



INTERNAL AUDIT DIVISION

AUDIT REPORT

Receiving and inspection function in UNAMID

Internal controls over the Receiving and Inspection (R&I) Function were ineffective resulting in a backlog of 2,200 containers awaiting R&I, goods being distributed and used prior to inspection, and the location of assets valued at millions of dollars not being known

23 July 2010
Assignment No. AP2009/643/12

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Ibrahim Gambari
A: Joint Special Representative
UNAMID

DATE: 23 July 2010

REFERENCE: IAD: 10-

00658

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS

Fatoumata

SUBJECT: **Assignment No. AP2009/634/12 – Audit of receiving and inspection function in UNAMID**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 1 and 5 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining 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 high risk (i.e., recommendations 6 to 9) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Mohamed Yonis, Deputy Joint Special Representative for Operations and Management, UNAMID
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
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Ms. Eleanor Burns, Chief, Peacekeeping Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of Receiving and Inspection Function in UNAMID

OIOS conducted an audit of the Receiving and Inspection Function in the African Union/United Nations Hybrid Operation in Darfur (UNAMID). The Receiving and Inspection Function has emerged as a higher risk area for audit due to the large volume of goods that were received during the initial stages of UNAMID's life. The overall objective of the audit was to determine the adequacy and effectiveness of internal controls over the Receiving and Inspection Function. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Internal controls over the Receiving and Inspection Function were not effective to mitigate the risk of financial loss to the Organization arising from: (a) the inability to follow-up with vendors for substandard or damaged goods received due to delays in inspecting the goods; and (b) loss of assets through theft due to the distribution of goods without being inspected and recorded, and due to the lack of measures to safeguard goods pending inspection. The main findings are as follows:

- The capacity to receive and inspect goods was insufficient, and steps were not taken by Management to redirect staffing resources to where they were most needed. This resulted in a significant backlog of approximately 2,000 containers at the time of the audit that were waiting to be received and inspected.
- The system to track the receipt of goods and whether they had gone through the receiving and inspection process was not implemented effectively. In many cases, the contents of containers pending receiving and inspection were unknown until they were opened.
- Containers were opened and their contents distributed to end-users without being formally received and inspected.
- Goods valued at \$23 million shipped from other missions and the United Nations Logistics Base were recorded as received and inspected although the items had not been inspected. At the time of the audit, only \$4 million of the goods valued at \$23 million had been located and the related records validated by the Mission.

OIOS made a number of recommendations to address the issues identified during the audit and to strengthen internal control weaknesses.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Receiving and Inspection (R&I) Function in the African Union/United Nations Hybrid Operation in Darfur (UNAMID). The R&I Function has emerged as a higher risk area for audit due to the large volume of goods that were received during the initial stages of UNAMID's life. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The R&I is responsible for receiving and inspecting goods to ensure all items received conform to specifications defined in the relevant contracts. The Unit is also responsible for issuing barcodes for non-expendable items and updating the inventory management system (Galileo) regarding assets received and inspected. The Mission had seven R&I locations at the time of the audit. The R&I Unit has 47 authorized posts, out of which 33 had been filled.

3. Where technical assistance is required for inspections, a technical expert from the concerned self-accounting unit (SAU) assists in completing the inspection. The SAUs are administrative units in the Mission that are responsible and accountable for assets and materials entrusted to them after they have been inspected, bar-coded and recorded in Galileo. The five SAUs in UNAMID are the Supply Section, the Transport Section, the Medical Section, the Communications and Information Technology Section (CITS) and the Engineering Section.

4. Comments made by UNAMID are shown in *italics*.

II. AUDIT OBJECTIVES

5. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over the R&I function.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from 1 July 2008 to 31 December 2009 and focused on the activities implemented by the R&I Unit including the recording of assets in Galileo and in the procurement system (Mercury). The audit did not cover the R&I of contingent-owned equipment (COE) and fuel, topics that were covered by other OIOS audits.

7. The audit methodology included a review of relevant documents including R&I case files and systems, interviews with key personnel and on-site visits of the R&I facilities in Khartoum, El Obeid, Port Sudan, Nyala, El Geneina, El Fasher and Entebbe.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Operational arrangements

Deployment of R&I staff

8. To expedite R&I activities, the Mission has established seven delivery points and assigned staff to them. The workloads of the delivery points were not properly assessed resulting in the allocation of disproportionate numbers of staff to each location. Of the available staff (47 posts), only four staff members, two to each location, were initially assigned to Port Sudan and El Obeid even though in the past, goods were more frequently delivered to these locations. The lack of capacity to carry out R&I resulted in a large backlog of goods waiting to be cleared. To address this, four additional staff members were deployed, and at the time of the audit, the backlog had been cleared. Despite this, these staff members were not timely re-deployed to other locations and consequently 300 and 1,900 containers, respectively waiting receipt and inspection had accumulated in El Fasher and Nyala. Moreover, CITS equipment valued at \$4.7 million was delivered to Entebbe where there was no R&I function for the Mission. During the audit, OIOS noted that the staffing situation has improved with 33 of the 47 authorized posts of the Unit currently encumbered.

9. The facilities to conduct the R&I function were inadequate at all locations. The container yard at the Super Camp in El Fasher was still under construction, and construction works for the R&I facilities at the Logistics Base in Nyala, which was supposed to serve as the central R&I location, were at a very early stage. There was only concertina wire on the ground to mark the construction site. At the Entebbe Support Base, which serves as the main receiving location for CITS equipment, UNAMID did not have a dedicated inspection area.

10. Inadequate R&I facilities impeded effective and efficient R&I and increased the risk of theft and loss of assets. This could also result in financial losses due to damage from exposure of goods to climatic conditions, as well as from the inability of the Mission to submit relevant claims to vendors in respect of damaged and nonconforming goods. OIOS is of the view that the Mission will benefit greatly in terms of cost effectiveness by centralizing the R&I Function

Recommendations 1 and 2

The UNAMID Office of Mission Support should:

- (1) Centralize the receiving and inspection of goods in order to make more effective use of staff resources, and when necessary deploy staff in a timely manner to minimize the back of goods waiting to be cleared and inspected; and**

(2) Expedite the construction of receiving and inspection facilities at the Mission's main receiving and inspection locations to assist in the process and safeguard against loss of good through theft.

11. *The UNAMID Office of Mission Support accepted recommendation 1 and stated that a central receiving area has been established in El Fasher, the Mission Headquarters. Staff are being redeployed between the main receiving points to meet immediate demands of the second receiving area in Nyala. Further, additional recruitment is being accelerated. Based on the action taken, recommendation 1 has been closed.*

12. *The UNAMID Office of Mission Support accepted recommendation 2 and stated that the construction of the receiving area in El Fasher was completed in January 2010. The receiving area in Nyala would be completed by the end of June 2010. Recommendation 2 remains open pending confirmation that the R&I area in Nyala is constructed and operational.*

Inadequate standard operating procedures

13. The R&I Unit has drafted standard operating procedures (SOPs), which need to be finalized, approved, and properly promulgated by the Mission Management. The lack of properly promulgated SOPs may result in inefficiencies and noncompliance with UN policies.

Recommendation 3

(3) The UNAMID Office of Mission Support should ensure that the Receiving and Inspection Unit finalizes and disseminates its standard operating procedures.

14. *The UNAMID Office of Mission Support accepted recommendation 3 and stated that the draft SOPs are under review and would be endorsed by June 2010. Recommendation 3 remains open pending the receipt of a copy of the final R&I SOPs.*

B. Performance monitoring

Performance monitoring needs improvement

15. The R&I Unit's work plan includes performance targets requiring inspection to be completed within 10 days of the cargo arriving at a port of entry and completed within 7 days of commencing the inspection. The R&I offices at the respective sectors prepare weekly reports, which are submitted to the Chief of the R&I Unit and/or the Chief General Services Section. The weekly reports cover the activities of the respective sectors including accomplishments and pending activities. However, the reports make no reference to the R&I offices' achievement against the performance targets established in the work plan.

16. OIOS reviewed a sample of R&I case files for 165 non-expendable items (\$30 million) and 26 expendable items (\$6 million). The review indicated a lack of relevant information for monitoring performance against the established targets. For instance: (a) the dates when goods were delivered to the R&I locations were not available; (b) the dates of R&I could not be reliably determined in 61 per cent of the cases reviewed as the physical verification vouchers (PVVs) were not included in the R&I case files; and (c) the dates of customs clearance and the point and dates of deliveries were not recorded in Galileo.

17. Failure to monitor the performance of R&I activities contributed to delays in the process and to the backlogs referred to above, as it was not systematically brought to management's attention.

Recommendation 4

(4) The UNAMID Office of Mission Support should ensure that the Receiving and Inspection Unit's performance is adequately monitored against the targets established in its work plan, and that accurate and timely reports thereof are produced and submitted to Management on a regular basis.

18. *The UNAMID Office of Mission Support accepted recommendation 4 and stated that the R&I Unit has been moved to the newly established Property Management Section for closer supervision and management oversight. Further, in-line with Department of Field Support SOPs on property management, key performance indicators were developed for monitoring and evaluation of the R&I Unit's activities.* Recommendation 4 remains open pending receipt of evidence showing that R&I activities have been monitored on a regular basis.

Efficiency and effectiveness of R&I function

Inadequate tracking of goods pending R&I

19. The Mission did not have an adequate system for tracking shipments received and for determining whether or not R&I has been conducted. For the estimated 2,200 containers pending R&I, the Mission was unable to match the containers with the respective purchase orders. Interviews with concerned staff indicated that, in most cases, the contents of containers were unknown until they were opened.

20. Ideally, there should be a label affixed to the container, containing sufficient information to link the container to the respective purchase orders. However, frequently, the containers arrived at R&I locations without sufficient information affixed to the container.

21. The Mission needs to implement an adequate tracking system. However, the reliability of the system will depend largely on effective communication between the different sections (i.e., Procurement, MovCon and R&I) whose activities have a direct or indirect impact on the R&I activities.

Recommendation 5

(5) The UNAMID Office of Mission Support should establish an appropriate mechanism for matching containers with relevant purchase orders.

22. *The UNAMID Office of Mission Support accepted recommendation 5 and stated that a log book is in place to record shipments.* Based on the action taken, recommendation 5 has been closed.

23. *The UNAMID Office of Mission Support accepted recommendation 6 and stated that procedures have been put in place for matching shipping documents and purchase orders with the respective containers.* Recommendation 6 remains open pending verification that appropriate controls are now in place.

Unauthorized opening of containers and distribution of goods which have not been formally inspected

24. There were several instances of unauthorized opening of containers and distribution of goods that had not been inspected, bar-coded and recorded in Galileo.

25. The causes for unauthorized opening of containers and distribution of goods were:

- Absence of proper safeguarding of containers that are pending R&I;
- Failure of vendors and MovCon to adhere to established procedures as goods were delivered directly to the SAU, by-passing the R&I process;
- Failure of SAUs to adhere to established procedures by distributing goods that have not been inspected to the end users. In Nyala for instance, the Engineering Section distributed prefab containers to various sectors, which had not been inspected and recorded by the R&I Unit; and
- Lack of effective communication between the concerned units about the arrival and movement of goods.

26. Opening containers and using their contents without R&I may result in loss to the Organization and diminish the Mission's ability to make claims for nonconforming or damaged goods delivered by vendors. At the time of the audit, efforts were ongoing to locate certain assets, conduct post-facto R&I, and barcode the assets.

Recommendation 6

(6) The UNAMID Office of Mission Support should establish and implement appropriate procedures to ensure that all goods are inspected and recorded by the Receiving and Inspection Unit before they are handed over to the concerned self-accounting units for use.

27. *The UNAMID Office of Mission Support accepted recommendation 6 and stated that no goods are released to SAUs before inspection. Recommendation 6 remains open pending the receipt of documentation of the procedures that have been put in place to ensure that all goods are inspected and recorded before being handed over to SAUs.*

Difficulties in filing Damage Discrepancy Reports

28. Sixteen Damage Discrepancy Reports (DDRs) were raised from August to December 2008, and an additional 56 DDRs were raised from January to November 2009. The aggregate amount of these reports was \$37,000, which is low considering the number of reports. Some R&I staff indicated that it was difficult to raise a DDR due to the following circumstances:

- R&I is not conducted in a timely manner and a reliable chain of custody is not maintained, making it difficult to establish exactly who (e.g. the vendor, freight forwarder, or MovCon) is responsible for damaged goods; and
- Goods may have by-passed R&I and have been put to use by the Mission.

29. Given the identified control weaknesses, the Mission is not in a position to determine the cause of the discrepancy and can not hold the vendor accountable for discrepancies.

Recommendation 7

(7) The UNAMID Office of Mission Support should implement appropriate procedures to ensure that accountability for damaged or nonconforming goods are established and the related Discrepancy Damage Reports are raised, particularly in cases where goods are not inspected at the port of entry, but are instead transported to a Receiving and Inspection location by the Mission.

30. *The UNAMID Office of Mission Support accepted recommendation 7 and stated that all cargoes are subjected to preliminary physical count immediately upon arrival. Joint technical inspections are done by end-users and the R&I Unit thereby avoiding the acceptance of nonconforming goods. Recommendation 7 remains open pending verification of the procedures*

established to ensure all cargoes are inspected and the related DDRs prepared promptly upon arrival of goods in the Mission.

D. Adequacy and timeliness of reporting

Lack of proper recording of items transferred from other missions

31. The recording of goods received from other missions by UNAMID is similar to the recording of goods purchased from vendors. The Property Management Manual stipulates that goods and equipment shall be checked against the relevant documentation and information and will be entered into Galileo before any goods are transferred to the SAUs.

32. As of June 2009, UNAMID received assets valued at over \$23 million from other missions and the United Nations Logistics Base in Brindisi. These assets were recorded in June 2009 in Galileo as received and inspected by the R&I Unit although they had not been formally inspected. At that time, the physical location and condition of the goods was unknown.

33. As at the time of the audit, only \$4 million of the goods valued at over \$23 million had been located and the related records validated by the Mission. The practice whereby assets are recorded as if they have been inspected is misleading and increases the risk of accepting goods that are obsolete or non-operational. It also increases the risk of loss through theft as goods had not being properly accounted for.

Recommendations 8 and 9

The UNAMID Office of Mission Support should:

(8) Implement appropriate measures to ensure that only those assets that have been physically received and inspected are recorded as such in the Galileo Inventory Management System; and

(9) Task all concerned sections and units to ensure that all assets received from other missions and recorded without receiving and inspection are correctly recorded as a matter of priority. All discrepancies should be investigated and disposal and write-off actions taken where appropriate.

34. *The UNAMID Office of Mission Support accepted recommendation 8 and stated that all inspection reports are certified by the Chief of the R&I Unit before the assets are recorded in Galileo and released to SAUs. Recommendation 8 remains open pending verification of the procedures for inspecting and certifying assets prior to their release to SAUs.*

35. *The UNAMID Office of Mission Support accepted recommendation 9 and stated that it had established a taskforce comprising of staff from SAUs, the R&I and, Property Control and Inventory Units. The taskforce is required to*

search for all assets that have not been inspected and recorded in Galileo. The taskforce has found 60 per cent of unacknowledged intermission transfers accounting for \$11 million. The remaining assets would be reconciled by 30 June 2010. Recommendation 9 remains open pending confirmation that the remaining assets valued at \$12 million have been accounted for.

Inadequate documentation to support the Receiving and Inspection process

36. Of the 194 case files requested, 165 non-expendable assets and 29 expendable assets, only 75 could be provided by the R&I Unit. For the remainder, only Galileo printouts were provided without any supporting documentation such as physical verification vouchers.

37. The reviewed R&I case files did not contain adequate information. For example: (a) in about 30 per cent of the cases, the R&I location was not indicated on the verification vouchers; (b) in 91 per cent of the cases, the cargo delivery notes were not included; and (c) in 16 per cent of the cases the relevant contracts (e.g., purchase order, systems contract details) were not included.

38. For the cases where the verification vouchers were missing, it was not clear whether a physical inspection had been conducted. Furthermore, the timeliness in completing the receiving and inspection process could not be accurately measured as the date of delivery was not systematically recorded (i.e., cargo delivery notes were not included in the R&I case file).

Recommendation 10

(10) The UNAMID Office of Mission Support should ensure that receiving and inspection case files are consistent and complete, with all relevant supporting documentation included.

39. *The UNAMID Office of Mission Support accepted recommendation 10 and stated that a focal point had been appointed in the R&I Unit to ensure files are complete and consistent. Recommendation 10 remains open pending the verification that adequate files are maintained by the R&I Unit.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNAMID Office of Mission Support should centralize the receiving and inspection of goods in order to make more effective use of staff resources, and when necessary deploy staff in a timely manner to minimize the back of goods waiting to be cleared and inspected.	Strategy	Moderate	C	Action implemented.	Implemented.
2	The UNAMID Office of Mission Support should expedite the construction of receiving and inspection facilities at the Mission's main receipt and inspection locations to assist in the process and safeguard against loss of good through theft. .	Strategy	Moderate	O	Receipt of evidence of the establishment of the second receiving point in Nyala.	June 2010
3	The UNAMID Office of Mission Support should ensure that the Receiving and Inspection Unit finalizes and disseminates its standard operating procedures.	Operational	Moderate	O	Receipt of the R&I Unit's approved Standard Operating Procedures.	June 2010
4	The UNAMID Office of Mission Support should ensure that the Receiving and Inspection Unit's performance is adequately monitored against the targets established in its work plan, and that accurate and timely reports thereof are produced and submitted to Management on a regular basis.	Operational	Moderate	O	Receipt of evidence showing that R&I activities have been monitored on a regular basis.	Not provided
5	The UNAMID Office of Mission Support should establish appropriate mechanism for matching containers with relevant purchase orders.	Operational	Medium	C	Action implemented.	Implemented
6	The UNAMID Office of Mission Support should establish and implement appropriate	Operational	High	O	Receipt of documentation of the procedures for ensuring that all goods	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	procedures to ensure that all goods are inspected and recorded by the Receiving and Inspection Unit before they are handed over to the concerned self-accounting units for use.				should be inspected and recorded before being handed over to the SAUs.	
7	The UNAMID Office of Mission Support should implement appropriate procedures to ensure that accountability for damaged or nonconforming goods are established and the related Discrepancy Damage Reports are raised particularly in cases where goods are not inspected at the port of entry, but are instead transported to a Receiving and Inspection location by the Mission.	Operational	High	O	Receipt of documents describing the procedures for ensuring that all cargoes are inspected and the related DDRs prepared promptly upon arrival in the Mission.	Not provided
8	The UNAMID Office of Mission Support should implement appropriate measures to ensure that only those assets that have been physically received and inspected are recorded as such in the Galileo Inventory Management System	Operational	High	O	Receipt of documentation describing the procedures for inspecting and certifying assets prior to their release to SAUs.	Not provided
9	The UNAMID Office of Mission Support should task all concerned sections and units to ensure that all assets received from other missions and recorded without receiving and inspection are correctly recorded as a matter of priority. All discrepancies should be investigated and disposal and write-off actions taken where appropriate.	Operational	High	O	Receipt of documentation showing that all assets from other missions have been identified and recorded in the Galileo.	June 2010
10	The UNAMID Office of Mission Support should ensure that receiving and inspection case files are consistent and complete, with all relevant supporting documentation included.	Operational	Moderate	O	Receipt of documentation specifically defining the focal point's responsibilities and describing the procedures for maintaining the R&I files.	Not provided

1. C = closed, O = open

2. Date provided by UNAMID in response to recommendations.