



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the composition, replenishment and rotation of strategic deployment stocks (SDS)

11 March 2008

Assignment No. AP2007/600/03

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Ms. Jane Holl Lute, Assistant Secretary-General and
A: Officer-in-Charge
Department of Field Support

DATE: 11 March 2008

Ms. Alicia Bárcena, Under-Secretary-General
Department of Management

REFERENCE: AUD- *IAD:08-101123*

for William Peters
FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AP2007/600/03 - Audit of the composition, replenishment and
OBJET: rotation of strategic deployment stocks (SDS)**

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 - 4, 7 and 10 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 critical (i.e., recommendations 1, 3, 4, and 7), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Phillip Cooper, Director, Department of Field Support
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Seth Adza, Administrative Support Division, DFS
Mr. Byung-Kun Min, Programme Officer, 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).

CONTACT INFORMATION

DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

CHIEF, PEACEKEEPING AUDIT SERVICE:

Eleanor T. Burns, Chief: Tel: +1.212.917.2792, Fax: +1.212.963.3388,
e-mail: Burnse@un.org

EXECUTIVE SUMMARY

Audit of the composition, replenishment and rotation of strategic deployment stocks (SDS)

The Office of Internal Oversight Services (OIOS) conducted an audit of the composition, replenishment and rotation of strategic deployment stocks (SDS) from March to June 2007. The objectives of the audit were to: (i) assess the adequacy of policies and procedures for rotation and replenishment of SDS; (ii) evaluate compliance with existing policies and procedures; and (iii) assess the adequacy and effectiveness of internal controls. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS was generally satisfied with the level of internal controls established by the Department of Field Support (DFS) in administering SDS. There was no documentation however to support a difference of \$897,475 between the amount of disbursements in implementing SDS and unspent funds balances as at 30 June 2004 against the \$141.5 million SDS allotment. In OIOS' opinion, considering the significance of the amount, a more thorough review is required to account for the difference and to ensure more accurate reporting to Member States.

With respect to the SDS composition level, about \$10.8 million was spent on one-time staffing expenditures, shelter/warehouse expenses and expenses related to establishing the Galileo system. In March 2007, the Department of Peacekeeping Operations (DPKO) reported the SDS composition value at \$158 million. However, there is a need for DFS to review and adjust the SDS composition level considering one-time expenditures incurred in the previous years. SDS is a revolving reserve of equipment and supplies, replenished from the budgets of the missions receiving the SDS items, and adjustments to its composition level should be properly reported to the General Assembly on an annual basis.

In the view of DFS, the utilization of any prior-period savings and unspent funds is granted by General Assembly resolution 59/299. However, OIOS does not consider this resolution as explicitly granting a blanket approval. In this regard, OIOS underscores the need for appropriate documentation and reporting of the utilization of the prior-period savings in view of the materiality of the amounts in some of the periods so as to foster accountability and transparency.

The revised SDS Accounting Guidelines implemented by the Accounts Division of the Office of Programme Planning, Budget and Accounts (OPPBA), Department of Management (DM) in August 2006 were in place and working effectively. However, the procedure of using the threshold check to determine the need for funding adjustments appeared to be burdensome for DFS staff. Better familiarization with the procedure should ensure that DFS uses the threshold check as required by the guidelines.

Currently, the work flow process for SDS accounting, from the computation of the replenishment cost through payment processing, has at least 24 steps. In OIOS' opinion, DFS should determine if the SDS accounting process could be shortened without diminishing the internal controls already in place.

This report also reiterates earlier recommendations of the Board of Auditors and OIOS on the need to review the current shipping arrangements to determine if the establishment of a systems contract with a shipping service would improve the timeliness and economy of SDS shipments.

To institutionalize lessons learned and best practices and to ensure consistency in operations, there is a need to formally document and distribute best practices and lessons learned from previous SDS deployments and reviews.

The adoption by the Organization of the International Public Sector Accounting Standards (IPSAS) by January 2010 will have an impact on the management and business practices for SDS and will require training of responsible staff. OIOS was informed that the impact of IPSAS on various areas is already being reviewed, and relevant policies are being developed. However, DFS should also ensure that adequate training on IPSAS is made available to all inventory managers before the formal adoption of these policies.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the composition, replenishment and rotation of strategic deployment stocks (SDS) from March to June 2007. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
 2. The main objective of SDS, as outlined and approved on 18 July 2002 by General Assembly Resolution 56/292 “The concept of strategic deployment stocks and its implementation”, is to provide the Organization with the capability to deploy peacekeeping missions within rapid deployment time frames, by providing equipment and materials until the new mission has the readiness to sustain operations. This is accomplished through the establishment of a revolving material reserve held at the United Nations Logistics Base (UNLB) in Brindisi, Italy.
 3. In 2002, the General Assembly approved a budget of US\$141.6 million to meet the requirements of the strategic deployment stocks which had been initially financed by several closing missions. The total value of SDS activities, as per the financial statement for the period from 1 July 2005 to 30 June 2006, amounted to \$70 million and included \$39.1 million rolled over from the prior-period fund balance, \$30.6 million corresponding to SDS issued to missions, and \$0.3 million for miscellaneous income. Based on the UNLB staffing table as at 13 January 2005, there were 37 posts funded from the regular budget, 6 of which were vacant.
 4. Every release of SDS equipment by UNLB triggers a replenishment action. Funding for the replenishment of items and related freight costs are met from the budgets of receiving missions. The mission is charged the estimated replenishment cost. The replenishment of SDS is approved by the Director, Logistics Support Division (LSD) of the Department of Field Support (DFS), through a request for allotment.
 5. A review of the SDS composition is conducted annually by LSD to ensure that the stocks held at UNLB continue to meet operational requirements. SDS asset managers, UNLB, and field missions can make proposals for revising the composition of SDS, which is approved by the Director, LSD. Changes in the SDS composition which cannot be accommodated by the replenishment process require an additional appropriation approved by the General Assembly.
 6. The rotation of SDS stocks is implemented in conjunction with the demand of existing missions for rotated equipment. Asset managers in LSD use the approved SDS composition table and missions’ procurement requirements to develop annual SDS rotation plans for items which have limited shelf-life or would otherwise become obsolete. These plans are approved by the Director, LSD, and can then be used as authority to issue items for rotation as they approach shelf-life expectancy.
 7. Comments made by DFS and DM are shown in *italics*.
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II. AUDIT OBJECTIVES

8. The major objectives of the audit were to:
- (a) Assess the adequacy of policies and procedures for SDS replenishment and rotation;
 - (b) Evaluate the compliance with existing policies and procedures concerning the administration of SDS, including recording of deployed SDS items, replenishment of the same or rotated items to SDS holdings, accounting procedures and reporting of periodic updates of SDS stock and composition to Member States; and
 - (c) Assess the adequacy and effectiveness of internal controls.

III. AUDIT SCOPE AND METHODOLOGY

9. The audit assessed compliance with policies, procedures, and guidelines, adequacy of internal controls, as well as the efficiency and effectiveness of the processes in respect of SDS operations. The audit included selected testing of the procedures and a review of documents related to SDS replenishment and rotation, SDS composition review by LSD and SDS administration at UNHQ, New York.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. SDS Composition

Implementation of SDS

10. The General Assembly, in its resolution 56/292, approved an amount of \$141,546,000 for the establishment of SDS. In the same resolution, the General Assembly requested the Secretary-General to report, on an annual basis, on the award of contracts for procurement of SDS to all Member States. DPKO had reported on the SDS procurement activity in respect of using the funds approved by resolution 56/292.

11. However, documentation for the SDS procurement activity had not been organized in a way to support any unspent balances or variances between reported figures and allotments.

12. For instance, DPKO in A/59/701 reported that during the period 1 July 2002 to 30 June 2004, the total value of procurement conducted in support of SDS amounted to \$140,639,492, including: (i) SDS purchase orders awarded by Headquarters valued at \$135,298,275; (ii) UNLB procurement valued at \$3,975,143; and (iii) related freight forwarding and insurance services costs of

\$1,366,074. OIOS found that the total value of procurement reported in A/59/701 differed by \$897,475 from the used amount of the SDS allotment.

13. There was no documentation to support the \$897,475 difference in records. The variance may partially be attributable to currency exchange differences arising as the procurement cost was recorded in United States dollars at the time of obligating the funds, and this would not necessarily correspond with the currency used at the time of fund disbursements. No detailed analysis of the exchange rate differences had been done by DFS and the Department of Management (DM) in order to account for the difference. In OIOS' view, this constitutes a weakness in internal controls that may also lead to incorrect reporting.

Recommendation 1

(1) The Department of Management, in cooperation with the Department of Field Support, should verify the difference of \$897,475 between the amount of SDS procurement cost, as reported in A/59/701, and the expenditures reported against the original allotment and ensure that the supporting documentation for SDS expenditures is properly maintained.

14. *The DFS Management commented on recommendation 1 that DFS would support OPPBA/AD with information as required. However, DM did not accept the recommendation commenting that in paragraph 2 of the General Assembly resolution 56/292, the Secretary-General was requested to report on the award of contracts for SDS. Accordingly, the Secretary-General's report A/59/701 addressed this request providing in paragraphs 10 - 12 the details of the procurement contracts awarded. DM stated that there could be variances between the value of contracts awarded and actual payments due to a number of factors including differences in receipts, pricing adjustments and exchange rate differences. In the case of SDS purchases, the difference of \$897,475 represent less than 1 per cent of the total contract value, and therefore in DM's view, there was no benefit in conducting a very labor intensive analysis of the source of such differences. DM was of the opinion that the important element of control is that all payments are based on verified receipts and made in compliance with the contractual terms, for which supporting documentation is maintained.*

15. OIOS acknowledges that the difference in the reported figures is less than 1 per cent of the total contract. Nonetheless, \$0.9 million is a substantial amount and the actual cause for such a difference should have been verifiable. OIOS has closed the recommendation without implementation based on DM management's opinion that it is not cost effective to analyze the difference, assuming that DM accept any risks or consequences related to non-implementation.

Valuation of SDS composition levels

16. DFS conducts an annual review of the SDS composition to ensure that the equipment meets the operational requirements and is technologically current. The SDS composition represents the value of SDS stocks held at UNLB and replenishment items in transit, i.e. items on order. The composition level of SDS should also include the cost of freight and associated insurance.

17. OIOS estimated that approximately \$10.8 million of one-time expenses were incurred against SDS initial funding related to the establishment of the SDS capacity. OIOS found no documents indicating one-time expenses for implementation of SDS had been taken into consideration in determining the current SDS composition level. In OIOS' opinion, the adjustments for one-time expenses and also savings from the initial allotment should be taken into consideration to derive the revised SDS composition level.

18. To accomplish this task, there is a need to review and revise the SDS composition level, which has risen in 2007 due to increased replacement costs and freight costs. It can be determined by calculating the amounts actually charged to receiving mission budgets for the replenishment of SDS stocks. This level should be based on a composition level that has been adjusted for one-time staffing expenditures and expenses related to establishing the Galileo system and shelter/warehouse expenses. Table 1 shows the expenditures reported by DFS to Member States from July 2002 to date.

Table 1. One-time expenditures and composition level of SDS*

Amount	Description
\$141,546,000	Original SDS allotment (Resolution 56/292 of 8 July 2002)
(3,400,000)	Expenditure 1: Galileo inventory management System (A/59/701 of 14 Feb. 2005 refers)
(1,400,000)	Expenditure 2: General Temporary Assistance staff costs (A/57/751 of 12 March 2003 refers)
(3,000,000)	Expenditure 3: Three new warehouses (A/57/751 of 12 March 2003 refers)
(3,000,000)	Expenditure 4: Humidity-controlled shelters (A/57/751 of 12 March 2003 refers)
\$130,746,000	Adjusted SDS composition level (estimate)

* - one-time expenditures are shown in brackets

19. Based on the data in Table 1, OIOS calculated that an adjustment of \$10.8 million should be made by DFS to the SDS composition value. This amount may be lower, as OIOS was informed by DFS that the humidity-controlled shelters (Expenditure 4 in Table 1) had been shipped to a mission in July 2007.

20. Additionally, OIOS noted two discrepancies in reported data. In respect of Expenditure 1, Galileo development expenses were reported as \$3.4 million in A/59/701 and later reported as \$3.5 million in A/61/795. Warehouse and shelter expenses, Expenditures 3 and 4 respectively, were reported as \$6 million in

A/57/751 and later reported as \$6.1 million in A/61/795. This identified a need to provide more care in reporting the financial data.

Recommendation 2

(2) The Department of Field Support should review and adjust the SDS composition level taking into consideration the one-time expenditures, which were not part of SDS replenishable items, and accurately report the SDS composition level using actual, rather than rounded figures.

21. *The DFS Management partially accepted recommendation 2 and stated that it was guided by paragraph 22 of A/56/870 proposing 'that the cost of establishing the strategic deployment stocks be charged to the UNLB budget on a one-time basis'. DFS also referred to ACABQ notation in paragraph 17 of A/56/902 that 'two performance reports covering the period from 1 July 2002 to 30 June 2003 will be issued in connection with the resources authorized for the one-time cost of acquiring strategic deployment stocks and in connection with the resources authorized for UNLB for staff and maintenance. In the opinion of DFS, the current authorized SDS value does not include the one-time expenditures. Regarding the reporting on the SDS composition level, DFS commented that, as the cost of services rendered and turn key projects delivered were recorded using two different reporting and accounting systems (IMIS – MERCURY), the one-time expenditures reported to Member States were based on valid industry valuation methods to formulate the fair value of the non-recurrent capital expenditures. Based on the comments received from DFS and DM's confirmation that there was no need for amendments to financial reports in this regard, recommendation 2 has been closed. OIOS will continue to address this issue in the future audits, considering the multiphase replenishment process and the value of SDS.*

Unspent funds and prior-period savings

22. Resolution 59/299 of August 2005 approved the use of savings derived from the liquidation of prior-period obligations and the unspent balance of SDS to cover losses in currency exchange and the replenishment of stocks. In the periods ended 30 June 2004, 2005 and 2006, such savings from the liquidation of prior-period balances amounted to \$397,322, \$3,600,000 and \$400,000, respectively.

23. However, DFS did not include all movements of SDS material in its reports and did not indicate the utilization of prior-period savings. For example, in the Board of Auditor's report A/605/Vol. II in respect of the financial year ending 30 June 2005, movements of SDS also included:

- Equipment received from other missions: \$319,000;
- Write-off of SDS equipment: \$24,295;
- Pending write-off and disposal: 68,310; and
- Other adjustments: \$834,000.

24. According to DFS, the utilization of any prior-period savings and unspent funds was granted by resolution 59/299. OIOS, however, does not view the resolution as explicitly granting a blanket approval for all following adjustments to SDS including equipment received from other missions, write-off and savings derived from the liquidation of prior-period obligations. OIOS underscores the need for appropriate documentation and reporting of the utilization of the prior-period savings to the General Assembly in view of the materiality of the amounts in the reported periods.

25. In OIOS' opinion, for transparency and proper accountability, all future adjustments including those for currency exchanges, liquidation of unspent obligations, and any other "savings" derived should be accounted for at the closing of the applicable financial year and reported in detail to Member States. This includes the savings and unspent balances of \$400,000, as of 30 June 2006.

Recommendation 3

(3) The Department of Field Support should ensure that the utilization of savings derived from the liquidation of prior-period obligations and any unspent funds are analyzed and accounted for at the close of the applicable financial year and reported in detail to the General Assembly.

26. *The DFS Management accepted recommendation 3 stating that, as the settlement of invoices is performed by the Accounts Division, the reporting of liquidated balances and use of prior year savings for charges against gain or loss on exchange should be carried-out by DM, which in-turn should declare to DFS the amount available for the replenishment of strategic deployment stocks. On the issue surrounding the use of savings from prior year liquidated savings, DFS disagrees with OIOS' interpretation of GA RES/59/299. The resolution is intended to ensure full utilization of the authorized SDS fund limit irrespective of mandate periods and as such endorses the practice of using funds generated from the liquidation of prior period obligations. To interpret otherwise would be contrary to the GA's endorsement of establishing a funding capacity that requires only exceptional recourse to the GA for additional funding.*

27. OIOS maintains the view that DFS is primarily responsible for the management of SDS including its financial accounting and annual reporting including savings and unspent funds. On the issue of savings utilization from prior years and the need for future GA approvals, DM had confirmed the view of DFS noting that such savings and unspent balance could be used to cover the losses in currency exchange and replenishment of stocks without limiting it to the specific fiscal year and that there was no need to seek further approval from the General Assembly. Based on the response from DFS and DM, recommendation 3 has been closed.

SDS Levels

28. As reported in A/61/795 dated 13 March 2007, the SDS composition level was \$158 million (inclusive of freight). A comparison with the value of initially

procured SDS items shows a gradual increase in the SDS composition value due to several factors including an increased cost of replacement items which reflects inflation and other cost increases. Thus, the SDS adjusted composition level at the close of the previous financial year as of 30 June 2006 needs to be calculated and reported in detail, including freight costs, to Member States.

Recommendation 4

(4) The Department of Field Support should ensure that the General Assembly is informed at the end of the financial year of both the cost of SDS items released to missions and the costs incurred for replenishing SDS.

29. *The DFS Management agreed with recommendation 4 stating that as the SDS Accounting Guidelines established the Peacekeeping and Financial Division (PFD) of DM to be responsible for preparing the annual SDS performance report, DFS is willing to assist PFD if requested on the preparation of this report. OIOS acknowledges the response of DFS emphasizing that DFS is primarily responsible for ensuring complete and accurate information and records on SDS replenishment for the preparation of SDS annual performance reports. Based on DFS' response, recommendation 4 has been closed.*

B. Processing and recording of replenishment transactions

SDS accounting

30. According to the Accounts Division, the SDS accounting process, called the "BLB process" for SDS accounting prior to June 2005, was referred to as the "old method". This was a very cumbersome process using a manual compilation of sometimes more than 900 line items in an Excel spreadsheet.

31. Full compliance with the revised SDS guidelines, effective August 2006, has enhanced accountability and transparency in the SDS process. OIOS tested a sample of BLB vouchers to ensure the timeliness and accuracy of transactions. These were found to be in order.

32. OIOS noted that DFS personnel had some difficulties in using provisions 2.9.4 and 2.9.5 of the SDS Accounting Guidelines, concerning the threshold check procedures to determine the need for SDS funding adjustments. In OIOS' opinion, this could be resolved by providing additional training for DFS personnel to ensure proper accounting for cost differences related to SDS replenishments.

33. In its 11 January 2008 response to the draft report, DFS expressed reservations concerning the use of the threshold-check procedure as an effective and timely measure of accountability and transparency in the SDS accounting process.

34. OIOS followed up on DFS' concerns with DM, and found that DFS and DM exchanged correspondence on the procedure; however, the concerns had not been fully addressed.

Recommendation 5

(5) The Department of Management, in cooperation with the Department of Field Support should review the threshold check procedures to be undertaken by the Logistics Support Division, DFS with a view to reassign risks, costs and benefits. The SDS Accounting Guidelines should be revised appropriately after this review has been completed.

35. *The DFS Management accepted recommendation 5 stating that while the methodology for the threshold check procedures is comprehensive, the issue is whether all the detailed elements are necessary in view of the risks involved, and that there is a need to reassess the benefits of doing all calculations by cost center and by missions. Based on DM's response, recommendation 5 remains open until a joint review by DM and DFS of the threshold check procedures is completed and the SDS accounting procedures are appropriately revised.*

The workflow process between DFS and Accounts Division

36. Process mapping allows examining an operational process and identifying key internal controls, since it offers a clear picture of what activities are carried out and who performs the established responsibilities.

37. Currently, the work flow process (see Annex II) for SDS accounting, from the computation of the replenishment cost to payment processing, has at least 24 steps. OIOS identified several major controls in the process including the creation of the BLB request and computation of replenishment costs by LSD, approval by the Director of LSD, issuance of allotment in BLB fund by Peacekeeping Finance Division, approval of the OBMO by the Accounts Division, inspection of items by UNLB upon arrival, and certification of the invoice by LSD.

38. OIOS is of the view that the SDS accounting process can be streamlined without diminishing the effectiveness of internal controls already in place, if they are consistently applied.

Recommendation 6

(6) The Department of Management, in cooperation with the Department of Field Support, should streamline the work flow process of strategic deployment stocks replenishment and accounting procedures in order to improve process efficiency.

39. *The DFS Management accepted recommendation 6 stating that they would engage DM on reengineering the management processes of SDS. DM commented*

that the workflow processes and associated internal controls were extensively discussed and reviewed by both OPPBA and DFS (LSD and former FMSS) when the SDS Accounting Guidelines were updated, and agreed upon by the concerned parties. DM considers the current workflow, as it needs detailed procedures and control appropriate for the given situation, which needs detailed procedures and contain the required control elements. It is noted that neither this audit nor DFS have identified specific changes for possible streamlining of the workflow process. Therefore, the general recommendation to streamline the work flow is not accepted. However, should specific issues be identified, DFS would consider making the appropriate adjustments at that time.

40. OIOS disagree with DM's statement that the current SDS workflow processes are adequately streamlined and agreed upon by both DFS and DM. As stated in paragraph 33, DFS had some reservations concerning the procedures in replenishing SDS. In this regard, recommendation 6 remains open pending the revision of the SDS accounting procedures, if required after the review of the check procedure.

Vendor-managed inventories

41. SDS is a critical element in the rapid deployment of essential equipment and supplies during the start-up phase of new or expanding missions. While taking that into consideration, discussions held with DFS highlighted the need for the review of current SDS management system including the possibility of reduction of material holdings at UNLB through the use of vendor-managed inventories. For example, DFS stores SDS medical supplies and equipment at the vendor's site in Germany.

42. The use of vendor managed inventories has the potential to reduce the costs associated with maintaining stocks in UNLB, eliminate problems associated with stock rotation, and may result in budgetary savings related to staffing and storage expenses. It may be necessary to reduce SDS inventories held in Brindisi and to devise a mechanism to retain SDS allotments in a reserve fund or surrender excess funds to Member States.

Recommendation 7

(7) The Department of Field Support should review the feasibility of expanding the use of vendor-managed inventories for SDS commodity items to ensure economy and efficiency in administering SDS.

43. *The DFS Management accepted recommendation 7 stating that DFS considers that this recommendation has been implemented. DFS regularly requests the Procurement Division to explore the feasibility of vendor managed inventories where it is practical to do so. However, experience has shown that vendors are either unwilling to maintain stock in their premises on behalf of the UN or to do so has not been cost effective. Furthermore, DFS considers that SDS stocks need to be on-hand and available for immediate deployment and that*

the incumbent costs of maintenance are an acceptable part of the SDS concept. Based on the response by DFS, recommendation 7 has been closed.

SDS inventory shipping delays

44. Earlier audits of SDS by the Board of Auditors and OIOS noted delays in shipment of SDS items related to cargo consolidation. It was noted that in approximately 24 per cent of total shipments, the time lag between the Material Release Order (MRO) issuance and the actual shipping date exceeded 90 days. DFS suggested that a long-term shipping contract with a well known freight forwarding company (e.g. FEDEX, DHL, UPS, etc) would be able to consolidate shipments faster than smaller freight forwarders currently under contract.

45. In 2005, OIOS recommended DPKO to establish a systems contract for SDS freight-forwarding. However, DPKO responded that UNLB had conducted a pre-bid conference with industry experts and determined that by bidding for each MRO requirement UNLB obtained the best market rates. In OIOS' opinion, however, the effect of shipment delays at the time of the review was not an issue, as the SDS establishment was still in progress in 2005. Considering the continuing delays in processing SDS shipments, there is a need to re-address the issue of establishing the systems contract for SDS freight-forwarding.

Recommendation 8

(8) The Department of Field Support should review the current shipping arrangements in place and determine if the establishment of a systems contract with a shipping service would improve the timeliness and economy of SDS shipments.

46. *The DFS Management accepted recommendation 8 and stated that DFS has in the past attempted to secure a systems contract with freight forwarding agents in UNLB. Whilst services themselves could be retained, agents could not assure UNLB of keeping the fixed freight prices for a realistic and viable period of time. LSD will instruct UNLB to readdress the issue of establishing a systems contract for freight forwarding from UNLB to Missions. Recommendation 8 remains open pending documentation from LSD instructing UNLB to readdress the issue of establishing a systems contract for freight-forwarding.*

C. Best practices

Lessons learned from SDS deployments

47. Compilation, documentation and dissemination of lessons learned and best practices are a mechanism to ensure preservation of institutional memory as well as to enhance efficiency of the work. OIOS noted several best practices and lessons which had been learned and documented as part of the reporting on SDS. For instance, the fly-away kit exercise, which was conducted in May 2006, provided valuable experience and was fully documented as a lesson-learned for future SDS deployments.

48. OIOS was concerned that staff turnover at Headquarters may lead to the loss of some of the lessons learned unless they are documented and made available to the staff. In addition, not documenting and distributing best practices may lead in the future to inefficiencies in operations.

49. The following best practices, in connection with SDS management, some of which may be in place, need to be formally documented and distributed to all staff involved:

- The determination of actual freight charges especially for high value, small-sized CITS replenishments, in order to avoid overestimation of freight charges;
- Value-adding activities performed in Brindisi such as the integration and installation of equipment procured separately, e.g., radios installed in vehicles before delivery;
- Testing of generators in Brindisi before shipment due to their essential requirement upon arrival in new missions;
- The use of the “Quickplace” Lotus Notes electronic document storage application for SDS used by the various offices involved in SDS accounting and replenishment; and
- The work of LSD Self Accounting Units which researches the current pricing of replenishment material (e.g., vehicles) on the Internet and in liaison with the Procurement Division to ensure that replacement costs are accurate thus avoiding subsequent funding adjustments.

Recommendation 9

(9) The Department of Field Support should formally document and distribute best practices and lessons learned from previous SDS deployments and reviews to ensure consistency and efficiency in operations and preservation of institutional knowledge.

50. *The DFS Management accepted recommendation 9 and stated that the DPKO Best Practices Unit has been engaged and a data capture system of lessons learned will be established by June 2009. Recommendation 9 remains open pending the establishment of the database system for lessons learned.*

D. SDS rotation issues

Rotation of stock based on depreciation rates

51. Due to the start-up of several new missions since the implementation of SDS and the high turnover of material, there has been little need to rotate SDS equipment. DPKO had performed due diligence by identifying the depreciation rates of various SDS equipment and identifying equipment to be rotated based on the FIFO method.

Conformance with IPSAS 2010 standards

52. SDS and other peacekeeping inventories of equipment will be impacted due to the adoption of IPSAS by the Organization, whereby there will be a new treatment of recognition and depreciation of capital assets such as buildings, vehicles, furniture and equipment. Compliance to IPSAS 2010 will also impact management and business practices, and will require training and familiarization of staff responsible for inventory management. OIOS was informed that the impact of the adoption of IPSAS is already being reviewed and relevant policies being developed.

Recommendation 10

(10) The Department of Field Support should ensure that adequate training on International Public Sector Accounting Standards (IPSAS) is made available to all inventory managers before the formal adoption of the new policies in order to ensure a smooth and efficient transition to compliance with the IPSAS 2010.

53. *The DFS Management accepted recommendation 10 stating that the Secretariat has a number of working groups studying the impact of adopting the IPSAS standards, the implementation of which rests with the Accounts Division of the Department of Management. DFS will seek to actively engage the Accounts Division on the impact of IPSAS on post 2010 SDS accounting and management practices. LSD plans to roll-out formal training to all inventory managers upon receiving comprehensive implementation training from DM. Based on the response by DFS, recommendation 10 has been closed.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	C	Recommendation 1 was closed assuming that the risk and consequences of non-implementation of the recommendation rest with DM.	Closed
2	C	Based on the comments received from DFS and the confirmation from DM that there was no need for amendment to financial reports, recommendation 2 has been closed.	Closed
3	C	Based on the comments received by DFS concerning the use of prior year savings and adjustments, recommendation 3 has been closed.	Implemented
4	C	Based on the action taken by DFS, recommendation 4 has been closed.	Implemented
5	O	Results of the joint review by DM and DFS of the threshold check procedures and the revision of the SDS accounting procedures	No date provided
6	O	Submission to OIOS of the copy of the revised SDS accounting procedures	No date provided
7	C	Based on the response by DFS, recommendation 7 has been closed.	Implemented
8	O	Results of the review of current shipping arrangements to determine the feasibility of establishing the systems contract for freight forwarding.	30 June 2008
9	O	Documentation supporting the establishment of the database system for lessons learned	30 September 2009
10	C	Based on the response by DFS, recommendation 10 has been closed.	Implemented

1. C = closed, O = open

2. Date provided by DFS and/or DM in response to recommendations.