is obtained and the transfers are processed in a timely manner.

UNOG accepted the recommendations and has initiated action to implement them.

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Audit of property management activities at the United Nations Office at Geneva

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of property management activities at the United Nations Office at Geneva (UNOG).
2. United Nations Financial Regulations and Rules govern the property disposal and local property survey board activities. The Property Management Sub-Unit (PMSU) at UNOG was the primary unit responsible for administering controls related to disposal of property and the provision of property management services to clients. PMSU was a sub-unit within the Operations Support Unit (OSU) of the Central Support Services (CSS). PMSU supported 33 clients (offices) including UNOG divisions and services and other organizations based at Geneva. Its biggest clients were the Office of the High Commissioner for Human Rights (OHCHR), the United Nations Conference on Trade and Development (UNCTAD) and the Office for the Coordination of Humanitarian Affairs (OCHA). Each office nominated a property custodian who acted as the focal point for property issues.
3. The Local Property Survey Board (LPSB) was responsible for advising the UNOG Director of Administration on write-offs. LPSB responsibilities included reviewing the completeness of the write-off requests, assessing degree of negligence in case of loss, and approving the method of disposition of the items written off. During the period 2014 and 2015, PMSU received 358 and 449 write-off requests respectively with a total purchase cost of \$12.7 million while LPSB reviewed a total of 291 write-off requests with a total purchase value of \$8.8 million.
4. Comments provided by UNOG are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective management of property survey and disposals at UNOG.
6. This audit was included in the 2016 risk-based work plan of OIOS due to the operational and financial risks related to disposal of property at UNOG.
7. OIOS conducted this audit from March to July 2016. The audit covered the period from January 2014 to February 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks in the property disposal cycle from initiation of write-offs to final disposal of items approved for write-off, which included: (a) timeliness in identification of items to be written off; (b) approval of the write-off requests and removal of items written off from asset records; (c) processing of discrepancies identified during physical verification exercises; (d) local property board composition and working arrangements; and (e) investigation of losses and assignment of responsibilities for the losses.
8. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data; and (d) sample testing a random selection of write-off requests and disposals.

III. OVERALL CONCLUSION

9. UNOG had established an appropriate framework for processing property write-offs and disposals. The Property Management Sub-Unit was established in 2012 with dedicated resources to oversee property management activities. LPSB had also been established and met regularly to review cases. Further, UNOG had put in place appropriate arrangements for conducting physical verification exercises. However, UNOG needed to strengthen compliance with procedures for investigation of losses and write-off of property. Specifically, UNOG needed to: (a) investigate and write-off all outstanding items not found in the 2014 and 2015 physical verification exercises; (b) involve senior management of its clients in overseeing the investigation of discrepancies identified in physical verification exercises; (c) improve the arrangements for assessing gross negligence for lost, stolen or missing items; and (d) document procedures for processing external transfers from Geneva to field offices.

IV. AUDIT RESULTS

Appropriate framework was in place for physical verification and processing property write-offs

10. UNOG had established an appropriate framework for processing property write-offs and disposals. The Property Management Sub-Unit was established in 2012 with dedicated resources to oversee property management issues including write-off and disposal of property. Standard Operating Procedures (SOP) on write-off of property was issued on 2 December 2014 and a system was in place to process the write-off requests. The LPSB had also been properly established and met regularly to review write-off and disposal cases. A review of a sample of write-offs showed that the items to be written off were properly classified and approved. Items approved for write-off were also tracked and disposed in accordance to the approved disposal method. Further, since 2012, UNOG conducts physical verification of property on an annual basis. Based on lessons learned from the physical verification exercises, UNOG had improved the arrangements for conducting and managing the physical verification exercises and the procedures for receiving goods.

Need to investigate and write-off all outstanding items not found during physical verification

11. As stated in the UNOG SOP on write-off of property, write-off of irregular write-offs such as those arising from inventory discrepancies should be processed expeditiously to ensure property records are accurate and to allow for timely investigation of the losses where necessary. Prior to 2014, UNOG wrote off items only if they were not found in three physical verification exercises. In 2014, UNOG established a new practice to write-off items if they were not found in one physical verification exercise. However, items not found in the physical verification exercises of 2014 and 2015 were not investigated and written off in a timely manner as required. At the time of the audit 386 out of the 515 items that were not found in the 2015 physical verification exercise had not been written off. Of the 386 items, 355 and 18 were items that were last seen in the 2014 and 2013 physical verification exercises respectively. UNOG indicated that the failure to process the write-off of all the items was an oversight.

(1) The UNOG Property Management Sub-Unit should investigate and process the write-off of items not found in the 2014 and 2015 physical verification exercises.

UNOG accepted recommendation 1 and stated that PMSU will present not found items, including the results of the investigation carried out by client offices, to LPSB as part of the 2016 annual physical verification exercise. Recommendation 1 remains open pending receipt of evidence that items not found in the 2014 and 2015 physical verification exercises have been investigated and written off as appropriate.

Need to involve senior management of individual offices in overseeing the investigation of discrepancies identified during physical verification

12. The United Nations Financial Regulations require that discrepancies identified during physical verification exercises should be reviewed by a review body to determine the causes of any losses or discrepancies and the degree of responsibility, if any, attaching to any official of the United Nations for such loss, damage or discrepancy. UNOG prepared inventory discrepancy reports and submitted them to property custodians with instructions requiring them to review the discrepancies and provide as much information as possible on the causes for the missing items. However, a review of the 2015 discrepancy report showed that property custodians provided limited information on the items that were not found. Although PMSU conducted further investigations and subsequently found all the 12 capitalized items that were in the discrepancy report, no further investigations were conducted for the 513 non-capitalized items. PMSU did not also follow up with the property custodians to request for additional information on the discrepancies. This was because according to a new practice UNOG established in 2014, formal explanation of discrepancies and losses would be required only for capitalized items. For non-capitalized items, attestation by property custodians that the items are not found or non-responsiveness by the property custodians would be considered satisfactory fact-finding.

13. There is a risk that the existing practice (where no follow up is done for non-capitalized items) could lead to inadequate investigations/fact-finding to determine whether the items in the discrepancy list exist or not and reasons for the discrepancies. This could lead to write-off of items that still exist and also failure to identify and address deficiencies in property management at the individual offices that may have caused the discrepancies. Deficiencies noted in the audit that could have led to some of the discrepancies included: failure by property custodians to maintain information on the staff assigned the items; failure to record assets issued to staff for meetings or when going on mission; weaknesses in check out procedures; and lack of serial numbers or duplicate tags on items. To ensure that capitalized and non-capitalized items are adequately investigated, there is a need to strengthen oversight by involving the heads of offices or other senior managers responsible for overseeing the work of the property custodians. Ensuring that all the discrepancies identified during physical verification exercises are adequately investigated would enhance accountability of offices in managing property as required by existing policies.

(2) The UNOG Property Management Sub-Unit should involve senior management of its clients in overseeing and ensuring that discrepancies identified during the physical verification exercises are adequately investigated by their designated property custodians.

UNOG accepted recommendation 2 and stated that PMSU will henceforward address all requests for reconciliation of discrepancies resulting from the annual physical verification exercise to senior management of its client offices. PMSU will request a fact-finding declaration from senior management of client offices for all 'not found' items. Recommendation 2 remains open pending receipt of evidence that UNOG has put arrangements in place to involve senior management of its client offices in overseeing that all discrepancies identified during physical verification exercises are adequately investigated.

Need to improve the arrangements for assessing gross negligence for lost, stolen or missing items

14. The Financial Regulations and Rules authorize the write-off of losses of cash, stores and other assets, after full investigation. The rules state that the investigation shall in each case fix the responsibility, if any, attaching to any official(s) of the United Nations for the loss or losses. Such official(s) may be required to reimburse the United Nations either partially or in full. LPSB is responsible

for determining the degree of negligence and recommending whether staff should reimburse the United Nations. During 2014 and 2015, there were 16 write-off cases of losses and theft that LPSB assessed the degree of negligence. The cases involved 65 items of which 17 were laptops. LPSB did not find gross negligence in any of the cases. LPSB members indicated that they were sometimes unclear on how to differentiate between normal and gross negligence due to lack of guidance. OIOS noted that Headquarters Property Survey Board (HPSB) has set up a matrix to guide it in assessing gross negligence which LPSB could use. Cases assessed by HPSB may also provide useful examples and guidance in assessing local cases.

15. Warning letters were sent to staff who lost items to remind them of their responsibilities in safeguarding assets. There was a need to use this information to identify repeat offenders and reflect this information in the presentation of cases to the LPSB so that it can be considered in the assessment of the degree of negligence. Further, according to Memorandum of Assistant Secretary-General, Office of Central Support Services dated 7 March 2014 on “Guidelines on the implementation of changes to the current management framework”, assessment cases need to be opened for the loss of capitalized items. Based on long standing practice, police reports and/or formal statements from staff are also required by LPSB in case of loss of non-capitalized items. However, in the write-off cases relating to inventory discrepancies reviewed by LPSB in 2015, there was no mention of whether LPSB assessed the degree of responsibility for any of the items that were not found including four items that were capitalized. Following completion of the inventory reconciliation process, an assessment shall be made on whether the discrepancies/items not found could represent losses requiring further action. OIOS is of the view that formal explanations for lost items should be documented to enable management to assess whether to assign any responsibility for losses.

(3) UNOG should strengthen the arrangements for assessing gross negligence by: (a) seeking guidance from the Headquarters Property Survey Board in developing a matrix of guidelines based on past examples; (b) reflecting in the presentation to the Local Property Survey Board (LPSB) whether the staff responsible for the loss have lost other items in the past; and (c) submitting to LPSB relevant information on losses or discrepancies relating to capitalized items not found during physical verification exercises.

UNOG accepted recommendation 3 and stated that it will strengthen arrangements for assessing gross negligence as follows: (a) pending receipt of guidance from HPSB on gross negligence, PMSU will develop a matrix of guidelines with past examples; (b) LPSB presentations for losses and thefts will provide information on repeat offenders, if any; and (c) cases involving lost capitalized items will be highlighted in LPSB submissions. Recommendation 3 remains open pending receipt of evidence that arrangements for assessing gross negligence have been strengthened.

Need to establish formal procedures for processing external transfers

16. External transfers are items purchased from Geneva and transferred to OHCHR and OCHA field offices. During the years 2014-2015 there were 222 write-off requests for external transfers with a purchase value of \$2.7 million. The current guidelines on property management do not adequately address the arrangements for approving and processing of write-off requests relating to external transfers. The UNOG SOP refers to the write-off process for external transfers but it does not address the procedures for processing the write-offs and responsibilities and accountability of individual offices in ensuring that the items transferred reach their destination. OIOS sampled 20 external transfers by OCHA and noted that records of confirmation that the items were received by the field offices were not easily available. OCHA provided evidence of confirmation receipts for only 12 items. Therefore, there was a risk that items transferred that did not reach their destinations may not be identified.

17. There was also a risk of write-off requests not being processed in a timely manner, leading to inaccurate records. OIOS identified 16 cases of items in the inventory discrepancy list which were missing because they had been transferred to field offices but the write-off requests had not been processed. Currently, for each transfer, the offices have to request UNOG to authorize them to change the status of the items to “transfer”. UNOG then has to process a write-off request to remove the items from its property records. There is a need to assess whether the processing of the write-off in the systems can be fully delegated to individual offices. PMSU agreed and indicated that the internal control mechanisms and delegation for write-off of external transfers need to be clarified in coordination with the Financial Resources Management Service.

(4) UNOG, in consultation with OCHA and OHCHR, should establish and document procedures and control mechanisms for processing external transfers to ensure that appropriate evidence of receipt of the items by the field offices is obtained and the transfers are processed in a timely manner.

UNOG accepted recommendation 4 and stated that PMSU will review and update existing procedures for processing external transfers in consultation with OCHA and OHCHR. Recommendation 4 remains open pending the receipt of the updated procedures for processing external transfers.

V. ACKNOWLEDGEMENT

18. OIOS wishes to express its appreciation to the management and staff of UNOG 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 property management activities at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNOG Property Management Sub-Unit should investigate and process the write-off of items not found in the 2014 and 2015 physical verification exercises.	Important	O	Receipt of evidence that items not found in the 2014 and 2015 physical verification exercises have been investigated and written off as appropriate.	31 December 2016
2	The UNOG Property Management Sub-Unit should involve senior management of its clients in overseeing and ensuring that discrepancies identified during the physical verification exercises are adequately investigated by their designated property custodians.	Important	O	Receipt of evidence that UNOG has put in place arrangements to involve senior management of client offices in overseeing that all discrepancies identified during physical verification exercises are adequately investigated.	31 December 2016
3	UNOG should strengthen the arrangements for assessing gross negligence by: (a) seeking guidance from the Headquarters Property Survey Board in developing a matrix of guidelines based on past examples; (b) reflecting in the presentation to the Local Property Survey Board (LPSB) whether the staff responsible for the loss have lost other items in the past; and (c) submitting to LPSB relevant information on losses or discrepancies relating to capitalized items not found during physical verification exercises.	Important	O	Receipt of evidence that arrangements for assessing gross negligence have been strengthened.	31 October 2017
4	UNOG, in consultation with OCHA and OHCHR should establish and document procedures and control mechanisms for processing external transfers to ensure that appropriate evidence of receipt of the items by the field offices is obtained and the transfers are processed in a timely manner.	Important	O	Receipt of the updated procedures for processing external transfers.	31 December 2016

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.

³ C = closed, O = open

⁴ Date provided by UNOG in response to recommendations.

APPENDIX I

Management Response

TO: Mr. Gurpur Kumar
A: Deputy Director
Internal Audit Division
Office of Internal Oversight Services

DATE: 18 October 2016

REFERENCE: VB/BL/ad

FROM: Clemens M. Adams
DE: Director
Division of Administration



SUBJECT: **Draft report on an audit of property management activities at the United Nations Office at Geneva (Assignment No. AE2016/310/03)**

1. Reference is made to your memorandum dated 4 October 2016 to the Director-General of UNOG on the above-mentioned subject, asking that we provide comments, including an action plan with target dates and the titles of the individuals responsible for implementing the recommendations in Appendix I, as well rationales for accepting the risks that are associated with any unaccepted recommendations.
2. In this regard, we are pleased to send you herewith attached completed Appendix I.
3. Further to consultations with both the Property Management Unit of the Office of Central Support Services (OCSS) and the Headquarters Property Survey Board (HPSB) regarding the treatment of physical verification discrepancies, UNOG also has the following comments to the text of the draft audit report:
 - a) The statement under paragraph 15 that not found items are normally lost is factually incorrect. Physical verification is performed over a targeted period of time and is meant to ascertain that the inventory register is accurate and is a reflection of the items on-site. The findings of a physical verification therefore merely represent a "snapshot" of the items found in a specific location and at a specific time.

The fact that items are not seen in a specific location at a specific time during a physical verification exercise does not necessary imply or provide enough information to conclude that the items are lost. Items may have simply been temporarily relocated or stored in another location to meet other operational needs. The discrepancy is rather an indication that a reconciliation process shall be initiated to acquire further information on the whereabouts of the items. The reconciliation process may involve several follow-up inspection visits, interactions and coordination with property managers from the various client entities or services and end-users of the items, before a determination is made on whether or not the discrepancy is a loss.

For the reasons highlighted above, not all items marked not seen/not located during the physical verification exercise are submitted to Property Survey Boards for assessment and write-off action, unless there is a fact-finding report or an investigation that confirms that the items are indeed lost.

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- b) The sentence under paragraph 15 according to which LPSB would "assign any responsibilities for the losses" is factually incorrect. The LPSB makes recommendations to the Director of Administration, but only he/she, or the Controller in cases of gross negligence, assigns responsibility. In this case, we would suggest replacing "LPSB" by the word "management".
4. Thank you for your attention to this matter.

cc. The Director-General
Robert Huber
Victoria Browning
Xavier Lemée
Maria Parisi
Jana Warming

Management Response

Audit of property management activities at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNOG Property Management Sub-Unit should investigate and process the write-off of items not found in the 2014 and 2015 physical verification exercises.	Important	Yes	Chief, Operation Support Unit, CSS	31/12/2016	PMSU will present not found items, including the results of the investigation carried out by client offices, to the Local Property Survey Board as part of the 2016 annual physical verification exercise.
2	The UNOG Property Management Sub-Unit should involve senior management of its clients in overseeing and ensuring that discrepancies identified during the physical verification exercises are adequately investigated by their designated property custodians.	Important	Yes	Chief, Operation Support Unit, CSS	31/12/2016	PMSU will henceforward address all requests for reconciliation of discrepancies resulting from the annual physical verification exercise to Senior Management of its client offices. PMSU will request a fact-finding declaration from the PRCs and senior management of client offices for all not found items.
3	UNOG should strengthen the arrangements for assessing gross negligence by: (a) seeking guidance from the Headquarters Property Survey Board in developing a matrix of guidelines based on past examples; (b) reflecting in the presentation to the Local Property Survey Board (LPSB) whether the staff responsible for the loss have lost other items in the past; and (c)	Important	Yes	Chief, Operation Support Unit, CSS	a) Pending receipt of guidance from HPSB b) Immediate c) Immediate	UNOG will strengthen arrangements for assessing gross negligence as follows: (a) Pending receipt of guidance from HPSB on gross negligence, PMSU will develop a matrix of guidelines with past examples. (b) LPSB presentations for losses and thefts will provide information on repeat offenders, if any.

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.

Management Response

Audit of property management activities at the United Nations Office at Geneva

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	submitting to LPSB relevant information on losses or discrepancies relating to capitalized items not found during physical verification exercises.					(c) Cases involving lost capitalized items will be highlighted in LPSB submissions.
4	UNOG, in consultation with OCHA and OHCHR should establish and document procedures and control mechanisms for processing external transfers to ensure that appropriate evidence of receipt of the items by the field offices is obtained and the transfers are processed in a timely manner.	Important	Yes	Chief, Operation Support Unit, CSS	31/12/2016	PMSU will review and update existing procedures, in consultation with OCHA and OHCHR, for processing external transfers.