

**UNITED NATIONS**

Office of Internal Oversight Services  
UNHCR Audit Service

Assignment AR2006/115/03  
Audit Report R06/R003

7 February 2007

**AUDIT OF UNHCR OPERATIONS IN DARFUR**

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**EXECUTIVE SUMMARY**

In September 2006, OIOS conducted an audit of UNHCR Operations in Darfur. The audit covered activities with a total expenditure of US\$ 21.7 million in 2005 and 2006. A draft of this report was shared with the Director of the Bureau for Africa and the Representative on which comments were received by January 2007. *Management has accepted most of the recommendations made and is in the process of implementing them.*

**Overall Assessment**

- In Darfur, UNHCR is working in a very difficult and volatile environment. Taking this into account along with the positive action taken and/or proposed by management to strengthen the internal control weaknesses identified by OIOS, an assessment rating of average has been given. Nonetheless, if the proposed action is not taken promptly, particularly over supply management activities, the lack of sound internal controls will continue to have a negative impact on the effectiveness of the operation.

**Programme Management**

- For the three partners reviewed, with the exception of the Danish Refugee Council (DRC), reasonable assurance could be obtained that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. Audit certificates for the 2005 sub-projects were not yet available.
- The DRC sub-projects could have been better managed. The 2006 sub-project was terminated in the middle of the year following differences in opinion with UNHCR. The original 2005 accounting records had been transferred to Copenhagen, and only copies of some of the vouchers were available for OIOS' review. The main expenditure for expatriate salaries (US\$ 420,000) could not be supported and the salary rates paid (over US\$ 6,000 per month for long periods) far exceeded those allowed under UNHCR's programme management rules and procedures. *Management confirmed that the salary rates paid were discussed and the project proposal accepted by Headquarters.*
- The budget provisions for INTERSOS were not sufficiently detailed. About US\$ 620,000 had been allocated in 2005 and 2006 without adequately breaking down the costs per activity. This budgeting practice resulted in a lack of control and transparency, and gave the partner excessive latitude on how to disburse UNHCR funds.
- The five per cent Headquarters operational support cost had not been correctly computed for INTERSOS, as major local purchases were not deducted from the calculation baseline, resulting in an overpayment of US\$ 76,800 in 2005 and 2006. OIOS has recommended that the

2006 support costs be revised to yield savings of US\$ 38,000. Action was taken, and US\$ 38,000 has been recovered from a subsequent instalment.

- Overall the programme implementation rate was low. At the time of the audit, programme expenditures were only about 38 per cent of the funds advanced to partners. Moreover, the ABOD costs of US\$ 12.3 million in 2005 and 2006 exceeded the programme costs of US\$ 9.4 million, meaning that ABOD expenditures were 57 per cent of the total expenditure. *In response to the draft report, management partly attributed the delays to the fact that (a) for some time project instruments were processed in Khartoum and not in El-Geneina and (b) the instructions received by the SO to dramatically reduce expenditures and therefore the lateness of the implementation was not perceived as a major problem.*

#### Administration

- OIOS observed, since its last audit, improvements in the establishment and compliance with UNHCR's rules and procedures over administration and finance. For example, although there were some delays in the settlement of operational advances, they were monitored and cleared on a systematic basis. Such a practice should continue.
- SO El Geneina set aside, in the office safe, a contingency fund of US\$ 100,000 to pay a three-month salary advance to local staff in case of evacuation, and the amount was retained in the office safe for several months. In OIOS' opinion this presented a serious security risk to the office and staff. Also from an accounting perspective the amount was charged directly to expenditure even though the funds were not disbursed. *The money has since been deposited into the bank, and action was being taken to ensure the accounting transactions were corrected.*
- The SO spent US\$ 100,000 on a new field office building that was never occupied due to security concerns. OIOS was concerned, as the building was constructed on leased land, whether UNHCR could recover its investment. *Management have sought advice from the Legal Affairs Section and it is UNHCR's intention to repossess the premises when security improves.*

#### Supply Management

- Despite their importance to the operation, the supply chain activities, especially asset management were weak and required urgent attention. Improvements were also needed for fuel management and warehousing.

#### Security and Safety

- Security considerations have greatly curtailed UNHCR's ability to operate effectively in Darfur. Growing tensions have created considerable insecurity for staff and partners in the region. MORSS compliance rates needed improvement, but efforts are underway to enhance the level of compliance.

January 2007

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## I. INTRODUCTION

1. From 3 to 9 September 2006, OIOS conducted an audit of UNHCR's Operations in Darfur. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of Sub-Office (SO) El Geneina and of three of its implementing partners.

2. In July 2005, OIOS had audited the activities of SO El Geneina and reviewed the partner, INTERSOS. Recommendations were made to reinforce project control and monitoring activities, and significantly improve asset management and fuel management where urgent attention was required.

3. The Sudanese Government and the largest faction of the SLMA (Sudanese Liberation Movement Army) signed the long-awaited peace agreement aimed at ending the conflict in Darfur on 5 May 2006 in Abuja (Nigeria). This agreement followed an April 2004 ceasefire and two peace protocols signed in November 2004. However, since September 2005 the security situation, especially in West Darfur, has steadily deteriorated. The Sudan-Chad border area is also increasingly at the centre of heightened security tensions.

4. The main objective of the Darfur programme is to make the necessary interventions to ensure that international standards of protection are met for all persons of concern. This also includes the strengthening of community-based protection mechanisms in camps, host communities and villages of return. The rapidly worsening security situation has curtailed UNHCR's capacity to respond effectively to the many challenges.

5. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 9 September 2006. A draft of this report was shared with the Director of the Bureau for Africa and the Representative on which on which comments were received by December 2007. *Management has accepted the audit recommendations made and is in the process of implementing them.*

## II. AUDIT OBJECTIVES

6. 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
- Compliance with regulations and rules, Letters of Instruction and Sub-Project Agreements.

## III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on 2005 and 2006 programme activities under projects 05-06/SB/SUD/RP/332 with expenditure of US\$ 9.4 million. Our review concentrated on the activities implemented by INTERSOS - expenditure of US\$ 3.56 million; Danish Refugee

Council (DRC) - expenditure of US\$ 1.33 million and Amel Centre for Treatment and Rehabilitation (ACTR) - expenditure of US\$ 285,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 2.2 million.

8. The audit reviewed the administration of SO El Geneina with administrative budgets of US\$ 12.3 million for 2005 and 2006. OIOS was unable to obtain accurate data regarding assets deployed in the operation (a similar situation found in OIOS' previous audit). The number of staff working for the UNHCR Operation in the offices reviewed in Darfur was 96. This included staff on regular posts, United Nations Volunteers and staff on mission.

9. The audit also followed-up on findings and recommendations made in OIOS' July 2005 audit regarding financial and cash management, operational advances and supply management, in particular asset and fuel management.

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

#### **IV. AUDIT FINDINGS AND RECOMMENDATIONS**

##### **A. Review of Implementing Partners**

11. For the three partners reviewed, with the exception of DRC, reasonable assurance could be obtained that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. Audit certificates for 2005 sub-projects were not available at the time of the audit.

##### **(a) Danish Refugee Council**

12. Due to the security situation in Darfur the original vouchers and supporting documents for the 2005 sub-project had been transferred to DRC's Headquarters in Copenhagen; a complete set of copies had not been retained in Darfur. In the absence of the original documents and accounting records and missing photocopies of expatriate salaries, OIOS was unable to provide assurance that UNHCR funds had been disbursed in accordance with the Sub-Project Agreement. For expatriate salaries, only a few contracts were available and this alone was not sufficient evidence of the disbursements. This accounted for 30 per cent of the total expenditure. The 2006 records were available for our review.

13. In 2005, the partner had spent US\$ 481,000 of the US\$ 660,000 remitted. The balance of US\$ 179,000 was carried forward and used for 2006 sub-project activities. Similarly under the SDD budget, an amount of SDD 39.37 million (US\$ 179,000) was carried forward to the 2006 sub-project. DRC cited an e-mail dated 19 January 2006 from the Senior Programme Officer as authority to use the 2005 unspent funds for 2006 activities. In some cases, if sub-projects completed on time and the next year's Sub-Project Agreement has been entered into, unspent balances may be used/or off-set against the first instalment. This was not the case in this instance, as no funds were advanced to the partner in 2006. Effectively therefore the 2005 unspent amount remained unadjusted.

14. For 2005, US\$ 420,000 was charged for expatriate salaries. The monthly rate paid was US\$ 6,000 for the full year (one was budgeted at US\$ 6,300). The salary rate budgeted and

charged far exceeds the amount allowed in UNHCR's rules and procedures. In OIOS' opinion, the UNHCR standard rates should have applied. *OIOS was informed that these higher salaries were paid in consultation with Headquarters.* The office could not provide OIOS with evidence of the consultation process.

15. Moreover, in accordance with UNHCR's policy on the payment of implementing partner's expatriate staff, the lumpsum contribution should cover all costs such as salaries, benefits and related costs including travel. OIOS observed that in addition to the already high salaries, a further US\$ 83,000 was budgeted for staff travel and medical insurance costs, and US\$ 41,500 was reported as spent on R&R travel, DSA and travel of expatriate staff to Copenhagen. It also goes against UNHCR's principle whereby salary budgets for partners should be consistently applied.

#### Procurement activities

16. DRC is not pre-qualified to undertake procurement on behalf of UNHCR and therefore should apply UNHCR's IP Procurement Guidelines. DRC did not always comply with the required procedures and some exceptions were noted by OIOS in terms of tendering for goods. Also, adequate supporting documents were not always on file. For example, there was no evidence that the award of the contract for veterinary items costing US\$ 34,910 was done competitively. DRC stated that the items were of a specialized nature and could only be sourced from a single supplier. While this might have been the case, OIOS suggested that for the future, any explanation for non-compliance with the procurement procedures be justified in writing. OIOS was pleased to note however that in 2006, the situation has markedly improved with regard to the level of compliance with sound procurement procedures.

#### UNHCR's relationship with the partner

17. During the latter stages of implementation of the 2005 sub-project, the partnership with DRC ran into difficulties. This was mainly as there was a perception within UNHCR that DRC had failed to meet all the sub-project objectives. The reports produced by DRC under the information pillar were of limited use and were only belatedly shared with UNHCR and therefore did not assist UNHCR in addressing protection concerns in a timely manner. While the rehabilitation projects did make an impact in some areas, the lack of community participation was noted and commented upon by UNHCR. UNHCR also expressed concern about the lack of geographical and sectoral coverage of the CBRPs (community-based reintegration projects). On its part, DRC was concerned about the lack of clear communication channels with UNHCR, the lack of clarity of messages from UNHCR and staff changes. Also in their opinion UNHCR did not give them the essential support required to effectively implement the project, such as vehicles, telecommunication and computer equipment.

18. In OIOS' view, differences that have a direct impact on the effectiveness of project implementation should be resolved as they emerge. If regular and effective project monitoring had been undertaken, the gaps in programme implementation would have been detected early on and remedial action could have been taken. In OIOS' view, communication with partners should be improved to ensure problematic issues are identified, discussed and resolved.

19. *Management agreed that there had been problems and misunderstandings with the partner and that UNHCR had not been getting the protection services that had been agreed. Management stated that as they had been requested to significantly reduce the operations' budget due to funding shortages, it was then decided to terminate the partnership with DRC*

*and focus on other sub-projects more in line with strategic and operational priorities.*

**Recommendation:**

- The UNHCR Representation in Sudan should ensure that the salaries and remunerations budgeted and paid to partners' expatriate staff is within the scales prescribed in UNHCR's rules and procedures. The Representation should also ensure that differences between UNHCR and its partners are resolved sufficiently early on and resolved to reduce any negative impact it could have on the effective implementation of the sub-project (Rec.01).

20. *Management stated that for the 2007 sub-projects, the salaries and remuneration budgeted would be within the scales prescribed in UNHCR's rules and procedures. It was also added that partnership with DRC was likely to resume in 2007.* OIOS is pleased to note that action will be taken. OIOS will close the recommendation when it has received a copy of the 2007 sub-project for DRC where salary and other associated costs have been budgeted in accordance with UNHCR's programme rules and procedures.

(b) INTERSOS

21. OIOS was able to reconcile from the summary books of account to the expenditures reported in the SPMR. INTERSOS operated two non-interest bearing accounts for the UNHCR sub-project, one in local currency and another in US Dollars. The bank account was not operated on a joint signatory basis, which is contrary to good accounting practices. Internal controls over the approval and authorization of expenditure were assessed as satisfactory.

Overcharge of support costs

22. In 2005, local procurement under the SDD budget was SDD 195 million (US\$ 796,000) or 63 per cent out of the total expenditure of SDD 309 million (US\$ 1.26 million). This amount should have been excluded from the headquarters support cost calculation base, with the 5 per cent support cost recalculated. OIOS' calculations showed that the budgeted amount should have been US\$ 45,500 instead of US\$ 84,000. This resulted in an overpayment of US\$ 38,500 in 2005. A similar situation occurred in 2006, when local procurement was SDD 205.8 million (US\$ 935,000), 56 per cent of the total budget of SDD 366 million (US\$ 1.66 million), and the overhead support budget should have been US\$ 38,000 instead of US\$104,800. OIOS estimated an overcharge of US\$ 76,800 for 2005 and 2006. While it may be difficult at this stage to recover overpaid amounts for 2005, an appropriate readjustment to the 2006 budget should be made.

23. This issue had been brought to the attention of UNHCR in OIOS' June 2005 audit. The corrective measures were not taken and therefore opportunities for cost savings were lost.



**Recommendation:**

- The UNHCR Representation in Sudan should ensure that the Programme Unit comprehensively reviews the 5 per cent overhead costs budgeted by INTERSOS and makes sure that these are in accordance with UNHCR's rules and procedures. The amounts over-budgeted in 2006 should be adjusted in subsequent revisions. This will result in cost savings estimated at US\$ 38,000 (Rec.02).

24. *Management stated that the over-budgeted 5 per cent overhead costs estimated at US\$ 38,000 have been recovered from their last instalment.* OIOS is pleased to note the positive action taken and will record this recommendation as implemented on receipt of a copy of the documents showing that US\$ 38,000 has been recovered.

**Procurement**

25. The partner is pre-qualified to conduct procurement on behalf of UNHCR, but opted to observe UNHCR's IP Procurement Guidelines. OIOS' review found that proper procurement procedures were not consistently applied. For example, for the purchase of water pumps of US\$ 43,700, while three offers were available, the contract was awarded to the most expensive offer without any specific reason recorded. For some other purchases there was no evidence of competitive bidding.

26. Overall, the documentation supporting procurement should be improved; goods received notes and waybills evidencing the despatch of goods to field locations were not always available. Also, in cases where competitive bidding was done, the evaluation and comparison of offers were not properly documented with no comparative table or listing of the criteria and factors leading to the award of the contract.

**Sub-project Budgeting**

27. The 2005 local currency budget included a lumpsum amount of SDD 67.5 million (US\$ 294,000) for CBRPs (water, sanitation and NFIs) under H.98.j.10999. This budget was not broken down to reflect the exact activities to be implemented and as a consequence the partner used considerable latitude in disbursing them. This was repeated in 2006 where a lumpsum of SDD 75 million (US\$ 326,000) had been made for CBRPs. OIOS noted that in some instances in 2005 unjustified costs were made against this budget line. For instance, the cost of an expatriate staff member's salary of SDD 2.50 million (US\$ 10,900) was charged to the local sub-project, but these salary costs were already budgeted for in the US Dollar sub-project.

28. In the future, in order to improve budgetary monitoring and control, as well as increased transparency, such lumpsum budgeting should be avoided.

**Recommendation:**

- The UNHCR Representation in Sudan, to improve transparency, should ensure that lumpsum budgets are not provided for in partner sub-projects. Budgets should have sufficient detail to facilitate the monitoring and controlling of expenditures against budgets. The Representation should review the validity of the salary costs charged to the local currency sub-project, and if it is found that the amount was incorrectly charged, it should be recovered (Rec.03).

29. *Since the OIOS mission, Management has had extensive discussions with the partner on the lumpsum budget submission and it has been agreed that this will not apply in their future budgets. On the validity of the salary costs charged to the local currency budget, the incorrect amount has been recovered from the last instalment of the partner.* OIOS is pleased to note that corrective action will be taken. OIOS will keep the recommendation open until a copy of the 2007 sub-project budget has been provided which allows proper monitoring of budget versus actual expenditure.

(c) Amel Centre for Treatment and Rehabilitation

30. The accounting system was very basic and consisted of handwritten ledgers in Arabic. OIOS was however (with assistance) able to agree the list of expenditures incurred to the SPMR. The expenditures were properly supported and the documents were easily retrieved.

31. OIOS understands that it has been acknowledged that the partner has done good work, and the reason for the end of the partnership in July 2006 was the lack of UNHCR funding. OIOS noted that while the unspent balance at the end of the project period had been refunded to UNHCR, they still have UNHCR assets in their custody. This includes a minibus, two motorcycles, two generators and IT equipment. Unless the right of ownership is to be transferred to the partner, the assets should be recovered.

B. Other Programme Issues

32. Staff sent on mission from the Representation satisfactorily carried out project financial monitoring, but performance monitoring was difficult due to the security situation. OIOS observed that the programme implementation rates were low, as were the associated expenditures even though nine months of the 2006 project period had elapsed. As of September 2006 only SDD 217 million (US\$ 986,400) of the local currency budget had been remitted to partners from a budget of SDD 567 million (US\$ 2.57 million). From the US Dollar budget, only US\$ 936,000 from US\$ 2.37 million had been remitted. This corresponded to a release of 38 per cent of the available funds. Sub-Project Agreements were delayed, resulting in the late release of instalments to partners, affecting the programme and implementation cycle. The SO relied on the Office of the Representation to prepare the Sub-Project Agreements, FOBS and IPRs, as this capacity did not exist in El Geneina.

33. The insecurity in West Darfur had rendered most operational sites inaccessible to both UNHCR and implementing partners. This, combined with the relocation of programme staff to South Sudan, affected implementation. *The SO was also of the view that as the Sub-Project Agreements were prepared in Khartoum, and due to that office's other priorities, it had a knock-on effect in the late signing of Sub-Project Agreements with partners. Most of them were signed in May/June 2006, as opposed to earlier in the year. It was a combination of*

*these factors that resulted in the low rate of programme implementation in the whole of West Darfur.*

34. OIOS was pleased to note that the Programme Unit had been strengthened and some of the tasks previously undertaken in Khartoum were to be managed locally.

**Recommendation:**

- The UNHCR Representation in Sudan should ensure that the 2006 sub-projects are implemented expeditiously and that the programme cycle for 2007 is planned well in advance so that Sub-Project Agreements are signed in a timely manner and project implementation can begin in the early part of the year (Rec.04).

35. *In response to the draft report, management partly attributed the delays to the fact that (a) for some time Sub-Project Agreements were processed in Khartoum and not in El-Geneina and (b) directions that the SO dramatically reduce expenditures and therefore the lateness of the implementation was not perceived as a major problem. Management indicated that to avoid delays, these issues have been discussed with partners and they were requested to submit their 2007 proposals by mid December 2006 to enable SO El-Geneina to process the Sub-Project Agreements by January 2007.* OIOS will close the recommendation on confirmation that Sub-Project Agreements were entered into in a timely manner and sub-project implementation is well underway.

C. Administration

36. In the areas of administration and finance, the SO El-Geneina generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. There were a few notable exceptions as outlined below.

(a) Creation of contingency reserve

37. In October 2005 and in February 2006, the SO, acting on instructions from the Head of Office, set aside SDD 22.24 million (US\$ 100,000) to pay three months' advance salary to locally recruited staff in case of a possible evacuation for security reasons. The amount was never disbursed to national staff and remained in the office safe. The amounts were charged to the ABOD under Temporary Assistance (032) and General Operating Expenses (415) in both the years and recorded as expenditure.

38. OIOS pointed out that the practice of expensing amounts not yet disbursed contravened UNHCR rules and procedures. Also, considering the volatile security conditions, holding funds of US\$ 100,000 in an office safe was very risky: both in terms of financial loss and personal security of staff. The Senior Administration Assistant, who was the petty cash custodian, was given the responsibility of safekeeping the cash, even though there was no formal record that the cash was in the safe. OIOS considered giving this responsibility to a local staff member imposed unacceptable levels of risks. OIOS recommended a resolution be promptly sought, and in the interim the Head of Office should be ultimately responsible for the funds and the responsibility should not be (and should not have been) delegated to a junior staff member.

39. *SO El Geneina explained that the retention of money in the safe was a temporary measure to provide funds to local staff in the event of an imminent evacuation. The SO was fully aware of the risks involved in keeping three months' salary advance in the safe but had to balance this against the consequences of a sudden departure whereby no provisions would have been made for payment of salaries to staff not evacuated and expected to stay behind. There was also an imminent threat of conflict and given the circumstances, taking measures at the time seemed the most appropriate course of action to address the needs of staff staying behind. The creation of the reserve was not only morally justified but necessary. OIOS was informed that the funds have since been deposited in the bank and the accounts against which it was initially charged have been credited.*

40. OIOS appreciates that the security situation would have necessitated contingency plans to be established; whether to maintain cash in a safe was the most prudent option is questionable. However from an accounting perspective the amount should have been charged to a VF account, rather than expensed. Also since some of the expenditures pertained to 2005, appropriate accounting entries for prior year adjustments should have been made. To credit the full US\$ 100,000 against the current ABOD is incorrect. It has the effect of increasing the current year's ABOD by that extent.

41. OIOS was also of the opinion that it was not necessarily correct to make a blanket provision for all national staff. The instructions provide for the identification of a limited number of national staff who would be essential for running the office and if conditions deteriorate, other staff would be considered to be on special leave with pay. The three months salary advance is payable on an exceptional basis to staff at the discretion of the designated official. Also, other UNHCR offices in the country could have assisted in paying salary advances instead of holding such large amounts of cash in a safe.

**Recommendation:**

- The UNHCR Representation in Sudan should ensure that any contingencies for evacuation salary advances in the field for staff is done only after proper consultation. The Representation should ensure that the proper accounting transactions are posted to correct the accounts of the amounts wrongly expensed in 2005 (Rec.05).

42. *Management stated that corrective action would be taken prior to closing 2006 accounts.* OIOS will close this recommendation on confirmation that the accounting records have been duly corrected.

(b) Operational advances

43. There were some delays in the settlement and liquidation of operational advances. Nonetheless, in comparison to OIOS' last audit, procedures had improved. The Finance Assistant was monitoring advances on a systematic basis, and advances were not accumulated or carried over into subsequent advances. The outstanding balance in VF 364 pending clearance was about US\$ 25,000 at the time of the audit. Close monitoring and attention should continue, as some field offices are continuing to operate on the basis of operational advances paid by SO El Geneina.

(c) Expenditure on Field Office Kulbus

44. In 2005 and 2006 an amount in excess of US\$100,000 was spent on setting up and furnishing FO Kulbus. The amounts were disbursed in stages and charged to the various ABOD expenditure categories. The bulk of it was however allocated to 721, which covers alterations and improvements to premises. Due to the deterioration of security, UNHCR abandoned its plans to establish an office in the area. While some of the movable items had been retrieved, a significant part of the investment in the construction works remained at the site. Moreover, OIOS learned that the land on which the building was constructed was rented and therefore the landlord owns the structure. The building is currently occupied by CONCERN an NGO who have taken over the lease.

45. OIOS' review observed that the SO had not followed the proper procedures for opening and closing a UNHCR office. Additionally, the lease deed had not been shared with the Legal Affairs Section (LAS). *Management confirmed that the legal documents have now been shared with LAS.* This was even more important considering that the construction work was done on leased land. The SO should assess the value of the building and if it cannot be repossessed, this asset should be written-off after following the applicable procedures and approvals of LAMB/HAMB. *Management stated that the initial decision to start an office at Kulbus was dictated by operational realities; however subsequent developments on the security front forced them to abandon the office. It is UNHCR's intention to repossess the premises if the situation stabilizes, and therefore a write-off is not presently being considered. CONCERN will continue to use the premises and will be requested to release the office as soon as UNHCR is allowed to resume activities in Kulbus.*

(d) SOLAR overpayments

46. SOLAR payments were processed in Khartoum on the basis of claim documents and a calculation sheet sent by the SO El Geneina for staff in the Darfur operations. With the payment of SOLAR centralized in Khartoum, it established stronger control compared with that noted in the South Sudan operation. In general the process was satisfactory and was operating smoothly. A few errors were noted with reference to payment of SOLAR on sick leave and paternity leave.

47. It should be noted that during sick leave spent outside the SOA (other than on MEDEVAC) the entitlement to SOLAR ceases. Also, SOLAR should be discontinued from the date the staff member leaves the SOA on maternity or paternity leave. OIOS found that this was not always the case, and identified overpayments amounting to US\$ 10,000 in three cases.

**Recommendation:**

- The UNHCR Representation in Sudan should ensure that the SOLAR payments estimated at US\$ 10,000 and overpaid to three staff members on sick leave outside the SOA or on paternity leave are recovered (Rec.06).

48. *The SO informed OIOS that action had been initiated to recover the SOLAR erroneously paid. The staff members concerned have already agreed that the overpayments be recovered. Action will be taken prior to the year-end closure.* OIOS is pleased to note the action taken and will close the recommendation on receipt of evidence that the amounts have been recovered.

(e) Attendance records

49. Improvements were required in the maintenance of attendance records. OIOS noted some discrepancies and recommended that a full review be undertaken and corrective action taken where necessary. Staff members' leave records were duly corrected.

(f) Expenditure of security upgrades to private residences

50. Some staff members in El Geneina preferred staying in private accommodation instead of the guesthouses maintained by UNHCR. OIOS was informed that this had the approval of the Representation. While the UNHCR guesthouses are generally MOSS compliant, security upgrades are often required for private residences to make them MORSS compliant and this may entail additional cost to UNHCR. OIOS noted that security upgrades to a private residence of one staff member cost SDD 839,000 (US\$ 3,650). This was considerably more than the permissible amount of US\$ 900. *Management informed OIOS that four staff members were living in the house and no generator was provided to them for their use resulting in some savings.*

(g) ABOD costs and staffing levels

51. In June 2005, OIOS observed that given the level of operations, the existing staff complement appeared excessive: some of the managerial posts such as Senior Field Coordinator, Senior Community Services Officer, Senior Programme Officer and Senior Admin/Finance Officer, did not appear necessary. In its current review, OIOS determined that even though the scale of operations had increased, many of the planned field offices could not be opened due to security issues. Accordingly, the level of expected work was far less than anticipated. OIOS would reiterate therefore that a review of human resource requirements be done to determine the level of staffing required to sustain and to implement an effective operation. The ORB has endorsed the new staffing structure that was proposed by the Representation that took account both the operational requirements as well as the achievements reached so far in Darfur

52. OIOS estimated that the ABOD cost for the Darfur operation was US\$ 12.3 million for 2005/2006, which was considerably more than the programme costs of US\$ 9.4 million for the same period. OIOS appreciates that the Darfur operations are protection focused, requiring high staffing presence on the ground. Nonetheless, the rapidly escalating staff costs are a matter of concern which management should review. *Management stated that there were constant requests to reduce the overall budget and often programme expenditure was curtailed in order not to compromise UNHCR's presence on the ground and other activities. This meant that budget reductions were at the expense of programme expenditure.*

D. Supply Management

53. Supply management continues to be weak and an area of concern for management. OIOS' review of supply management showed that widespread shortcomings persisted in the area of asset and fuel management and this has an impact on the efficiency of operations.

(a) Fuel management

54. On two previous occasions OIOS highlighted that the supply of fuel is a crucial component of the Darfur operation and that it was imperative that reliable and cost effective

arrangements be concluded. In 2005 and 2006 (up to August) the SO procured diesel costing US\$ 300,000. Despite the significant monetary value and quantities involved, adequate attention had not been given to the procurement, receipt, issue and accounting of fuel. More than two years into the operation, the SO still procured fuel in drums as they lacked adequate bulk storage capacity. No initiative had been taken to put in place long-term arrangements. OIOS was informed that bulk fuel was brought in tankers and transferred to drums. Such a practice, involving manual handling and dispensing of fuel could expose UNHCR to considerable loss, short supply and wastage. The problem was compounded as the SO lacked the means to accurately measure the quantity in the drums.

55. Stock records reflecting receipts, issues and balances were not available when requested. At OIOS' request they were prepared for 2006 and for some months in 2005. Our review of the stock records prepared, were found to be neither consistent, reliable nor accurate. This was not surprising as the receipt of fuel, a measuring stick, provided by the vendor, was the tool used. The office did not have any measuring device, and the fuel drums were assumed on some occasions to contain 198 litres and on others 176 litres. In view of the significant difference per drum and the absence of opening and closing balances, OIOS considers that there is a significant likelihood that discrepancies will exist.

56. OIOS proceeded to analyse the fuel stock records and noted that from 12 November 2005 to 31 May 2006, the SO purchased 62,590 litres of diesel. The consumption records for the same period showed that 53,029 litres were used. In the absence of a closing balance of fuel, this implies a discrepancy of 9,561 litres representing 15 per cent of the quantity purchased. The SO needs to carefully recreate the fuel records so that the apparent shortages can be explained. A physical verification of stock should be conducted.

57. The SO also maintained a buffer stock of fuel of 120 drums (21,120 litres) valued at US\$ 22,000. This quantity was not shown in the stock records. Also, strong internal controls were not in place for controlling fuel usage, whereby an analysis per vehicle and generator (with explanations for over/under usage) could have been done. OIOS' review noticed that there were marked differences of kilometres/litre per vehicle and litres/hour for the generators. The SO was unable to explain the differences.

58. In response to the OIOS June 2005 audit, assurance had been given that "long term fuel arrangement either through WFP or UNMIS were being worked on". It was also stated that bulk storage facilities and measuring devices would be looked into, and the Administration Unit had been asked to identify funds for immediate procurement. OIOS regrets that no action was taken despite the assurances given, and there has been no change in the situation for the past two years. This in OIOS' opinion is not acceptable as a Supply Officer at the P-3 level has been present in the SO. *The SO agreed with OIOS comments regarding the inadequate attention given to the handling of fuel and all efforts would be made to correct this situation urgently.*

**Recommendation:**

- The UNHCR Representation in Sudan should significantly improve procedures for the procurement, receipt, issue, recording and analysis of fuel in Darfur. Immediate arrangements for bulk fuel procurement and storage facilities should be instigated in consultation with the Supply Unit in Khartoum. Sub-Office El Geneina should perform regular fuel stock counts to reconcile physical and book balances and undertake regular analysis of usage per vehicle and generator (Rec.07).

59. *In response to the recommendation, management stated that a procurement proposal for fuel bulk storage and handling capacity has been submitted to the Representation. Procedures have been strengthened and daily issues of fuel are recorded on a spreadsheet and weekly fuel stock counts are undertaken.* OIOS is pleased to note that action. OIOS will maintain the recommendation as open until OIOS receives confirmation that a bulk storage and handling system has been implemented, as well as copies of some of the formal records now established to monitor and control fuel receipts and issuances.

(b) **Asset Management**

60. OIOS observed and previously reported in 2004 and 2005 that the management of assets should be considerably improved. Despite assurances by management of the implementation of corrective measures, very little has been done. AssetTrak printouts were not available in SO El Geneina and only a spreadsheet listing assets was provided to OIOS. Even though an AssetTrak printout was later obtained from Khartoum, the listings did not provide an accurate and complete record of the assets in Darfur. Marked differences were noted, for example, there were 79 Toyota Land Cruisers recorded, while only 49 were operational in the field. There was no up-to-date listing of assets kept by implementing partners, and there were cases of assets not returned by former partners. For instance, Amel Centre still had a UNHCR Toyota Minibus, two motorcycles, two generators and assorted IT equipment, and DRC had a significant number of UNHCR assets. Right of Use Agreements with partners had not been updated. OIOS also noted that some assets were not bar-coded, including several generators and IT equipment. A complete and comprehensive physical verification of assets had not been carried out, though OIOS was informed that verification of assets in a few locations such as Nyala and Zalingei had been done. *The SO acknowledged the weaknesses in this area and asserted that requisite action would be initiated.*

**Recommendation:**

- The UNHCR Representation in Sudan should, as a high priority, improve asset management in Darfur. To reduce its reliance on the Representation in Khartoum, AssetTrak should be installed in Sub-Office, El Geneina and asset data uploaded. To ensure reliable and complete information is recorded, a full physical inventory should be undertaken, including assets used by implementing partners. Assets with partners no longer working with UNHCR should be returned with immediate effect (Rec.08).

61. *Management subsequently reported that AssetTrak has been installed in El Geneina. A physical verification of assets for UNHCR and IPs was ongoing and, with the completion of*



*this exercise, the database would be updated and validated. Partners no longer working with UNHCR have been requested to return UNHCR's assets. Discrepancies would be corrected and efforts would be made to ensure that the SO was in compliance with UNHCR's rules procedures governing asset management.* OIOS is pleased that this work has been done, and will maintain the recommendation until confirmation that the exercise has been completed and AssetTrak has been up-dated and assets with former partners have been returned.

(c) Warehousing

62. OIOS' review of warehouses in El Geneina showed that stacking of goods stored in the three warehouses was unsatisfactory. There was a risk that some of the stacks would collapse. In other sections of the warehouse access to goods was difficult, and due to disorderly stacking, OIOS was unable to test count many of the items. This may have been the reason why periodic stock counts were not undertaken by UNHCR. This lack of internal controls over stock in storage means there is a higher risk of unauthorized removal/theft. Also, pallets had not been used and items stored at the lowest levels could be prone to deterioration. The Supply Officer in El Geneina should have helped resolve many of these problems and ensured good warehouse procedures were in place.

63. Stock records are not up to date and differences were noted. As estimated by OIOS, the value of inventory stored in the warehouse was about US\$ 250,000 although OIOS could not ascertain the value of some of the IT and Telecommunication equipment. OIOS recommended that in order to safeguard against the possibility of loss, goods in the warehouse be insured. OIOS did note however that the procedures for receipt and issue of warehouse goods had improved since the previous review.

64. The responsibility for IT/Telecommunication items stored in the warehouse was vested with the units themselves and they were responsible to undertake all aspects of transactions such as receipt, recording and issue of IT/Telecommunication equipment. The segregation of duties was not in place and should be introduced.

**Recommendation:**

- The UNHCR Representation in Khartoum should ensure that the physical layout of the warehouse in El Geneina is improved and that the goods are stacked in a manner that would facilitate retrieval and physical count. Stock records should be maintained properly and a physical inventory should be undertaken every six months. The warehouse contents should be insured against loss and theft (Rec.09).

65. *Management reported that a physical count of items and systematic restacking has been completed for the El-Geneina warehouse and that action for the Nyala warehouse would follow. Vendors for wooden pallets would be identified for both locations and ITBs issued.* OIOS is pleased to note the action taken and will close the recommendation upon confirmation that the physical count for Nyala has been completed, wooden pallets have been purchased and are in use, records are all up-to-date and goods insured against loss and theft.

E. Security and Safety

66. UNHCR staff in Darfur operate in a volatile and unstable environment and this has influenced the operations. The movements of UNHCR and implementing partner staff have been greatly curtailed owing to security restrictions and this has affected project implementation. Recent reports indicate growing tension in the area and even some fatalities for NGO staff working in Darfur: this has created considerable insecurity among staff members. For security reasons some international staff were briefly relocated to the South Sudan operations, while some local staff were evacuated from phase IV to phase III areas in Darfur. Security upgrades to UNHCR offices and guesthouses have been ongoing.

67. *Management stated that despite serious constraints considerable efforts had been made to improve security for staff in Darfur. It was added that UNHCR offices in Darfur were among the most MOSS compliant UN offices in the region. A Field Safety Adviser is assigned to the Darfur operations and he works in close cooperation with other agencies in the area, constantly monitoring, updating and improving security requirements.*

**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 Darfur.

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