



INTERNAL AUDIT DIVISION

REPORT 2020/042

Audit of management of assets and inventory in the Economic Commission for Africa

There is need for a comprehensive plan to manage inventory with clear roles and responsibilities for decision-making and accountability

**27 November 2020
Assignment No. AN2020-710-02**

Audit of management of assets and inventory in the Economic Commission for Africa

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of management of assets and inventory in the Economic Commission for Africa (ECA). The objective of the audit was to assess the adequacy and effectiveness of the organization and management of ECA assets and inventory. The audit covered the period from January 2018 to December 2019 and included higher and medium risk areas in: (a) organization of assets and inventory management; and (b) security of inventory.

ECA Property Management Unit did not have a comprehensive work plan with specific outcomes, clear roles and responsibilities and a monitoring mechanism to hold managers accountable for effective and efficient management of inventory. Consequently, the timelines for the annual asset and inventory physical verification were not met; the exercises were not guided by written instructions; and the results of the counts required lengthy reconciliation with Umoja records. The planning and supervision of the work of staff were inadequate and ECA relied on consultants and individual contractors to perform annual asset and inventory physical verification with no clear strategy for a long-term regular staffing solution, including an objective assessment of workload. Stock movements were not adequately monitored resulting in ordering of stock items that were already available in large quantities. Furthermore, warehouses were not consolidated, and security was not adequate.

OIOS made six recommendations. To address issues identified in the audit, ECA needed to:

- Develop a comprehensive work plan and key performance indicators;
- Assess the workload and determine the optimal staffing needed to perform inventory management responsibilities;
- Dispose of unnecessary stock items;
- Recruit and manage consultants and individual contractors more effectively;
- Identify key risks related to inventory and asset management and prepare a treatment plan; and
- Improve security systems in its warehouses.

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

CONTENTS

I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1-2
III. AUDIT RESULTS	2-6
A. Organization of assets and inventory management	2-5
B. Security of inventory	5-6
IV. ACKNOWLEDGEMENT	6
ANNEX I	Status of audit recommendations
APPENDIX I	Management response

Audit of management of assets and inventory in the Economic Commission for Africa

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of management of assets and inventory in the Economic Commission for Africa (ECA).
2. The Property Management Unit (PMU or the Unit) is responsible for (a) receiving, storing and distributing goods and materials acquired to implement the ECA mandate; (b) planning, organizing, and managing every aspect of ECA's 30 warehouses distributed around the compound in Addis Ababa; and (c) managing physical disposal of all written-off assets and expendables. PMU is also responsible for physically verifying all non-expendable and expendable properties at least once a year. The Local Property Survey Board (LPSB) is responsible for advising ECA in respect of loss, damage and other discrepancies regarding equipment, supplies and property, and to review property write-off cases submitted by self-accounting units.
3. A Property Management Officer at the P3 level heads the PMU and reports to the Director of Administration (DoA) through the Chief, Supply Chain Management Service (SCMS), at the P5 level. The Unit also includes two warehouse managers at the G7 level and one at the G6 level, as well as three warehouse assistants at the G4, G5 and G6 levels.
4. In November 2015, ECA started using Umoja for all inventory management functionalities to link the management of inventory, warehousing, logistics, property, equipment and maintenance in one system and enhance transparency and efficiency.
5. As of 31 December 2019, ECA had 983,510 items of inventory valued at \$3.74 million and 703 items of property, plant and equipment valued at \$22.3 million, including approximately 210,000 non-moving stock items, mainly comprising facilities maintenance and stationery stock.
6. Comments provided by ECA are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of the organization and management of ECA's assets and inventory.
8. The audit was included in the OIOS 2020 risk-based work plan because of operational and financial risks related to management of assets and inventory in ECA. ECA management had indicated to OIOS that their systems and practices for inventory management faced challenges since the roll-out of Umoja in November 2015, resulting in delayed completion of physical counts, unreliable data and inability to produce International Public Sector Accounting Standards (IPSAS) compliant reports on inventory in a timely manner.
9. OIOS conducted this audit from January to July 2020. The audit covered the period from January 2018 to December 2019. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the management of inventory, which included: (a) organization of assets and inventory management and (b) security of inventory.

10. The audit methodology included: (a) interviews with key personnel, (b) reviews of relevant documentation, (c) analytical review of data, and (d) sample testing of selected transactions.

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

III. AUDIT RESULTS

A. Organization of assets and inventory management

There was a need to manage inventory more strategically

12. In their request to OIOS to conduct this assignment, ECA outlined a number of challenges they had faced in performing an accurate count of inventory. These had led to delayed completion of physical counts, unreliable data and inability to produce IPSAS compliant reports on inventory in a timely manner. ECA indicated that they had undertaken a number of actions to address the issue, including reducing holding of obsolete and non-moving inventory, training staff, and hiring consultants and contractors to perform the inventory exercises; however, the problems persisted. OIOS review indicated the following:

a. ECA was still carrying an excessive amount of inventory

13. Inventory acquisition plans were prepared by PMU based on previous consumption patterns, without consulting users to align acquisitions with planned activities. Consequently, ECA had accumulated an excessive quantity of inventory, comprising 983,510 items valued at \$3.74 million as of January 2020. In addition, 78 line items comprising 484,211 units valued at \$853,720 had more than 2.4 years' worth of inventory on hand considering current issuance trends. These included 201,637 items of building maintenance materials valued at \$840,235, some of which had been held since 1997, and 1,967 units of paint valued at \$19,842 that had expired. In addition, although LPSB approved the destruction of 18,000 litres of expired chemicals and acids that cost \$10,490 in 2019, the items were not destroyed.

14. Moreover, ECA actions to redistribute, write off and dispose of surplus, slow moving, obsolete and impaired inventory based on a detailed analysis of expected future economic benefits or service potential were not adequate. This resulted in high storage and control costs and occurred because it was not clear who was ultimately responsible and accountable for decision making regarding the write-off of stocks. Furthermore, the delegation of authority to the DoA for the management of inventory was only uploaded to the delegation portal on 18 February 2020 by the Executive Secretary, seven months after the extended deadline of 30 June 2019. The DoA also did not subdelegate the authority to the Chief, Supply Chain Management and/or the Property Management Officer, thereby undermining efficiency, effectiveness, and accountability.

b. Inventory counts were not properly planned

15. ECA did not develop a clear plan and written instructions for annual physical inventories to ensure the exercises were completed efficiently and timely. For instance, although the closing instructions from United Nations Headquarters for preparation of IPSAS-compliant financial reports required physical inventories to start in October 2019, ECA only commenced the exercise in January 2020. The results of the count were still being reconciled with Umoja records in May 2020. While the October 2018 exercise commenced on time, the reconciliation was only finalized in July 2019. Consequently, ECA did not submit the property, plant and equipment and inventory reports to Headquarters for 2018, and those for 2019 were pending as of May 2020.

16. Despite the continuing difficulties in completing annual inventory reports timely, ECA did not explore the possibility of implementing other methods of physical inventory counts such as regular cycle counting of categories of items. This would have allowed it to identify and address root causes of discrepancies between the results of the count and related records with minimal disruption to operations, and reduce year-end pressure, as recommended by the United Nations corporate guidance for IPSAS.

c. Items were not organized in preparation for the count

17. ECA inventory was stored in 30 warehouses dispersed across three buildings. In many instances, similar items were located in different bins and warehouses and there were no efforts to consolidate them in a logical manner. Considering that the inventory occupied vast space and entailed high costs of maintenance, the necessity of retaining non-moving inventory such as building materials needed to be reviewed. Furthermore, some construction materials and furniture items were stacked in corridors outside the warehouses, although such items were acquired for immediate distribution. These included 35 workstation cubicles received in June 2018 at a cost of \$126,854 for a refurbishment project that remained pending in May 2020.

d. Human resources were not effectively utilized

18. In addition to the seven staff in PMU, ECA hired individual contractors (ICs) to perform core functions. There was no analysis of why the authorized staff could not cope with the workload of the Unit nor a clear strategy for a long-term regular staffing solution. The contracts of the ICs did not include clear outputs and functions that were specific, measurable, attainable, results-based and time-bound (SMART), as required by administrative instruction on consultants and individual contractors (ST/AI/2013/4). In addition, five of the ICs had been given staff user roles in ECA's e-inventory system (a standalone inventory control system), and approved 413 of 509 gate passes for removal of assets from the premises for repairs and other external activities between January 2018 and December 2019. According to ST/AI/2013/4, ICs may not be used to perform tasks that would normally be conducted by staff.

19. Furthermore, ECA repeatedly hired the same 27 ICs for 15 years at the G5 and G4 levels at an annual cost of approximately \$400,756 without publicly posting the job openings, conducting interviews or tests and verifying their academic and professional credentials. While ECA expressed reservations about their competency and performance, these were not documented in their performance appraisals. The ICs were repeatedly recruited with contracts that were invariably extended from three to between six and nine months over the years, exceeding the limitation of 24 months service in a 36-month period stated in the administrative instruction on consultants and individual contractors. This created a sense of entitlement, undermined transparency and efficiency, and could result in legal dispute.

e. Staff were not properly trained

20. Training of PMU staff on Umoja property, plant and equipment had not been completed since the training was started in June 2018. In addition, only one of PMU regular staff had completed the mandatory online training on Umoja property management. This led to limited capacity of staff, resulting in data errors and lengthy reconciliation processes after physical inventory exercises. Furthermore, PMU recently transferred control of building materials to the Facilities Management Service, but it was unclear whether the Service had the necessary capacity to establish a robust system to safeguard the inventory from loss and damage.

f. Consultants were not properly supervised, and their work products were not fully implemented

21. In January 2018, ECA contracted a quality assurance consultant “A” for two years at a cost of \$172,800, who like the Property Management Officer, also reported to the Chief of SCMS. The consultant’s responsibilities were to develop standard operating procedures (SOPs) and workflows for inventory and property, plant and equipment; facilitate training of unit staff; monitor recordkeeping; and prepare reports and reconciliations between physical counts and Umoja records. The consultant submitted the draft SOPs and workflows for review and approval, but these were yet to be finalized and implemented two years later, in December 2019, resulting in a no-cost extension of the contract pending finalization of the draft SOPs. In addition, the consultant did not submit monthly and final consultancy reports, and as of May 2020, ECA had not certified completion of the assigned work or rendered a final evaluation, as required.

22. In November 2018, ECA recruited consultant “B” at a cost of \$11,230 to review the inventory management system and conduct an independent physical verification exercise, supported by the team of ICs to ensure reporting deadlines were complied with. However, this resulted in overlapping responsibilities and conflict with the ICs, which led to multiple recounts and delayed completion of the exercise. A no-cost extension of the contract from two weeks to eight months was allowed and ECA retained \$5,000 balance of contract price following disagreement about reporting format.

23. These anomalies were caused by inadequate strategic planning by PMU to carry out its roles and responsibilities with respect to its management of inventory function, including physical inventory, write-off and disposal, production of IPSAS compliant year end reports and staff development. For instance, the Unit did not develop a comprehensive work plan including key outcomes and clear performance indicators that were SMART. Without adequate work planning, performance of the Unit could not be objectively monitored. This undermined effectiveness and accountability.

(1) ECA should develop a comprehensive work plan with clear activities, timelines and key performance indicators that are specific, measurable, attainable, relevant and time bound, with specifically assigned roles and responsibilities, and a monitoring mechanism to hold managers accountable for effective and efficient management of inventory. Specific activities, such as the physical verification, should be guided by detailed instructions to support their implementation.

ECA accepted recommendation 1 and stated that Chief of SCMS would develop a comprehensive work plan with clear activities and timelines to reform the work of PMU, assign roles and responsibilities including delegation of authority and outline periodic monitoring and reporting mechanisms. The plan would also include development of instructions on conducting inventory exercises, finalization of SOPs and a learning plan to ensure staff complete mandatory training. Recommendation 1 remains open pending receipt of the comprehensive PMU work plan.

(2) ECA should undertake an exercise to objectively assess its workload and determine the optimal staffing needed to perform inventory management responsibilities.

ECA accepted recommendation 2 and stated that the Chief of SCMS would perform a workload analysis. Recommendation 2 remains open pending submission of the results of the workload analysis and the optimal staff levels needed to perform inventory management responsibilities.

(3) ECA should conduct a comprehensive analysis of its inventory requirements and take action to dispose of unnecessary stock items.

ECA accepted recommendation 3 and stated that inventory items with no movement for three years would be disposed of or expensed and transferred to budget owners for storage in sealed warehouses, while stationery would be distributed to users with suitable controls. Recommendation 3 remains open pending receipt of evidence that all stock items without movement for three years have been disposed of or transferred to budget owners, and stationery has been distributed to users and are effectively controlled.

- (4) ECA should take steps to ensure that consultants and individual contractors are recruited and managed effectively in accordance with applicable administrative instructions.**

ECA accepted recommendation 4 and stated that the Human Resources Section would ensure that consultants and ICs are recruited and managed in line with the relevant administrative instruction and the Chief of SCMS would develop terms of reference with clear outputs and SMART functions for ICs. Recommendation 4 remains open pending receipt of evidence that consultants and ICs are recruited through a competitive process, for the time required to complete specific tasks and in compliance with applicable administrative instructions.

ECA needed to implement an inventory risk management process

24. Despite a requirement by the United Nations enterprise risk management policies, ECA had not developed a risk register and risk treatment plan for operational risks related to the management of inventory and property, plant and equipment, including fraud, shrinkage, damage, obsolescence, inaccurate forecasting, inaccurate asset balances and delayed or unreliable physical inventory results. A cursory mention of risks was included in the Supply Chain Management Section's annual work plan, but the scope of these risks was not sufficiently developed to address the many persistent issues in inventory management. This limited ECA's ability to prepare adequate risk mitigation plans and effectively manage the inventory-related risks.

- (5) ECA should identify key risks related to inventory and asset management and prepare a treatment plan that will form part of the ECA-wide risk register.**

ECA accepted recommendation 5 and stated that the Chief of SCMS would assess the risks related to inventory and asset management and identify mitigation measures to be included in the ECA risk register. Recommendation 5 remains open pending submission of the ECA risk register that includes risk assessment and treatment plan related to inventory and asset management.

B. Security of inventory

ECA needed to improve warehouse security

25. ECA did not establish adequate mechanisms to ensure proper monitoring and safe custody of inventory to achieve mandated results and promote accuracy of records in accordance with ST/AI/2015/4 on management of property. For example, there were only two security cameras in the warehouses to deter theft, which were located near the receiving area, while the corridors leading to the warehouses were not monitored. Although there were security officers surveilling some doors, this was inadequate due to multiple access points to the warehouses. There was also no dual control over access to the warehouses as all keys to the warehouses were controlled by one warehouse clerk. Furthermore, while the warehouses were equipped with serviced fire extinguishers, they did not have signs prohibiting smoking within the premises, which could lead to fires and resultant damage to inventory. This undermined security and efficient warehouse management including inventory counts. This occurred because ECA used available

rooms for storage and did not modify them appropriately or conduct a security risk assessment for inventory management.

(6) ECA should implement adequate measures to improve security systems in its warehouses.

ECA accepted recommendation 6 and stated that the Chief of Security and Safety Service would assess the security of the warehouses and enhance security systems through additional closed-circuit televisions, sensors and guard patrols. Recommendation 6 remains open pending submission of the security assessment report and evidence of implementation of measures to improve the security systems in ECA warehouses.

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the management and staff of ECA 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 management of assets and inventory in the Economic Commission for Africa

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	ECA should develop a comprehensive work plan with clear activities, timelines and key performance indicators that are specific, measurable, attainable, relevant and time bound, with specifically assigned roles and responsibilities, and a monitoring mechanism to hold managers accountable for effective and efficient management of inventory. Specific activities, such as the physical verification, should be guided by detailed instructions to support their implementation.	Important	O	Submission of the comprehensive PMU work plan, outlining clear activities, timelines, assignment of roles and responsibilities and monitoring and reporting mechanisms.	31 December 2020
2	ECA should undertake an exercise to objectively assess its workload and determine the optimal staffing needed to perform inventory management responsibilities.	Important	O	Submission of the results of the workload analysis and the optimal staff levels needed to perform inventory and asset management activities.	30 November 2020
3	ECA should conduct a comprehensive analysis of its inventory requirements and take action to dispose of unnecessary stock items.	Important	O	Submission of evidence that all stocks without movement for three years have been disposed of or transferred to budget owners for storage in sealed warehouses, and stationery has been distributed to users and are effectively controlled.	31 March 2021
4	ECA should take steps to ensure that consultants and individual contractors are recruited and managed effectively in accordance with applicable administrative instructions.	Important	O	Submission of evidence that consultants and ICs are recruited through a competitive process, for the time required to complete specific tasks and in compliance with applicable administrative instructions.	30 November 2020
5	ECA should identify key risks related to inventory and asset management and prepare a treatment plan that will form part of the ECA-wide risk register.	Important	O	Submission of the ECA risk register that includes a risk assessment and treatment plan related to inventory and asset management.	30 September 2021

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

³ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁴ Date provided by ECA in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of management of assets and inventory in the Economic Commission for Africa

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
6	ECA should implement adequate measures to improve security systems in its warehouses.	Important	O	Submission of the security assessment report and evidence of implementation of measures to improve the security systems in ECA warehouses.	30 March 2021

APPENDIX I

Management Response

INTEROFFICE MEMORANDUM

To: Ms. Eleanor T. Burns, Director
A: Internal Audit Division, OIOS

Date: 19 October 2020
Ref: SPORD/ADM01-12-30-02-02-3

From: Said Adejumobi, Director
De: Strategic Planning, Oversight and Results
Division (SPORD)



Subject: Management response to the draft report on an audit of management of assets and inventory in the Economic Commission for Africa (Assignment No. AN2020/710/02)

1. With reference to your interoffice memorandum OIOS-2020-01426, dated 28 September 2020, I am pleased to submit ECA's management response to the draft audit report.
2. ECA welcomes the comprehensive report and its findings. In addition, ECA accepts all recommendations and has provided actions, deadlines for completion along with responsible offices for implementation of recommendations.
3. I wish to take the opportunity to thank your office and members of the audit team for the collaboration and teamwork, with which they applied to the audit process.

Cc: Ms. Vera Songwe, Executive Secretary, ECA
Ms. Fatoumata Ndiaye, Under Secretary General for Internal Oversight Services, OIOS
Mr. Carlos Haddad, Director, Division of Administration, ECA
Mr. George Ogboro, Chief, Supply Chain Management Section, ECA

Enc: Appendix I: ECA's management response

Management Response

Audit of management of assets and inventory in the Economic Commission for Africa

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	ECA should develop a comprehensive work plan with clear activities, timelines and key performance indicators that are specific, measurable, attainable, relevant and time bound, with specifically assigned roles and responsibilities, and a monitoring mechanism to hold managers accountable for effective and efficient management of inventory. Specific activities, such as the physical verification, should be guided by detailed instructions to support their implementation.	Important	Yes	Chief, Supply Chain Management Section	31 December 2020	Chief of SCMS, will develop a work plan with clear activities and timelines on how to reform the work of the inventory unit. The Plan will assign roles and responsibilities including delegation of authority. The plan will mention how monitoring will be done including the monthly, quarterly, and yearly reports to be provided to the management of ECA. The work plan will include a written instruction on how the inventory exercises will be carried out and within what time frame. The work plan would include SOPs for the various processes being performed by the inventory section. The work plan will include a learning plan and ensure that the staff have completed their mandatory trainings.
2	ECA should undertake an exercise to objectively assess its workload and determine the optimal staffing needed to perform inventory management responsibilities.	Important	Yes	Chief, Supply Chain Management Section	30 November 2020	A workload analysis will be performed by the Chief, SCMS no later than the end of November.
3	ECA should conduct a comprehensive analysis of its inventory requirements and	Important	Yes	Chief, Supply Chain	31 March 2021	- None moving items older than 3 years will either be disposed or transferred to budget owners as

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Management Response

Audit of management of assets and inventory in the Economic Commission for Africa

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
	take action to dispose of unnecessary stock items.			Management Section		expensed items no later than end of November 2020. - Stationary items will be distributed to users in order to reduce the related count by 28 February 2021. - Chief of SCMS, will ensure that budget Owners will have adequate control mechanism to control none moving items. SCMS will seal warehouses with the expensed none moving inventory in order to minimize the yearly counts.
	ECA should take steps to ensure that consultants and individual contractors are recruited and managed effectively in accordance with applicable administrative instructions.	Important	Yes	Chief, Human Resources Management Section Chief, Supply Chain Management Section	30 November 2020	HR Section would reinforce the application of the administrative instruction vis-à-vis the hiring of the Individual Contractor. Chief, of SCMS will develop terms of references for the individual contractors that have clear outputs and functions that are specific, measurable, attainable, results-based and time-bound no later than end of November 2020 in line with applicable administrative instructions.
5	ECA should identify key risks related to inventory and asset management and prepare a treatment plan that will form part of the ECA-wide risk register.	Important	Yes	Chief, Supply Chain Management Section	30 September 2021	Chief, of SCMS will assess the risks related to inventory, asset management and warehouses and identify mitigation measures to be included in the risk register of ECA.

Management Response

Audit of management of assets and inventory in the Economic Commission for Africa

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
6	ECA should implement adequate measures to improve security systems in its warehouses.	Important	Yes	Chief, Security and Safety Service	30 March 2021	There are multiple layers of security in ECA compound including physical, procedural, technical and human elements. The Chief of Security and Safety Service will conduct an assessment related to the warehouses with a view to improve the security systems of the warehouses. Following the assessment we will enforce additional layers of security surrounding the warehouses (CCTV, sensors, and guard-patrols).