



## INTERNAL AUDIT DIVISION

### REPORT 2014/137

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Audit of management of expendable inventory in the African Union-United Nations Hybrid Operation in Darfur

Overall results relating to the effective management of expendable inventory in the African Union-United Nations Hybrid Operation in Darfur were initially assessed as unsatisfactory. Implementation of two critical and five important recommendations remains in progress

FINAL OVERALL RATING: UNSATISFACTORY

15 December 2014

Assignment No. AP2014/634/05

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# AUDIT REPORT

## Audit of management of expendable inventory in the African Union-United Nations Hybrid Operation in Darfur

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of management of expendable inventory in the African Union-United Nations Operation in Darfur (UNAMID).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. In November 2013, UNAMID established a new warehousing concept of centralizing warehousing operations to improve warehousing practices, reduce inventory levels, dispose of obsolete stocks and reduce risk of loss through theft. The Centralized Warehousing, Receiving and Inspection and Property Disposal Section (also referred to as the Centralized Warehouse Section) was headed by an officer at the P-5 level and had 22 international and 28 national staff. As at 30 June 2014, inventory related to the supply, transport and engineering sections was managed by the Central Warehouse Section. Two other self-accounting units were still managing their inventory as they had not handed over this function to the Central Warehouse Section. As at 30 June 2014, the expendable inventory balance was \$98.6 million.
4. Comments provided by UNAMID are incorporated in italics.

### II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of UNAMID governance, risk management and control processes in providing reasonable assurance regarding the **effective management of expendable inventory in UNAMID**.
6. The audit was included in the 2014 risk-based work plan of OIOS due to the operational and financial risks relating to management of expendable inventory.
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the management of expendable inventory; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.
9. OIOS conducted the audit from May to July 2014. The audit covered the period from 1 July 2012 to 30 June 2014. OIOS visited warehouses at Mission Headquarters, the Khartoum Liaison Office and in sectors North, South, West and Central.
10. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through

interviews and analytical reviews, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. OIOS physically verified 260 high value items, valued at \$25.8 million, from all warehouses visited by the audit team.

11. This audit did not include warehousing facilities, which were covered in another audit that OIOS conducted during 2014.

### III. AUDIT RESULTS

12. The UNAMID governance, risk management and control processes examined were initially assessed as **unsatisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effective management of expendable inventory in UNAMID**. OIOS made seven recommendations to address the issues identified. UNAMID had made progress in conducting physical verification of its inventory, with 96 per cent of all items successfully counted. However, UNAMID needed to: (a) implement procedures to properly account and take corrective actions related to obsolete and excess stock, as well as the avoidance of overstocking; (b) conduct regular stock counts and investigate and reconcile discrepancies in a timely manner; (c) segregate inventory management duties; (d) provide training to warehouse staff; (e) improve accounting of items issued to projects; and (f) update the warehouse inventory location system in Galileo.

13. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **unsatisfactory** as implementation of two critical and five important recommendations remains in progress.

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of expendable inventory in UNAMID	Regulatory framework	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory

### Regulatory framework

#### Inadequate inventory management led to excessive stock levels and obsolescence

14. The Department of Field Support (DFS) 25 April 2014 instructions to peacekeeping missions on the treatment of inventory required UNAMID to review stock holdings and identify slow/non-moving/obsolete items and, where justified, initiate write-off actions. The DFS Guidelines on Warehousing Operations for Field Missions required UNAMID to establish minimum and maximum stock levels, and to periodically review stock levels to avoid stock-outs and excess stock holdings.

15. An analysis of inventory as at 30 June 2014 indicated that 6,134 inventory items valued at \$41 million (or 42 per cent of the total) had not been issued from warehouses for over 12 months. Some

<sup>1</sup> A rating of “**unsatisfactory**” means that one or more significant and/or pervasive deficiencies exist in governance, risk management or control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

examples of high value slow and non-moving items were: aluminum windows valued at \$4.6 million, gravel valued at \$3.0 million, clothing locker and cabinets valued at \$2.3 million, body armour valued at \$2.1 million, computer thin clients valued at \$1.1 million and network adapters valued at \$0.9 million. Most of these items were no longer needed.

16. UNAMID implemented procedures for conducting annual physical inventories and as part of these procedures, UNAMID staff were identifying slow and non-moving stock. However, UNAMID did not take action to initiate their write-off as the Mission's priority was on redeploying and selling plant, equipment and vehicles.

17. Additionally, UNAMID had not included data on minimum, maximum and reorder levels to ensure more effective monitoring of stock holdings and procurement of goods. This was because UNAMID had not established various stock level parameters and had not assigned responsibilities for encoding and maintaining such data in Galileo. As a result, stock balances were not effectively monitored resulting in financial losses to the Mission due to obsolete stock and related additional warehouse operating expenses.

**(1) UNAMID should review all inventory balances and analyze inventory movements to identify slow and non-moving items, as well as excessive quantities, and either initiate actions for transfers to other missions or obtain approvals for write-offs.**

*UNAMID accepted recommendation 1 and stated that it would enforce ABC stock analysis required to identify slow moving inventory for possible write-off and encourage the use of a logical and recognized standard for inventory review. Recommendation 1 remains open pending receipt of evidence and OIOS verification that slow and non-moving stock items have been identified for appropriate action.*

**(2) UNAMID should establish minimum, maximum and reorder levels for stock items and assign responsibility for maintaining such data in Galileo.**

*UNAMID accepted recommendation 2 and stated that it had adopted the ABC stock analysis for fast moving inventory to aid warehouse managers in identifying stock consumption patterns. The Mission had also established an internal control system to monitor weaknesses and inconsistencies among self-accounting units in designating reorder levels. Recommendation 2 remains open pending receipt of evidence that minimum, maximum and reorder level for stock items have been established.*

#### Self-accounting units needed to conduct cycle counts of inventory

18. The DPKO/DFS Property Management Manual required self-accounting units to perform 100 per cent physical verification of expendable inventory on a yearly basis. This was to be done by cyclical counts to ensure all inventory was counted throughout the year in segments. The Manual also required UNAMID to correct discrepancies within the DPKO/DFS recommended rate of +/- 2 per cent of the stock card quantity, or amounts below \$250, using an inventory cycle voucher in Galileo. Staff members were required to report all discrepancies that exceeded the prescribed limit to respective chiefs of self-accounting units for reconciliation or if required for investigation by the Security Section.

19. UNAMID self-accounting units did not conduct cycle counts of inventory and left it until the end of the Mission's financial year-end. As at 30 June 2014, UNAMID had physically verified 96 per cent of its inventory or the equivalent of \$95 million. UNAMID was not able to verify the remaining 4 per cent valued at about \$3.5 million as these items could not be located. This included inventory valued at \$2.9 million that had not been physically verified since the start of the Mission in 2008. At the time of the

audit, the respective self-accounting units had initiated write-off action for these items, subject to the approval of the Director of Mission Support and the Controller. Based on the action being taken, no recommendation was made relating to items valued at \$3.5 million that could not be accounted for.

20. The lack of proper cycle counts resulted in discrepancies between Galileo records and physical counts that were not promptly investigated and correctly reconciled. For instance, there were: negative discrepancies (book value greater than physical count quantities) in 109 Galileo line items totaling \$3.2 million; and positive discrepancies (physical count quantities greater than book value) in 105 line items totaling \$6.2 million as at 30 June 2014. These discrepancies were not fully investigated and were corrected with inventory cycle vouchers although they were not within the DPKO/DFS-prescribed limits.

21. Some warehouse supervisors explained that cycle counts were not properly conducted due to difficulties in undertaking stock count of items that were stored in over 14,000 sea containers.

**(3) UNAMID should conduct cyclical stock counts of inventory and take appropriate action to investigate and reconcile discrepancies in a timely manner and in accordance with prescribed limits.**

*UNAMID accepted recommendation 3 and stated that it had achieved 96 per cent of expendable cycle count in fiscal year 2013/2014, the highest acceptable target within DFS tolerance level. Nevertheless, the Mission would investigate and reconcile discrepancies in accordance with prescribed limits. Recommendation 3 remains open pending OIOS verification that cyclical stock counts of inventory are conducted.*

#### Segregation of inventory management duties needed to be strengthened

22. The Chief of Supply Chain Management Services issued a memorandum on 27 March 2014 requiring chiefs of self-accounting units to ensure that there was segregation of duties between: (a) preparers, reviewers and approvers of inventory cycle vouchers used to make stock balance adjustments in Galileo; and (b) persons initiating and approving inventory issue vouchers.

23. An analysis of all 28,940 inventory cycle vouchers in Galileo indicated that: (a) in 18,354 cases (63 per cent), vouchers were prepared and approved by the same person and there was no indication that the accuracy of the vouchers was checked by a reviewer; and (b) in 9,758 cases (34 per cent), preparers did not include the reasons why adjustments were being made. In cases where reasons were provided, explanations were vague, such as: “adjust stock level”, “as per physical verification” and “used during startup of Mission in 2008”.

24. The lax controls over the issuance of inventory resulted as managers of self-accounting units did not correctly assign inventory management functions to their staff to ensure proper segregation of duties. The lack of adequate segregation of duties increased the risk of not being able to prevent and detect errors in inventory, as well as the risk of loss or theft.

**(4) UNAMID should take steps to ensure that functions to initiate, approve and record inventory transactions are segregated.**

*UNAMID accepted recommendation 4 and stated that with the centralization of warehouse operations, the opportunity existed to segregate inventory transactions in Galileo. Recommendation 4 remains open pending OIOS verification that functions to initiate, approve and record inventory transactions have been segregated.*

There was a need to improve the accounting for inventory issued to projects

25. The DPKO/DFS Guidelines on Warehousing Operations for Field Missions required asset managers and other stakeholders to properly account, safeguard and manage inventory issued to projects. The guidelines required the project/work order module in Galileo to be updated with quantities of materials issued to projects to ensure accurate accounting of inventory and safeguard against abuse.

26. A review of Galileo records of inventories issued to projects indicated that: all self-accounting units except for Transport Section did not specify the names of projects for which materials were requested; and those responsible for issuing inventory did not update the project/work order module in Galileo with quantities and cost of materials issued to projects or work orders. This was because warehouse staff and requesting personnel had not been trained on how to use the project management and work order module in Galileo. As a result, inventory issued to projects was not adequately accounted for, and outstanding balances were incorrectly recorded in Galileo.

27. Additionally, UNAMID did not monitor the consumption of inventory items issued to projects. As a result, UNAMID had inventory that remained with self-accounting units for various projects and had either not been used for extended periods or was no longer needed. This resulted in an understatement of inventory values as items were not returned to the warehouse and thus Galileo records were not updated accordingly. For example, UNAMID had: (a) inventory of an undetermined value, related to water and environmental protection items stored in 48 sea containers that was issued to projects but remained unutilized for over a year; and (b) solar panels, valued at \$1.6 million, that were issued to the Communication and Information Technology Section on 29 January 2014 but had not been installed as at 30 June 2014.

**(5) UNAMID should provide training to warehouse staff and requesting personnel on how to use the project/work order module in Galileo.**

*UNAMID accepted recommendation 5 and stated that training had been initiated and the level of proficiency on how to use the project and work order module in Galileo was expected to be at an acceptable level by 31 March 2015. Recommendation 5 remains open pending receipt of evidence that all warehouse staff have been trained in the use of work order module in Galileo.*

**(6) UNAMID should implement procedures to ensure that any unused inventory that was previously issued to projects is returned to warehouses, and Galileo is updated accordingly.**

*UNAMID accepted recommendation 6 and stated that all stakeholders fully recognized that the recommendation was a process to correct a longstanding accounting deficiency in managing expandable inventory. Recommendation 6 remains open pending OIOS verification that unutilized inventory issued to projects are returned to the warehouse and Galileo updated accordingly.*

The warehouse inventory location system needed to be improved

28. The DPKO/DFS Guidelines on Warehousing Operations for Field Missions required UNAMID to establish, operate and maintain a formal stock location system that identified items stored and the quantity and location. The Guidelines required UNAMID to utilize the Galileo bin location management module to manage all items stored in the warehouses and ensure that each item/location combination was recorded in the database. The Guidelines required the use of planographs (scale drawings of storage areas showing their layouts and locations of bins, racks and box pallet areas) for warehouses and sea container yards for ease of locating the stored items.

29. UNAMID utilized the Galileo bin location management system module for location referencing; however, it did not consistently apply this system for all items stored in warehouses. The Mission anticipated that this problem would be resolved with the centralization of warehousing operations. OIOS verification of 330 inventory items recorded in Galileo indicated 65 discrepancies between the location of items as per Galileo and actual physical locations. Further, UNAMID did not utilize planographs to facilitate easy identification and referencing of stored items.

30. The lack of an adequate and effective inventory location system made it difficult for warehousing staff to locate stored items. Further, inaccurate location of inventory increased the vulnerability of items to loss through theft.

**(7) UNAMID should implement an action plan to: (a) establish an accurate stock location system to indicate what, how much, and where items are stored; (b) apply planography in warehouses and sea container yards for ease of locating the stored items; and (c) update the Galileo system with the correct location details.**

*UNAMID accepted recommendation 7 and stated that a stock location system was already in place, although improvement was required. The Mission was of the view that, based on best practice, all data must be entered directly in Galileo to maximize the capabilities of the system. Recommendation 7 remains open pending OIOS verification that an accurate stock location system has been maintained by the Mission.*

Inventory received and issued was physically verified and properly recorded in Galileo

31. The DPKO/DFS Guidelines on Warehousing Operations for Field Missions required UNAMID to ensure proper verification, processing and recording of inventory received at and issued from warehouses.

32. A review of 100 of the 877 receiving and inspection reports raised in fiscal years 2012/13 and 2013/14 indicated that UNAMID physically verified items received and accurately recorded them in Galileo. In addition, a review of 86 out of 25,889 issue vouchers indicated that they were duly approved and properly recorded in Galileo. OIOS concluded that controls over the recording of receipts and issuances of inventory in Galileo were adequate and working effectively during the audit period.

#### **IV. ACKNOWLEDGEMENT**

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

(Signed) David Kanja  
Assistant Secretary-General for Internal Oversight Services



## STATUS OF AUDIT RECOMMENDATIONS

### Audit of management of expendable inventory in the African Union-United Nations Hybrid Operation in Darfur

Recom. 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	UNAMID should review all inventory balances and analyze inventory movements to identify slow and non-moving items, as well as excessive quantities, and either initiate actions for transfers to other missions or obtain approvals for write-offs.	Critical	O	Receipt of evidence and OIOS verification that slow and non-moving stock items have been identified for appropriate action	31 March 2015
2	UNAMID should establish minimum, maximum and reorder levels for stock items and assign responsibility for maintaining such data in Galileo.	Important	O	Receipt of evidence that minimum, maximum and reorder level for stock items have been established.	31 March 2015
3	UNAMID should conduct cyclical stock counts of inventory and take appropriate action to investigate and reconcile discrepancies in a timely manner and in accordance with prescribed limits.	Important	O	OIOS verification that regular stock counts of inventory are conducted.	31 March 2015
4	UNAMID should take steps to ensure that the functions to initiate, approve and record inventory transactions are segregated.	Important	O	OIOS verification that functions to initiate, approve and record inventory transactions have been segregated.	31 March 2015
5	UNAMID should provide training to warehouse staff and requesting personnel on how to use the project/work order module in Galileo.	Important	O	Receipt of evidence that all warehouse staffs have been trained in the use of work order module in Galileo.	31 March 2015
6	UNAMID should implement procedures to ensure that any unused inventory that was previously issued to projects is returned to warehouses, and Galileo is updated accordingly.	Critical	O	OIOS verification that unutilized inventory issued to projects are returned to the warehouse and Galileo updated accordingly.	30 April 2015
7	UNAMID should implement an action plan to: (a) establish an accurate stock location system to indicate what, how much, and where items are stored; (b) apply planography in warehouses and sea container yards for ease of locating the stored items; and (c) update the Galileo system with the correct location details.	Important	O	OIOS verification that an accurate stock location system has been maintained by the Mission.	30 June 2015

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal 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 UNAMID in response to recommendations.

# **APPENDIX I**

## **Management Response**

AFRICAN UNION

الاتحاد الأفريقي



UNAMID



UNITED NATIONS

الأمم المتحدة

**African Union – United Nations Hybrid Operation in Darfur**

*Office of the Joint Special Representative*

09 December 2014

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

**From:** Abiodun Bashua  
Acting Joint Special Representative, a.i.  
UNAMID

**Subject:** Draft report on an audit of expandable inventory management in the African Union-United Nations Hybrid Operation in Darfur (Assignment No. AP2014/634/05)

1. With reference to your memorandum of 04 December 2014, on the captioned-subject matter, please find attached UNAMID's response (Appendix I) to the draft report for your consideration.

2. I further confirm on the factual accuracy of the report.

Thank you.

cc: Mr. Anthony Nweke, Acting Director of Mission Support Division, UNAMID  
Mr. Maqbool Mohammad, Chief, Supply Chain Management, UNAMID  
Ms. Vevine Stamp, Chief, Operations and Services, UNAMID  
Mr. Anastase Rwegayura, Chief, Property Management Section, UNAMID  
Mr. Prances Soosa, Chief, Resident Auditor, OIOS/UNAMID  
Mr. Velayutham Gopal, Audit Focal Point, UNAMID  
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

## Management Response

## Audit of expendable inventory management in the African Union-United Nations Hybrid Operation in Darfur

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNAMID should review all inventory balances and analyze inventory movements to identify slow and non-moving items, as well as excessive quantities, and either initiate actions for transfers to other missions or obtain approvals for write-offs.	Critical	Yes	Chief Central Warehouse Section	31 March 2015	Mission will enforce ABC stock analysis as mandated by Property Management Unit (PMU)/UNHQ. This is to identify slow moving inventory for possible write-off and encourage the use of a logical recognized standard for inventory review. The Mission endeavors to achieve the exercise by 31 March 2015.
2	UNAMID should: (a) establish minimum, maximum and reorder levels for stock items and assign responsibility for maintaining such data in Galileo.	Important	Yes	Chief Central Warehouse Section	31 March 2015	The ABC stock analysis has been adopted to fast moving inventory and to aid warehouse managers to identify stock consumption patterns. Internal control system has also been established to monitor weakness and inconsistency amongst Self Accounting Units (SAUs) in designating re-order levels.

<sup>1</sup> Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important deficiencies or weaknesses in governance, risk management or internal 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 expendable inventory management in the African Union-United Nations Hybrid Operation in Darfur

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	UNAMID should conduct cyclical stock counts of inventory and take appropriate action to investigate and reconcile discrepancies in a timely manner and in accordance with prescribed limits.	Important	Yes	Chief Central Warehouse Section	31 March 2015	UNAMID has achieved 96% of expendable cycle count in FY13/14, the highest acceptable target within Department of Field Service (DFS) tolerance level. Nevertheless, discrepancies will be investigated and reconciled in accordance with prescribed limits.
4	UNAMID should take steps to ensure that the functions to initiate, approve and record inventory transactions are segregated.	Important	Yes	Chief Central Warehouse Section	31 March 2015	With the centralization of warehouse operation in particular, the opportunity to better reduce the risk of staff assuming avoidable financial liability in conducting inventory transaction in Galileo, whereby the functions to initiate, approve and record inventory transactions will be segregated.
5	UNAMID should provide training to warehouse staff and requesting personnel on how to use the project/work order module in Galileo	Important	Yes	Chief Central Warehouse Section	31 March 2015	The level of proficiency on how to use the project/work order module in Galileo is expected to be at an acceptable level by 31 March 2015.
6	UNAMID should implement procedures to ensure that unused inventory that was issued to projects are returned to warehouses and Galileo is updated accordingly.	Critical	Yes	Chief Central Warehouse Section	30 April 2015	All stakeholders fully recognize that this is a process to correct a longstanding accounting deficiency in managing

## Management Response

## Audit of expendable inventory management in the African Union-United Nations Hybrid Operation in Darfur

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						expandable stock/inventory and will be achieved by the timeline provided.
7	UNAMID should implement an action plan to: (a) establish an accurate stock location system to indicate what, how much, and where items are stored; (b) apply planography in warehouses and sea container yards for ease of locating the stored items; and (c) update the Galileo system with the correct location details.	Important	Yes	Chief Central Warehouse Section	30 June 2015	A stock location system is already in place and although improvement is required. The Mission is of the view best practice requires all data must be entered in Galileo directly to maximize the capabilities of the system.