

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE  
OIOS · BSCI

TO: Ms. Alicia Bárcena Ibarra, Under-Secretary-General  
A: Department of Management

DATE: 26 July 2007

REFERENCE: AUD-File no. (07-00371)

FROM: Dagfinn Knutsen, Director  
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No.: AH2006/513/12/02 - Audit of Inventory Management**

OBJET:

1. I am pleased to present the report on the above-mentioned audit, which was conducted in June and July 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. In order for us to close the recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1 – 6), in its annual report to the General Assembly and semi-annual report to the Secretary-General.
4. 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

5. The Office of Internal Oversight Services (OIOS) conducted an audit of Inventory Management in June and July 2006. Pursuant to the UN Financial Regulations and Rules, "The Under-Secretary-General for Management has overall responsibility for the management of the inventory of the United Nations, including all systems governing its receipt, recording, utilization, safekeeping, maintenance and disposal, including by sale, and...designate[s] the officials responsible for performing inventory management functions."<sup>1</sup> In 1996, the responsibility for the management of UN non-expendable property was delegated to departments and offices in order to enhance the accountability, efficiency, and reliability of reported information. The total quantity of non-expendable property at 31 July 2006 was approximately 94,800 items with a total value of \$94.96 million at Headquarters.

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<sup>1</sup> Financial Regulations and Rules of the United Nations, Secretary-General Bulletin; ST/SGB/2003/7; Section V, D, Rule 105.20.

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6. United Nations non-expendable property is defined in three categories: (i) property or equipment that has a serviceable life of longer than five years and a unit value greater than \$1,500 at time of purchase, (ii) special items considered to be of an attractive nature and easily removable from the premises because of their size and costing \$500 or more at time of purchase, and (iii) group of inventory items – e. g., furniture – with a serviceable life of more than five years, irrespective of value. OIOS did not assess the adequacy of this policy from a control perspective, since the UN will adopt accounting policies for non-expendable property, including a depreciation policy, in line with the International Public Sector Accounting Standards (IPSAS)<sup>2</sup> in the near future. Organizationally, oversight of the central inventory system at Headquarters is carried out by the Facilities and Commercial Services Division (FCSD) of the Office of Central Support Services (OCSS) within the Department of Management (DM). FCSD formulates procedures and directives for the coordination of periodic physical inventories.

7. The 2005 physical inventory organized by FCSD revealed discrepancies totaling more than \$26.4 million. As of 31 July 2006, the total amount of discrepancies that had been reconciled was \$6.6 million, or 25 percent of all differences noted. Despite this improvement, a significant amount of discrepancies still needs to be reconciled and considerable efforts by DM and other departments will be needed before satisfactory reconciliation can be achieved.

8. Comments made by DM are shown in *italics*.

## **II. AUDIT OBJECTIVES**

9. The major objective of the audit was to assess the adequacy of existing internal controls over inventory management.

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

10. The audit was limited to the assessment of internal controls over the safeguarding of non-expendable property at the UN Headquarters in New York and did not include an assessment of controls over requisitioning, receiving and inspection, and write-off and disposal of non-expendable property. The audit covered the period from 2005 to 2006. OIOS conducted the audit through interviews of key DM personnel, a review of inventory records, and an assessment of policies and procedures in place for inventory management.

## **IV. OVERALL ASSESSMENT**

11. The audit disclosed the following weaknesses relating to inventory management:

- There was no comprehensive risk assessment of the UN inventory management.
- Monitoring the compliance of departments to established policies and procedures for inventory management was deficient.

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<sup>2</sup> The transition to IPSAS (the new accounting standards) will also require, among other changes, a review of the present classification of the UN property.

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- Certification of the accuracy of monthly inventory reports was not required of departments.
  - Periodic physical inspections by user departments were not performed on a consistent basis.

## V. AUDIT FINDINGS AND RECOMMENDATIONS

### A. Risk Assessment

12. Owing primarily to the lack of a risk management culture within the UN, DM has not performed a comprehensive risk assessment of property management, which would help focus internal control activities on high risk areas of asset management. A risk assessment would include identifying and measuring risks and their sources, and implementing mitigating controls. Risk assessment is an integral part of good management practices. There is a need for DM to develop risk strategies to control and mitigate the risks of misplaced and lost non-expendable property items, misappropriation of assets, and inaccurate reporting of inventory.

#### Recommendation 1

**(1) The Department of Management should perform a risk assessment in order to identify the most significant risks to inventory and implement appropriate control activities to mitigate those risks.**

13. *DM accepted recommendation 1, stating that during the fourth quarter of 2007 it will undertake a comprehensive risk assessment and develop risk management measures to reduce the inventory risks identified.* Recommendation 1 remains open pending submission of documentary evidence that the risk assessment has been carried out and the mitigating controls implemented.

### B. Monitoring

14. In accordance with ST/AI/2003/5, all departments are accountable for the safe custody and effective utilization of UN property assigned to, or acquired, by them. All departments are responsible for creating, maintaining, and updating their property records, using the computerized inventory system. Departments are also responsible for labeling property, monitoring movements of inventory, recommending disposal of obsolete and unserviceable property, and conducting periodic physical inventories<sup>3</sup>. The Property Management Manual establishes policies and procedures for the effective management of property and is posted on the FCSD website for easy access. Departments are liable for missing or damaged non-expendable property in their custody.

15. All departments maintain their own inventory system, which enables them to record information, retrieve data, and generate reports. FCSD maintains the centralized system of the inventories of all departments. DM issues a report to departments and offices each

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<sup>3</sup> ST/AI/2003/5. Administrative Instruction, Inventory Management and Inventory Control at United Nations Headquarters. Section 1, *Delegation of Authority to Departments and Offices*

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month listing their individual non-expendable inventory. However, DM does not require departments to validate the accuracy of the monthly inventory listing or reconcile the data. The validation of property records is an essential control for ensuring the accuracy and completeness of non-expendable inventory records.

16. The results of the 2005 bi-annual physical inventory indicated that a total of 27,012 items could either not be found (25,353 as of 9 September 2006) or had been assigned “zero” value (1,659 as of 12 September 2006) in the centralized inventory system. The total value for these 27,000 (approximate) items was \$26.4 million. As of 31 July 2006, this number had been reduced to approximately 20,800 non-expendable property items through the reconciliation process conducted by FCSD. Various reasons for the discrepancies were found. Some items were not tagged therefore could not be easily matched to the inventory records. Other items had not been recorded in the automated records. Some tags were not legible due to wear and tear and others were missing.

### **Recommendation 2**

**(2) The Department of Management should require all departments to verify the accuracy of the inventory listing by signing and returning it with a discrepancy report.**

17. *DM accepted the recommendation, stating that it will require departments to sign, every six months, an inventory listing and return it with a list of discrepancies. This will be commenced immediately after the 2007 physical inventory is concluded (expected fourth quarter of 2007).*

18. OIOS takes note of DM’s response and agrees that checks every six months will be a reasonable starting point to monitor inventory movements. Recommendation 2 remains open pending submission of a copy of DM’s communication to departments requiring them to certify inventory listings. Submission of documentary evidence of actions taken by all departments to resolve discrepancies is also required.

19. Physical inventories are conducted once every two years. In the interim, departments verify the existence of non-expendable inventory or the accuracy of the inventory records. From an internal control standpoint, DM should ensure that departments verify their inventories on a more frequent basis and report missing or damaged items. Spot checks should be conducted by DM, on a sample basis, to independently confirm the results reported by departments. Discrepancies noted should be investigated and resolved in a timely manner and the central inventory records updated. This will help to reduce the number of errors and discrepancies during the comprehensive physical count and improve the efficiency of the controls.

### **Recommendations 3 to 6**

**(3) The Department of Management should monitor the compliance of all departments with established procedures to ensure that they are carried out consistently and effectively to safeguard inventory against loss, misuse, or theft.**

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**(4) The Department of Management should direct all departments and offices with inventory management responsibilities to conduct counts of non-expendable property on hand and report missing or stolen items once every six months.**

**(5) The Department of Management should conduct spot checks, on a sample basis, to independently verify the physical inventories done internally by departments.**

**(6) The Department of Management should investigate and resolve discrepancies noted in the central inventory system and adjust the records to reflect differences.**

20. *DM accepted Recommendation 3, stating that the recommendation is considered implemented.* Recommendation 3, however, remains open pending submission of the monitoring report. Submission of a written procedure requiring periodic reviews to monitor departmental compliance is also required.

21. *DM accepted Recommendation 4, stating that it will require periodic counts (i.e., every six months) as part of the semi-annual verification that will be required as indicated in Recommendation 2. This will be requested immediately after the 2007 physical inventory is concluded (expected fourth quarter of 2007).* Recommendation 4 remains open pending submission of written instructions requiring departments to conduct periodic counts semi-annually.

22. *DM accepted Recommendation 5 and considers it implemented.* Recommendation 5, however, remains open pending confirmation of the practice of periodically carrying out spot checks, particularly in those departments susceptible to error, due to the large size of their inventories, and warrant more frequent inventorying. Submission of count sheets and reconciliation to the automated inventory records for two of the most recent spot checks performed is required. Submission of written procedures requiring DM to conduct periodic spot checks is also required.

23. *DM accepted Recommendation 6 and considers it implemented.* OIOS emphasizes the need for DM to reconcile and resolve discrepancies resultant from all physical inventories in a timely manner. Following the 2005 physical inventory, a large amount of resources (staff resources, staffing days, etc.) were needed to investigate the discrepancies found. As late as 2007, these discrepancies had still not been resolved. Recommendation 6, therefore, remains open pending confirmation of the resolution of the discrepancies identified in the 2005 biennial physical inventory. Submission of a written policy on the treatment of and timely resolution of discrepancies resulting from the biennial physical inventory is also required.

## **VI. ACKNOWLEDGEMENT**

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

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS

## ANNEX 1

## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	O	Submission of documentary evidence that the risk assessment has been carried out and the mitigating controls implemented.	Fourth quarter of 2007
2	O	Submission of a copy of DM's communication to departments requiring them to certify inventory listings. Submission of documentary evidence of actions taken by all departments to resolve discrepancies is also required.	Expected fourth quarter of 2007
3	O	Submission of the monitoring report. Submission of a written procedure requiring periodic reviews to monitor departmental compliance is also required.	To be provided
4	O	Submission of written instructions requiring departments to conduct periodic counts semi-annually.	Immediately after the 2007 physical inventory (expected fourth quarter of 2007)
5	O	Confirmation of the practice of periodically carrying out spot checks, particularly in those departments susceptible to error, due to the large size of their inventories, and warrant more frequent inventorying. Submission of count sheets and reconciliation to the automated inventory records for two of the most recent spot checks performed is required. Submission of written procedures requiring DM to conduct periodic spot checks is also required.	To be provided
6	O	Confirmation of the resolution of the discrepancies identified in the 2005 biennial physical inventory. Submission of a written policy on the treatment of and timely resolution of discrepancies resulting from the biennial physical inventory is also required.	To be provided

1. C = closed, O = open

2. Date provided by [client] in response to recommendations. [Insert "Not provided" where date is not provided; "Implemented" where recommendation is closed; (date) given by the client.]

UNITED NATIONS



OIOS Client Satisfaction Survey

**Audit of: Inventory Management**

(AH2006/513/12/02)

	1	2	3	4	5
<b>By checking the appropriate box, please rate:</b>	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Your overall satisfaction with the conduct of the audit and its results.</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

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*Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:  
 Director, Internal Audit Division, OIOS  
 By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA  
 By fax : (212) 963-3388*