



## INTERNAL AUDIT DIVISION

### REPORT 2017/154

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#### Audit of warehouse management in the United Nations Support Office in Somalia

Inventory management controls were weak at the Mogadishu warehouse as stock was issued without proper supporting documents, there was lack of segregation of duties, and stock balances were adjusted without conducting the required investigations

22 December 2017  
Assignment No. AP2017/638/05

# **Audit of warehouse management in the United Nations Support Office in Somalia**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse management in the United Nations Support Office in Somalia (UNSOS). The objective of the audit was to assess the adequacy and effectiveness of UNSOS warehouse practices to ensure optimal warehouse operations, and accurate and reliable inventory records. The audit covered the period from January 2015 to June 2017 and included: (a) warehouse facilities and security arrangements; (b) receiving inventory into warehouses after the receiving and inspection process, storing, issuance of stocks, and monitoring stock holdings; (c) health and safety of staff; and (d) warehouse resource management.

UNSOS had established adequate security arrangements to safeguard inventory in the warehouse at the Mombasa Support Base (MSB), and suitable health and safety procedures for staff at both the Mogadishu Logistics Base (MLB) and MSB warehouses. However, inventory management controls were weak at the MLB warehouse as: stock was issued without proper supporting documents; there was lack of segregation of duties; and adjustments were made to stock balances without conducting the required investigations.

OIOS made three important recommendations. To address the issues identified in the audit, UNSOS needed to:

- Conduct fire safety inspections and risk assessment of its warehouse facilities in Mogadishu and Mombasa and implement adequate mitigating measures;
- Address the control weaknesses over inventory management at MLB by training warehouse staff on standard procedures to implement, by properly supervising staff to ensure inventory is not released without proper supporting documentation, and all inventory discrepancies are investigated; and
- Take action to: (a) finalize the contract for the maintenance of equipment at MSB or make alternative arrangements for the maintenance of equipment to ensure it is repaired quickly; (b) replace, where possible, material handling equipment that has reached the end of its useful life; and (c) ensure spare parts are available when needed.

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

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# **Audit of warehouse management in the United Nations Support Office in Somalia**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse management in the United Nations Support Office in Somalia (UNSOS).
2. UNSOS operated a centralized warehouse system in two bases located at the Mombasa Support Base (MSB) in Kenya and the Mogadishu Logistics Base (MLB) in Somalia. Items in each of the two centralized warehouses are categorized into five commodity groups: supplies; communication and information technology services; transport; engineering; and medical. Each commodity group was headed by a group manager. Warehouse operations in UNSOS were governed by the Departments of Field Support (DFS) and Peacekeeping Operations (DPKO) Centralized Warehousing Operations Manual for Field Missions, complemented by mission-specific standard operating procedures (SOPs).
3. The UNSOS Centralized Warehousing Section is responsible for the efficient, uninterrupted supply of goods and services to the United Nations Assistance Mission in Somalia (UNSOM); the African Union Mission in Somalia (AMISOM); and UNSOS as well as: (a) receiving, care and storage of inventory; (b) issuance of inventory to customers; and (c) the day-to-day operations of the warehouses. The Section was headed by a Chief at the P-5 level and as at 30 June 2017 had 62 authorized posts made up of 32 international, 27 national posts and three United Nations Volunteers. The Chief, Centralized Warehousing Section reported to the Chief, Supply Chain Management pillar.
4. The Galileo inventory management system was the primary system for recording and managing inventory up to 31 August 2017. During the audit, Galileo was decommissioned and inventory management records were migrated to Umoja. As at 30 June 2017, the 10,723 inventory line items in UNSOS warehouses amounted to \$42 million with 8,302 line items valued at \$29 million at MLB and 2,421 line items with a value of \$13 million at the warehouse in MSB.
5. Comments provided by UNSOS are incorporated in *italics*.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

6. The objective of the audit was to assess the adequacy and effectiveness of UNSOS warehouse practices to ensure optimal warehouse operations, and accurate and reliable inventory records.
7. This audit was included in the 2017 risk-based work plan of OIOS due to operational and financial risks related to the management and operations of warehouses in UNSOS.
8. OIOS conducted this audit in July and August 2017. The audit covered the period from January 2015 to June 2017. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the warehouse operations and management which included: (a) warehouse facilities and security arrangements; (b) inventory management including receiving inventory into warehouses after the receiving and inspection process, storing, requesting and issuing of items, and monitoring stock holdings; (c) health and safety of staff; and (d) warehouse resource management. The audit did not include the receiving and inspection function, disposal of damaged, obsolete and expired inventory items as these are separate and distinct functions performed by different units. These will be covered in separate audits.

9. The audit methodology included: (a) interviews with key personnel; (b) reviews of a randomly selected sample of 177 expendable and non-expendable inventory issue vouchers with a total value of \$29 million out of the total of 55,095 issue vouchers amounting to \$192 million; (c) analytical reviews of data extracted from Galileo; and (d) physical verification and inspection of inventory, warehouse facilities and surrounding areas.

10. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

### **III. AUDIT RESULTS**

#### **A. Warehouse facilities and security arrangements**

11. The DFS/DPKO Centralized Warehousing Operations Manual for Field Missions requires UNSOS to consider environmental and mission-specific factors in the selection of sites to locate warehouses such as accessibility, located near airport/seaport of debarkation, close to military units to provide security and within a super camp if security is a major concern. The Manual also requires UNSOS warehouses to be: (a) fenced off and check points established at entry points; (b) adequately lit, including outside of warehouses; and (c) structurally sound to ensure that stored items are protected against excessive heat or leakage. The Manual also recommends the installation of closed-circuit television (CCTV) cameras in and around warehouse premises, and that special and attractive items are adequately secured.

##### Inventory at the MSB was adequately safeguarded

12. The warehouse facility at the MSB had: (a) sufficient hard-standing area, enabling loading and unloading operations; (b) designated areas for locating full and empty containers; and (c) adequate lighting and security. The base was approximately five kilometres from the Mombasa seaport and five kilometres from the Mombasa Moi International Airport. The MSB was surrounded by a concrete wall with an electric fence on top, there was security lighting along the perimeter wall, floodlights were installed on the warehouse and functioning CCTV cameras were located at strategic sites. Contracted private security guards were also posted day and night in the compound. There was a single entry into and exit from the MSB for both vehicles and pedestrians and a functioning X-ray machine and walk-through metal detector for screening persons and baggage acting as a second layer of security. Parking for vehicles was inside the perimeter fence but before the X-ray machine and metal detector. All persons and baggage were screened prior to entering and exiting the main warehouse section. Strong padlocks were used to secure the warehouse and there were metallic seals for containers.

13. OIOS concluded that controls and security arrangements at the MSB were effective and adequate to protect and safeguard inventory in the warehouse.

##### Need to improve security over inventory at the MLB

14. The warehouse facility at MLB: (a) had sufficient hard-standing area around it for loading and unloading inventory; and (b) is located within the AMISOM-protected area. The MLB is approximately 50 metres from the outer perimeter fence of the Mogadishu International Airport and five kilometres from the Mogadishu Seaport. The MLB is surrounded by inner-ring physical perimeter wall consisting partly of hard wall and blast protection. The MLB had: (a) functioning security lighting around the perimeter fence; (b) a functioning human walk-through metal detector at the entrance as first layer of security search; and (c) four CCTV cameras. United Nations Guard Unit (UNGU) troops manned the entry and exit gates and there were four watch towers manned by UNGU in the MLB.

15. However, UNSOS needed to enhance security arrangements to protect and safeguard inventory stored in MLB, which is evidenced by the high number of losses and theft of inventory on a regular basis. For example, during the audit period, the Special Investigation Unit (SIU) in UNSOS reported 22 incidences of missing and/or stolen inventory valued at \$2.3 million. The SIU reports concluded that this was mainly due to the relatively short perimeter wall and inadequate CCTV camera coverage. OIOS observed the need to: enhance lighting around warehouses, repair the X-ray machine for scanning bags, and increase checks of outbound vehicles for unauthorized movement of inventory vehicles. OIOS also observed that sea containers were placed next to some parts of the perimeter hard wall (inside and outside the perimeter wall) providing easy access in and out over the perimeter wall.

16. UNSOS, following the increase in reported incidences of missing and/or stolen inventory, conducted an internal security review of MLB in November 2016 and made recommendations to strengthen security arrangements. These included to: use of a private security firm to guard the warehouse during non-working hours; install additional CCTV cameras; and reinforce the perimeter wall around the MLB. At the time of the audit UNSOS was acting on these recommendations, including installing 52 additional CCTV cameras, reviewing a proposal from a vendor to reinforce the perimeter wall, and reviewing the terms of reference with UNGU to include the responsibility of them to guard inventories in the warehouse, which if implemented would result in saving costs of about \$3.6 million per year.

17. In view of the actions already being taken to enhance security measures for warehouse operations, OIOS did not make a recommendation on this issue.

#### Need to conduct fire safety inspection and risk assessments at the warehouse facilities

18. The DFS/DPKO Centralized Warehousing Operations Manual for Field Missions requires UNSOS to ensure all warehouses: (a) are adequately equipped to prevent and fight fire; (b) have regular fire safety inspections; (c) hold fire drills at least twice a year; (d) have clear walkways and emergency exits; and (e) floors are clean and tidy. UNSOS is required to train staff in the use of fire equipment; prepare an evacuation plan and train warehouse staff on the plan. UNSOS is required to ensure that all material handling equipment (MHE) operators are trained and licensed to operate the machinery.

19. Both MLB and MSB: (a) had fire extinguishers, fire detection systems and fire alarms installed throughout the facilities; (b) conducted fire safety induction training for staff, and smoking is not permitted within the warehouses; (c) had evacuation plans that covered possible harmful events such as explosions, release of hazardous chemical substances and severe weather conditions; (d) walkways and emergency exits that were clearly marked and unobstructed; (e) floors that were clean and tidy to avoid slipping; and (f) all MHE operators had been trained and appropriately licensed to operate the machinery and handle dangerous goods.

20. However, a fire safety inspection and risk assessment had never been conducted at the MSB and MLB warehouses, although fire risk assessments were done for other areas of the compound in Mogadishu. This was because the Fire Safety and Hazard Material Unit, which was under the Department of Safety and Security, had limited staff (one staff supported by two seconded security officers) and they were occupied on fire prevention tasks within the compounds. UNSOS management had also not requested the Fire Unit to carry out fire risk assessment in the warehouses. The lack of an up-to-date fire risk assessment increases the risk that UNSOS may not be aware of all fire threats to its warehouses to implement appropriate mitigating measures.

<p><b>(1) UNSOS should conduct fire safety inspections and risk assessment of its warehouse facilities in Mogadishu and Mombasa and implement adequate mitigating measures.</b></p>
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*UNSOS accepted recommendation 1 and stated that management had taken steps to mitigate observed occupational health and safety risks, including: a request from the Chief Centralized Warehousing Section to the Chief Security Officer to conduct full inspections of all warehouse facilities; the approval of the fire safety plan for MLB in November 2017 by the Chief security Officer, and installation of fire extinguishers in all warehouse facilities; the installation of fire safety signs and smoke detectors in all warehouse facilities at MLB in December 2017; the Fire Unit will conduct training for MLB Fire Wardens, and the nomination of three staff for the training, which is expected to be conducted in March 2018; and the training for Occupational Health and Safety awareness conducted in December 2017 for all national and international staff. A similar exercise was planned for replication at MSB in March 2018. Recommendation 1 remains open pending receipt of results of fire safety inspections and risk assessment and evidence of implementation of mitigating measures to address risks identified.*

## **B. Inventory management**

### Need to improve the management of inventory in the MLB warehouse

21. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to implement adequate controls over the issuance of stock. OIOS review identified several control weaknesses relating to warehousing operations at MLB which are outlined in the following paragraphs.

(a) Lax controls over the issuance of inventory

22. From a sample of 117 issue vouchers, there were incomplete supporting documents for 91 vouchers for stock valued at \$18 million. Missing documents included customer commodity request forms, picking tickets, issue vouchers, gate passes and confirmation of receipt by recipients. The items issued without supporting documents included: body armour, tyres, and accessories for arms and ammunition. UNSOS was advised that the file containing the documents was missing.

23. Additionally, UNSOS did not ensure that items issued from the warehouse were: (a) timely recorded in the Galileo inventory system; (b) systematically signed for, confirming receipt by the requesting party; and (c) in agreement with those requested, as shown in the following examples:

- Issue voucher #EDP/ISV/SA/MG-17-000583 totaling \$274,289 was generated and recorded on 10 May 2017 but the inventory left the warehouse on 11 September 2016;
- MLB warehouse staff used a manual issue voucher dated 15 June 2017 for inventory items totaling \$191,033 to record the issue of various inventory items to AMISOM covering a one-year period. The person confirming receipt of the items only joined AMISOM in November 2016 and therefore could not be certain that all the goods were received; and
- Issue voucher #SUP/ISV/SA/MG-17-000473 dated 25 April 2017 included items such as 500 disposable bedsheets, 500 disposable pillows and 500 disposable pillow cases, which were not requested. No confirmation of client receipt of these items was available.

24. OIOS also noted that warehouse staff were performing incompatible functions, as the same individual was creating and approving issue vouchers. OIOS review identified that six issue vouchers with a combined value of \$3,027,291 were created and approved by the same individual from the information

technology services commodity group. There were no client commodity request forms, no gate passes and no confirmation of receipt of inventory by the client.

(b) There were discrepancies between physical counts of inventory and data in stock records

25. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to: (a) physically verify 100 per cent of its expendable and non-expendable inventory items on an annual basis; and (b) periodically conduct warehouse location surveys to ensure that its warehouses maintained a location accuracy rate of 99 per cent or better.

26. UNSOS conducted a complete physical count of all its warehouse inventory in the years 2015/16 and 2016/17. However, UNSOS did not meet the established location accuracy rate due to the level of discrepancies reported during the physical inventory. Discrepancies mainly related to the supplies commodity group. For instance, the July 2017 Monitoring and Compliance Unit (MCU) physical verification for this group identified 138 line items that were not reflected in Galileo, albeit, those in the other four commodity groups were in the correct location and had the correct shelf quantity.

27. OIOS test checks of 69 stock items from five commodity groups indicated that only 1 of the 27 items selected from the supply commodity had the same shelf quantity as recorded in Galileo and only 24 of these items were in the correct location. Of the 26 line items with shelf quantities different from those recorded in Galileo, 13 were in excess over the Galileo quantities and 13 were less than the Galileo quantities. OIOS enquiry indicated, the shortages were most likely issued without being recorded in Galileo. UNSOS indicated that steps were being taken to reconcile all inventory discrepancies and update the records accordingly.

(c) Inventory discrepancies were not investigated prior to adjustment in Galileo

28. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to correct discrepancies in stock records that were within the DPKO/DFS recommended rate of +/- 2 per cent of the stock card quantity or amounts below \$250, using an inventory cycle voucher (ICV) in Galileo. UNSOS set authority levels for creating, approving and correcting discrepancies and charged the Chief of the Warehouse and Distribution Unit to ensure compliance with the authority levels. These included: (a) warehouse managers are authorized to create and approve inventory cycle vouchers to correct discrepancies of up to \$250 per line item without an investigation; (b) discrepancies exceeding \$250 but less than \$1,500 per line item require an internal investigation within the section prior to correction; and (c) those above \$1,500 require investigation by the SIU. Differences should be reconciled within 30 calendar days of the identifying the inventory discrepancy.

29. OIOS review of all 144 ICVs, 18 write-off vouchers and the MCU physical verification reports for the audit period showed that some ICVs were approved by unauthorized personnel and discrepancies were not always investigated prior to write-off, as shown in the following examples:

- There were 73 out of 144 ICVs that exceeded \$250 and approved for adjustment by the MLB warehouse manager prior to the required internal investigation. Also, in June 2017, five discrepancies valued at \$4,837 in the supply commodity group were written off without investigation;
- There were 27 discrepancies (book to physical) that exceeded \$1,500 in the supply commodity group that were not reported to SIU for investigation as required prior to write-off. OIOS analysis of these 27 discrepancies noted that warehouse staff generated post facto issue



vouchers after the MCU identified the discrepancies to reconcile the shortfalls. The issue vouchers raised were not supported with client requests, confirmation of receipt and gate passes;

- The MCU July 2017 report identified negative discrepancies in 43 line items with a combined value of \$52,426 and positive discrepancies in 21 line items with a combined value of \$50,322 that required investigation. However, these discrepancies were not investigated, with warehouse staff continuing to prepare post facto issue vouchers to either avoid investigations into the losses by SIU, to correct poor record-keeping or to delays in updating issuances in Galileo from the warehouses; and

- The MCU reports continued to show that it identified the same discrepancies in physical qualities indicating that warehouse staff had not taken action, in some cases, for more than six months after MCU had identified and reported the discrepancies to them. For instance, the 31 July 2017 MCU physical verification report identified 155 discrepancies in the supply commodity group, but as of end of September 2017, 121 remained unreconciled.

30. UNSOS explained that appropriate action would be taken on all non-compliance issues related to the supply commodity group and action would be taken to hold the concerned staff accountable. Also, the introduction of Umoja from September 2017 would strengthen controls over inventory management and eliminate most of the control weaknesses identified.

(d) There was no evidence to support the write-off of some inventory items

31. Administrative Instruction ST/AI/2015/4 requires UNSOS to identify surplus or obsolete inventory to its operational needs and dispose of them after the write off process. The warehouse's responsibility for written-off items that require any type of disposal action ends only after a duly signed Property Disposal Unit (PDU) Write-off and Disposal of Asset Handover form was entered in the inventory management system. Inventory written-off because of damage/discrepancy/loss must have a security incident report and a Local Property Survey Board (LPSB) report entered in the inventory management system.

32. The DFS Inventory Optimization Project (IOP) whose objective was to increase the level of accuracy and completeness of property records data permitted UNSOS to identify and write off damaged or lost United Nations-owned equipment (UNOE) through the LPSB without all of the standard information, including a security incident report. The project started in July 2016 and ended in November 2016. Through the IOP, UNSOS wrote off 1,258 inventory line items valued at over \$17 million.

33. OIOS reviewed the adequacy of the write-off procedures after the IOP ended in November 2016 for a sample of 30 non-expendables and 69 expendables and noted: (a) all 30 non-expendables had security reports and had been presented to the LPSB for review; and (b) 64 of the 69 expendables, including medical items and electronic processing equipment had signed Write-off and Disposal of Asset Handover forms from PDU; the 5 remaining write-offs did not have PDU disposal handover forms.

34. The very lax controls over the management of inventory identified above resulted as UNSOS management did not properly supervise and train warehouse staff to ensure standard inventory management procedures were in place and consistently applied, and duties were adequately segregated. These weaknesses allowed: (a) inventory to be released without proper supporting documents, and/or important files to be misplaced; and (b) stock balances to be retroactively adjusted without any investigation by management or SIU to identify reasons for the high number of discrepancies in order to take remedial action to avoid recurrence. The continuation of practices identified during the audit will result in continued financial losses to the Organization, particularly if no action is systematically taken to investigate inventory

discrepancies. Also, incomplete and inaccurate data on inventory balances may result in poor acquisition planning, unnecessary expenditure and/or inadequate stock to meet operational requirements.

**(2) UNSOS should take action to address weaknesses in controls over inventory management at the Mogadishu Logistics Base by training warehouse staff on standard procedures to implement and by properly supervising staff to ensure inventory is not released without proper supporting documentation and all inventory discrepancies are investigated.**

*UNSOs accepted recommendation 2 and stated that management has taken steps to address identified control weaknesses over the inventory management at MLB. In October 2017, the Chief Supply Chain Management Service issued instructions to relevant section and unit chiefs for implementation, including full compliance with the guidelines, reshuffling of staff, re-assigning Umoja roles, training, close supervision and submission of weekly reports on the progress made. In addition, no inventory without the supporting documentation has issued since the inception of the Umoja (UE2-supply chain management) in September 2017, except where technical challenges in Umoja resulted in manual issuance. Also, to address the discrepancy between Galileo and Umoja, and physical inventory, the physical verification for the supply commodity group has been completed in October 2017. The next step is to proceed with the verification, reconciliation, as well as update of the records in the system for all commodity groups. Recommendation 2 remains open pending receipt of evidence that inventory is not released without proper supporting documentation and all inventory discrepancies are investigated and reconciled.*

#### Inventory management controls were in place for the MSB warehouse

35. Controls over the issuance of inventory from the warehouse in MSB were adequate and effective. Inventory issued was duly authorized and supported by the required documents. The MSB warehouse mainly transferred inventory to the MLB warehouse, which was controlled by completion of a transfer voucher for internal movement of goods between MSB and MLB. OIOS review of 70 transfer vouchers showed that the procedure was working as intended.

#### Need to establish minimum and maximum stock levels for all items

36. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to establish maximum and minimum stock levels as well as reorder points and safety stock levels for each item and to review periodically the stock levels to avoid stock-outs and excess stock holdings.

37. UNSOS had not established stock levels for all inventory items. As of 30 June 2017, 6,521 of the 10,723 line items had maximum and minimum stock levels. UNSOS had also not set safety stock levels and reorder stock levels for the remaining inventory items. UNSOS stated that its inventory strategy was to set the inventory parameters (lead time, safety stock, reorder point, reorder quantity) based on the confirmed demand. However, at the time of the audit, UNSOS was unable to provide OIOS with its consolidated inventory strategy for fiscal year 2017/18. The only available strategy was for the Geospatial Information Technology and Telecommunication Section.

38. UNSOS explained that the introduction of centralized warehouse was followed by the implementation of supply chain management that entailed some reorganization. UNSOS created an Inventory Planning Unit with responsibility for managing stock levels, but as it had only been established in February 2017, it was yet to address this. Moreover, as DFS was leading an initiative on stock level planning, based on demand forecasting among other factors for field mission inventory items, UNSOS decided to focus its efforts on establishing stock levels of its most critical commodities and rely on manual monitoring for the remaining majority. In view of the action taken, OIOS did not make a recommendation.

### Dead stock in the warehouse at the Mogadishu Logistics Base exceeded the permitted level

39. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to monitor dead stock, which refers to any item for which no transactions (demands or transfers) have occurred for a year or longer. Dead stock (expendables/non-expendables) should not exceed 15 per cent of the items stored.

40. MCU was not monitoring and reporting on dead stock for MSB warehouse operations, as the MSB warehouse was a transit warehouse for MLB. Therefore, it could not determine dead stock because items were yet to reach their final destination. However, inventory records showed that at the time of the audit, the MSB warehouse had 11 line items in the supply commodity group for which no transactions had taken place since they were received on 12 July 2015. This was within the permissible level of 15 per cent.

41. MCU was regularly monitoring and reporting on dead stock in the warehouse at MLB. The MCU report on dead stock in MLB, dated 31 March 2016 indicated that there were 1,903 items of dead stocks out of 10,772 inventory items (18 per cent) valued at \$2,477,912. These items included generator spare parts, fire alarms, X-ray protective equipment and pressure pumps. Warehouse staff, acting on the dead stock report took some actions to reduce it, including issuing them, writing them off and notifying the self-accounting units of the levels of dead stock. Similarly, the MCU report 30 June 2017 report showed that although the number of items decreased to 1,535 out of 8,632 inventory items, the 18 per cent level of deadstock remained, and its associated value increased to \$3,180,159. Therefore, the actions initiated by MLB warehouse staff needed to be monitored to see if they were effective.

42. The high level of dead stock occurred because Self Accounting Units were not taking timely action to address slow moving stocks. This resulted in the holding of stocks that would eventually become obsolete and result in financial loss, and an increased administrative burden on the warehouse operations to safeguard and manage inventory no longer required.

43. UNSOS explained that the slightly higher than normal level of dead stock was due to lack of accurate inventory data, and the Inventory Planning Unit was assigned responsibility to establish accurate inventory balances, and subsequently determine appropriate course of action to deal with confirmed dead stock items. As UNSOS was taking action to rectify the lack of accurate inventory data, OIOS did not make a recommendation.

## **C. Health and safety**

### Health and safety measures in the warehouses were adequate

44. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to: (a) install health and safety related equipment such as first aid kits in its warehouses, mark these clearly and train all staff on how to use them; (b) make sure at least one trained staff on basic first aid is on duty at all times and/or everyone is aware of how to get medical attention; and (c) provide staff working in the warehouses with basic safety equipment such as hard hats, boots and appropriate protective equipment.

45. OIOS inspection of the facilities at the MLB and MSB showed that the warehouses had sufficient stock of health and safety related equipment such as first aid boxes, safety mask, dust masks, safety helmets and boots at each location for use when needed. Safety equipment was clearly marked and some staff were trained on how to use them. Staff members at the warehouses had received basic training on warehouse health and safety issues and were appropriately equipped. There was no report of accident during the period

under review. OIOS concluded that adequate controls were in place to effectively address health and safety issues in the Mission's warehouses.

#### **D. Warehouse resource management**

46. The DFS/DPKO Centralized Warehousing Operations Manual requires UNSOS to: (a) manage and utilize resources efficiently in its operations; and (b) ensure equipment utilization rate of between 60 and 80 per cent.

47. The MLB warehouse operations had two reach stackers, three heavy forklifts, two caterpillar frontend loaders and five light forklifts of various types and tonnage. MSB had eight forklifts of various types and tonnage, and four pallet lifters as well as one leased top loader costing \$13,000 per month. OIOS noted that more than 50 per cent of this equipment was non-operational for more than one year and the other 50 per cent was only marginally used. For example: (a) a reach stacker (original cost of \$507,429) had not been operational for more than one year; (b) a terex forklift (original cost of \$339,087) had not been operational since March 2014; and (c) a heavy forklift (original cost of \$339,087) had been under repair for more than one year.

48. This was because the contract for the maintenance of MHE at MSB had expired and UNSOS has not entered into a new contract or made alternative maintenance arrangements. It was also because much of the equipment was old, and spare part requests were not timely delivered. Old and non-functional equipment affected the effectiveness of warehouse operations due to inability to load or unload items from sea containers at MSB and MLB which caused demurrage charges and delays.

**(3) UNSOS should:(a) finalize the contract for the maintenance of equipment at the Mombasa Support Base or make alternative arrangements for the maintenance of equipment to ensure it is repaired quickly; (b) replace, where possible, handling equipment that has reached the end of its useful life; and (c) take action to ensure spare parts are available when needed.**

*UNSOS accepted recommendation 3 and stated it had initiated the acquisition of spare parts requirement for one year through both global systems and local contracts; and was finalizing the solicitation for repair and maintenance services for transport fleet in Kenya with expected award by March 2018. Also, the Mission was in the process of engaging a third-party contractor to provide repairs and maintenance for mechanical handling equipment and the manpower to operate the equipment. Recommendation 3 remains open pending receipt of evidence that the contract for the maintenance of equipment in Mombasa has been finalized and operational spare parts have been received and action taken to ensure handling equipment are operational.*

#### **IV. ACKNOWLEDGEMENT**

49. OIOS wishes to express its appreciation to the management and staff of UNSOS 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 warehouse management in the United Nations Support Office in Somalia

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	UNSOS should conduct fire safety inspections and risk assessment of its warehouse facilities in Mogadishu and Mombasa and implement adequate mitigating measures.	Important	O	Receipt of results of fire safety inspections and risk assessment and evidence of implementation of mitigating measures to address risks identified.	31 March 2018
2	UNSOS should take action to address weaknesses in controls over inventory management at the Mogadishu Logistics Base by training warehouse staff on standard procedures to implement and by properly supervising staff to ensure inventory is not released without proper supporting documentation and all inventory discrepancies are investigated.	Important	O	Receipt of evidence that inventory is not released without proper supporting documentation and all inventory discrepancies are investigated and reconciled.	30 April 2018
3	UNSOS should:(a) finalize the contract for the maintenance of equipment at the Mombasa Support Base or make alternative arrangements for the maintenance of equipment to ensure it is repaired quickly; (b) replace, where possible, handling equipment that has reached the end of its useful life; and (c) take action to ensure spare parts are available when needed.	Important	O	Receipt of evidence that the contract for the maintenance of equipment in Mombasa has been finalized and operational spare parts have been received and action taken to ensure handling equipment are operational.	30 April 2018

<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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNSOS in response to recommendations.

# **APPENDIX I**

## **Management Response**



## Interoffice Memorandum

**To:** Mr. Arnold Valdez, Officer-in-Charge  
Peacekeeping Audit Service  
Internal Audit Division, OIOS

**Ref:** UNSOS/1217/M.049

**From:** Hubert Pricé, Head  
UNSO

**Date:** 20 December 2017

**Subject:** UNSO Response – Draft report of an Audit of warehouse management in UNSOS (Assignment No. AP2017/638/05)

1. Further to your memorandum of 14 December 2017 Reference IAD: 17-638-30, please find attached UNSOS response and supporting documents to the above-mentioned subject.
2. We thank you for your continued support to the work of UNSOS.

Best regards.

cc: Mr. James Suglo, Chief Resident Auditor, Internal Audit Division, OIOS  
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## AUDIT RECOMMENDATIONS

## Audit of warehouse management in the United Nations Support Office in Somalia

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNSOS should conduct fire safety inspections and risk assessment of its warehouse facilities in Mogadishu and Mombasa and implement adequate mitigating measures.	Important	Yes	Chief Security Officer, Chief Fire Safety	March 2018	<p>UNSOS management seeks to inform the auditors that several mitigating measures have been taken to address the observed risks in Occupational Health and Safety (OHS), Fire Safety, and overall security. Initial fire safety risk inspection and assessment were conducted for the MLB infrastructure and facilities. The Chief Centralised Warehousing Section (former Warehousing and Delivery Section) has also requested the Chief Security Officer for a full inspection of both facilities. (<i>Annex A</i>).</p> <p>The following observations were made and actions taken to mitigate the risks of the staff health and safety, as well as the MLB facilities:</p> <ol style="list-style-type: none"> <li>1. The Fire Safety Plan for Mogadishu Logistics Base has been approved on 19 November 2017 by UNSOS Chief Security and Security Officer MLB and presented to MLB (<i>Annex B</i>).</li> <li>2. Replacement of fire extinguishers: 44 dried power (9kgs) and 18 water</li> </ol>

<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.



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						<p>(9ltrs) installed in all warehouses. In addition, the Fire Unit installed mariner fire extinguishers that are suitable for outdoor with pertinent fire extinguishers signs.</p> <p>3. Other fire safety signs and smoke detectors have already been installed (4 December 2017) in all facilities of the MLB. The Fire Unit will conduct training for MLB Fire Warden. Three (3) MLB staff have been nominated for the training. The date of the training will be determine and communicated to MLB by the Fire Unit. This is expected to be finalized by 4 March 2018.</p> <p>4. For OHS a similar exercise was conducted on the risk assessment of PPE, First Aid, and other areas complementing fire safety and security. First Aid Kits have been installed and training on vigilance of staff and proper use of PPE and MHE are ongoing. OHS awareness training took place on 10 and 11 December 2017 for all National and International staff (<i>Annex C</i>).</p> <p>5. A similar exercise is planned for replication at Mombasa Support Base by March 2018.</p>
2	UNSOs should take action to address critical weaknesses in controls over inventory management at the Mogadishu Logistics Base by training warehouse staff on standard procedures to implement and by properly supervising staff to ensure	Critical	Yes	Chief CWS Chief MLB		1. Management takes notes of the audit recommendation and has taken immediate steps to correct the weaknesses as evidenced in the instructions from the Chief Supply Chain Management Service

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	inventory is not released without proper supporting documentation and all inventory discrepancies are investigated.				a) Implemented	<p>(CSCMS) to relevant Section and Unit Chiefs, and the reporting mechanism to ensure that proper controls and procedures on standard inventory management procedures are in place and implemented. The instructions also covered shuffling of the staff and responsibilities as well as reassigning Umoja roles to ensure that their duties are segregated.</p> <p>This plan has been implemented since 26 October 2017. (Annex D1). A weekly status report is also submitted by the Centralized Warehousing Section to the CSCMS regarding the progress on actions taken by the Sections. (Annex D2).</p> <p>2. Furthermore, Management wishes to inform the Auditors as follows:</p> <p>a) Inventory is not released without proper supporting documentation:</p> <p>Since the inception of the UMOJA (UE2) in September 2017, referred transactions for issuance of goods have started to be recorded in the system. However, not all of them have been fully completed in the</p>

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					<p>since September 2017</p> <p>b) April 2018</p>	<p>system due to technical challenges with UMOJA. For instance, where manual issuances are raised/closed, a “Note to File” has been implemented to support the issuance of goods in line with the DFS/DPKO Centralized Warehousing Manual, UE2 procedures and audit recommendations (layer verification/ approvals and attached pertinent documents support). (<i>Annex F1 and F2</i>). Additional internal UMOJA guidance has been released with regard to the CWS operations. (<i>Annex G1 and G2</i>).</p> <p>b) All required inventory discrepancies are investigated:</p> <p>To address the discrepancy between Galileo/Umoja and physical inventory, a full stocktaking is being carried out gradually by commodities as we cannot close and stop the operation of the warehouse. The Physical Verification (PV) for Supply was completed at the end of October 2017.</p> <p>The next step is to proceed with the reconciliation, as well as updating the records in the system. The identification/match of Product ID (Galileo vs Umoja) to update the records in the system has delayed the process creating a backlog for the mentioned transaction. CWS and PMU (oversight) are jointly working</p>

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						<p>on the procedure to continue with the remaining PV for other commodities, verify information (Galileo and existing UMOJA PID), commence data reconciliation and update of records applicable for this and subsequent verification process. This is expected to be finalized in April 2018.</p> <p>Based on the corrective actions taken to address the areas of high risk, as evidenced in the progress report, UNSOS management requests the auditors to downgrade this recommendation from critical to important.</p>
3	UNSOS should: (a) finalize the contract for the maintenance of equipment at the Mombasa Support Base or make alternative arrangements for the maintenance of equipment to ensure it is repaired quickly; (b) replace, where possible, handling equipment that has reached the end of its useful life; and (c) take action to ensure spare parts are available when needed.	Important	Yes	Chief VPMS	April 2018	<p>Management seeks to inform the auditors as follows:</p> <p>(a) As of November 2017, procurement solicitation for repairs and maintenance services for the Transport fleet in Kenya (Nairobi and Mombasa) is being finalized with expected contract award in March 2018. The service contract will address the long-standing requirement of the fleet on a routine basis.</p>

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						<p>(b) Once the repairs and maintenance services contract indicated in (a) above is in place, an analysis will be conducted to ascertain whether the equipment not being used in MSB can be repaired and put into use again.</p> <p>(c) Acquisition of spare parts for one-year requirement has been initiated at the start of financial year 2017-18 through global system contracts as well as through establishment of local system contracts, and is expected to be awarded in the third quarter of the current financial year.</p> <p>Management also wishes to inform the Auditors that the requirement for mechanical handling equipment (MHE), manpower to operate the respective MHE (fork lifts, reach stackers, etc.) and routine maintenance and repairs for all MHE are covered in the scope of provision of inventory and warehouse support services which the Mission is in the process of engaging a third party contractor. The contract will cover all UNSOS warehouse locations and is expected to be finalized before the end of this fiscal year.</p>