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**Internal Audit Division I
Office of Internal Oversight Services**

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8 December 2003

To: Ms. Anna Tibaijuka, Executive Director
United Nations Human Settlement Programme (UN-Habitat)

From: Uwe Hain, Officer-in-Charge
Internal Audit Division I, OIOS

A handwritten signature in dark ink, appearing to read "Uwe Hain", written over the printed name.

Subject: **OIOS Audit Number AF2003/23/2: Audit of UN-Habitat SRP Asset Management**

1. I am pleased to present herewith OIOS' report on the subject audit. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations Organizations.
2. I would appreciate receiving your comments on the report's findings and recommendations by 15 January 2004. Please comment on each audit recommendation indicating whether or not you accept it, and provide an implementation schedule for all accepted recommendations.
3. I would like to take this opportunity to thank UN-Habitat staff for the assistance and cooperation extended to the auditor.

I. INTRODUCTION

4. OIOS conducted an audit of the asset management procedures of the UN-Habitat Settlement Rehabilitation Programme (SRP) in Northern Iraq currently located in Amman, Jordan. As stated in the progress report of the Executive Director to the Security Council dated 28 October 2003, and in spite of the difficult security situation and limited staffing resources in Iraq, UN agencies are on target to terminate the Iraq Oil-for-Food Programme activities by 21 November 2003, and effectuate a handover to the Coalition Provisional Authority (CPA) in close coordination with the relevant Iraqi authorities. The transfer to the CPA of assets and ongoing operational responsibility for the administration of the remaining activity under the SRP (together with the relevant documentation) would be on "as is basis". Also, a limited number of personnel would remain in Iraq after 21 November 2003 to: (a) complete any necessary administrative tasks and close down operations at the field level by December 2003; and (b) wind down any remaining administrative activities at UN-Habitat Headquarters in Nairobi, Kenya by 31 March 2004.

II. AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

5. The objectives of the audit were to ensure that:
- (a) there were adequate arrangements in place to properly manage an effective handover of the assets to the CPA; and
 - (b) that relevant UN regulations and rules were adhered to.
6. The audit scope covered the period from 22 May 2003 to November 2003, which was the period set for liquidation of the Iraq Oil-for-Food programme by Security Council Resolution (SCR) 1483 dated 22 May 2003. The auditors interviewed staff, reviewed available documents, and assessed internal controls to determine whether the assets were sufficiently safeguarded, and to ensure that proper procedures were in place for an effective handover of the assets to the CPA upon termination of the SRP's activities on 21 November 2003.

III. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Property Records

7. A review of the property inventory lists with cut off dates of August and November 2003 for assets purchased with 2.2¹ percent and 13² percent funds, respectively for which SRP is responsible. A review of these lists, particularly the 2.2 per cent assets found that they were not complete and accurate.

Assets purchased with "13 percent funds"

8. The Logistics Sub-Unit (LSU) of the Operations Unit (OU) is responsible for coordinating international procurement with the Contracts and Procurement Section (CPS) of the United Nations Office in Nairobi (UNON) until delivery, as well as the subsequent management of the assets purchased with the "13 percent funds". OIOS also noted that in accordance with Financial Rule (FR) 105.20, the LSU maintained a database for the purchased assets using Microsoft Access inventory system introduced in July 2002.

9. LSU provided OIOS with property reports as of 30 June and 5 November 2003, which LSU had reconciled to the results of a physical verification. The total asset value in the 5 November 2003 report was approximately \$24 million for assets in use in the field and those kept in four warehouses, and consisted of bulldozers, shovel dozers, graders, generators, drilling rigs, concrete mixer trucks, concrete pumps, mobile telescopic cranes, ductile pipes, concrete mixing and batching plants, asphalt pavers, steel bars, and corresponding spare parts.

1 This refers to the 2.2 percent of oil revenues that are allocated to administrative and operational costs for United Nations activities associated with the humanitarian programme in Iraq, as well as the headquarters level for both the Secretariat and the agencies and programmes concerned.

2 This refers to the 13 percent of oil revenues that are allocated to projects in Northern Iraq.

10. As recommended in a prior OIOS audit observation (AF2002/24/2), documentary evidence was not provided as proof that \$172,171 being the value of 12 generators diverted from the assets purchased with 13 percent funds was adjusted to records of assets purchased with 2.2 percent funds to reflect their use on operational and administrative activities of the SRP.

Recommendation 1

UN-Habitat should make appropriate adjustments to its records for the diversion of 12 generators valued at \$172,171 purchased with 13 percent funds to reflect their use on operational and administrative activities funded from 2.2 percent funds (AF2003/23/2/001).

Assets purchased with "2.2 per cent funds"

11. The property reports for the assets purchased with the "2.2 percent funds" are maintained by the Contracts and Procurement Unit (CPU) of the Core Team, except for vehicles and communication equipment, which are kept by the LSU. The CPU stated that it had also been using a Microsoft Access database inventory system introduced in March/April 2002 to manage its assets until it recently changed to a Microsoft Excel spreadsheet format which the CPU stated was more user friendly.

12. According to the SRP's records, the value of the assets purchased with the "2.2 percent funds" was approximately \$2.7 million as of September 2003. This figure increased to \$3.02 million on 17 November 2003 as a result of omissions revealed by the audit (such as generators and bullet proof vests). The listed assets consisted mainly of computer equipment, vehicles, photocopiers, a fax machine, furniture and telecommunication equipment. Even with the addition of the items uncovered by the auditors, OIOS is of the opinion that the SRP's records were incomplete. Moreover, the lists did not always disclose the condition, value and specific location of the property. Finally, not all items were given values (e.g. 11 vehicles, photocopiers, digital cameras), while many other items were given estimated values instead of actual values. Consequently, OIOS could not verify the revised inventory figure of \$3.02 million.

13. The SRP staff stated that the monthly summary inventory reports for assets purchased with both "13 percent funds" and "2.2 percent funds" were submitted to UN-Habitat Headquarters and CPS. The SRP had not received any feedback with respect to these submissions and could not inform OIOS as to whether they had been reconciled to UN-Headquarters' records. Therefore, the auditors were not able to ascertain whether a prior OIOS audit recommendation on this issue had been implemented.

Recommendations 2 and 3

UN-Habitat in Northern Iraq should:

- (i) Determine whether its property reports for assets purchased with "13 percent funds" and "2.2 percent funds" are recorded in and reconciled to Headquarters' property records, for accountability purposes (AF2003/23/2/002); and
- (ii) Ensure that the SRP reports for assets purchased with the "2.2 percent funds" are corrected so as to be complete and accurate. In particular, the reports should include, for control and accountability purposes, the value of each purchased asset, its condition, and its physical location (AF2003/23/2/003).

B. Physical Verification of Assets

14. The LSU stated that it performed a complete physical inventory in June/July 2003 and in November 2003 of the assets purchased with the "13 percent funds". Similarly, the CPU performed a complete physical inventory from 22 July to 18 September 2003 of the assets purchased with the "2.2 percent funds".

Assets purchased with the "13 percent funds"

15. With regard to assets purchase with the "13 percent funds", the auditors noted the following:

(a) Much of the construction equipment that was purchased had been kept in warehouses in the field offices since February 2003. This was mainly due to the deteriorating security situation in Iraq which made it difficult to facilitate planned training activities or movement of equipment.

(b) The LSU physical property verification records were not provided to OIOS for its review. Hence, it was not possible for the auditors to assess the validity of the physical verification exercise conducted by management.

(c) The auditors selected, for sampling, assets valued at \$6.1 million, consisting of telescopic mobile cranes, concrete mixing and batching plants, asphalt pavers, elevated tanks, pumps, generators, bulldozers, shovel dozers and graders, located in different field office sites, which were verified by the local staff in Iraq. The review did not indicate any problem areas in relation to these assets.

Assets purchased with the "2.2 percent funds"

16. With regard to assets purchase with the "2.2 percent funds", the auditors noted the following:

(a) The CPU physical property verification records were provided to OIOS for its review. The physical verification was incorrect since items such as generators, and bullet proof jackets had not been accounted for even when it was apparent, for example, that generators were being used to provide electricity to the Core Team and the field offices. The SRP subsequently corrected its records.

(b) Six pieces of communication equipment and a printer with no values were on loan from the World Food Programme (WFP) and the United Nations Office of the Human Coordinator in Iraq (UNOHCI), respectively. However, the terms of the loan were not specified.

(c) OIOS selected, on a sample basis, assets worth about \$1.12 million (and other items without any stated values), which were physically verified by the SRP's local staff in Iraq. The following problems were noted:

- Items valued at \$ 62,032 (and other items without any stated values) were either damaged, obsolete or not in usable condition. Also, vehicles loaned to the SRP by UNICEF and UNGCI, were not functional and had been stored in the warehouses since 1999. The SRP did not have any documentation on the terms of the loans.
- Other items, including vehicles and communication equipment, could not be verified due to security problems in the places where they were supposedly located.

Recommendation 4

UN-Habitat should seek clarification from the various UN agencies that loaned assets to SRP regarding the terms of their use and in consultation with these UN agencies, determine how these assets should be disposed of (AF2003/23/2/004).

C. Handover of assets to CPA or other disposal mechanism

17. The auditors reviewed the status of progress made by the SRP to terminate its activities by 21 November 2003 in compliance with SCR 1483 and the progress report by the Executive Director of the Office of the Iraq Programme (OIP) dated 28 October 2003 to the Security Council. While UN-Habitat Northern Iraq prepared a revised exit plan dated 12 November 2003 to terminate SRP activities, it was still unclear whether UN-Habitat would meet the target dates established for handover of the assets to the CPA. The problem was partly due to the difficulties caused by the security situation in Iraq, and the lack of a clear strategy and modalities for effective closure and handing over of the assets to the CPA. The auditors noted the following:

- A listing of equipment purchased with the "13 percent funds" dated 5 November 2003 indicated that assets valued at \$23.94 million were ready for handover to the CPA by the revised target deadline of 16 November 2003. In addition, construction equipment worth about \$87.12 million was in transit or pending delivery to Iraq as of 5 November 2003. LSU confirmed that this property would be handed over to the CPA as circumstances allowed.

- At the request of the Executive Director dated 3 November 2003, UN-Habitat submitted a listing of assets purchased with, "2.2 percent funds" valued at \$2.66 million. This listing was inaccurate. The SRP should follow up to ensure, that a corrected listing is resubmitted to the OIP.

- The auditors noted that the Secretary General, in a letter dated 23 October 2003 to the Executive Director of UN-Habitat, advised that the assets purchased with the "2.2 percent funds" should be retained for UN activities relating to Iraq, while the remainder of the assets should be transferred to the CPA for the benefit of the people of Iraq. Accordingly, the SRP determined that assets worth \$1.31 million would be retained while assets worth about \$1.71 million would be handed over to the CPA. Clarification is required regarding the assets on loan to the SRP which are included in the report of items to be handed over to the CPA.

Recommendation 5

UN-Habitat should obtain the most recent asset listings from the field offices and reconcile them to the Contracts and Procurement Unit's records so as to specifically determine which assets were purchased with the "2.2 percent funds" and should be retained for UN activities relating to Iraq, and which assets should be handed over to the Coalition Provisional Authority (AF2003/23/2/005).

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