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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. William Swing
A: Special Representative of the Secretary-General
MONUC

DATE:

16 May
27 April 2005

REFERENCE:

7-5:7
AUD- (*02/05*)

THROUGH:

S/C DE:

FROM: Patricia Azarias, Director
DE: Internal Audit Division I, OIOS

P. Azarias

SUBJECT: **OIOS Audit No. AP2004/620/07: Inventory Control of Expendable
Property and Supplies in MONUC**

1. I am pleased to present herewith our final report on the audit of the above subject, which was conducted during July – September 2004. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.
2. We note from your response to the draft report that MONUC has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed recommendations 5, 6, 8, 9, 10, and 11 in the OIOS recommendation database. In order for us to close out the remaining recommendations (recommendations 1, 2, 3, 4, 5, 7, 12 and 13), we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of their implementation status.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

4. OIOS conducted an audit of inventory control of expendable property and supplies during July-September 2004. The audit was conducted in accordance with the standards for the professional practice for internal auditing in United Nations organizations. Within MONUC, inventory management of expendable property and supplies is the joint responsibility of five Self Accounting Units (SAU) viz., Communications and Information Technology, Supply, Transport, Engineering and Medical. Expendable properties are items of low value, utilized as replacement parts and generally not serviceable. Examples are spare parts, regular desks, tables, chairs, coat racks, cabinets, fans, coffee makers, building materials, printer cartridges and stationery, etc.

5. Administrative instructions ST/AI/374 of 16 January 1992 issued by the USG for Administration and Management prescribe the controls for maintenance and accountability of expendable property. Administrative circular no. 2000/017 issued by the Mission on 23 August 2000 on Field Asset Control System (FACS) - Management of Assets identifies internal controls on expendable property and supplies. MONUC issued administrative circular no. 031/2003 on Property Control, Inventory Management and Accountability on 16 December 2003 to remind all staff of the existing procedures regarding accounting for property, equipment and supplies within the Mission.

6. There are currently 40 locations in six sectors at which expendable property warehouses are located. Table I below shows the number of line items and the value carried by each SAU at the end of October 2004.

Table I: Summary of Expendable Items at the End of October 2004

Self Accounting Unit	No. of Line Items	\$ Value
Engineering	1,750	5,882,000
Transport	9,220	3,903,116
Supply – Kinshasa	558	2,649,992
Communications & Information Technology	1,200	5,729,757
Medical	162	128,828
Total	12,890	\$18,293,693

7. The comments made by the Management of MONUC on the draft audit report have been included in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

8. The objectives of this audit were to:

- (a) Determine whether adequate accounting controls existed for accurate and timely recording and tracking of all expendable property and supplies transactions;
- (b) Ascertain whether proper security controls were in place for preventing any loss or theft of expendable property and supplies; and
- (c) Determine whether the Mission has proper management controls for maintaining sufficient stock levels for efficient operations.

III. AUDIT SCOPE AND METHODOLOGY

9. The scope of audit included review of existing internal control procedures for receipt and issue of expendable property and supplies for the period 1 January 2003 to 30 June 2004.

10. The audit conducted detailed analysis of the database records and carried out physical inspection of warehouses in Kinshasa, Kisangani and Bunia where majority of the expendable property, equipment and supplies were stored.

11. OIOS conducted interviews with the key staff members in Receiving and Inspection (R & I) Unit and in various SAUs to test the operation of existing controls.

IV. OVERALL ASSESSMENT

12. The Mission has developed various databases to record information pertaining to expendable property and supplies. There is sufficient evidence that properly trained staff members can use these databases as an effective tool for inventory management. The audit identified some SAUs, however, that required training for their staff. In other cases, it identified some sector offices where the databases had yet to be developed to enable the Mission to make inventory management decisions.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Engineering

Engineering Store in Bunia

13. The Engineering Store in Bunia maintains approximately 400 line items with a total value of about \$0.6 million. The stores manager maintains the engineering materials inventory on manual stock sheets and bin cards. There is also a manual daily issues and receipts logbook, which records individual stock items. The store updates the bin cards manually as transactions take place. OIOS noted that the manual processes were prone to errors and omissions.

14. With manual records, Engineering Store in Bunia did not have any mechanism to identify the total stock holding in number or value at any time. The store developed a spreadsheet of all items and unit prices upon OIOS' request.

15. The audit carried out a sample physical inspection based on the spreadsheet provided by the store and found that 11 items out of a sample of 47 were inaccurately recorded or the issues were not recorded on the bin cards. The discrepancies amounted to \$3,313 short and \$1,219 surplus in the warehouse as compared to the stores records.

16. On OIOS' advice, the Engineering Store in Bunia installed a computerized database for expendable property and supplies in September 2004 and was in the process of making data-entry.

Recommendation 1

OIOS recommends that the MONUC Administration ensure that while changing over to computerized database, Standard Operating Procedures should be developed for data-entry, data validation and physical inspection of expendable property and supplies at the Engineering Store in Bunia (AP2004/620/07/001).

17. *MONUC Administration accepted recommendation 1 and indicated that a draft SOP has been developed for Engineering Section Materials management, which will be reviewed and finalized by June 2005. Recommendation 1 remains open pending receipt of the finalized SOP from MONUC.*

Engineering Store in Kisangani

18. The Engineering Store in Kisangani maintains approximately 700 line items with a total value of about \$ 0.5 million. The store maintains inventory on an Excel spreadsheet. Upon OIOS' request, it included the unit prices on the spreadsheets. The spreadsheet is a tool of limited utility, as it does not allow on-time tracking of issues and receipts. Issues and receipts are only updated in terms of quantity and there is a risk of not updating them on timely basis or even to omit some transactions by human error. There is no record of the issue voucher number, date of issue, receipt voucher number and there is no facility to trace history of the issues and receipts. There is no control to confirm that all receipts and issues have been recorded on a timely basis and also accurately in the spreadsheet. There is the added risk of spreadsheet being open to manipulation with no control or track record of any changes made subsequent to initial data entry.

19. The stores supervisor prepares issue vouchers manually. The commencement of the audit initiated a 100% physical count in July 2004. This 100 % stock count facilitated checking of accuracy of the spreadsheet. However, the method of recording inventory on the spreadsheet did not allow verification of the changes made as a result of physical review.

20. There are engineering stores in Goma, Kindu, Mbandaka, Kananga, Kalemie and Bukavu with expendable property and supplies. These sectors have not installed any computerized database systems for recording and tracking of expendable property and supplies. In OIOS' opinion, database systems would provide management current and accurate information on quantities and value of expendable property and supplies on a timely basis, facilitating future budgeting and reordering of materials.

Recommendation 2

OIOS recommends that the MONUC Administration install the expendables database for engineering stores in Kisangani, Goma, Kindu, Mbandaka, Kananga, Kalemie and Bukavu, and develop procedures for data-entry, data validation and physical verification of materials in these warehouses (AP2004/620/07/002).

21. *MONUC Administration accepted recommendation 2 and stated that the expendables' database has been installed in Kisangani. With regard to the other Engineering stores MONUC will await the launch of the new "Galileo" system and when staffing limitations are overcome. Recommendation 2 remains open pending receipt of confirmation from MONUC that an effective database system is in place in all sectors.*

Engineering Store at Kinshasa

22. The Engineering Section in Kinshasa maintains records of expendable property and supplies in a database system. The basic function entails recording of receipt of goods with the use of the receipt voucher function and issue of goods using the issue voucher function. OIOS noted that the section had not maintained the database accurately and timely for all receipts and issues since the system was installed in December 2001. The Section had since updated the database and carried out a complete physical count of the warehouse in July 2004.

23. Based on the 100% physical inventory count carried out in July 2004, the Engineering Section made adjustments to the database records in the amounts of \$623,942 towards shortages and \$433,550 towards surpluses. The major inaccuracies were because no opening balances taken while installing the system, as there was no actual count undertaken at that time. Other factors were: lack of a proper procedure for issue and receipt of items, inadequate staff, storage of material in containers which made identification difficult, and movement of the engineering stores warehouse from Iveco Compound to Agetraf Compound.

24. In OIOS' opinion, these problems emanated from lack of a Standard Operating Procedures (SOP) for proper inventory control in the Engineering Section.

Recommendation 3

OIOS recommends that the MONUC Engineering Section issue and implement a Standard Operating Procedure that includes timelines for stocktaking, procedures regarding issues, receipts and write off of materials (AP2004/620/07/003).

25. *MONUC Administration accepted recommendation 3 and stated that a draft SOP has been developed, which will be reviewed at the Engineering Section workshop in June 2005. Recommendation 3 remains open pending receipt of the finalized SOP from the Mission.*

B. Transport

26. The Transport Workshop initiates a 'work order' whenever spare parts are required for the maintenance of a vehicle. The Transport Store issues the spare parts to the workshop technician and records it on a daily issue sheet. The Transport Store records the issues of spare parts electronically using the spares database to the specific work order, which identifies the vehicle registration number. This connection between the Transport Workshop and Transport Store is a good internal control built and is functioning well. It ensures that all spare parts issued to the workshop can be traced to a specific vehicle repaired.

27. OIOS noted, however, that the Transport Store manager replenishes stock of spares after reviewing some 9,200 line items manually, which is time consuming and open to risks of shortages at time of need. There could also be a surplus of spares, which could not be detected through manual review. Thus financial resources would be unnecessarily tied up, combined with the risk of obsolescence, damage and theft. The problem could be fixed by developing the database function to incorporate an additional feature of re-order level.

28. OIOS conducted physical inspection of spare parts and tools of the Transport Store. It was found that 21 items out of a sample of 150 were inaccurately recorded. The discrepancies amounted to \$7,744 short and \$1,297 surplus in the warehouse as compared to the store records, and consisted of inaccurate part numbers, quantity or incomplete and inaccurate location and description. Inaccuracy in part numbers in certain cases was caused by the manufacturer attaching a new part number for the same item. Therefore when the spare was received, the Transport Store recorded the spare using the new part number in the database, while the same part was also recorded under the old number.

29. Spares and tools are stored in five separate locations fairly close to each other in Iveco Compound and in several containers in Ageltraf Compound. OIOS found that management and control was difficult because the spares were in various small rooms and access to some spares in the containers was physically a cumbersome task. There was an added risk of having the spares transported from the small rooms and containers to the workshop where en-route some items could go missing.

30. An independent 100% physical inspection of spares was conducted by military personnel appointed by the Mission administration at the time of audit. The task commenced in March 2004 and was completed at the end of October 2004. Discrepancies identified by the military personnel were such as incorrect record of issues to physical shortage and inaccurate part numbers and locations.

31. OIOS reviewed selected transactions of issue of spares and tools to various sectors from Kinshasa warehouse. Out of 12 shipments sent to Kisangani during April-July 2004, there were discrepancies in six shipments. Discrepancies were found in the quantity as per the issue voucher and the actual receipt. There were 11 surpluses and 29 shortages. In some instances the sectors reported that the packages were tampered with during security check before air-transportation.

Recommendations 4 - 6

OIOS recommends that the MONUC Administration:

- (i) develop the functionality of the Transport Store database to incorporate additional features of re-order level and annual consumption (AP2004/620/07/004);
- (ii) review and enhance the space allocation for Transport Store to facilitate smooth operation of receipts and issues (AP2004/620/07/005); and
- (iii) develop a schedule to conduct physical inspection of expendable property and supplies held in Transport Store on a regular and continuous basis, to ensure accuracy and completeness of the database (AP2004/620/07/006).

32. *MONUC Administration accepted recommendation 4 and stated that features already exist in FACS for re-order and annual consumption, but due to the tedious process, this has not been extensively utilized. With the installation of "Crystal Reporting" this problem should be overcome. MONUC Transport also indicated that further training of staff in generating consumption reports for each vehicle category will be undertaken. Recommendation 4 remains open pending receipt of sample database reports from the Mission.*

33. *MONUC Administration accepted recommendation 5 and commented that with the relocation of stores to new premises, Transport stores would have adequate space. Based on the Mission's response, OIOS has closed recommendation 5.*

34. *MONUC Administration accepted recommendation 6 and clarified that a stock inventory is currently in progress. Based on the Mission's response, OIOS has closed recommendation 6.*

Recommendations 7 and 8

OIOS recommends that the MONUC Transport Store:

- (i) develop an internal control procedure whereby a senior staff member reconciles the items sent to sectors with the issue voucher and signs off as evidence before the items leave the warehouse (AP2004/620/07/007); and
- (ii) for items to be shipped to other sectors, arrange to have the security check done and cleared at the Transport Store and then seal the packages effectively which should be received sealed at the receiving sector to avoid any tampering at the time of transporting by air (AP2004/620/07/008).

35. *MONUC Administration accepted recommendation 7 and stated that with the arrival of replacement staff in June 2005, the system of reconciling items sent to sectors would be in place. Recommendation 7 remains open pending confirmation by the Mission that it has been fully implemented.*

36. *MONUC Administration accepted recommendation 8 and informed that the recommendation is being implemented effective March 2005. Based on the Mission's response, OIOS has closed recommendation 8.*

C. Communications and Information Technology

37. OIOS carried out physical inspection of three major warehouses in Kinshasa, Bunia and Kisangani. The Kisangani CITS stores had major discrepancies.

38. The inspection showed that 27 items out of a sample of 60 were inaccurately recorded. The discrepancies amounted to \$20,328 short and \$64,131 surplus in the warehouse as compared to the database records. The surpluses were attributed mainly to the fact that following the riots in the first week of June, the team sites located in Kisangani had sent property and supplies back when their offices were closed. There was no explanation for the shortages. No documentation accompanied these items to the date of OIOS' physical inspection, and the database was not updated. There is therefore no accurate account of the items received.

39. The CITS Kisangani stores was in the process of carrying out 100% physical inspection of the property and supplies. OIOS is concerned about the lack of control over the return of the property and supplies from the offices that were closed. The CITS store was in disarray as the same item was stored in three different places. This lack of control could encourage pilferage, or misplaced items could be forgotten or some items could become obsolete before issue.

40. The audit also found that shelves were not clearly marked and locating items depended on the memory of the Stores Assistant. Furthermore the code and part numbers were not clearly visible on the shelves, which caused considerable delays in locating items.

Recommendation 9 - 11

OIOS recommends that the MONUC Administration ensure that the Kisangani CITS Store:

(i) identifies the items that were received from the team sites and record these and the adjustments from the physical inventory accurately in the database to reflect the actual stock balance in the store (AP2004/620/07/009).

(ii) ensures that no items are issued or received in the store without proper issue or receipt voucher and they are recorded in the database timely (AP2004/620/07/010).

(iii) marks clearly their shelves in accordance with the code numbers for smaller items and part numbers for larger items (AP2004/620/07/011).

41. *MONUC Administration accepted recommendation 9 and stated that all AMU staff had been instructed accordingly.* Based on the Mission's response, OIOS has closed recommendation 9.

42. *MONUC Administration also accepted recommendations 10 and 11 and informed that they have already been implemented.* Based on the Mission's response, OIOS has closed recommendations 10 and 11.

D. Supply

43. The Supply Section in the Mission had ten warehouses spread across various sectors. The Supply Section used a database to record and track all supplies issued, received and in stock. In June 2004 the Chief of Supply requested 100% physical check to ensure that the data recorded in the individual sector databases correctly reflected the actual inventory carried in the warehouse. The exercise found several discrepancies such as inaccurate recording of issues and receipts transactions and omission of records altogether.

44. OIOS carried out physical inspection of three major warehouses in Kinshasa, Bunia and Kisangani. Discrepancies noted included inaccurate balance taken from 2003, manual issue vouchers prepared but not recorded in the database on a timely basis, damaged and obsolete items returned to the store not identified separately, and no issue were vouchers prepared for items used by the Supply Section.

45. Major discrepancies in the sectors were attributed to issue vouchers not correctly recorded in the supply database. The problem was mainly due to inadequate skill level of the personnel responsible for recording the issue and receipts in the database. The staff in the sectors was not recording the unit price diligently. The effect was that the total monetary value of inventory maintained by a sector was unknown. This important piece of information is essential for management to make decisions regarding budgeting and procurement.

46. Table II below shows that six out of the ten sectors have over 70% of the line items not valued. OIOS is of the opinion that there was a lack of proper training of the staff responsible for maintaining the database.

Table II: Summary of Supply Items with no values in the database

Sector	Total Line Items	Items with no values	Percentage of items with no values
Kinshasa	558	151	27.06 %
Bunia	556	146	26.26 %
Kisangani	563	466	82.77 %
Goma	551	459	83.30 %
Entebbe	553	406	73.42 %
Bukavu	555	145	26.13 %
Kananga	557	463	83.12 %
Kalemí	553	463	83.73 %
Kindu	553	145	26.22 %
Mbandaka	553	465	84.09 %

Recommendation 12

OIOS recommends that the MONUC Administration ensure the staff members responsible for supply inventory, including the store managers, are adequately trained to use the supply database and maintain the database properly (AP2004/620/07/012).

47. *MONUC Administration accepted recommendation 12 and stated that the Chief of Supply will develop a checklist of the capabilities of various users of the material inventory database and provide necessary training. Recommendation 12 remains open pending confirmation from the Mission that it has been fully implemented.*

48. The Supply Section had a system of periodic 100 percent physical count of stocks and reconciliation with the perpetual record at all locations. The current practice is that whenever a physical count is done, the warehouse manager rectifies the errors or omissions found. The Supply Section does not generate a report of the physical verification of the inventory. As a result, it is difficult to verify at a later date whether all errors have been rectified, if so by whom, and under what authority. In OIOS' opinion, this is a control weakness that needs to be addressed.

Recommendation 13

OIOS recommends that the MONUC Supply Section introduce a system of preparing a report of the physical verification of inventory each time a physical count is undertaken. It should also document the follow-up action taken for adjusting any errors or omissions (AP2004/620/07/013).

49. *MONUC Administration accepted recommendation 13 and stated that the Supply Section would develop a SOP to monitor, record and finalize adjustments resulting from discrepancies in stock. Recommendation 13 remains open pending receipt of the SOP from MONUC.*

VI. ACKNOWLEDGEMENT

50. We wish to express our appreciation to the Management and staff of MONUC for the assistance and cooperation extended to the auditors during this assignment.

Copy to: Mr. Jean-Marie Guéhenno, Under-Secretary-General for Peacekeeping Operations
Ms. Hazel Scott, Director, ASD/DPKO
Mr. Marcel Savard, Director of Administration, MONUC
UN Board of Auditors
Programme Officer, OIOS
Mr. Muhammad-Akram Khan, Chief Resident Auditor, MONUC