

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I  
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jean-Marie Guéhenno, Under-Secretary-General DATE: 23 November 2005  
A: Department of Peacekeeping Operations

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

*P. Azarias*

REFERENCE: AUD-7-1-9: ( <sup>00273</sup> /05)

SUBJECT: **OIOS Audit No. AP2004/600/02 – Management of the Strategic**  
OBJET: **Deployment Stocks**

1. I am pleased to present herewith our final report on the subject audit, which was conducted in January – March 2005.
2. We note from your response to the draft report that DPKO has generally accepted the recommendations. Based on your response, we have closed recommendations 1, 4, 8, 12, 14, 16, 18, 19, 21, 24, 25, 27 and withdrawn recommendation 20 in the OIOS recommendations database. In order to close the remaining open recommendations, we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. OIOS also noted that in its response to the draft report, DPKO assessed the value of equipment and materials transferred to SDS from UN reserve and other sources at \$22.4 million, which is \$2.5 million less than the amount OIOS obtained from the records in UNLB. OIOS requests that you provide the justification for this difference in values. Please also note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e. open recommendations 2, 5, 6, 7, 10, 11, 13, 15, 17, 22 and 26), in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. The Internal Audit Division-I 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.
4. Please be advised that OIOS will issue the final report on the results of the audit of the SDS management to the General Assembly.
5. I take this opportunity to thank the management and staff of DPKO and UNLB for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Jane Holl Lute, Assistant-Secretary-General, DPKO  
Maxwell Kerley, OIC, LSD, DPKO  
Donna Marie Maxfield, OIC, ASD, DPKO  
Philip Cooper, Chief Administrative Officer, UNLB

# Office of Internal Oversight Services

## Internal Audit Division I



### Management of the Strategic Deployment Stocks

---

**Audit No.:** AP2004/600/02  
**Report date:** 23 November 2005  
**Audit team:** Oleg Kotcherga, Auditor-in-Charge  
James O'Neill  
Anna Halasan

## Management of the Strategic Deployment Stocks (AP2004/600/02)

### Executive Summary

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Strategic Deployment Stocks (SDS) at the Department of Peacekeeping (DPKO) in New York and at the United Nations Logistics Base (UNLB) in Brindisi.

The main objectives of the audit were to: (i) assess the current status of implementation of the SDS; (ii) determine the adequacy of and compliance with the related policies and procedures; (iii) assess the effectiveness of the internal controls for managing the SDS; and (iv) follow-up on the implementation of previous audit recommendations.

In June 2002, the General Assembly approved \$141.5 million to establish the SDS, taking into account \$4.6 million worth equipment and materials that will be transferred to the SDS from the DPKO reserve. The audit found that the establishment of the SDS was at its final stage; the SDS management structure was in place and responsibilities for DPKO at the Secretariat and UNLB in Brindisi have been established. The SDS were already utilized to support new peacekeeping missions and other missions on an ad-hoc basis. The value of the SDS released to missions during the period from July 2002 to January 2005 amounted to \$132 million.

While OIOS acknowledged DPKO's achievements in the implementation of the SDS, the audit identified a number of issues needed to be addressed to effectively fulfil the SDS mandate. An issue of particular concern was the absence of clear mechanisms and procedures for recording and reporting the issuance and replenishment of the equipment, which had been transferred to the SDS from the UN reserve and surplus stocks of peacekeeping operations estimated at \$24.9 million<sup>1</sup>. OIOS found that these "transferred" items, purchased in the past and charged to respective missions' budgets, have been issued from UNLB and replenished at the expense of new peacekeeping missions creating an unauthorized increase in the SDS value and a double charge to peacekeeping missions. In OIOS' opinion, the replenishment process of the "transferred" SDS items was not transparently reported to the General Assembly. OIOS is concerned that Member States, when endorsing the SDS replenishment policy in June 2002 (A/RES/56/292), were not informed in detail about creating an additional value by replenishing the SDS items transferred from UN reserves and other sources. Some SDS items with a long service period of up to 12 years could be replenished several times and consequently charged to the budget of new missions recipients. OIOS also found that DPKO transferred \$20.3 million worth of equipment and materials from its reserves to the SDS without prior approval of the General Assembly.

In OIOS' opinion, the critical areas for improvement, which need management attention and action are: (i) policies and procedures for the SDS management, (ii) SDS replenishment, (iii) automated inventory management system, (iv) SDS accounting and reporting mechanism, and

<sup>1</sup> In its response to the draft report, DPKO assessed the value of equipment and materials transferred to the SDS from UN reserve and other sources at \$22.4 million, which is \$2.5 million less than the amount OIOS obtained from the records in UNLB.

(v) SDS lessons learned and performance evaluation.

The audit raised the following major issues requiring DPKO and UNLB action for improvement and enhancing of the administration of the SDS:

- The SDS action plan, which set out detailed tasks, responsible entities and implementation timeframes, was not updated and adjusted in a timely manner. Its implementation was not properly monitored, resulting in completion delays of several important tasks. Schedules for some of these tasks had not been implemented, and revised time frames were not established before 2004.
- Policies on the SDS management and operating procedures were not completed and were still in the process of finalization. As a result, in some cases, asset managers differently interpreted the procedures on the SDS replenishment and accounting.
- The development and practical implementation of the accounting guidelines (issued in August 2004, i.e. more than two years after the SDS start-up) were unacceptably delayed resulting in incomplete recording of the SDS transactions causing additional workload in maintaining, updating and reconciling the SDS records.
- The replenishment of the SDS items transferred from UN reserves and other sources represented a double charge to the Organization and created an unauthorized increase in the SDS value.
- The assets transferred to the SDS from the UN reserves totalled more than \$24.9 million, including \$20.3 million worth of equipment transferred without prior approval of the General Assembly.
- There was no proper recording system to trace all transfers of equipment and material to and from the SDS. Inventory records did not show the distinction between the SDS transferred stock and the SDS items purchased from the allotment approved by the General Assembly.
- There is a need to develop a methodology for defining the value of the SDS composition and inventory. The value of the SDS composition, revised in 2004, including the freight cost for the SDS delivery to UNLB, exceeded the original allotment approved by the General Assembly. It was also, at the same time, undervalued by more than \$20 million, due to the non-inclusion of the value of the items transferred to the SDS from UN reserves.
- The cost of the SDS inventory at UNLB was inconsistently recorded. Some items were recorded at cost, while other items, e.g. shipped to UNLB on terms of Delivered Duty Unpaid (DDU), included freight costs.
- No comprehensive reporting mechanism was established for managing the SDS.

- There is a need to develop an integrated automated system for tracking, recording and reporting of the SDS transactions.
- Neither SDS performance indicators nor evaluation tools were developed to measure the effectiveness of the SDS deployment.
- In some instances, the processing of the Material Release Orders for the SDS issuance from UNLB was delayed up to six months.
- The automated inventory management system GALILEO, costing \$3.4 million, did not track the deployment, replenishment and reconfiguration of SDS and was not integrated with accounting and procurement systems.
- There is a need for succession planning at UNLB to ensure the effectiveness and efficiency of the operating processes in the SDS management.
- Controls over access to UNLB's IT systems need to be established.

## TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1 – 6
II. AUDIT OBJECTIVES	7
III. AUDIT SCOPE AND METHODOLOGY	8
IV. OVERALL ASSESSMENT	9
V. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Establishment of the SDS	10 - 60
B. Management of the SDS	61 - 93
C. Follow-up on previous audit recommendations	94 - 96
VI. ACKNOWLEDGEMENT	97

## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the Strategic Deployment Stocks (SDS) at the Department of Peacekeeping Operations at Headquarters in New York and at the United Nations Logistics Base (UNLB) in Brindisi between January and March 2005. The audit was conducted in accordance with the standards for the professional practice of auditing in the United Nations organizations.

2. In response to the recommendation of the Panel on United Nations Peace Operations, the Secretary-General proposed a strategic reserve for peacekeeping operations to provide the Organization with the capability to rapidly deploy peacekeeping missions. One of the main aspects of this strategy is a material reserve – strategic deployment stocks stored at UNLB - the concept of which was presented by the Secretary-General in February 2002 in his report “The concept of strategic deployment stocks and its implementation” (A/56/870). By its resolution 56/292 of 27 June 2002, the General Assembly endorsed the concept and implementation of the SDS and approved the one-time cost of acquiring equipment for strategic deployment stocks for one complex mission in the amount of \$141,546,000, taking into account the \$4.6 worth UN reserve (DPKO’s holdings of used equipment held in at UNLB in Brindisi) that met the requirements of the SDS.

3. The main objective of the SDS is to provide the United Nations with the capacity to deploy peacekeeping missions within a rapid deployment time frame, i.e. 30/90 days after the adoption of a Security Council resolution establishing the missions. In general, strategic deployment stocks should consist of equipment that is new and has its full service-life expectancy, except for long-life equipment that is considered as good as new after reconditioning. The composition of the SDS includes the following main categories of items: Supply, Transport, Engineering, Communication and Information Technology, Medical, and Other items. The SDS composition is reviewed annually and is being developed on an on-going basis to meet unforeseen requirements and new demands due to changes in the operational environment of peacekeeping missions.

4. The value of the SDS released to missions during the period from July 2002 to January 2005 amounted to \$132 million. The SDS items issued to the field are replenished from the budgets of receiving missions.

5. The Department of Peacekeeping Operations (DPKO), and the Logistics Support Division (LSD) of the Office of Mission Support (OMS), in particular, are responsible for the overall management of the SDS, including planning, policy and procedures development, and monitoring. The UNLB is responsible for the day-to-day management and custodianship of the SDS, including distribution, maintenance, shipment, receipt, inspection, storage and rotation of items.

6. In 2003, OIOS conducted an audit of SDS (AP2002/55/9) and raised twelve recommendations for DPKO implementation. The current audit followed up on the implementation of these recommendations and raised some new issues, which have to be addressed to improve the SDS management. The findings and recommendations have been discussed with the management of LSD and UNLB. Comments made to the draft audit report by DPKO management have been included in this report as appropriate and are shown in italics.

## **II. AUDIT OBJECTIVES**

7. The main objectives of the audit were to:
- i. Assess the current implementation status of the SDS;
  - ii. Determine whether the existing policies and procedures, inter alia, planning, formation, administration and management of the SDS, are adequate and complied with;
  - iii. Assess whether the internal controls for managing the SDS are effective; and
  - iv. Follow-up on the implementation of previous audit recommendations.

## **III. AUDIT SCOPE AND METHODOLOGY**

8. The audit covered the period from June 2003 to January 2005. The audit reviewed the implementation status of the SDS, assessed the existing internal controls in planning, deployment of personnel resources, property management, and followed up on the implementation of previous audit recommendations. The audit work was conducted in New York and in Brindisi, and involved interviews, physical verification of SDS inventory, review of policies and testing procedures.

## **IV. OVERALL ASSESSMENT**

9. While the implementation of the SDS was generally completed, a number of issues need to be addressed to effectively fulfil the mandate of the SDS. In the beginning of the project, not all elements of the SDS mechanism had been thoroughly studied and planned resulting in a delay of the SDS implementation and creating problems related to the replenishment of SDS, recording and reporting processes. The audit identified several critical areas which need urgent management attention and action for improvement, including: (i) policies and procedures for SDS management; (ii) SDS replenishment, (iii) SDS accounting and recording mechanism, (iv) automated inventory management system, and (v) SDS lessons learned and performance evaluation.



## V. AUDIT FINDINGS AND RECOMMENDATIONS

### A. Establishment of the SDS

#### SDS implementation process

10. In June 2002, the General Assembly approved \$141.5 million for purchasing equipment and materials, taking into account the UN reserve worth \$4.6 million that meets the requirements of the SDS. In July 2003, the validity period in respect of the approved resources was extended to 30 June 2004. By the end of the two-year project, the SDS allotment was fully obligated and only \$9,000 remained unspent.

11. As of 31 January 2005, \$135.2 million or 95.8 percent of the initial allotment was expended for the procurement of SDS equipment and materials, including \$3.4 million spent for implementing the GALILEO inventory management system at UNLB. The remaining obligated amount of \$6.3 million (4.2 percent) was expected to be spent by 30 June 2005.

12. OIOS also found that the SDS management structure had been established defining the responsibilities within both DPKO at the Secretariat and UNLB in Brindisi. SDS has already been utilized to support new peacekeeping missions and other missions on an ad-hoc basis. As shown in Table 1, from 1 July 2002 to 31 February 2005, the SDS items worth \$132 million have been issued to 20 missions, including \$119 million worth of equipment issued to five new missions (UNMIL, ONUCI, ONUB, MINUSTAH and UNAMIS).

Table 1: SDS issued to field missions

<b>Receiving mission</b>	<b>Amount (\$000)</b>
UNMIL	36,396
UNAMIS	30,665
UNOCI	20,816
ONUB	15,790
MINUSTAH	15,741
Other 15 missions	12,448
Total	131,856

13. As stated in the report A/56/732 of 21 December 2001 "Implementation of the recommendations of the Special Committee on Peacekeeping Operations and the Panel on UN Peace Operations", the plan was for DPKO to start building up the SDS to be fully deployable by end-2002 or early 2003. However, it took much more time to achieve the full operational level of the SDS.

14. Although, in September 2002, DPKO developed a comprehensive SDS action plan setting out detailed tasks, responsible entities and implementation timeframes, it had not been updated and adjusted in the process of implementation of the SDS. Schedules

for some of these tasks had not been implemented, and revised time frames were not established before 2004. Some tasks had not been included in the plan at all and were addressed on an ad-hoc basis.

15. In OIOS' opinion, in the beginning of the project, not all elements of the SDS mechanism were thoroughly studied and addressed resulting in a delay of implementing the project and creating the problems related to replenishing the SDS and the recording of transactions. In addition, there was a lack of monitoring of the SDS establishment in the early stage of the project. As OIOS observed during its previous audit of SDS in 2003, the Steering Group, which had been established to oversee the SDS development, had its first meeting only in July 2003.

16. While OIOS acknowledged DPKO's achievements in implementing the SDS, there is a need to address a number of issues to effectively fulfil the mandate of the SDS. In this regard, OIOS supports the proposals made in the Secretary-General's report A/59/701 dated 14 February 2005, on the enhancement of the effectiveness of the SDS. The proposals included some issues raised by OIOS and were in line with the observations made during the audit.

### **Recommendation 1**

To ensure the further development of the SDS mechanism and improve its operational capacity to support the rapid deployment of peacekeeping and other UN field missions, DPKO should prepare a detailed action plan on all outstanding issues indicating responsible entities and timeframes, and ensure that its implementation is closely monitored (AP2004/600/02/01).

17. *DPKO accepted recommendation 1 advising OIOS that it had been implemented. It was commented that DPKO has revised the SDS Unit work plan for 2005/2006 to include specific activities to improve the operational capacity of SDS programme. SDS Unit now closely monitors the implementation of all activities relating to SDS management. Based on DPKO's response, OIOS has closed the recommendation.*

### Policies and procedures

18. As of 31 January 2005, policies on SDS management and operating procedures had not yet been completed. The absence of clear policies resulted in confusion. In some cases, asset managers at UNLB and LSD differed in interpreting the procedures related to the SDS replenishment and accounting.

19. According to DPKO, the SDS Working Group, established by LSD to support the Steering Group, is finalizing an extensive set of policies and procedures, which would define roles, responsibilities and procedures for the SDS planning, deployment, replenishment, rotation, accounting and support. While LSD is responsible for the development of the policies, UNLB has not yet prepared a set of policies for the day-to-

day SDS management in Brindisi. UNLB documented the receipt and inspection, shipment, inventory, storage and refurbishment processes, involving SDS, however, the operating procedures will have to be revised once the SDS policies are finalized and approved by DPKO. Also, the SDS reporting policy should be developed defining a set of standard reports for SDS management, which should be used at HQ, UNLB and in the field missions.

20. In OIOS' opinion, the issuance of SDS policies has been considerably delayed. Moreover, issues such as replenishment of the SDS items transferred from UN reserves, accounting for equipment purchased by UNLB with SDS funds for the handling of SDS stock and tracking transfers in/out SDS stock have not been addressed in the initial stage of the SDS implementation. According to DPKO, delays in preparation and finalization of the policies and procedures were attributed to increase in the workload of staff responsible for this task and a complexity of the SDS operating process requiring additional time for study and assessment of new tasks and lessons learned.

### **Recommendations 2 and 3**

DPKO should ensure that:

- (i) Policies on the SDS planning, deployment, replenishment, rotation, replacement, configuration, accounting and reporting are finalized in order to provide clear guidance to all parties involved in the SDS management and to develop respective operating procedures (AP2004/600/02/02); and
- (ii) After the finalization and approval of the SDS policies, detailed operating procedures for SDS management at the Secretariat (LSD/OMS) and in UNLB are issued with a narrative for each step of the SDS deployment cycle, document flow, responsibilities and reporting lines (AP2004/600/02/03).

21. DPKO accepted recommendations 2 and 3 advising OIOS that *LSD has updated and circulated SDS policies and procedures for review. The finalized documentation on SDS procedures will include workflow diagrams and narrative to describe the activities, responsibilities and reporting lines. The SDS policy and SOP was endorsed by the Steering Group in October 2005. The review and approval process is in progress and expected to be completed in November 2005.* The recommendations will remain open in OIOS' database until they have been fully implemented.

### **SDS accounting guidelines**

22. The development and practical implementation of the SDS accounting guidelines (issued more than two years after the SDS start-up in July 2002) were unacceptably delayed resulting in incomplete reports and additional workload in maintaining, updating and reconciling SDS records. As of 31 January 2005, about \$50 million SDS items issued to the field missions had not been recorded by the Accounts Division. Although

the Controller issued the guidelines for accounting the SDS with the use of a special fund (BLB sub-fund) in August 2004, they have never been followed. Interim appropriations and approved mission budgets had been the source of SDS replenishment and used instead of the BLB sub-fund.

23. During interviews and discussions with the managers and staff involved in the SDS operations, some managers expressed concerns about the guidelines, considering them cumbersome, complicated, and delaying the replenishment process. There was also some confusion in understanding the flow of the recording process. In OIOS' opinion, the accounting guidelines should include an annex showing the accounting process of an actual transaction supported by all documentation issued during its processing for clear understanding and training purposes.

24. OIOS found, however, that the main issue involving SDS transaction recording was the replenishment and accounting for \$24.9 million worth of SDS equipment and materials, which had been transferred to SDS stock from UN reserves and other sources, including \$20.3 million worth of equipment transferred without prior approval by the General Assembly. At the time of the audit, DPKO and the Accounts Division had no consensus on the issue of accounting and replenishment procedures related to the "transferred" SDS items. In this regard, DPKO commented that a Finance Working group had been established, consisting of DPKO and Accounts Division representatives, to address the outstanding SDS financial issues.

25. Furthermore, the guidelines established no clear mechanism for reporting the end of a fiscal year closure of the SDS. There was also a need to establish a system of check and balances to account for the SDS at various stages of the deployment cycle, i.e. issuance and replenishment reporting.

#### **Recommendations 4, 5 and 6**

DPKO, in cooperation with the Accounts Division, should:

- (i) Ensure that the SDS accounting guidelines are fully implemented and followed to properly account for SDS transactions (AP2004/600/02/04);
- (ii) Develop a proper mechanism for the recording and accounting of the SDS transactions related to the \$24.9 million worth of equipment and material transferred to the SDS from UN reserves and surplus stocks from peacekeeping operations (AP2004/ 600/02/05); and
- (iii) Establish an accountability mechanism to report on the SDS inventory and book value at the end of the fiscal year for all stages of the SDS deployment and replenishment cycle in order to ensure that the necessary check and balances exist (AP2004/600/02/06).

26. *DPKO accepted recommendation 4 advising OIOS that it had been implemented. On 23 May 2005, LSD in conjunction with OPPBA, implemented the procedure for replenishing of all SDS issuance based on the SDS Accounting Guidelines. The new replenishment mechanism was implemented using peacekeeping sub-fund "BLB". The system is based on shipping documents as well as the GALLILEO Inventory System. DPKO further stated that this procedure ensures the accuracy and completeness of all records of SDS equipment and materials shipped and their related transactions. OIOS noted DPKO's comments and has closed the recommendation.*

27. *DPKO accepted recommendation 5 commenting that DPKO and OPPBA agreed on 11 May 2005 to fully back out expendable and non-expendable equipment with total value of 17.8 million from SDS to UN reserve. This exercise is being monitored by SDS Unit and the final report will be submitted to the Controller. DPKO stated that the equipment and materials transferred to SDS inventory from FALD reserve and other inventories were valued at \$22.4 million, including \$4.6 million, approved by the General Assembly, as an integral part of the SDS inventory. While noting DPKO's comments, OIOS is concerned that the value of items transferred to SDS inventory, indicated by DPKO in its response to the draft report, was \$2 million less than the total value from the UNLB records provided to OIOS during the audit. According to data obtained by OIOS from UNLB in January 2005, the total value of the "transferred" items was 24.9 million. OIOS requests DPKO to explain the \$2 million difference in the reported value of the equipment and materials transferred to the SDS from other sources. The recommendation remains open pending clarification for the value difference in DPKO records and the issuance of the final report on the items "backed out" from the SDS to the UN reserve.*

28. *DPKO accepted recommendation 6 commenting that LSD and the Accounts Division have agreed on the format to be used in accounting for SDS inventory at the end of the fiscal year. A "Gap Analysis" will be carried out to determine enhancement needed in the GALILEO Inventory System to fully fulfil SDS accounting requirements. LSD will establish a working group with members from the Accounts Division, which will be tasked to submit its final report no later than 30 November 2005. The recommendation remains open in the OIOS database pending its implementation.*

#### Replenishment policy and SDS "transferred" items

29. The SDS replenishment policy as proposed in the Secretary-General's report on the concept of the SDS (A/56/870), stated that "Suitable items will be moved from the FALD reserve to the strategic deployment stocks (par. 24) ... Every release of equipment from strategic deployment stocks will trigger an immediate replenishment action (par. 25) ... The budget of receiving missions will provide for the purchase of replenishing commodities, as well as the cost of shipment from the provider to UNLB (par. 26)."

30. The ACABQ report A/56/902, while accepting the proposed policy on the SDS replenishment, did not question the consequences of the replenishment of the stock

transferred to SDS from UN reserves and other sources. The policy was endorsed by the General Assembly in June 2002.

31. As indicated in the Secretary-General's report A/57/751 (12 March 2003), \$21.127 million of equipment was transferred from UN reserves and surplus stock to SDS. A portion of the stock representing the SDS "transferred" items (\$4,654,000) was considered during the determination of the original SDS allotment proposal yielding the SDS allotment of \$141,546,000 approved by Member States. According to UNLB records, from June 2002 to May 2004, stock worth \$24,954,464 was transferred into SDS from the UN reserve holdings. Additional transfers of equipment were taking place from May 2004 until the time of the audit in January 2005. Furthermore, the SDS "transferred" items, purchased in the past and charged to respective missions' budgets, have been issued from UNLB and replenished at the expense of new peacekeeping missions. For example, an audit sample of the reviewed inventory showed that vehicles valued at more than \$2.8 million had been released from UNLB to UNMIL, ONUCI, and other missions. At the time of the audit, however, no records were available to estimate the total cost of these released "transferred" items to the receiving missions.

32. In OIOS' opinion, the replenishment of SDS items transferred from UN reserves and other sources represents a double charge to the peacekeeping missions and creates an unauthorized income to the SDS composition increasing its value. In this regard, DPKO considers this not as a double charge in replenishing the SDS "transferred" items, but as a payment for the purchase of a replacement item to make it a revolving SDS asset. OIOS disagrees with this statement. First, some SDS items with a long service period (10 - 12 years) can be used in several missions and replenished from the budget of each consequent mission recipient. Secondly, DPKO transferred to the SDS \$20.3 million worth of equipment and materials from UN reserves without prior approval of the General Assembly. OIOS believes that this issue should be reported in detail to the General Assembly to clarify the financial implications.

33. There was also no proper tracking system to trace all "transfers" to and from SDS. The inventory records did not show the distinction between UN reserve stock transferred into SDS and SDS items purchased from the SDS allotment. According to UNLB records, net transfers (since June 2002 to 19 May 2004) totalled \$24.9 million. However, OIOS could not verify this amount, as there was no chronological trail of changes, and some categories were difficult to check. For example, \$4 million of expendable stock was transferred to SDS within two and a half years, while about \$120,000 of expendables was transferred back to UN reserve within the same period.

### **Recommendations 7, 8 and 9**

DPKO should:

- (i) Determine the value of the items transferred to the SDS from UN reserves and any income generated from their replenishment and report in detail to the General Assembly (AP2004/600/02/07);

(ii) Curtail all new transfers of the UN reserves into the SDS unless the augmentation of the SDS composition is required. Future transfers of UN reserves into the SDS to be considered for replenishment and thus increasing the SDS composition level should be subject to the approval of Member States (AP2004/600/02/08); and

(iii) For internal control purposes, ensure that the records of all SDS transfers to/from UN reserve and other sources are closely monitored with proper management trails providing supporting data on all inventory and financial changes to the SDS composition value (AP2004/600/02/09).

34. *DPKO accepted recommendation 7 advising OIOS that it determined the value of the transferred to SDS items at \$22.4 million. Furthermore, DPKO wishes to clarify that the transfer of items from other inventories to SDS was a temporary arrangement, which was backed out. Separate material lists will be maintained for SDS and UN reserve. As communicated to the auditors, no income was generated from the items transferred from the UN reserve. These items, once shipped from UN reserve will not be replenished, resulting in savings to the receiving missions.*

35. OIOS partially accepts DPKO's comments. As stated in paragraph 31, according to UNLB records, from June 2002 to May 2004, stock worth \$24,954,464 was transferred into SDS from the UN reserve holdings. In this regard, DPKO should provide a justification for the \$2.5 million value difference. As concerns DPKO's statement about a temporary arrangement for the transfer of items from other inventories to SDS, OIOS wishes to reiterate that the issue of stopping the practice of replenishing the transferred items or obtaining the General Assembly's approval for this practice was raised by OIOS in January 2005. LSD estimated that about \$10 million of items transferred to SDS from other sources had been released to the missions; many items had been replenished at the expense of the receiving missions. Considering that only \$4.6 million of the transferred items to SDS had been approved by the General Assembly as an integral part of the SDS inventory, replenishment of "transferred" items in excess of this amount created an unauthorized income. However, due to the fact that LSD and UNLB had not distinguished the "transferred" items from the SDS items purchased using the approved allotment, DPKO could not provide data on the number and value of "transferred" items, which had been replenished by the time DPKO started the "backing out" process for transferring unreleased items from the SDS back to the UN reserve.

36. The decision for backing out the items from the SDS to the UN reserve for a total amount of \$17.873 million was the result of the joint review by DPKO and OPPBA of the issues raised by the OIOS questioning the practice of replenishing the items transferred to SDS from other sources as it represented a double charge and created an unauthorized income. *DPKO informed OIOS that the process of backing out had been completed in October 2005, and the General Assembly will be apprised of the separation of SDS and UN reserve stocks in the report of the Secretary-General on this subject.* In this regard, OIOS agrees that the complete "backing out" process would

eliminate all unauthorized income generated from prior replenishment of the "transferred" items released to field missions. The results of transferring the equipment and materials worth \$17.9 million from the SDS back to the UN reserve will reduce the future expenditures in field missions. This should be taken into consideration for the 2006/2007 missions budget exercise. The recommendation remains open in the OIOS database pending the justification for the \$2.5 million value difference in DPKO records.

37. *DPKO accepted recommendation 8 advising OIOS that in April 2005, DPKO has instructed Self Accounting Units (SAUs) that in future no equipment is transferred from UN reserve to SDS. The SDS Unit now monitors MROs raised on weekly basis to ensure that no unauthorized transfers occur.* In view of this, OIOS has closed recommendation 8.

38. *DPKO accepted recommendation 9 commenting that LSD has already identified all items transferred to SDS from FALD reserve and other inventories. The SDS Unit now closely monitors the implementation of all activities relating to SDS management.* The recommendation remains open pending DPKO's clarification on the value difference in DPKO's records concerning the total amount of the items transferred to the SDS from other sources as indicated in paragraph 27.

#### SDS composition value

39. In June 2004, LSD proposed a revised SDS composition with a projected value of \$132,780,761 for approval by the Assistant Secretary-General, Office of Mission Support, DPKO. The original SDS composition was valued by LSD at \$146,200,000, including the initial allotment for \$141,546,000 and the expected asset transfers in kind of \$4,654 million approved by the General Assembly. LSD also proposed that the SDS composition should be revised once a year, because it represents a constantly changing capacity and not a fixed inventory of items.

40. In determining the value of the revised SDS composition LSD took the value of the original composition as the basis. However, the methodology used in calculating the revised value is not clear, and OIOS can not agree with the approach and the value defined by LSD. In addition, the value should have been reduced by the cost of one-time expenditures which occurred due to savings from purchasing the SDS items, such as the development of a new inventory management system GALILEO (\$3.4 million). This cost was not replenished and therefore can not be included in the value of the revised composition. In addition, as found by OIOS during its previous audit, LSD made purchases of additional quantities of SDS items exceeding those in the original composition. This factor should also have been considered in determining the actual value basis for the revised SDS composition.

41. In OIOS' view, the value of the revised composition, including freight cost for the SDS delivery to UNLB, exceeded the scope of the allotment approved by the General Assembly for purchasing equipment as per the initial SDS composition. At the same



time, the revised value was undervalued by more than \$20 million, due to the non-inclusion of the value of the items transferred to the SDS from UN reserves.

42. In OIOS' opinion, the UN reserve additions thereafter placed in SDS should be accounted for as SDS composition added value. The base for the SDS composition should now be reported at the original allotment figure minus non-stock expenditures with no replenishment plus the UN/UNLB reserves transfers. This SDS composition level, including the freight cost for delivery to UNLB, is thus estimated by OIOS to be at least \$156 million.

43. The proper valuation of the SDS revised composition is also important due to the fact that as of 31 December 2004, there were outstanding contributions from Member States, amounting to \$13.6 million, for the establishment of the SDS. As reported by DPKO, this has resulted in temporary borrowing from other funds in order to settle SDS invoices.

44. There was no evidence that the revised SDS composition and its value had been approved by the ASG, DPKO, although the drafted policy on the SDS management included this control requirement. Moreover, there was no formal delegation of authority for this function. OIOS believes that the revised SDS composition should be approved by the ASG, and DPKO should annually report to the General Assembly for control and transparency purposes.

#### **Recommendations 10 and 11**

DPKO should:

(i) Develop a proper methodology for determining the SDS composition value taking into account the SDS original allotment, freight cost and non-stock expenditures.(AP2004/600/02/10); and

(ii) Annually report to the General Assembly on the revised SDS composition, including non-stock expenditures, transfers and replenishments as a control measure to ensure transparency. If additional funds are required to increase SDS capabilities, the revised SDS composition should be approved by the Assistant-Secretary-General, DPKO and authorized by the General Assembly (AP2004/600/02/11).

45. *DPKO accepted recommendation 10 commenting that LSD has already developed a method to determine the value of SDS composition. This method captures the inventory value of equipment and materials in GALILEO inventory system and the goods in transit. The method will be used to determine the SDS stock value as of 31 December 2005. The recommendation remains open in the OIOS database pending its implementation.*

46. *DPKO partially accepted recommendation 11, commenting that LSD is in the process of reviewing the SDS composition based on lessons learned, enhanced and new*

capacities. LSD anticipates that this project will be finalized in November 2005. Furthermore, expenditures, transfers, and replenishments of SDS will be reported to the General Assembly as a part of the UNLB Financial Year End report. It was further commented that the Director, LSD will approve the revision to the composition of SDS as endorsed by the SDS Steering Group. However, if additional funds are required from the General Assembly to increase SDS capabilities, this request with justifications should be approved by ASG and endorsed by the General Assembly. In view of DPKO's comments, OIOS revised recommendation 11, which will remain open until the review of the SDS composition is finalized.

#### Inventory value of the SDS

47. OIOS noted that DPKO valued the inventory of SDS stock in UNLB at about \$67 million as of 31 December 2004. However, OIOS found that the cost of the SDS inventory at UNLB was inconsistently recorded. Some items were recorded at cost, while other items shipped to UNLB were recorded including freight. Due to the fact that the replenishment cost includes a freight cost and most items are delivered on terms of DDU, they are recorded by UNLB at a cost that includes the freight.

48. This creates a problem in reconciling the recorded inventory value with the value in accounting records. DPKO acknowledged the problem, and advised OIOS that it will be addressed by further development of the SDS accounting mechanism.

#### **Recommendation 12**

DPKO, in collaboration with the Procurement Service and the Accounts Division, should review the issue of recording the SDS inventory cost, especially the cost of SDS items delivered to UNLB under Delivered Duty Unpaid condition and develop an appropriate mechanism to consistently record the cost thereof to ensure the reliability of records (AP2004/600/02/12).

49. DPKO accepted the recommendation advising OIOS that it had been implemented. UNLB records the value of SDS inventory items in GALILEO system using purchase order values. The "BLB" replenishment mechanism addresses the reliability of the records by capturing any separate freight cost associated with the line items as well as differences caused by currency fluctuation through a threshold check. Based on the DPKO response, OIOS has closed recommendation 12.

#### SDS reporting system

50. The reporting system on the status and management of the SDS needs major improvement. The reporting process is not formalized, and does not provide for a complete picture of the status of the SDS at its various operating phases. The reports on the SDS are generated from various automated systems (IMIS, GALILEO, Reality), which are not integrated; therefore, the reporting process is not fully automated, the data

is difficult or impossible to reconcile and is susceptible to human errors. The tracking of the SDS reconfiguration, deployment and replenishment is done manually.

51. OIOS reviewed the reports prepared by LSD and by UNLB's CAO on the SDS status. The reports indicated a value of the SDS inventory stored at UNLB at a reported date, a status of the major SDS inventory items, and the SDS value issued to the missions. The UNLB's CAO report also included a status of receipt and inspection (R&I) and MROs processing. However, it did not segregate the volumes of SDS R&I and MRO operations from other operations of UNLB, which makes the data useless for analyzing the volume of SDS operations. Also no reports on the replenishment status of the SDS items shipped to the missions had been prepared. As a result, no reported data on the timeliness of the SDS replenishment was available at the time of the audit.

52. Only the UNLB Communications and Information Technology Section (CITS) obtained the data on the replenishment status of CITS items from the respective LSD section at Headquarters. In OIOS' opinion, LSD should share the replenishment status of SDS items with all UNLB Self Accounting Units (SAU) on a regular basis. Advising UNLB of the delivery and progress in replenishing the SDS is needed to facilitate planning the SDS equipment receipt and storage operations.

#### **Recommendations 13 and 14**

(i) DPKO should establish a comprehensive reporting mechanism on the SDS management and develop an integrated automated system for tracking the status of the SDS at its various operating stages, including deployment, replenishment, reconfiguration, and accounting for SDS operations (AP2004/600/02/13); and

(ii) Pending the development of the full automated reporting system, LSD should provide UNLB with the current status of replenishing the SDS items shipped to the missions, in order to properly estimate workload and resources needed for the SDS management at UNLB (AP2004/600/02/14).

53. *DPKO partially accepted recommendation 13 commenting that an interim Lotus Notes based replenishment tracking tool was developed by CITS. Based on experience gained with this tool, user requirements will be drawn up and presented to the GALILEO Development Group in order to pursue development of a new GALILEO module to centrally monitor and account for SDS transactions. The recommendation will remain open in OIOS database pending its full implementation.*

54. *DPKO accepted recommendation 14 advising OIOS that it had been implemented. LSD and UNLB share a database where all SDS purchase orders are recorded. This database provides the necessary information. to enable UNLB estimate*

*its workload and monitor suppliers' performance.* In view of this, OIOS has closed the recommendation.

#### Performance indicators

55. There was no coherent system for the evaluation of the SDS performance. Although the Action Plan on the establishment of the SDS set a requirement for developing the performance indicators, no evaluation criteria had been established.

56. DPKO, however, carried out a Lessons Learned study of the SDS deployment exercise in UNMIL, as recommended by OIOS during the previous audit. DPKO also conducted pilot tests of SDS deployment exercise at UNLB. The results of the studies and pilot tests have been analyzed by DPKO and main lessons learned conclusions and recommendations had been included in the Secretary-General's report on the implementation of the SDS (A/59/701), including the functioning of the existing mechanisms and award of contracts for procurement.

57. While there is a widely held opinion that the SDS concept is a good practice, DPKO should conduct a complex evaluation of the impact of SDS deployment on new missions in comparison with the past practice. There is a need to develop a set of quantitative and qualitative performance indicators for identifying the areas of improvement in order to make the SDS management more effective.

58. In OIOS' opinion, the evaluation of the SDS processes should be tied up with the readiness of a new mission to accept and use the delivered SDS equipment. OIOS noted cases where the SDS equipment had been delivered to the duty station but not used, as it was not formally received and inspected due to unavailability of the required personnel at the duty station.

#### **Recommendations 15 and 16**

DPKO should:

(i) Develop performance indicators and evaluation tools to measure the effectiveness of SDS deployment to new missions. The mission's readiness to accept and deploy the incoming SDS shipments should be taken into consideration in the overall assessment of the deployment exercise along with other related factors (AP2004/600/02/15); and

(ii) Conduct a lessons learned study for each new mission in order to identify the areas for improvement in the SDS processes and create an institutional memory of best practices and recurring problems for monitoring and management trail purposes (AP2004/600/02/16).

59. *DPKO accepted recommendation 15 commenting that SDS effectiveness and impact in the deployment of new missions should be reported in the performance reports*

*of the receiving missions and included in their RBB framework. LSD will pursue to develop and propose indicators applicable for SDS. The recommendation will remain open in OIOS database pending its full implementation.*

60. *DPKO accepted recommendation 16 advising OIOS that it had been implemented. Lessons learned are incorporated in the annual reviews of SDS procedures and SDS composition. DPKO has complied lessons learned on the implementation of SDS which are included in the report of the Secretary-General, A/59/701 of 14 February 2005. OIOS has closed the recommendation.*

## **B. Management of the SDS**

### Release of SDS items from UNLB and Execution of Material Release Orders

61. The SDS operating process consists of several stages: receipt and inspection of incoming shipments by UNLB, entering of the inspected items into the GALILEO inventory management system, and execution of the Material Release Orders to release and ship SDS items from UNLB to field missions.

#### Receipt of incoming shipments

62. The receipt and inspection task is a crucial UNLB function in the SDS deployment process which includes: (a) receiving all incoming shipments of SDS stock; (b) inspecting them against packing lists; and (c) issuing receipt inspection (R&I) reports which allow stock to be entered into the GALILEO. The timely processing of incoming shipments is crucial to the state of asset supply into SDS. Only after the assets are entered into the GALILEO system can a Material Request Order be raised to start the deployment of the SDS.

63. A review of incoming shipments subject to the R&I procedure showed that out of 79 shipments, 48 shipments were pending inspection. Some of the shipments destined for SDS had been received in November 2004. According to UNLB, the estimated backlog in R&I processing exceeded 30 days. In OIOS' opinion, shipments for the SDS should be prioritized in the R&I process. UNLB agreed with the observation advising OIOS that the issue of reducing the R&I backlog was being addressed and the establishment of the key performance indicator for processing an incoming shipment within 20 days of receipt was being considered by UNLB.

### **Recommendation 17**

To speed up the SDS operating process, UNLB should ensure that incoming shipments for SDS R&I inspection are prioritized and processed within the established lead time. Urgent action should be taken to process the current backlog as soon as possible (AP2004/600/02/17).

64. *DPKO accepted the recommendation commenting that UNLB has already prioritized SDS receipt and inspection. In respect of shortening the processing lead time and reducing backlog, several activities have already been initiated. The Property Management Unit has issued guidelines on 14 June 2005 which allow random sampling of expendable items. UNLB has cross-trained 22 staff to accommodate surge activities and additional four posts have been approved for the R&I function. UNLB has also proposed a pilot project to apply internationally accepted standards and procedures for R&I which is currently evaluated by DPKO. The recommendation will remain open in OIOS database pending its full implementation.*

#### Shipment from UNLB

65. According to established procedures, UNLB prepares the SDS items for shipment and issues them to missions based on a Materials Release Order (MRO) which is raised by the LSD. After the SDS items are prepared for shipping, a release voucher is issued to proceed with shipping arrangements by the UNLB Movement Control Unit.

66. From the records of the Supply and Property Management Section (SPMS) and Movcon (an Indicative Material Availability List and a list of Outgoing Shipments/Transshipments under Processing by UNLB), we noted that practically all the SDS MROs had been issued as "IOR" – immediate operational requirement. However, we found that some SDS MROs had been under process for more than six months since the date of their issuance.

67. According to UNLB, the factors that contributed to delays in executing the MROs were the additional time required for: (a) preparing the SDS items for shipment in "peak workload" periods, (b) consolidating a consignment, (c) bidding arrangements for freight-forwarding services, and (d) obtaining an account code from the missions of destination to pay for shipping/air dispatch.

#### Preparing the SDS items for shipment

68. OIOS reviewed UNLB records and found that material/equipment under some MROs had not been prepared for shipment for more than one month. In some cases, the shipment was not ready due to the absence of SDS items in stock at UNLB. For example, MRO # SD/2004/000131 of 3/11/2003 could not be executed as the items indicated in MRO were not available in stock at UNLB (line items ## 6, 8 and 12) and were awaiting replenishment. In OIOS' opinion, LSD should not be issuing MROs if the item is not in stock.

### **Recommendations 18 and 19**

LSD and UNLB should:

- (i) Take necessary steps to ensure that the MROs for issuance of the SDS items are processed without unnecessary delay; any long-outstanding

items should be closely monitored by LSD and UNLB management (AP2004/600/02/18); and

(ii) Ensure that MROs are issued only if the SDS items are available in stock at UNLB, and closely monitor that no MROs are issued for the items already “committed” to other missions (AP2004/600/02/19).

69. *DPKO accepted recommendation 18 advising OIOS that it had been implemented. It further commented that LSD has implemented a procedure to weekly monitor issuance, preparation and shipment of all SDS equipment and materials through the MRO Module of the GALILEO System and IMAL. It is now a requirement that all SDS shipments by commercial means must include the freight forwarding account numbers to reduce the processing time. Based on DPKO’s response, OIOS has closed the recommendation.*

70. *DPKO accepted recommendation 19 advising OIOS that it had been implemented. DPKO also commented that as non-expendable equipment items are coded, the GALILEO system ensures that MROs are issued only for SDS items available and in stock at UNLB. This control can not be applied to non-expendable items as they are not codified as unique items. DPKO will focus on improving the manual monitoring of the commitment of expendable items and their timely shipment. Based on DPKO’s response, OIOS has closed recommendation 19.*

#### System contract for freight-forwarding

71. The contracting process for shipping the SDS from UNLB took up to 30 days, thus delaying the deployment of the SDS for approximately 20 days on average. In OIOS’ opinion, a system contract for freight-forwarding services entered for a six-month or one-year period will speed up the process of deployment of the SDS to the missions. However, a provider for the system contract should be properly selected. It should be noted that UNLB encountered some problems with the current UN global freight-forwarding contractor, Kuehne & Nagel. In one case, the shipment made by Kuehne & Nagel did not include three items while having two items belonging to a non-UNLB addressee. In another case, the UNLB cargo was delayed for 20 days awaiting customs clearance.

#### **Recommendation 20**

UNLB should conduct a bidding process to arrange a system contract for freight-forwarding services for a six-month or one-year period, in order to reduce lead time in processing MROs for shipment of the SDS to field missions (AP2004/600/02/20).

72. *DPKO did not accept recommendation 20 commenting that a draft statement of work was prepared and a pre-bid conference was conducted at UNLB to seek the views and opinions of industry experts. It was revealed that by bidding for every requirement*

*UNLB gets the best market rates prevailing at that point of time. DPKO considers that it is already getting the best value from the current system. In light of DPKO's explanation, OIOS withdraws recommendation 20.*

#### Account codes

73. Account codes for freight forwarding expenditures did not accompany the Material Release Order (MRO) to ensure that no delays are encountered in the dispatch of material at UNLB. The Freight-forwarding Unit at UNLB expressed concern that frequently they had no information on the missions' accounts to be charged, delaying the arrangements of the shipment process, and had to follow up with the mission to obtain the proper account codes. In OIOS' opinion, the mission's account codes to which UNLB would charge the SDS shipment expenses, should be indicated in the MRO in order to reduce the delay in the deployment of the SDS.

#### **Recommendation 21**

In order to speed up the deployment of the SDS, DPKO should establish the practice of issuing the MROs to UNLB with account codes obtained from the respective missions for charging shipment expenses (AP2004/600/02/21).

74. *DPKO accepted and implemented the recommendation instructing SAUs, LSD not to raise MROs without the proper freight account number for commercial shipments. OIOS has closed the recommendation.*

#### SDS property control at UNLB

75. OIOS' review of the property management and inventory procedures at UNLB in Brindisi raised the following issues requiring action by LSD and UNLB for improvement:

#### Inventory and receipt and inspection of expendables

76. At the time of the audit, the SDS inventory of expendable items at UNLB were valued at \$13.2 million and mainly consisted of low-value items. Annual inventory checks were time consuming and was said to be impacting the work of asset holders who were required to account for every item down to individual nuts and bolts in annual inventory counts.

77. Best industry practice in conducting inventory counts provides for a sampling approach. In OIOS opinion, instead of a time-consuming exercise of a 100 per cent count, DPKO and UNLB could use the sampling approach in conducting the inventory of SDS expendables. This approach can also be used with respect to R&I procedures for inspecting incoming shipments of expendables for SDS at UNLB and will reduce the workload of respective units at UNLB and speed up the SDS inventory and R&I



processes. However, attractive items (such as binoculars, digital cameras and radios) should always be subject to 100 per cent inventory counts. OIOS was advised by UNLB management that training on inventory sampling would be conducted in 2005.

### **Recommendation 22**

In order to speed up the SDS inventory and R&I processes and to reduce the workload of the staff involved, DPKO and UNLB should research, select and apply best industry sampling methods for conducting inventory checks and receipt and inspection of expendables at UNLB, and develop respective standard guidelines; attractive items, however, should be subject to 100 per cent inventory checks and inspections (AP2004/600/02/22).

78. *DPKO accepted the recommendation commenting that the techniques proposed for UNLB are established in accordance with internationally accepted standards. UNLB will shift to the new system when it has sufficiently trained staff and the successful completion of the pilot project. UNLB instituted a training program for R&I staff conducted by the Institute of Quality Assurance (IQA) UK. This course will not be limited to UNLB staff, but will be extended to other UN staff for standardization of inspection procedures. The recommendation will remain open in OIOS database pending its full implementation.*

### **SDS non-expendable assets**

79. OIOS reviewed the results of the year-end inventory exercise conducted by the UNLB and made a random check of SDS non-expendable items. Inventory records should match the quantity and physical location of assets in use and in stock. Although OIOS found no deviations from the records on the quantity of the checked non-expendable assets, and while the physical location of communication and IT assets matched with locations indicated in the inventory records, the location of some items of other asset categories varied from those on record.

80. UNLB uses bar-codes to identify assets in stock and inventory records. An audit spot check of non-expendable and attractive items found that all the sampled items had bar-codes. However, OIOS found that the bar-code reader technology had never been used at UNLB. OIOS also observed the same situation in field missions. In OIOS' view, the use of the bar-code reader devices will enhance the inventory management system and will reduce the amount of time expended for the annual inventory exercise. UNLB agreed with the observation commenting that the bar-code readers had been tested and were already being used for certain operations. The full implementation of the barcode reader technology is subject to readiness in GALILEO.

### **Recommendation 23**

DPKO and UNLB should ensure that the bar-code scanning technology is piloted at UNLB in order to enhance inventory control management and reduce the time spent for conducting inventory exercises; the bar-code scanning technology should eventually be used in all peacekeeping missions (AP2004/600/02/23).

81. *DPKO accepted the recommendation commenting that UNLB is piloting a project to enhance inventory control and management using bar-code scanning technology. The recommendation will remain open in OIOS database pending its implementation.*

#### SDS storage facilities in UNLB and security conditions

82. OIOS inspected UNLB warehousing facilities for SDS storage in Brindisi and San Pancrazio and found that the storage and security conditions in both locations were good and adequately safeguarded. All warehouses and storage facilities (shelters and Rubb halls) were equipped with locks and anti-fire devices. A local company, SICURPOL BRINDISI, provided security services for the vehicle storage location in San Pancrazio (38 km from Brindisi) at a cost of Euro 200,215 per year (equivalent to \$260,000). OIOS noted that the UNLB Security Officer administered the security services contract by reviewing monthly reports of the contractor and making unannounced weekly checks at the San Pancrazio storage site.

83. During the inspection of the storage site in Brindisi, OIOS found that 106 containers with prefabricated accommodation units (“hard wall” office and dormitory module) purchased from New House (Italy) could not be used in stacked configuration due to the inadequate thickness of the roof and floor beams. Considering that some missions may have limited space in their area of deployment, this creates a risk of additional costs for the missions using these units. It also requires more work for storage handling.

84. According to UNLB management, in May 2003, DPKO requested UNLB to conduct an inspection of the prototype of the product at the vendor’s site in Parma, Italy, before the contract with New House was signed. In June 2003, UNLB carried out the inspection and concluded that the product fully met requirements of the Request for Proposal (RFP). However, the prefab units shipped to Brindisi differed from the prototype of the product inspected earlier and did not meet a requirement for their “installation in modular blocks stacked on top of the other, two story minimum” (as per RFP). As the result, UNLB accepted sub-standard items that did not meet contractual requirements. OIOS is concerned that these items had been accepted and that the Organization may not have received the anticipated value for money.

#### **Recommendation 24**

DPKO, in coordination with the Procurement Service, should investigate the case concerning the non-stackable prefabricated accommodation units shipped to UNLB in 2003, provide OIOS with the results thereof, and take action to ensure that all future shipments fully meet contractual requirements (AP2004/600/02/24).

85. *Concerning recommendation 24, DPKO commented that the relevant contract was not specific enough to allow for structural stability when the [internal] walls are removed to provide open plan office space. DPKO and Procurement Service worked together with the vendor to provide a solution for those units that had already been delivered, to strengthen the structures. The contract was, by mutual consent, cancelled and no further units were ordered. DPKO is working on a new generation of prefabricated structures that will ensure that this problem will not occur in the future. Based on DPKO's response, OIOS has closed the recommendation.*

#### Succession planning

86. OIOS also identified the need for succession planning to ensure the effectiveness of UNLB's continuous operating process. OIOS noted the frequent personnel changes at UNLB over the last few years and that some posts had remained vacant for lengthy periods. While local staff performed a variety of lower level managerial functions at UNLB, OIOS found that an exceptional amount of reliance was placed on some of them due to their institutional memory. Also, some managers practically had no back-up. The unexpected changes in staff may put at risk the operating processes in the day-to-day management of the SDS. In OIOS' opinion, the reliance on national staff should be addressed by placing greater emphasis on longer terms of assignment for key positions and a reduction in frequent movements of international staff.

#### **Recommendation 25**

To ensure the effectiveness of operating processes in the SDS management, UNLB should establish a succession plan including the inter-training of staff for back-up function and implementation of longer terms of assignment for key positions and a reduction of frequent movements by its international staff (AP2004/600/02/25).

87. *DPKO accepted recommendation 25 advising OIOS that it had been implemented. It further commented that UNLB has initiated a cross-training programme. A medical clinic and International School has been established at UNLB to meet the needs of international staff in an effort to reduce staff turnover. Based on DPKO's response, OIOS has closed the recommendation.*

## Inventory management system GALILEO

88. Since September 2003, UNLB has been using GALILEO, a global inventory management system, to maintain databases on the assets, keep record of processed transactions, and generate reports for monitoring, accountability and control. DPKO contracted the company ICC for developing and supporting GALILEO, which replaced the previous inventory management systems FACS (for non-expandable assets) and FESS (for expendables). In 2003 – 2004, DPKO established GALILEO in many peacekeeping missions, and currently the system is being implemented in the remaining five missions.

89. In interviews with ICC staff and UNLB users of the system, OIOS found that while the new system had better functionality compared to FACS/FESS (the reporting function is easier and data is more accessible), there was a need for further development and customization to facilitate the operating processes and reporting on the SDS management. OIOS noted that it was also a time-consuming process to generate the reports on particular data and transactions, especially those pertaining to earlier reporting periods, i.e. before September 2003. According to UNLB, it was impossible to transfer electronically all data from FACS/FESS to GALILEO, making the reporting process semi-automated. Concerns were also expressed by the users regarding the user-friendliness of GALILEO, the accuracy of the data in the system, and the frequent use of the ICC Help Desk.

90. Although DPKO established the Change Management Board to filter requests received by the ICC help desk and to initiate any changes for further improving GALILEO, the functionality of the system still did not fully meet operating needs. In this regard, OIOS noted with concern that while \$3.4 million of the SDS initial allotment had been spent to support the development of GALILEO, the system had no link with the accounting and procurement systems used at Headquarters and in the field. As a result, there was no transparency in reporting on SDS operating phases, from requisitioning the SDS items to their replenishment and the completion of the financial cycle. OIOS further found that the reporting function on the SDS replenishment had not been included in the initial requirements for GALILEO. However, according to ICC, it could integrate GALILEO with the procurement system, if DPKO requested it. At the time of the audit, however, DPKO had no strategic plan for further development of the IT support function for the SDS.

### **Recommendation 26**

DPKO and UNLB should urgently develop a strategic plan for improving the IT support function to effectively manage the SDS operations, establishing objectives, requirements, implementation approach, a detailed list of necessary actions, timeframe and responsible entities and officials (AP2004/600/02/26).

91. *DPKO accepted recommendation 26 commenting that a working group has been established to carry out an analysis of the GALILEO system in order to determine the additional functionality required. This group will produce requirements by 30 November 2005, which will form the basis for a strategic plan for improving the IT support function to effectively manage the SDS operations.* The recommendation will remain open in OIOS database pending its implementation.

#### Access control to IT systems

92. Although a focal point for IT access control had been designated, no formal policy on IT security and access had been issued by UNLB. OIOS further noted that Communications and Information Technology Section (CITS), UNLB did not monitor the access to the IT systems. The current practice provides for ICC to give access to GALILEO at the request of the managers of respective sections for the staff involved. OIOS reviewed a list of current users with different access levels from Reader to Approver, and found that access was still granted to a former UNLB staff member with a level of Self Accounting Unit (SAU) Chief and Warehouse Approver, who separated from UNLB a year ago. In OIOS' opinion, the Chief CITS should be responsible for the maintenance and update of the roster of users in performing access control functions.

#### **Recommendation 27**

UNLB management should develop access controls over its IT systems to ensure that separated and unauthorized staff are denied access; the access control procedures should be formalized and approved by the UNLB management (AP2004/600/02/27).

93. *DPKO accepted the recommendation commenting that the access control procedures for all systems managed by CITS, UNLB were formalized and approved by UNLB management in September 2004. The user's manager and CCITS grant access to UNLB systems through the work order system. When a user leaves UNLB, a check-out process occurs at that time. During the check-out process, CCTIS also notifies DPKO/ICC to terminate the user's access to the enterprise systems such as GALILEO and Mercury.* OIOS can not accept DPKO's comments concerning the control procedures approved in September 2004; the audit was conducted in January 2005 and neither CCITS nor UNLB management could provide the audit team with the approved access control procedures. Furthermore, in its reply to the OIOS observation, UNLB management commented that it "agrees with this recommendation and will develop a formal procedure for controlling access to IT systems." Consequently, as part of the current management audit of DPKO, OIOS visited UNLB and obtained the guidelines on access control to UN applications, which were approved by the CAO, UNLB on 9 November 2005. While OIOS acknowledges that the access control guidelines had been established and, in view of this, has closed recommendation 27, DPKO and UNLB management should ensure the enforcement of these procedures and closely monitor access control to IT systems and applications.

### **C. Follow-up on previous audit recommendations**

94. OIOS followed-up on the action taken by DPKO and UNLB to implement the recommendations made during the audit of the SDS in 2003. The follow-up review found that out of 12 recommendations, six had been implemented, five were in the process of implementation and one had not been accepted.

95. DPKO did not accept OIOS' recommendation that "material changes to the approved plan for the establishment of SDS should be approved at the level of the Assistant Secretary-General and reported to the General Assembly." DPKO commented that the SDS should be seen to represent a capability rather than a fixed list of items. In this regard, only changes to capability should be referred to the ASG for authorization. The Director, LSD, in conjunction with the expert commodity managers, should ensure that the strategic deployment stocks contain the appropriate equipment to achieve the required capability.

96. OIOS acknowledges the SDS capability concept and the established responsibilities of the Director to manage the SDS and considers that the material changes to the composition value amounting to millions of US dollars should have been authorized by the ASG and reported to the General Assembly for transparency and accountability. DPKO actually did this partially in the past. For example, the amount of \$21.4 million of SDS equipment and supplies transferred from the UN reserves had been reported to the General Assembly (A/57/751), although without prior approval except for \$4.6 million. In this regard, OIOS reiterates recommendation 11 that, if additional funds are required to increase SDS capabilities, the revised SDS composition should be approved by the Assistant-Secretary-General, DPKO and authorized by the General Assembly.

### **VI. ACKNOWLEDGEMENT**

97. OIOS expresses its appreciation to the Management and staff of DPKO and UNLB for the assistance and cooperation extended to the auditors.



P. Azarias, Director  
Internal Audit Division I, OIOS