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AUDIT OF UNHCR OPERATIONS IN SUDAN

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EXECUTIVE SUMMARY

In March 2005, OIOS conducted an audit of UNHCR Operations in Sudan. The audit covered activities with a total expenditure of US\$ 19.2 million in 2003 and 2004. Five Audit Observations and a draft Audit Report were shared with the Representative in April and June 2005, on which comments were received in May and June 2005 respectively. *The Representative has accepted most of the recommendations made and is in the process of implementing them*

Overall Assessment

OIOS assessed the UNHCR Operation in Sudan as below average. The weaknesses identified, taken together or individually, significantly impaired the overall system of internal control. Prompt corrective action is required to significantly improve the application of key controls. OIOS has taken note that the current management has promptly initiated such action.

Programme Management

- For the four partners reviewed, reasonable assurance could be taken that UNHCR funds were generally properly accounted for and disbursed in accordance with the Sub-agreements. However, the decentralized manner of COR's functioning continued to pose problems for accounting and timely and accurate reporting of expenditures. Accounts maintenance by the COR workshop was poor and required immediate attention. *The Representation has initiated corrective action.*
- The Representation without obtaining Headquarters' approval, committed UNHCR to an excessively generous termination package for COR that provides benefits far greater than those payable under Sudanese law. Some US\$ 600,000 was paid in 2004 for some 100 staff and as much as US\$ 5 million may be required to terminate all COR staff. The COR package was discriminatory as other partners received termination benefits that were far lower. OIOS recommended a review and renegotiation of the COR formula.
- Maintenance of accounts by the Forest National Corporation required urgent improvement, with OIOS observing absence of basic books of account and instances of internal invoicing. Competitive procedures were not followed for procurement totalling some US\$ 50,000.
- Project financial and performance monitoring conducted by the Representation was weak, lacking in analysis, depth and coverage. *The Representation has taken steps to improve the quality of project control.*
- Audit certificates for 2003 and 2004 sub-projects had yet to be obtained. *The Representation has contracted external audit company as of June 2005 to audit all partners, including Government partners, for the years 2003 and 2004.*

Supply Management

- Significant failure of controls in fuel management exposed UNHCR to short receipts and pilferage. Stock records were deficient and receipt / issue procedures severely flawed. UNHCR erroneously paid twice for the July 2004 consignments resulting in an overpayment of US\$ 58,000. Payments were made for fuel not received, excess fuel quotas were released to COR and a shortage of 39,000 litres was noted at SO Es-Showak. *The Representation has accepted the audit observations and initiated corrective action.*
- OIOS' review of procurement revealed lack of planning, non-compliance with procedures, repeated disregard for established thresholds and inadequacies in contract management leading to uneconomic acquisition of goods and services and loss to the organization in 2003 and 2004. Four contracts in excess of US\$ 100,000 each and aggregating to some US\$ 1.27 million were not referred to the Committee of Contracts for approval.
- Productivity of the UNHCR funded workshop was extremely low, with each mechanic performing on average only four maintenance/repair jobs per month.
- Contract management was poor rendering the organization vulnerable to financial loss. There were marked shortcomings in the repatriation transportation contract involving disbursements of US\$ 700,000. The Representation did not reject overcharges by the contractor, who charged more than double the contracted rates; in three invoices alone, the overcharges disclosed by the audit totalled US\$ 93,000. The vehicle hire contract signed by the Representation was not cost-effective and some 25 per cent greater than a similar contract entered into by the Sub-Office, resulting in extra expenditure of some US\$ 86,000.
- Asset Management and Warehousing required substantial improvement. *Shortcomings noted in warehousing were promptly addressed by the Representation. AssetTrak deficiencies have been acknowledged and are being addressed by the Representation.*

Security and Safety

- All UNHCR staff in Sudan had completed the basic security training. Security improvements have been introduced in some locations including shatter resistant film etc. Further enhancements are envisaged.

Administration

- In the areas of administration and finance, the UNHCR Offices in Sudan generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.
- Overpayments of SOLAR/DSA totalled some US\$ 13,500 and are being recovered.
- The Medical Insurance Plan was managed satisfactorily and further improvements are underway. Cases of Medical Evacuation were also adequately managed.

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I. INTRODUCTION

1. From 6 to 27 March 2005, OIOS conducted an audit of UNHCR's Operations in Sudan, focussing on operations in eastern Sudan. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Sudan and its Sub-Office (SO) in Es-Showak and of four of its implementing partners.
2. OIOS' previous comprehensive audit of UNHCR operations in Sudan was conducted in February 2002. The review focused on the years 2000 and 2001 covering expenditure of US\$ 24.5 million. The operations were assessed as below average and OIOS noted deficiencies with regard to the accounts maintained by the Commissioner for Refugees (COR), excessive payment of staff benefits in COR and poor vehicle management with key controls absent, such as logbooks.
3. The main caseloads assisted by UNHCR since 1967 are Eritrean refugees in eastern Sudan. Due to funding constraints, RSD activities were suspended in June 2004 and assistance to refugees has been declining. The organized repatriation of Eritrean refugees has also been discontinued. While closure and consolidation of the camps were achieved to an extent, overall, UNHCR's planned exit strategy from eastern Sudan was delayed. In Southern Sudan, operations are on the upswing following the signature of the Comprehensive Peace Agreement. The operations in Darfur have also been increasing in magnitude. The present audit report focuses mainly on the UNHCR operations in the east.
4. The findings and recommendations contained in this report have been discussed with management during the exit conference held on 27 March 2005. Audit Observations detailing the audit findings and recommendations were shared with the Representative in April 2005. A draft of this report was shared with the Representative and with the Director, Operations for the Sudan Situation, in June 2005. The comments, which were received in May 2005 and June, are reflected in the final report. *The Representation has accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations;
 - Safeguarding of assets; and,
 - Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2003 and 2004 programme activities under projects 03/04/AB/SUD/CM/200, 03/04/AB/SUD/RP/371 and 03 and 04/AB/SUD/LS/452 with

expenditure of US\$ 16.3 million. Our review concentrated on the activities implemented by Commissioner for Refugees (COR) – expenditure of US\$ 4.6 million; Forest National Corporation (FNC) – expenditure of US\$ 0.94 million; Sudanese Red Crescent (SRC) - expenditure of 0.72 million and Human Appeal International - expenditure of 0.6 million. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 5.9 million.

7. The audit reviewed the administration of the Representation in Khartoum and SO Es-Showak with administrative expenditure totalling US\$ 2.9 million for the years 2003 and 2004 and assets with an acquisition value of US\$ 28.7 million and a current value of US\$ 7.1. The number of staff working for the UNHCR Operation in Sudan was 241. This included staff on regular posts, United Nations Volunteers, project staff and staff on mission.

8. The audit also followed-up on findings and recommendations made in the 2002 OIOS audit regarding the state of accounts in COR, vehicle management and payment of benefits in COR.

9. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme Issues

a. Project Monitoring

10. Project financial and performance monitoring was weak, particularly at SO Es-Showak. There was little evidence of systematic and regular verification of the accounts and performance of partners. The verification notes, where available, were brief limiting themselves generally to observations on budgetary control and recommendations to recover unspent balances. There was no analysis of the adequacy of the accounting system, internal controls, performance aspects or even a proper review of transactions including of large procurement. Monitoring visits were undertaken only on a quarterly basis and their periodicity should be increased, depending on the partner. *The Representation has initiated action in this regard by designing a standard format for project monitoring and has already conducted the first in a series of capacity building training in the area of project control. With the arrival of the project control officer, the overview of financial and performance issues will improve.*

b. Termination benefits paid to COR staff

11. The obligation to pay employee benefits including termination benefits generally arises from contractual arrangements between the entity and employee, legislative requirements, industry practice and business practice. The termination benefits provided to COR by UNHCR in terms of the September 2003 agreement are well in excess of those provided under the Sudanese law, and did not take into consideration their benchmarks; average salary for the last three years, number of months of pensionable service and age at retirement separation. Based on the agreement, UNHCR paid US\$ 600,000 in 2004 alone

for only 101 staff; with additional terminations coming up over the course of the next years. The total cost of the agreement is estimated at about US\$ 5 million. Considering the financial value of this separation package OIOS would have expected the Bureau to be involved as well as advice sought from the Legal Affairs Section, particularly as an MOU was signed with COR committing UNHCR to these payments. It is not clear who authorized the Representation to enter into such a long-term commitment for UNHCR.

12. OIOS noted that the formula was first agreed in July 2003 and based on a Joint Technical Committee comprising of UNHCR staff and the COR Finance Director. The Committee deliberated upon three formulations, namely, the COR formula, the UNHCR proposal and the ILO proposal. The benefits calculated according to the ILO formula were lowest, followed by the UNHCR estimates and the highest were the benefits calculated by COR. It is worth mentioning that the Technical Committee decision was sent to Headquarters in July 2003 after it had been signed by COR and endorsed by the Representative. In other words, it was sent to Headquarters not as a proposal for approval but as a *fait accompli* as the agreement had already been signed. The MOU was signed thereafter in September 2003, even though no approval was received from the Desk. In OIOS' opinion, the formula for calculating the amount due to COR staff is flawed as it is imprudently based on the last salary drawn and not an average salary based on the length of service or portion thereof. This means that each salary increase triggers an increase in the retirement benefits for the entire period of service.

13. OIOS also noted that different formulae were used for terminating staff of partners in 2004. The 2003 formula was applicable only to COR, while terminated staff of other implementing partners (Benevolence International and the Sudanese Red Cross) were given benefits under the 1995 formula. Overall, the COR formula obligates payments that are between four to six times more than the benefits received by other implementing partners, for the same period of service. There is a risk that the MOU might be legally challenged by other implementing partners on the grounds of discrimination. OIOS maintains the view that the agreement is not in the best interest of UNHCR and should be renegotiated.

14. *The Representation recognizes the implications of the September 2003 agreement and will seek legal advice, negotiate with the implementing partners and propose alternatives to Headquarters for approval. However, the termination of staff in connection with current camp closure will follow the existing agreement, otherwise it would seriously jeopardize current relations with COR as well as activities designed to benefit those of concern to UNHCR.*

Recommendation:

- The UNHCR Representation in Sudan should review the 2003 retirement package offered to the Commissioner for Refugees and should renegotiate the MOU on the basis of the formula foreseen by Sudanese law (Rec. 01).

c. Preparation of detailed budgets at the Representation

15. The Representation should re-examine the current method of preparing detailed budgets for partners. Some of the 2004 COR detailed budgets are spread over 62 pages. Budgets for other partners such as the FNC are also equally lengthy. Such vast budgets entail equally extensive and complicated SPMRs. This also caused problems in financial

reporting, project control and in auditing as well. Moreover, as the budgets were very often revised, the process was disorderly and ultimately resulted to a certain extent in reduced levels of control over partners by UNHCR. A more simplified and systematic approach is justified, involving consolidation of budget lines and locations. *The Representation agreed to simplify the process of preparing detailed budgets for partners.*

B. Review of Implementing Partners

16. For the four partners reviewed, reasonable assurance could be taken that UNHCR funds were generally properly accounted for and disbursed in accordance with the Sub-agreements. However, OIOS did observe several lacunae in the accounting systems of partners and recommended improvements. Internal controls for most partners were operating satisfactorily. For COR there is a rigid system of internal controls governing financial transactions and each payment passes through several layers of bureaucracy.

17. The major implementing partners in Sudan are Government partners, who are subject to audit by the national audit authority. However, this audit is often delayed and thus large sub-projects are left unaudited for years. This presents a risk and the Representation is now in the process of short-listing firms to carry out the audit of all partners, including COR. *The Representation has contracted an international auditing firm to audit all UNHCR partners in Sudan for 2003 and 2004 projects in accordance with specified terms of reference.*

a. Commissioner for Refugees

18. OIOS reviewed COR locations at their Headquarters in Khartoum, Assistant Commissioner for Refugees (ACOR) office at Es-Showak, Central Logistics Unit (Es-Showak), COR's Es-Showak Workshop and COR Girba. COR continued to operate on the basis of "sites", with each site being responsible for their own manually prepared accounts, budgetary control, cashbooks, preparation of SPMR and associated activities. Each site submits their SPMR to UNHCR separately, which is then consolidated. This system of operating through decentralized cost centres poses problems during project verification and monitoring. At no single place, can one obtain an overview of the entire COR operations. Overall, the manner in which COR operates is not conducive to efficient and timely reporting of financial and physical performance. OIOS accordingly recommended strengthening of COR Headquarters' supervisory role over the budgets and accounts of subordinate offices and periodical checks of field accounts. *The Representation accepted the recommendation and also stated that from January 2005, COR would submit only one consolidated SPMR for each sub-project, which would simplify recording and monitoring of sub-projects.*

i. State of accounts in COR offices

19. In a few sub-projects OIOS noted problems, for instance in sub-project 04/AB/SUD/RP/371(a) the SPMR could not be reconciled with the accounts at Assistant Commissioner for Refugees (ACOR) office as the budgets had not been revised in the partner's records and ACOR office was still working with the pre-revision figures. Many budget lines still showed commitments and this cannot be permitted in a final SPMR. ACOR reported an expenditure of SDD 17.36 million (US\$ 69,440), against a budget of SDD 10 million, overspending the budget for ready-made meals by some SDD 7.3 million

(US\$ 29,200). OIOS noted that SDD 4.66 million (US\$ 18,640) out of the SDD 17.36 million (US\$ 69,000) was used to pay allowances for repatriation to ACOR staff. As this budget line is meant for ready-made meals, it was not permissible to charge allowances to it. COR claimed that this had been done with the approval of UNHCR though no written evidence could be produced. The Representation did not offer a specific reply to the overspending or the misclassification of allowances under ready-made meal budget line and whether the amount would be recovered. Similarly, in sub-project 04/AB/SUD/RP/371(a) for 2003 under the Es-Showak location, there was a budget line for SDD 2 million (US\$ 8,000) for the 'Extension of Um-Gilja transit center'. This budget line was not used for the intended purpose and we observed that allowances were paid out of it to ACOR staff. Such incorrect use of funds should have been rejected during project verification.

20. At the COR workshop, the general state of accounts was poor and OIOS was informed that the turnover of incumbents was high and as many as four accountants had changed in recent times without proper hand-over. For 04/AB/SUD/RP/371(a), OIOS could not reconcile the SPMR with the accounting figures prepared by COR Workshop. The ledger had not been kept up to date and many entries were not posted therein. In 2003 also, for the same sub-project, there were wide variations in the figures appearing in the SPMR and the figures reported in the accounts. This indicates a serious problem with the workshops accounts that needs to be speedily addressed. *Neither the COR workshop nor ACOR were able to explain these differences.*

ii. Staff allowances/benefits and advances to teachers

21. OIOS observed that as allowances were paid under more than one sub-project, the likelihood of COR staff receiving allowances and benefits from more than one sub-project could not be ruled out. The number of staff receiving the allowances was on occasion more than the figure mentioned in the detailed budgets, though the allocated amounts were not exceeded. OIOS also regretted that its 2000 audit recommendation, regarding non-liquidation of working advances paid to teachers in the education sector was not implemented and the same situation persisted in subsequent years. It was observed that COR continued to record advances as expenditure and some US\$ 43,000 paid in 2003 and 2004, still lacked supporting documents. *The Representation has accepted the recommendation and assured that unsubstantiated expenditure would be recovered.*

iii. Utility bills

22. In 2004, the ACOR office incurred substantial utility bills amounting to some SDD 7.23 millions (US\$ 28,920) and benefited from budget provisions in two sub-projects. The monthly expenditure was about US\$ 2,400, which is considered excessive and needs to be controlled. For the Central Logistics Unit (CLU), we learnt that private electricity bills for houses of senior staff were also being paid through the sub-project. Such charges are not acceptable sub-project expenditure and should be rejected. At the COR workshop, utility bills totalling some SDD 2.1 million (US\$ 8,400) were not supported with either the invoice or the receipt from the electricity department. *The Representation stated that non-official utility bills would not be charged to UNHCR in future.*

iv. Procurement by COR

23. Under sub-project 03/AB/SUD/LS/452 (c) OIOS reviewed the site contracts for the construction of 'Tukuls' in various locations. Some SDD 49.3 million (US\$ 198,000) was spent. OIOS reviewed the procurement process and was satisfied that competitive bidding was carried out. However OIOS suggested that for such large contracts, UNHCR should also be involved in the selection process. In general however, procurement required improvement as supporting documentation such as invoices, purchase orders and delivery notes/GRNs were often lacking. At the COR workshop large quantities of lubricants were budgeted for purchase in both years, but no delivery notes or GRNs were attached to the vouchers. Fifty tyres purchased in 2003 were budgeted in the 2004 budget, yet no evidence of purchase was attached as supporting documentation in the 2004 accounting records. Some of the supporting documentation was stated to be available in COR Khartoum. OIOS is unable to accept such explanations and would insist that the supporting documentation be kept at the budget location where these are charged. *The Representation has initiated the process of pre-qualification for all implementing partners in Sudan.*

v. Functioning of Workshop

24. OIOS reviewed the various processes within the workshop and was generally satisfied that adequate controls existed for the repairs carried out. Sequential job cards were prepared and spares requisitioned from the stores were obtained after following the correct procedures. The workshop uses the SMS (Spareparts Management System), which is in fact very old software, quite limited in its capabilities. This software is unable to produce many of the required reports essential to proper management. As per closed job cards for 2004 (generated through the SMS), the total number of repairs/maintenance carried out in the year was some 1,357 or on an average some 113 per month. In 2004 there were 27 mechanics on the payroll and the monthly productivity is some 4 vehicles per month, which is quite low. If we consider the overall productivity for all the 64 staff employed at the workshop, it works out to some 1.6 vehicles per month.

vi. Manpower requirements at the CLU and Workshop

25. Between them, the Central Logistics Unit (CLU) and the Workshop employed some 168 persons, with the CLU accounting for 104 employees. With the rationalization of the fleet, many vehicles are no longer categorized as operational. The number of trucks has reduced by 66 per cent from 175 to 58. For light vehicles, the fleet size reduced by 54 per cent from 167 to 77. There are 56 drivers, 17 storekeepers in the CLU and the need for such a large complement of staff in these categories is not justified. The substantial reductions in fleet size should be taken into account when the staffing strength of these two units is assessed. *The Representation stated that the revision on the needs of manpower was ongoing and a reduction of staff would be carried out as a result of the exercise.*

Recommendations:

- The UNHCR Representation in Sudan should request the Commissioner for Refugees, to ensure that the US\$ 43,000 advanced to the education sector in 2003/2004 and charged as expenditure without supporting documents, reviewed and unsupported amounts recovered (Rec. 02).

- The UNHCR Representation in Sudan should ensure that the US\$ 18,600 spent by COR on allowances on staff and misclassified as expenditure on ready-made meals for refugees, under sub-project 04/AB/SUD/RP/371 is recovered as separate budgets were provided for allowances (Rec. 03).

b. Forest National Corporation

26. The Forest National Corporation (FNC) did not operate a proper accounting system to account for and report on UNHCR expenditures. The manual accounting system used, consisted of a daily book and ledger where entries were to be posted per UNHCR budget lines. Due to the lengthy budgets and numerous budget lines, the FNC was unable to cope with the volume of entries and discontinued the maintenance of the ledger, fairly early in 2004. In the absence of basic accounting records, we could not reconcile the entire SPMR to the accounting records, though OIOS did manage to reconcile some major budget lines for the Fau location. OIOS accordingly recommended that UNHCR should assist the Forest National Corporation in developing/installing a proper accounting and budgetary control system to ensure UNHCR funds are properly controlled, monitored and reported upon. *The Representation has accepted the recommendation and initiated action for improving the verification of SPMRs.*

i. Procurement and internal invoicing

27. Our review of procurement showed that FNC has not yet put in place procurement procedures that are applied consistently. There is need for the Representation to monitor procurement undertaken by FNC, to ensure compliance with UNHCR IP procurement rules. For instance, contracts for large amounts aggregating to some US\$ 50,000 were awarded without competition.

28. In the transactions sampled by OIOS instances of internal invoicing were noted aggregating to some US\$ 13,400. As FNC operates at more than one location, OIOS noted that FNC Fau would time and again purchase seeds from FNC at another location or engage another FNC unit for some work and charge such amounts to the sub-project. This practice was observed in 2003 and 2004 and OIOS recommended that UNHCR review such instances and examine whether they were acceptable and consistent with the Sub-agreement. Our concern was that goods or services produced or provided by units receiving UNHCR assistance, should not be charged as expenditure to the sub-project. *The Representation accepted the recommendation and will take corrective action.*

29. A payment of SDD 3.07 million (US\$ 12,300) was made on 27 January 2004 under the 2003 sub-project to the Gedaref State as a deposit, as the FNC wanted to avoid refunding UNHCR. There was no evidence that this money was eventually used for sub-project activities. This amount should have been refunded to UNHCR as unspent balance. *The Representation agreed that if the transaction was not satisfactorily explained the amount would be recovered.*

ii. Misclassification of expenditure

30. Several instances of misclassifications were noted, for instance the 'Training Fund Grant' of SDD 4.5 million (US\$ 18,000) was only partially used for that purpose and OIOS noted that large amounts were paid for hospitality, allowances, bank fees, mobile recharge

cards and other miscellaneous expenditure totally unrelated to training. The maintenance & repair costs of vehicles and expenses for monitoring & evaluation were activities repeatedly charged to different budget lines having no connection with these activities.

c. Sudanese Red Crescent

31. Sudanese Red Crescent (SRC) operated a manual accounting system whereby a general ledger and cashbook were maintained for Wad Sherife site. The general ledger was maintained per UNHCR coding structure on the basis of which the SPMRs were prepared. The system could produce satisfactory reports on UNHCR funds and we were able to reconcile the ledger with the SPMR. Budgetary control was however weak and in 2003 and 2004, SRC overspent almost all budget lines. In some instances the overspending had reached nearly 63 per cent. However SRC charged only the approved budget to UNHCR, whereas the amounts in excess of the budget were met from other funding sources.

32. In view of the adverse age profile and obsolescence of the fleet and the significant maintenance costs involved (US\$ 59,000 in 2003/2004), OIOS recommended that SRC should take up the matter with UNHCR to obtain better vehicles. *The Representation stated that replacement would be considered in phases.* Procurement undertaken by SRC required closer attention and supervision by UNHCR as competitive bidding procedures were not being followed for major procurement totalling some US\$ 36,000. *The Representation will monitor SRC's procurement activities more closely.*

C. Supply Management

33. OIOS' review of fuel management and procurement identified fundamental problems necessitating immediate remedial action. The following paragraphs outline OIOS findings, which showed that the Representation did not follow prescribed procedures and neglected controls over fuel management and the procurement process, thus failing to ensure that funds were spent in the most cost-effective manner. Given the circumstances, it appears that the financial interests of the organization were compromised. *The Representation has accepted the audit findings and initiated corrective action.*

a. Fuel management

34. In OIOS' assessment, fuel management was a high-risk area for UNHCR and COR. Basic controls were rendered dysfunctional resulting in short receipt of fuel, excess release of quotas, likelihood of pilferage and unauthorized diversion and inflated consumption levels, resulting in significant loss for UNHCR. OIOS identified large overpayments and concluded after a detailed review that procedures for receipt and issue were flawed; stock records were deficient, rendering the system prone to inefficiencies and abuse. OIOS identified the lack of proper and easily accessible information as the main reason for the problem. Besides contributing to deficiencies in management, the lack of information also served to conceal inefficiencies and malpractices.

35. The total expenditure on diesel, petrol and lubricants in 2003 and 2004 was some US\$ 1.42 million. This included around US\$ 600,000 of diesel procurement in 2004 undertaken on the basis of a contract approved by the CoC under 'Emergency Procedures'. The estimation of quantities was inaccurate and though the yearly quantity contracted with

Shell was some 1,000 metric tonnes (MT), nearly 1,630 MT was actually supplied by Shell thereby exceeding the contracted quantity by 63 per cent. OIOS' found that the projection of requirements was based on irrational fixing of 'quotas' for COR and other implementing partners, and not upon verifiable criteria such as area of operation, number of mobile assets, approximate kilometres run/day and number of staff members involved in operations. *The Representation stated that the 2005 quotas for various implementing partners including COR were reviewed extensively on the basis of objective criteria.*

i. Defective record keeping in UNHCR offices

36. The Representation did not maintain proper records regarding receipt of fuel. The quarterly quota for UNHCR Khartoum was approximately some 13,500 litres and there were no credible records of opening and closing balances or of receipts and issues. The 2004 fuel records at the Representation showed receipts of 24,345 litres and issues of 66,467 litres, denoting thereby that they had issued 42,122 litres more than had been received. OIOS reworked the figures taking into account available delivery and issue records, and computed that the receipts were some 69,345 litres and the issues about 72,205 litres. OIOS concluded that the records were unreliable as more fuel was issued than was received. *The Representation will examine the discrepancies and report thereon by end of July 2005.*

37. The discrepancy at Sub-Office Es-Showak was even more serious. OIOS requested for the details of receipt and consumption of fuel during 2004 and was provided only with release orders for the year and also hand-written consumption records from May 2004 till December 2004 (records for other months were not provided). There was no mention of opening and closing balances in the records. The monthly consumption was not added up, nor was any other summary record on fuel consumption prepared. OIOS observed that from May to December 2004, the SO received some 139,500 litres, while the consumption for the corresponding period added up only to 100,605 litres, leaving some 38,895 litres (cost US\$ 11,700) unaccounted for. The discrepancy was some 28 per cent of the total fuel received during these eight months and the possibility of this quantity having been diverted cannot be ruled out. *The Representation has noted the observations and will examine the records of all relevant offices and provide a report by end of August 2005.*

ii. Flawed fuel receiving procedures in UNHCR offices

38. The dipstick available at the Representation could not be used for accurate measurements, as it had not been properly calibrated. In the absence of a fuel flow meter, the receipts from Shell were acknowledged as received and paid for merely based on the invoices received from the company without any independent measurement and there was no internally designed document to monitor and assess receipts. Controls over fuel management at the SO were also inadequate. No measurement devices such as fuel flow meter or dipstick were present to measure the quantities actually received. The fuel tank itself was not kept locked and the top access cover was only loosely fastened. No record of opening and closing balances were maintained and the stock-keeping records were either not available or were unsatisfactory where present. The monthly quota of 18,000 litres (4,000 imperial gallons) was collected by UNHCR drivers in four or more trips from Shell Gedaref, using the UNHCR tanker capacity 4,950 litres (1,100 gallons). The fuel tanker did not have an onboard meter and the tank was never sealed during transit. No delivery notes were obtained for confirming the quantity lifted and the transaction depended entirely upon

the word given by the UNHCR driver that the requested quantity was deposited into the fuel tank. In the circumstances, no assurance could be obtained that the requisitioned quantity had indeed been delivered.

39. Most payments at the Representation (for Es-Showak deliveries) were based merely upon unclear and incomplete e-mail certification of receipt provided by the Sr. Logistics Clerk at SO Es-Showak without any reference to the 'release order' under which the supply was received or 'delivery note' or such other documentation. With regard to COR (the largest consumer of fuel), the Sr. Logistics Clerk at SO Es-Showak relied mostly on telephonic acknowledgements of receipt given by COR. No effort was made to obtain written confirmation of the delivery notes, dates and quantities from COR. Acknowledgement of receipt was often done merely by signing and affixing the UNHCR stamp on the invoices themselves, without any other supporting documentation or proof that the invoiced quantities had been received.

40. OIOS accordingly recommended that the Representation should immediately put in place proper procedures for the receipt, issue, stocktaking and accounting of fuel at all locations in Sudan. This is particularly important for western and Southern Sudan, where the operations are at their early stages. *The Representation has accepted the observations and is implementing remedial measures.*

iii. Double payment of July 2004 invoices

41. During scrutiny of payments to Shell, OIOS noted that the invoices pertaining to July 2004 totalling some US\$ 58,000 were paid in July 2004 and mistakenly paid once again in December 2004, resulting in an overpayment of US\$ 58,000. The overpayment occurred due to the absence of a proper system for monitoring quantities received against quota requested, inefficient maintenance of records and making payments on the basis of third party documents only. The lack of adequate managerial supervision also contributed to the overpayment. *The Representation accepted the overpayment, but did not take up the matter with Shell to immediately recover the amount. The Representation added that the overpayment could be attributed to human error and oversight.* In OIOS' view however, due to the poor control mechanisms in place, the likelihood of other double payments cannot be ruled out. *The Representation will take the matter up with Shell requesting refund of the overpaid amount.*

iv. Unjustified release of quota to COR

42. The release of quotas was another area that lacked controls and was inadequately monitored and supervised by senior staff. Quotas were released indiscriminately without first assessing the consumption against the earlier releases and verifying the justification of the additional releases. For instance, a quantity of some 92,461 litres (20,546 gallons) was supplied to COR in December 2003 'being the quota for RSD for the months of July till December 2003'. In OIOS' assessment such authorization which related to prior periods should have been released to COR only upon proof that COR had during this period obtained fuel elsewhere and actually used such fuel for RSD operations. In January 2004, once again, additional quantity of some 14,378 gallons was released for various activities including RSD operations. Since the entire RSD quota had already been delivered, the need for additional releases was unclear. Also the supporting calculation sheet was not arithmetically accurate and could not be used to justify additional release of fuel. OIOS concluded that excess fuel quotas had been released to COR. *The Representation has*

accepted the audit observations and assured that corrective measures had been taken in 2005 to prevent this type of incident occurring and that the quotas for implementing partners were since being determined on the basis of real operational requirements.

v. Payments for quantities not delivered

43. OIOS also observed instances where payments were made for quantities that were not actually delivered. In September 2004 payment was made to Shell for a quantity of 104,642 litres of fuel. However, from an attachment to the payment voucher, we noted that SO Es-Showak had acknowledged only some 90,000 litres. Also on another occasion, in 2003, payment was made for 13,500 litres, while only 10,472 litres were acknowledged as having been received. *The Representation has accepted the audit observations and will identify the circumstances in which the payments took place.*

vi. Inadequacy in contract provisions

44. The contract with Shell lacked technical specifications regarding the equipment that should be provided by Shell such as fuel flow meters, calibration of fuel tanks and dipsticks. The technical performance and responsibilities of the commercial provider should be defined in the contract to ensure that the provider can be held accountable for lapses and shortcomings. *The Representation has accepted deficiencies of the contract and stated that this happened as the contract was not prepared by a procurement specialist.*

vii. Fuel Management at COR

45. Controls over fuel receipt and consumption in COR were inadequate, giving opportunity to the partner to inflate consumption levels and receive excessively high quotas not justified by operational requirements. The end use of fuel by COR continued to be an area that UNHCR had absolutely no control in the absence of credible and updated logbooks. Despite an earlier OIOS recommendation made in 2002, none of the 28 logbooks produced for OIOS' scrutiny at the CLU were updated and contained only intermittent entries for April 2004 and nothing thereafter. Since the CLU consumes the maximum fuel, it can be stated that reliable means of monitoring fuel consumption by COR did not exist. Of the six logbooks submitted for scrutiny at ACOR's office at Es-Showak, in many places the kilometres run, fuel consumed, location visited were not mentioned. Similarly the logbooks at COR headquarters at Khartoum were deficient in several respects. *OIOS took note that the requirement for maintaining logbooks had been reiterated to COR Es-Showak by SO Es-Showak in March 2005 and that UNHCR would continue to monitor this requirement.* Also it was difficult to correlate UNHCR release orders, with the actual receipt of fuel by COR. *COR stated that since the release orders were frequently delayed by UNHCR, they would get fuel 'on credit' from Shell, though no supporting documents for this assertion could be produced.*

Recommendations:

- The UNHCR Representation in Sudan should examine the circumstances in which five July 2004 Shell invoices were paid twice, resulting in overpayment of US\$ 58,000. The amounts overpaid should be recovered from Shell and a review initiated for all payments to

Shell starting from 2002 to date to ensure that payments were correctly made (Rec. 04).

- The UNHCR Representation in Sudan should examine why in September 2004 payment was made for 14,642 litres of fuel that was not received and closely review the fuel records at Sub-Office Es-Showak and ascertain the reasons for the shortage of nearly 39,000 litres observed by OIOS (Rec. 05).

b. Procurement

46. OIOS' review of procurement showed lack of planning, non-compliance with procedures, repeated disregard for established thresholds and inadequacies in contract management leading to uneconomic acquisition of goods and services. Procurement lists, properly segregated for programme and ABOD were not available for 2003/2004 and the Logistics Unit was unable to indicate the quantity and value of purchases undertaken during the year. The procurement plan for 2005 was *finalized* only in late March 2005, four months after the November 2004 deadline.

47. Coordination between Programme/Administration and Logistics Unit required improvement, as there were continual complaints about delayed receipt of requisitions, belated purchases and overdue payments to suppliers. OIOS observed that its 2002 recommendation regarding sourcing large-scale procurement from abroad was not complied with and expensive large-scale local procurement continued to be undertaken. This was the case for the local purchase of 200 tyres for a total value of SDD 17.2 million (US\$ 69,000). Had the purchase been made through SMS, UNHCR could have saved some US\$ 21,000. Similarly spare parts were repeatedly purchased from the local market at prices that were 2-3 times international market prices. *The Representation stated that in 2005, procedures had been streamlined, procurement lists were prepared and that future procurement plans would be arranged in time.*

i. Non-compliance with thresholds

48. Four contracts (each exceeding the threshold of US\$ 100,000) and aggregating to US\$ 1.27 million were not submitted to the CoC and were thus awarded without proper authority. Also as assessed by OIOS, the cumulative value of contracts (in excess of US\$ 20,000) not submitted to the LCC by SO Es-Showak in 2003/2004 was some US\$ 337,000. At SO Es-Showak, several contracts were signed without the appropriate financial delegation. *The Representation accepted the observation and stated that the ceilings would be complied with in the future.*

ii. Contract Management

Contract for the transport of Eritrean refugees

49. Some US\$ 700,000 was paid to a company from January 2003 till December 2004 for the transportation of Eritrean refugees. OIOS reviewed the implementation of the contract and found marked lapses in contract administration, implementation, absence of supporting documentation and repeated instances of overcharges to UNHCR. While the initial contract was approved by the LCC, it was not submitted to the CoC, though its value over the course of two years significantly exceeded the stipulated threshold of US\$

100,000. OIOS noted that the contract was first signed in November 2001 and extended till September 2002, when a fresh bidding exercise once again found the existing provider to be competitive. From September 2002 through December 2004, the contract was extended time and again without reassessing the continued competitiveness of the provider, even though the scope of the contract had been modified considerably.

50. OIOS' review of the implementation phase revealed significant overcharges to UNHCR and instances of UNHCR's inability to hold the supplier to his contractual obligations. Though the rates had been mutually agreed upon, the transporter repeatedly invoiced UNHCR for amounts that were substantially higher than the contracted rates. In particular, this was the case for trailer-trucks (a type of vehicle not mentioned in the contract) that were constantly used, even though the initial RFP and the contract stipulated that only single trucks of 15-20 MT were to be used. When using a trailer-truck, the supplier doubled the rate for a single truck and invoiced UNHCR at the higher rate. However a trailer-truck cannot be equated to two trucks. While it may consume more fuel than a single truck, only one driver is used and it is not logical to pay twice the contracted rate for a truck. Since trailers were extensively used for the repatriation, the cumulative financial effect in terms of additional liability for the UNHCR would be tremendous. The supplier also repeatedly used mini-buses, even though the contract specified only 46 seater buses.

51. The overcharge for the December 2004 repatriations was particularly striking. Not only did the contractor unilaterally increase the rates, doubling and even trebling the contracted rates; he also ultimately invoiced UNHCR at twice the already inflated rates. Thus the rates actually used in some cases were nearly five to six times the contracted rates. From discussions, OIOS understood that the rental for a trailer-truck might cost up to 30 per cent more than a single truck. Based on this estimation, OIOS worked out that in three invoices alone, UNHCR was overcharged some US\$ 93,000. Such extra-contractual payments should have been rejected by UNHCR. Unfortunately at no point in time did UNHCR object to such practices.

High convoy costs

52. In 2004, against the targeted 35,000 repatriations, the number of refugees actually repatriated was only 9,892. The overall budgets projected were for the higher initial estimates of repatriation, but OIOS did not observe any reduction in expenditure levels commensurate with lower numbers of repatriations. OIOS analyzed the transportation costs of some convoys and found them to be excessive. This was the case for convoy #151, where the summary sheet shows that 188 vehicles (buses/trucks/trailers) were used for transporting some 592 refugees and their luggage at a cost of some US\$ 60,000. OIOS assessed that each vehicle catered to the needs of only about 3 refugees and their luggage.

^{53.} *The Representation has noted the audit observations and stated that the operation took place under emergency circumstances and difficult operating conditions. The Representation reassured that future contracts would comply with UNHCR rules and regulations.*

Vehicles for RSD operation

54. Landcruisers were first hired in October 2002 to transport RSD staff. The selection was done by the LCC on the basis of offers received following an RFP. Though the RFP was

sent to nine companies, only two companies submitted their bids and the lower offer was selected. The contract signed in October 2002 was extended till June 2003. OIOS noted however that the vehicle rental continued till November 2003 under the same contract without any fresh bidding exercise. Some US\$ 345,000 was paid to this company in 2002/2003, and since this exceeded the threshold of US\$ 100,000, the contract should have been submitted to the CoC. The rate of hire was some US\$ 140/day inclusive of fuel and driver, though this rate was slightly reduced from July 2003. UNHCR also agreed to new conditions (not mentioned in the original contract) that imposed additional financial burden on the organization.

55. In OIOS' view the contract terms were not beneficial to UNHCR. OIOS noted that during the same period Sub-Office Es-Showak had also negotiated with a Khartoum based car rental company a contract for rental of vehicles at US\$ 100 per day for the same type of vehicle, though this did not include the cost of fuel. But the cost of fuel alone cannot explain the substantial difference in the rental costs. As the fuel costs per day worked out to about SDD 1000 (US\$ 4) per day for 3 gallons, the contract negotiated by the Representation for rental was some 25 per cent more expensive. The excess expenditure incurred by UNHCR due to the higher rate was some US\$ 86,250. *The Representation acknowledged the audit observation and will ensure compliance with UNHCR rules and procedures in future.*

56. OIOS concluded that the contracts for the transportation of Eritrean refugees and for the rental of vehicles for RSD were poorly managed and did not adequately protect the financial interests of UNHCR. In the view of OIOS, the acceptance of overcharges and excessive rates was bordering on gross negligence and raises the question of accountability. *The Representation acknowledged the importance of the audit observation and will ensure adequate supervision and financial management.*

iii. Warehousing

57. Upon a review of the Khartoum warehouse, OIOS determined that immediate improvements were warranted. While a basic inventory list is maintained, this is incomplete and not always accurate. A proper system for keeping inventory does not exist, there are no stock cards/bin cards, release orders etc. No physical inventory had been taken for a long time and the quantity of old/obsolete and dead stock was very high. The value of inventory stored was not known. The existing insurance policy did not cover theft/burglary and the value of the warehouse building and goods stored in the warehouse was shown as US\$ 45,000 only, which in OIOS' assessment is an underestimation. The stacking of goods was disorganized and a better plan for storage needed to be put in place without delay. Several items in the warehouse pertain to very old periods, in some cases dating back to 1980. The situation was similar in respect of the warehouses at SO Es-Showak.

58. *The Representation accepted the audit observations and promptly initiated corrective action. The CTS will be installed and the physical inventory has since been completed and the value of goods stored in the warehouse increased to US\$ 80,000. The Supply Unit also undertook action to clean and organize the warehouse. In view of the expected increase in the inflow of goods, and the lack of space in the UNHCR compound, the Representation has advertised for a commercial warehouse provider.*

iv. Asset Management

59. Significant improvement was required to strengthen the internal controls over assets. AssetTrak data was generally inaccurate and unreliable. Also, assets issued to the emergency operation at Darfur and Southern Sudan had not yet been recorded in AssetTrak. No action had been taken to address the major shortcomings observed by OIOS during the support function review in October 2004 and as of date AssetTrak data are neither updated nor accurate. Our review had disclosed a high number of assets with the default acquisition value of US\$ 99. In other instances, assets were recorded with inaccurate acquisition values. Based on our samples, the total overstatement is estimated at US\$ 16 million, while the total understatement is some US\$ 6.4 million. Furthermore, depreciation was not correctly calculated for a large number of items. *The Representation has accepted the observations and affirmed its commitment to accurate, reliable, consistent and complete asset records and to this end have put in place work plans, created a GS position and will also ensure follow-up and close supervision of the asset management activities for Sudan operations.*

D. Security and Safety

60. Phase III is in place in Darfur and Southern Sudan while eastern Sudan and Khartoum are in phase II. All staff members have completed the mandatory security training. OIOS understood that the staff assigned the responsibility of security are working closely with UNSECOORD/DSS and carrying out MOSS inspections and audits. A number of locations in Sudan are not MOSS compliant and action to increase the level of compliance has been initiated. The UNSECOORD MOSS compliance review assessed that the Representation is compliant; Es-Showak is compliant to the extent of 75 per cent, while offices in Darfur and South Sudan are not MOSS compliant. Action has been taken to equip all vehicles in Darfur with mine blankets. Shatter proof and blast resistant film has been installed only at the Representation alone and this work is yet to be done at other offices.

E. Administration

61. In the areas of administration and finance, the UNHCR offices in Sudan generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, a few areas still required attention.

a. Outstanding receivables

62. Observing large balances in the receivable (VF) accounts, OIOS recommended that the Representation speed up the clearance of the VF accounts in consultation with the other UNHCR offices and Headquarters. Outstanding operational advances given to offices in western and Southern Sudan were also to be pursued for settlement. DSA advances to ERREC staff from Eritrea on mission to Sudan amounting to some US\$157,000 were still awaiting clearance in the Khartoum VF accounts. *The Representation responded that the advances were given in the emergency/start up phase in Darfur and in Southern Sudan and have mostly been cleared and the balance amounts would be closely pursued. Regarding the ERREC DSA advances, the Representation will clear the outstanding amounts in conjunction with the Representation in Asmara.*

b. Value Added Tax

63. Value Added Tax (VAT) payments amounted to US\$ 40,000 of which some amounts pertain to 2001, are all recorded in the VF 316 and awaiting refund from the Government of Sudan. The Representation has not obtained any refunds for 2003 and 2004. In addition, the Representation did not record VAT payments amounting to some US\$ 6,900 under VF 316 for eventual recovery. *The Representation noted the observation and stated that the processing of reimbursement from the Government was a cumbersome and lengthy process. This issue has been widely discussed among UN agencies in Sudan and will also be referred to the Ministry of Finance.*

c. Overpayments of SOLAR& travel claims

64. *OIOS identified overpayment of some US\$ 3,000, due to incorrect computation of the 60 nights eligibility period for SOLAR and excess DSA and hazard payments. Further examination by the Representation revealed that the overpayment amounted to some US\$ 13,500 of which US\$ 7,700 has been already recovered.*

d. Consultancy contracts

65. Consultancies were not well managed at the Representation as contracts were issued locally at Khartoum; competitive selection was not ensured and other instances of non-compliance with procedures were observed. A retired UNHCR Representative was employed as a consultant for a period of three months to assess the impact of UNHCR operations in the east at a lump-sum fee of US\$ 24,000. OIOS noted that the consultancy contract was not referred to Headquarters and the payment involved was more than the limit of US\$ 22,000 per year payable to a former staff member in terms of Chapter 6 section 1.2.1.5. Moreover, the report was submitted after a delay of one year and of doubtful value and it was never used for programme purposes, as the impact of the UNHCR assistance programme was not properly demonstrated. The Representation also engaged the services of a Public Information Consultant from October 2002 to April 2004, without following proper procedures. In another case, the Representation incorrectly upgraded a UNV as consultant team leader for the RSD project and remunerated him as a consultant. The Representation did not have the authority to make such arrangements locally and should have sought authorization from Headquarters especially as the status, responsibilities and emoluments changed substantially. *The Representation assured that in future, proper procedures would be followed and Headquarters' approval obtained.*

e. Medical Insurance Plan

66. MIP claims were generally processed in accordance with the relevant guidelines. A list of recommended doctors available in Khartoum and Darfur was established in March 2005. The Representation also recently took steps to obtain comparative price lists from Khartoum hospitals and medical institutions and favourable financial arrangements will be worked out with them. However, in cases where treatment was obtained abroad, the MIP claims were not being settled in accordance with the principle of reasonable and customary charges applicable at the duty station. Record keeping also required improvement and we noticed that several MIP claims with medical records were attached to payment vouchers, which could result in breach of confidentiality.

f. Medical Evacuation

67. MEDEVAC cases at the Representation were mostly regulated in accordance with instructions. However one local staff member who was evacuated from the field to Khartoum was paid 80 per cent of the DSA. In such cases, DSA will be limited to the extent of the accommodation cost, provided that this does not exceed 50 per cent of the applicable DSA. Moreover, an advance of US\$ 645 was not deducted while settling the claim. *The Representation has recovered the advance of US\$ 645. In addition, an overpayment of US\$ 960 was found after recalculation of the claim and is being recovered. The Representation is also examining the past MEDEVAC payments.*

V. ACKNOWLEDGEMENT

68. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and implementing partners in Sudan.

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