

Office of Internal Oversight Services  
Internal Audit Division

MEMORANDUM

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REF: AUD/1729/06

15 March 2007

TO: Mr. Antonio Maria Costa  
Director-General  
United Nations Office at Vienna, and  
Executive Director  
United Nations Office on Drugs and Crime

FROM: Corazon C. Chavez, Officer-in-Charge  
Internal Audit Division, Geneva and Nairobi  
Office of Internal Oversight Services

SUBJECT: **OIOS Audit of Property Management at UNOV (AE2006/321/01)**

1. I am pleased to submit the Final Audit Memorandum Report on the audit of Property Management at the United Nations Office in Vienna (UNOV)/ (AE2006/321/01), which was conducted in November 2006 in Vienna by Ms. Gloria Irvin and Ms. Evgenia Atanasova.
2. The main audit results were discussed with the Chief of General Support Section during the Exit Conference held on 10 November 2006. A draft of the report was shared with the Deputy Director-General of UNOV on 23 February 2007, whose comments which were received on 8 March 2007, are reflected in this final report.
3. I am pleased to note that UNOV has accepted the audit recommendations contained in the final report. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 31 May 2007. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B. In accordance with General Assembly resolution A/RES/59/272, the Secretary-General should ensure that the final audit report in its original version is, upon request, made available to any Member State who may make it public.
4. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey form and return it to me under confidential cover. Thank you for your cooperation.

## I. INTRODUCTION

5. The Office of Internal Oversight Services (OIOS) conducted an audit of Property Management at the United Nations Office in Vienna (UNOV) in November 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

6. The Division of Management has responsibility for property management at both the United Nations Office at Vienna (UNOV) and the United Nations Office on Drugs and Crime (UNODC), and is headed by the same Director who serves as Deputy Director-General of UNOV. Within the Division of Management, the General Support Section is designated to provide oversight of the property management function, and the Commercial Operations Unit (COU) is responsible for the day-to-day property management operations for several United Nations Funds and Programmes in the Vienna International Centre, except for the Office for Outer Space Affairs (OOSA) and UN specialized agencies.

7. The COU is responsible for all aspects of inventory control to include maintaining the property management database, submitting financial information to the Division of Management, UNODC, for inclusion in the financial statements, and conducting physical inventory. For UNODC field offices, oversight for property management falls under the Fund Budget Unit.

8. Property is categorized as either expendable or non-expendable. As of 31 October 2006, the total value of property in the UNOV/UNODC inventory system was \$20.9 million<sup>1</sup>. Property with individual acquisition cost of at least \$1,500 is classified as non-expendable and is reported in the Notes to the financial statements of the United Nations. For financial statement purposes, the value of non-expendable property was \$10.5 million as of 31 December 2005. In 2006, UNOV/UNODC wrote off property valued at some \$588,000 and acquired non-expendable property valued at \$2.5 million.

## II. AUDIT OBJECTIVES

9. The audit objective was to determine if there were adequate controls over property management, including their proper accounting, tracking, monitoring and safeguarding in accordance with United Nations policies and procedures. Specifically, the audit determined if:

- UNOV/UNODC had adequate controls over its inventory, and if those controls were functioning as intended;
- UNOV/UNODC conducted periodic physical inventory in accordance with prescribed policies and procedures; and
- UNOV/UNODC had adequate procedures for the write-off, sale, or disposal of property as well as procedures for lost, stolen or damaged items.

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<sup>1</sup> This amount includes inventory of clients.

### III. AUDIT SCOPE AND METHODOLOGY

10. The audit consisted of a preliminary audit of UNOV/UNODC property management. OIOS auditors obtained an overview and conducted a walk-through of each aspect of property management, sampled data, assessed the reliability of data contained in the automated system for property management, and determined if adequate controls were in place to provide reasonable assurance that assets were safeguarded. OIOS auditors reviewed UNOV/UNODC records, supporting documentation, and files for calendar years 2005 through October 2006. As a result of the preliminary audit, OIOS did not believe it was necessary to conduct a more in depth audit of UNOV/UNODC property management.

11. OIOS auditors reviewed existing policies and procedures, reports generated from the automated property management systems for Vienna, and to a limited degree, for the UNODC field offices. The auditors conducted discussions with staff from Commercial Operations Unit, the receiving department, and members of the Property Survey Board. In addition, the auditors reviewed other property management reports, minutes of the Property Survey Board, and discussed the UNOV/UNODC insurance policy and coverage. The auditors compared the UNOV/UNODC property management policies and procedures with those established at United Nations Headquarters in New York. The auditors also conducted a limited review of the procedures for property management at UNODC field activities. The audit did not include an assessment of the automated system.

### IV. AUDIT FINDINGS AND RECOMMENDATIONS

#### Overall Assessment

12. Overall, OIOS found that controls over property management at UNOV/UNODC were adequate, and UNOV/UNODC could provide reasonable assurance that property was safeguarded. However, the following areas needed improvement and are further discussed in the succeeding sections of this report:

- UNOV/UNODC needs to update the property management policy 9151T dated 1994 to reflect pertinent changes in regards to ST/AI/2003/5 and Property Management Manual. Although property controls are tight to ensure that properties are safeguarded and their records are properly maintained, they do not provide enough assurance for proper accountability by responsible offices and divisions.
- UNOV/UNODC needs to conduct physical inventory in accordance with United Nations policy.

#### Delegation of Authority to Departments and Offices

13. According to ST/AI/2003/5, each head of department or office shall designate a Property Records Custodian (PRC) as the focal point. The designation of PRCs was also cited in the A/57/5 Board of Auditors report dated 3 July 2002. At the time of our review,

UNOV did not have PRCs, instead, the responsibility for property management and inventory had been given to the Commercial Operations Unit (COU).

14. Two COU staff members shared the bulk of responsibility for property management at UNOV/UNODC. This included all aspects of property management ranging from entering new property into the automated property management database, deleting property from the database, conducting inventory, to preparing and signing forms for lost, stolen, damaged, or loaned property, preparing property for disposal, and entering this information into the database. The COU also prepared reports for submission to the Financial Resources Management Service for inclusion in UNOV/UNODC biannual financial statements, as well as prepared reports for the Property Survey Board (PSB), and executed the recommendations of the PSB.

15. While the auditors found that overall property management at UNOV/UNODC was adequate, concentration of the controls of the property management functions solely on the two COU staff did not provide for appropriate segregation of duties or responsibilities. For example, if an employee borrowed equipment the property staff entered the information directly into the SYBASE inventory control database, but the employee was not required to sign, or complete form "Requisition for Furniture and Fixtures" as stated in the Manual. If property is lost or damaged, the responsible office or employee notifies the property office, and the property office staff completes and signs the form "Case Report Recommendation Form," not the individual responsible for the loss. According to our discussions, other than IT personnel for technical support, no one else had access to the automated system, property reports were not provided to offices or Division management for review, and employees were not required to sign or complete forms. This practice did not allow sharing of accountability and responsibility for property management with responsible offices and staff, and put the two employees in a precarious situation.

16. In case of disagreement, there is no supporting documentation to determine if procedures were followed in case of discrepancies in the automated system. In one instance, an employee borrowed night vision goggles/binoculars and two searchlights. According to records, the employee returned the items sometime in May 2001; however, the automated records still showed that the night vision goggles were not returned. An investigation was conducted and the property staff stated that the employee returned the other items, but not the night vision goggles. The staff members stated that all the equipment was returned at the same time in May 2001. Because of the lack of a completed and signed form "Requisition for Furniture and Fixtures," the issue was never resolved. After many months of waiting for the matter to be resolved, the Human Resource Management Section processed the staff member's form for retirement without collecting funds for the lost equipment, because it was never determined who was at fault. If the staff had been required to complete and sign the form "Requisition for Furniture and Fixtures" when borrowing and returning the equipment, and then signed by the property staff, it is likely that the issue could have been resolved, and funds collected if the goggles were not returned.

17. OIOS believes that UNOV/UNODC should update the policy to reflect current procedures, and put those procedures into practice particularly for the completion of forms by the responsible office/division. This will protect both the property staff, and UNOV/UNODC

employees, and will also place some of the responsibility for property management on the divisions and offices.

### Property Records Custodians

18. ST/AI/2003/5 on for property management, quoted below, requires that Property Records Custodians (PRC) be assigned.

*“Each head of department or office shall designate a Property Records Custodian as the focal point for the Facilities Management Division. The Property Records Custodian shall be responsible for keeping records of all property assigned to his or her department or area of responsibility.”*

19. UNOV/UNODC has not instituted this practice and has not assigned PRCs. We believe that if UNODC/UNOV institutes this practice to some degree, the assignment of PRCs will ensure segregations of duties, and share accountability and responsibility for property management with offices and staff.

### **Recommendations:**

- The Director, Division of Management should ensure UNOV/UNODC update its property management policy to reflect current policies and procedures as stated in ST/AI/2003/5, to include provisions for the completion and signing of the appropriate property forms by staff, office heads, and property managers (Rec. 01).
- The Director, Division of Management should designate an appropriate number of Property Records Custodians, as stated in ST/AI/2003/5 (Rec. 02).

*UNOV/UNODC accepted both recommendations and stated that they are updating their property management policy and that they are in the process of appointing additional custodians. Estimated target date for implementation is May 2007. OIOS will record the recommendations as implemented upon receipt of a copy of the updated property management policy and a list of the additional property custodians.*

### Physical Inventory

20. UNOV/UNODC had not conducted a physical inventory in over five years. Instead, there has been an effort to conduct it since November 2004 and a plan to continue it through August 2007. As offices move from one floor for asbestos removal and back, inventory is conducted and records updated. United Nations policy requires that entities conduct physical inventory once every two years, and prescribes the use of bar coding and scanning to facilitate physical inventory. During the asbestos removal project, UNOV/UNODC was still conducting inventory manually. In our discussions with an UNOV/UNODC official, it was stated that the bar code system and scanner was tested, but there were too many problems such as software incompatibility issues and reconciliation problems between the scanning

system and the automated property record system. As a result, UNOV/UNODC discontinued the use of the bar coding and scanning to conduct physical inventory.

21. During the exit conference the Chief of General Support Section raised concerns about the requirement to conduct a 100 percent physical inventory, and in a draft revision of the property management guidelines dated January 2005, proposed that, “physical counting of property items shall take place when received and disposed...” However, the draft was never finalized. To some degree, OIOS also ponders the necessity to conduct a 100 percent physical inventory every two years and the possibility of biannual inventory sampling, i.e., high dollar items, attractive items, or 10 percent inventory within certain dollar ranges, etc... In today’s environment, the type and amount of equipment has changed to include high tech equipment, attractive items, and security related items, that the need to count a very large number of items, or low risk items may be too time consuming given resource constraints. On the other hand, however, if the bar codes and scanner system were used to conduct physical inventory, it would minimize resource demands. The designated PRCs would also assist with physical inventories.

**Recommendation:**

➤ The Director, Division of Management, should require and ensure that physical inventory is conducted biannually in accordance with ST/AI/2003/5; explore the use of bar coding and rectify the past problems with the scanning equipment in order to facilitate conducting physical inventory; and consider alternative approaches to enable a comprehensive physical inventory such as phased inventory taking, inventory sampling, etc (Rec. 03).

*UNOV/UNODC accepted the recommendation and stated that they are reviewing their inventory management policy. Estimated target date for implementation is May 2007. OIOS will record the recommendation as implemented upon receipt of the result of the UNOV/UNODC review of their inventory management policy or an updated policy on physical inventory taking.*

**Attachment:** Client Satisfaction Survey Form

cc: Mr. F. Baumann, Deputy Director-General, UNOV (by e-mail)  
 Mr. C. Kirkcaldy, Audit Focal Point, UNOV/UNODC (by e-mail)  
 Mr. J. Childerley, Chief, Oversight Support Unit, Department of Management, United Nations (by e-mail)  
 Mr. S. Goolsarran, Executive Secretary, United Nations Board of Auditors (by e-mail)  
 Mr. R. Bellin, BOA, France (by e-mail)  
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