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ADMINISTRATIVE AND BUDGETARY ASPECTS OF THE FINANCING
OF THE UNITED NATIONS PEACEKEEPING OPERATIONS

REPORT OF THE SECRETARY-GENERAL ON THE ACTIVITIES OF
THE OFFICE OF INTERNAL OVERSIGHT SERVICES

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the audit of the United Nations Logistics Base at Brindisi.

2. The Secretary-General notes that measures have been taken or initiated to correct many of the issues addressed in the review and concurs with the recommendations contained in the report.

ANNEX

Report of the Office of Internal Oversight Services
on the audit of the United Nations Logistics Base

SUMMARY

A. Results in brief

A significant amount of resources has been committed to establishing the United Nations Logistics Base to serve peacekeeping operations. The present report is submitted to provide insight into the effectiveness and efficiency of the functions carried out by the Logistics Base.

The concept of a Logistics Base to store and manage the assets of missions that are downsizing or liquidating appears to be viable if managed effectively and efficiently. The assessment by the Office of Internal Oversight Services showed that the Logistics Base had not yet fully met expectations in performing its approved functions of:

(a) Receiving, inspecting, repairing and storing surplus assets from closing or downsizing missions;

(b) Maintaining a reserve of equipment in the form of mission-ready start-up kits.

Further, the Logistics Base had been unable to perform a technical evaluation of equipment in stock, had not established proper inventory recording procedures and was only able to provide limited services to new and expanding missions.

The review showed that much of the reserve stock of equipment and supplies was in poor condition, and would have to be written off. However, little had been done in that regard, and there was a need to establish special administrative procedures for reporting non-expendable equipment to headquarters and for writing off unusable equipment and supplies. Also, mission-ready start-up kits, intended to ensure that new missions could be established quickly, remained incomplete owing to the unavailability of required material from reserve stock and the lack of funding to purchase new materials. Finally, the classification portion of the Matériel Management Project, which had been initiated on a trial basis, to address peacekeeping asset management problems, was inadequately planned.

It appears that these problems were primarily a result of inadequate organizational structure and insufficient financial and human resources, which in turn made it difficult to create stability and implement the systems needed to make the Logistics Base concept work.

In addition to its approved functions, the Logistics Base was established as a central communications hub linking United Nations Headquarters with missions in Asia and the Middle East. Recent proposals would further expand Logistics Base functions to encompass additional activities such as global asset management for peacekeeping missions. The Office believes that such new functions should only be undertaken after careful cost analysis and specific legislative approval.

The Department of Peacekeeping Operations stated that a revised and less ambitious concept for the Logistics Base was being developed. With regard to the pressing requirement for an asset management system, several available options would be reassessed.

B. Recommendations

In order to address the problems outlined above and to enhance the effectiveness and efficiency of the logistics base concept, the Office recommends that:

- (a) Closing missions provide accurate inventory data when shipping materials to the Logistics Base;
- (b) The Logistics Base expeditiously determine the serviceability of materials and supplies by conducting technical reviews;
- (c) The Logistics Base give priority to high value equipment when performing receipt and inspection functions;
- (d) Procedures for recordkeeping and for write-off and disposal of used peacekeeping equipment be simplified;
- (e) Only equipment expected to be used in future peacekeeping missions be shipped to the Logistics Base;
- (f) Efforts to complete start-up kits be intensified;
- (g) Codification of assets initially focus on non-expendable equipment in usable condition;
- (h) Specific legislative approval be obtained for any additional functions of the Logistics Base.

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I. INTRODUCTION

1. The United Nations Logistics Base, consisting of the main facilities at Brindisi, Italy, and additional container storage areas at San Pancrazio, Italy, is considered to be an excellent logistics complex for the storage and maintenance of United Nations assets from closing and downsizing peacekeeping missions. These facilities have the potential, if effectively managed, to play a key role in providing materials for future peacekeeping missions, thereby saving the Organization considerable resources.

2. According to the report of the Secretary-General on the management of peacekeeping assets (A/50/907), the principal functions of the Logistics Base are:

(a) To receive, inspect, repair and store surplus assets from closing or downsizing missions;

(b) To maintain a reserve of equipment in the form of start-up kits.

The Department of Peacekeeping Operations is considering involving the Logistics Base in additional functions including global material management for peacekeeping operations.

3. In the same report (A/50/907), the budget requirements of the Logistics Base for the period from 1 July 1996 to 30 June 1997 were estimated at US\$ 7,875,000 gross. An approved budget for the Logistics Base would go a long way towards creating a stable financial climate that would replace the present unsatisfactory ad hoc arrangements whereby the Logistics Base is financed from resources of the United Nations Peace Forces (UNPF).

4. The Office of Internal Oversight Services conducted a field audit of the Logistics Base from 5 to 18 May 1996, with a follow-up audit from 25 to 30 November 1996. The primary objective of the audit was to assess the operational and administrative procedures of the operation and to evaluate the extent to which the operation had achieved its stated functions. The Office examined relevant records, made physical inspections of stock and performed the tests it considered necessary. The present report is submitted to provide insight into the effectiveness and efficiency of the functions carried out by the Logistics Base.

II. MAJOR FINDINGS AND RECOMMENDATIONS

A. Financial arrangements

5. In the past, the United Nations Logistics Base had no budget of its own. Its financial needs were met from the budget of UNPF. Meanwhile, the Secretary-General proposed a 12-month budget for the period from 1 July 1996 to 30 June 1997, amounting to \$7,875,000, with costs to be shared among the budgets of all active peacekeeping missions on a pro rata basis. The Advisory Committee on Administrative and Budgetary Questions recommended in its 26 June 1996 report

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on the management of peacekeeping assets (A/50/985) that the General Assembly approve the proposed budget estimates. As of January 1997, the Logistics Base still had no approved budget.

6. The establishment of the Logistics Base as a separate entity from UNPF, both financially and operationally, will give the Base a reliable basis for assuming its approved functions. However, in view of the new communications function of the Logistics Base, the planned asset management functions, as well as backlogs identified during the audit, the Office was not convinced that the proposed budget would be sufficient to enable the Logistics Base adequately to perform all its intended functions.

B. Functions of the United Nations Logistics Base

7. Recent proposals outlined in the 29 May 1996 report of the Secretary-General on the management of peacekeeping assets (A/50/965) and in the paper on the Matériel Management Project submitted by the Assistant Secretary-General for Planning and Support, if implemented, would expand the functions of the Logistics Base. According to the proposals, the Logistics Base would be responsible for the development and maintenance of the planned global master inventory database. In addition, the Matériel Management Project would assess the feasibility of managing and accounting for petrol, oil and lubricants, rations and consumable items through the Logistics Base. These activities are not within the current mandate of the Logistics Base and have not yet been implemented.

8. The Logistics Base recently augmented its role in providing communications services as the central hub linking United Nations Headquarters with missions in Asia and the Middle East. Although considerable resources are being spent on establishing the communications hub, the new role was not mentioned in recent Secretariat reports on the activities of the Logistics Base.

9. The Office believes that for all major Logistics Base functions legislative approval and adequate resource allocations should be sought. Prior to any decision, a cost benefit analysis should be carried out for every new Logistics Base function.

Recommendation 1. The Office recommends that the Logistics Base assume additional functions only after analysis of their cost-effectiveness, and after receiving legislative approval and adequate resources.
(AP96/127/001)

C. Management of the reserve stock

Inventory records should be accurate and current

10. The management of a large inventory of disparate types of equipment and numerous types of supplies requires an adequate inventory system. Given that the Logistics Base currently serves 11 peacekeeping missions, reliable and

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accurate information on items on hand is essential for users to be aware of what is in stock.

11. Inventory records should provide an up-to-date listing of what is available and should include specific information, such as quantity on hand, serial numbers, description, condition and value of the item. The audit found that in many instances the information was not available. When available, the data were often found to be incorrect.

12. Various reasons exist for the incorrect inventory data. For example, the Logistics Base relies to a great extent on the records provided by the mission shipping the equipment. In many cases, however, detailed records were not provided for all items shipped or they were inaccurate. Data from supply catalogues, purchase orders, invoices and other documentation could provide some basis for assigning values, but this is a time-consuming task that should not be undertaken by the Logistics Base. More stringent guidelines for closing missions should be developed to prevent such situations and avoid unnecessary costs.

13. The audit also revealed that discrepancies exist in quantities reported in inventory records. Priority should be given to ensuring that receipts and issues of equipment and supplies are recorded on a timely and accurate basis. According to information provided to the Advisory Committee on Administrative and Budgetary Questions (A/50/985), the inventory value of the Logistics Base's equipment and supplies was reduced from an estimated \$76 million in late 1995 to a current estimate of \$20 million. Since this estimate is valued at original acquisition cost, the residual value would be much lower than \$20 million. The report attributed the reduction to write-offs and transfers to other missions. However, based on the audit testing of the Logistics Base's inventory records, the Office questions the accuracy of these figures. In view of the annual costs of the Logistics Base of more than \$7 million, the actual value of the assets stored is a key element in assessing the cost-effectiveness of the Base. Additional efforts are therefore needed to establish an accurate inventory value.

14. The Logistics Base management stated that the problems disclosed by the audit largely resulted from an inadequate number of staff to receive and inspect materials properly and enter data in the system. Furthermore, the Department of Peacekeeping Operations advised the Office that a service contract was now in place to review all items in the asset inventory and to update records.

Recommendation 2. The Office recommends that the Department of Peacekeeping Operations develop procedures to ensure that essential information for the recording of inventory is provided when closing missions ship materials and supplies to the Logistics Base. (AP96/127/002)

Technical evaluation of equipment is required

15. The very nature of a reserve stock requires that the equipment and supplies be maintained in serviceable condition and be ready for use. However, the Office's physical inspection of the Logistics Base's inventories and subsequent

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inquiries found many instances where the equipment and supplies shown as reserve stock were obsolete or otherwise unusable for future missions.

16. The limited physical inspection included examination of generators, light and heavy vehicles, various types of water purification plant and equipment, spare parts for helicopters and tanks, expendable supplies, computer and communications equipment, as well as attractive items. These items were stored either in warehouses, containers or outside storage areas. The examination found that at least 50 per cent of the generators were not in serviceable condition. The Office was also provided with a list indicating additional work required on the generators, which confirmed the result of the physical inspection.

17. Many of the light and heavy vehicles physically examined as part of the inspection were in extremely poor condition despite the fact that some had only been used for as little as 4,000 kilometres. The Office was informed that most of the trucks as well as many of the light vehicles could not be used except for spare parts and would have to be disposed of.

18. A similar situation exists with other equipment examined such as television sets, computer equipment and other electronic items. Again, the Office found that no technical evaluation had been carried out to determine the serviceability of those items. The Logistics Base intends eventually to use service contractors to perform that task once funds have been made available from the proposed budget. The Office has to reiterate, however, that most of these items had been received close to one year earlier and had still not been properly classified.

19. As noted in the report of the Advisory Committee on Administrative and Budgetary Questions (A/50/985), the Logistics Base is conducting an extensive review of the inventory to determine its serviceability and expected useful life. However, the Office remains concerned that at the time of the audit, the Logistics Base had not even commenced that vital task. Thus, the United Nations has no assurance that equipment sent to other missions is in working condition and that inventories are not inflated by the value of unserviceable equipment that should have been written off.

Recommendation 3. The Office recommends that the Logistics Base expeditiously perform a technical evaluation of material and supplies as they are received in order to determine the serviceability of assets and to assure accurate information. (AP96/127/003)

Reports of non-expendable property not completed

20. Reports of non-expendable property were not being completed as required by United Nations financial regulations owing to unreliable inventory records. Notwithstanding the inadequacy of those records, the Office has serious doubts whether such reports would provide any additional benefit either to the Logistics Base or to United Nations Headquarters. The Logistics Base does not normally purchase new materials but, rather, serves as a storage facility for used assets received from closing missions. As such, the reporting requirements

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may not need to be as stringent as those applicable to the purchase of new equipment from budget allotments.

21. For example, most items received by the Logistics Base are in used condition and in many cases the residual value of the items is below the threshold requirement for non-expendable accounting treatment. Nonetheless, under existing rules, all equipment is recorded at original purchase price and requires the completion of a form for non-expendable property. The Department of Peacekeeping Operations maintains that the implementation of the Matériel Management Project will streamline reporting requirements. The Office believes, however, that the applicable reporting requirements should be modified immediately.

Recommendation 4. The Office recommends that the Department of Peacekeeping Operations, in consultation with the Office of Programme Planning, Budget and Accounts, review the existing non-expendable property reporting requirements with a view to developing simplified record-keeping procedures for used peacekeeping equipment. (AP96/127/004)

Receipt and inspection process incomplete

22. The receiving and inspection function is a priority task that should be completed on a timely basis. This is particularly true where valuable materials with special storage requirements are involved. The Logistics Base has expended considerable resources over the past year to complete the receiving and inspection function for incoming shipments. While there has been significant progress, several shipments had not yet been inspected.

23. For example, the Office found that containers shipped from the United Nations Operations in Somalia containing helicopter and M-60 tank spare parts valued at over \$6 million had never been opened. One of these containers held helicopter spare parts valued at more than \$1 million. The physical inspection revealed that this container was in poor condition and that water had leaked into it causing damage to some of the contents.

24. The Office was subsequently informed that a military team had recently been dispatched to the Logistics Base to carry out a technical inspection of the spare parts. Nevertheless, the Office believes that with better planning the situation would not have occurred.

Recommendation 5. The Office recommends that priority be given to inspecting equipment and supplies with high dollar values in order to ensure that the equipment does not deteriorate while awaiting inspection. (AP96/127/005)

Administrative procedures for the write-off and disposal of worthless equipment and supplies should be simplified

25. The Logistics Base management advised the Office that submissions had been made to UNPF to write off prefabricated buildings valued at approximately \$1 million, as well as vehicles and equipment, also valued at approximately \$1 million. Once the entire reserve stock has been technically evaluated, a

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huge amount of equipment will have to be written off. This unique situation requires special administrative write-off procedures to be developed for the Logistics Base. Timely action is necessary in order to purge the Logistics Base stock of obsolete and useless equipment. The Office believes that both the Department of Peacekeeping Operations and the Department of Administration and Management should review the current procedures with a view to simplifying them.

26. The Department of Peacekeeping Operations advised the Office that it had suggested to the Department of Administration and Management that the disposal of assets with an inventory value of up to \$25,000 be delegated to the Local Property Survey Board. The Headquarters Property Survey Board would, on an annual basis, be informed of the actions taken. In view of the special nature of the Logistics Base, such a procedure should be reviewed and expedited.

27. Part of the write-off process involves the disposal of equipment and supplies that have been found to be obsolete or uneconomical to repair. It is likely that there will be two classes of write-off items:

(a) Those that have no monetary value but will probably incur disposal costs;

(b) Those that have no future value to the United Nations but can be disposed of by sale.

The goal of the Logistics Base should be to dispose of these items in a cost-effective manner in compliance with local environmental and other regulations.

28. A Logistics Base exercise to dispose of approximately 260 motorbikes held in stock resulted in bids as low as \$13 per motorbike. That offer does not appear to have been commensurate with the condition and value of the motorbikes. To ensure that the best possible bid prices are received for the sale of equipment and supplies, standard operating procedures are needed to ensure the process is adequately defined and sufficiently transparent. The Field Administration and Logistics Division informed the Office that it was in the process of formulating such procedures for inclusion in the new Operational Support Manual scheduled to be completed in late 1996. The Office considers such guidelines essential, and their completion should be given priority.

Recommendation 6. The Office recommends that the Department of Peacekeeping Operations, in consultation with the Office of Programme Planning, Budget and Accounts, review financial rules 110.14 and 110.32 and the existing procedures for writing off United Nations property with a view to developing special procedures for the write-off and disposal of large quantities of obsolete and unserviceable peacekeeping assets.
(AP96/127/006)

Equipment should be stored in appropriate conditions

29. The physical inspection of equipment and materials on hand found that sensitive items, such as electronic equipment, were not always stored in suitable conditions, although the Logistics Base has excellent storage

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facilities in the form of warehouses. Existing facilities were not always put to optimum use.

30. The Logistics Base management pointed out that equipment stored in containers could not be adequately sorted and moved owing to the lack of staff resources. Nevertheless, the Office believes that the Logistics Base should at least examine the storage containers to determine their condition so as to protect equipment from physical deterioration. Secondly, priority should be given to storing sensitive and high value items in suitable warehouse facilities.

31. Furthermore, there was a lack of adequate planning in organizing equipment storage. During its inspection, the Office found that containers were repacked after being received and inspected without first segregating items by commodity groups and repacking them together. This would facilitate subsequent identification of items that may be required, and aid in their quick dispatch to missions.

Need for better planning of shipments sent from closing missions to the Logistics Base

32. A recurring problem previously reported was that closing or downsizing missions were shipping equipment and materials to the Logistics Base that was either obsolete, of little value or in such condition that it would not be economical to repair. This resulted in significant unnecessary costs for the packing, handling and shipping. In addition, costs are also incurred at the Logistics Base for customs clearance, transportation, unpacking and possible disposal costs when the material cannot be sold.

33. Materials and supplies sent to the Logistics Base should also be the type of items expected to be used in future missions. This will avoid retention of materials in stock that will eventually have to be disposed of. As an illustration, it is anticipated that UNPF will have a huge quantity of surplus generators, accommodation containers, water tanks, electronic equipment and other high value items that will have to be disposed of in some manner. The Office believes that it is imperative to analyse what equipment and supplies will be required for future missions before items are shipped to the Logistics Base. While this will entail projecting the level of anticipated peacekeeping activity, the Office believes that such policy guidelines are necessary for the effective management of resources.

34. As the Office has reported on previous occasions, there is a need to review the planning process for shipments to the Logistics Base. While general guidelines have been established, the Office believes that further efforts must be made to prevent unnecessary shipments in future mission liquidations.

Recommendation 7. The Office recommends that the Department of Peacekeeping Operations only authorize shipments to the Logistics Base of such assets that are anticipated to be required for future peacekeeping operations or for inclusion in start-up kits. (AP96/127/007)

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D. Start-up kits

Start-up kits are incomplete

35. Once peacekeeping activities have been mandated by the Security Council, the Organization is required to respond quickly by dispatching the necessary personnel and materials to the crisis area. Therefore, the Secretary-General in his 3 July 1995 report on the management of peacekeeping assets: surplus asset storage facilities and mission-ready start-up kits (A/49/936) promoted the concept of preparing and maintaining mission-ready start-up kits.

36. Over the past year, the Logistics Base has been attempting to assemble the required start-up kits from materials received from closing missions, partly supplemented by the purchase of new equipment. The review of start-up kits and of progress achieved in establishing them disclosed that the concept of start-up kits was still far from being workable.

37. According to data supplied by the Logistics Base, of the 22 major categories of equipment and supplies included in the start-up kits three categories (accommodation equipment, communications equipment and computer equipment) have been partially completed. However, none of the other categories (such as catering equipment, electrical equipment, materials for shelter, rations, vehicles, and water and fuel tanks) had, at the time of the audit, any materials assigned to them.

38. The Logistics Base management explained that many of the required items were not available from the reserve stock and new items had not been purchased. With completed start-up kits valued at approximately \$3.4 million, it was intended to defray that cost as much as possible by using materials from the existing reserve stock and purchase only certain items that could not be provided from stock. However, no budget provision has been made for such purchases.

39. The items going into the start-up kits may be too comprehensive and may include items not necessary at the start-up phase of new missions. In this regard, the Office questions the requirement for items such as network servers and sophisticated electronic equipment, which cannot be readily installed at the beginning of the mission without sophisticated technical expertise. The Office believes it is necessary to review the list of items going into the start-up kits to determine that they are, in fact, critical to the readiness of new missions.

40. The Department of Peacekeeping Operations acknowledges that the process of assembling start-up kits has been slow, but indicated that the process is gathering momentum now that additional equipment and supplies are available from the liquidation of UNPF. The Department intends to lower the number and scope of the start-up kits. Nevertheless, the Office believes that the requirement to purchase certain items will remain and that a budget should be proposed for that purpose.

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Recommendation 8. The Office recommends that the Department of Peacekeeping Operations intensify its efforts to ensure the completion of start-up kits for deployment to new missions, limit start-up kits to materials essential for the start-up phase of missions and make the necessary budget proposals to purchase new items not expected to be available from the reserve stock. (AP96/127/008)

E. Codification of assets

41. The Department of Peacekeeping Operations has embarked on a major project to develop a global asset management system. As part of its audit, the Office conducted a limited review of the implementation of one major component of the Matériel Management Project, namely the classification of assets and supplies at the Logistics Base. It was intended to use the classification codes of the North Atlantic Treaty Organization (NATO) as a common system to identify all United Nations assets and supplies. The classification exercise commenced in the first half of 1995 with the appointment of a codification team consisting of two national military officers. Their basic purpose was to establish the systems and procedures to enable the codification of the Logistics Base inventory. Ultimately, it is intended to apply the system on a worldwide basis to all peacekeeping missions.

42. The codification team was, at the time of our audit, coding non-expendable equipment as well as expendable supplies consisting mostly of vehicle spare parts. Out of the approximately 22,000 items held by the Logistics Base, approximately 3,300 items had been codified to date. The review indicated that many of the items to be codified were either obsolete or unlikely to be used by the United Nations again. In addition, reliance is placed on inventory records that do not indicate the condition of the items being codified. The Office therefore questions the value of exerting a major effort on codifying such parts and equipment. The Office believes that prior to codification the items to be codified should be technically evaluated in order to determine their condition and future value to the organization. The Office also believes that the codification should initially focus on non-expendable equipment.

43. The Advisory Committee on Administrative and Budgetary Questions in its 26 June 1996 report on the management of peacekeeping assets (A/50/985), requested that the results of the project be reported to the General Assembly, together with an analysis of all possible alternatives to the development of a new codification system, after completion of the six-month trial period.

44. The Department of Peacekeeping Operations indicated that the requirement for an asset management system existed independently of the Logistics Base and that it was intended to reassess several available options. Subsequent to the audit and as a separate assignment, the Office has provided, through its Management Audit and Consulting Section, consulting services to the Department of Peacekeeping Operations with regard to the system design methodology, the project management and the resource requirements.

Recommendation 9. The Office recommends that the coding efforts under any asset management system be initially focused on non-expendable equipment that is in usable condition. (AP96/127/009)

(Signed) Karl Th. PASCHKE
Under-Secretary-General
for Internal Oversight Services
