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Office of Internal Oversight Services
UNHCR Audit Service

MEMORANDUM

REF: AUD-/ 0618/07

31 January 2007

TO: Mr. António Guterres
High Commissioner, UNHCR

FROM: Eleanor T. Burns, Acting Chief,
UNHCR Audit Service
Office of Internal Oversight Services

SUBJECT: Audit of UNHCR Operations in South Sudan (AR2006/115/02)

1. I am pleased to submit the final report on the audit of UNHCR Operations in South Sudan, which was conducted during the months of August and September 2006 by Messrs. Krishna Menon and Guillaume Hendriks.
2. A draft of the audit report was shared with the Director for the Bureau for Africa and the Representative, whose comments, which were received in December 2006, are reflected in this final audit report.
3. I am pleased to note that most of the audit recommendations contained in the draft final audit report have been accepted and that the Representative has initiated their implementation.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 30 April 2007. This will facilitate the preparation of the twice yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.
5. Thank you for your cooperation.

cc: Ms. J. Cheng-Hopkins, Assistant High Commissioner, UNHCR
Ms. M. Kamara, Director, Bureau for Africa, UNHCR
Mr. C. Ache, Representative in Sudan, UNHCR
Mr. C. Mitchell, Acting Controller and Director, DFAM, UNHCR
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors (by e-mail)
Mr. T. Rajaobelina, Deputy Director of External Audit (by e-mail)
Ms. M. Odeima, Audit Coordinator, UNHCR (by e-mail)
Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)
Mr. K. Menon, Auditor-in-Charge, UNHCR Audit Service, OIOS

UNITED NATIONS

**Office of Internal Oversight Services
UNHCR Audit Service**

Assignment AR2006/115/02
Audit Report R07/R002

31 January 2007

AUDIT OF UNHCR OPERATIONS IN SOUTH SUDAN

Auditors:

Krishna Menon
Guillaume Hendriks

UNITED NATIONS



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Office of Internal Oversight Services
UNHCR Audit Service

AUDIT OF UNHCR OPERATIONS IN SOUTH SUDAN (AR2006/115/02(b))

EXECUTIVE SUMMARY

In August/September 2006, OIOS conducted an audit of UNHCR Operations in South Sudan. The audit covered activities with a total expenditure of US\$ 17 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 December 2006. *The management of the operation has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in South Sudan as below average. The weaknesses identified, taken together or individually, significantly impaired the overall system of internal control. Prompt corrective action is required by management to significantly improve the application of key controls.

Administration

- The rapid turnover of staff greatly hampered the smooth functioning of the administration, finance, supply and programme units. Due to the short incumbency of staff, little or no transfer of knowledge, skills or experience has taken place from international to local staff. The high turnover of staff and the negative impact it has on the operation remains an ongoing challenge for management. This highlights the need for UNHCR to again review its staffing deployment arrangements to ensure it has the ability to speedily assign personnel to high-risk operations.
- OIOS regretted that important weaknesses in financial controls highlighted in its previous audits had not been addressed. As a result, OIOS has continued to identify significant shortcomings in financial management. Basic procedures were not in place, leading to the failure of critical internal controls rendering UNHCR vulnerable to financial loss due to overpayments. In OIOS' view, the operation in South Sudan has not made effective use of the audit findings and recommendations to strengthen internal controls to prevent recurring weaknesses and operational inefficiencies.
- Overall the control environment (including the South Sudan Liaison Unit in Nairobi) was weak, as inexperienced staff members were not properly supervised and thus exceptions to rules and procedures were not identified. This resulted in duplicate payments, overpayments and non-compliance to rules and procedures. OIOS is concerned at the slow pace of recovery of overpayments to staff members of about US\$ 57,000.

- OIOS' review showed shortcomings in the management of cash and petty cash with responsible staff neglecting basic controls over disbursement of and accounting for cash. Due to non-compliance with handover procedures when custodians changed and in the absence of regular reconciliations, cash shortages have been reported at Field Offices Rumbek and Bor.
- The administrative and support expenditure far exceeded that of programme expenditure. OIOS calculated that the administrative expenditure for Juba and Malakal was US\$ 6.65 million, against programme expenditure of only US\$ 4.87 million: administrative support was 58 per cent of the total expenditure. In OIOS' opinion, this seems rather high.

Programme Management

- For the six partners reviewed, with the exception of SRRC and NRC, reasonable assurance could be obtained that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. For SRRC, OIOS failed to obtain adequate supporting documentation to substantiate expenditures of US\$ 90,000 and OIOS has now been informed that part of these funds may have been misappropriated.
- Programme management in general required improvement, and in particular project monitoring of partners was not sufficient. Project financial and performance monitoring by Sub-Office, Juba has been weak due to the frequent turnover of programme officers and the relative inexperience of the national staff as well as the insufficiency of the training provided.
- Working relationships with some partners required improvement. OIOS assessed that three sub-projects were not fully effective in achieving their stated objectives with programme managers in UNHCR not intervening in a timely manner to ensure projects were implemented successfully.

Supply Management

- Despite its criticality for the operations, overall supply chain activities, in particular fuel and asset management, were weak and required urgent attention. AssetTrak was not operational and considerable work was needed to update and record UNHCR assets. *OIOS was informed that a long-term contract for fuel has been awarded, fuel management procedures have been strengthened and AssetTrak is now operational.*

Security and Safety

- Security considerations have continued to have an impact on operations. MOSS compliance rates were low, but efforts were underway to improve the level of compliance.

January 2007

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I. INTRODUCTION

1. From 21 August to 2 September 2006, OIOS conducted an audit of UNHCR's Operations in South 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 Operations Manager (now designated Deputy Representative) and its Field Offices (FO) at Rumbek and Malakal and of six of its implementing partners. OIOS also followed up on its previous findings concerning three other partners.

2. In February 2006, OIOS had audited the activities of the Operations Manager, South Sudan Operations and the Sub-Offices (SO) in Juba and Yei, as well as field offices located at Yambio, Kajo Keji and Tambura. OIOS also reviewed the activities of 11 implementing partners. Recommendations were made to reinforce project control activities and monitoring of partners and also to increase compliance by most partners with UNHCR's IP procurement guidelines. OIOS also assessed that supply chain activities carried out by UNHCR, specifically asset management, were ineffective and required urgent attention. Financial management required strengthening, as well as the controls over operational advances and payments to staff, in particular SOLAR and hazard payments. During this follow-up review OIOS' found that its recommendations had not been properly implemented.

3. With the dissolution of the office of the Director of Operations for the Sudan Situation (DOSS), the Operations Manager for South Sudan (now re-designated as Deputy Representative) reports to the UNHCR Representative in Khartoum.

4. The signing of the Comprehensive Peace Agreement in January 2005 has paved the way for the reconstruction of South Sudan which could eventually facilitate the return of four million internally displaced persons and 500,000 refugees. The main objectives of the South Sudan operations are to facilitate safe and dignified voluntary repatriation of Sudanese refugees from countries of asylum and to promote durable solutions for returning refugees and internally displaced persons through sustainable reintegration activities pursued through the implementation of community-based reintegration projects. The implementation of programmes has been hindered as the region is in a state of simmering conflicts, insecurity and impoverishment. UNHCR operations in the region have been stalled by grave security incidents in 2005 and in 2006.

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 1 September 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 December 2006. Management has *accepted most of 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/330 (Juba) and 06/SB/SUD/RP/335 (Malakal) with expenditure of US\$ 4.9 million. Project 05/SB/SUD/RP/331 had been reviewed by OIOS in February 2006, however, during the current review two Rumbek based partners allocated funds under the project, namely Comitato Collaborazione Medica (CCM) and the Norwegian Refugee Council (NRC) were also included in the audit scope. OIOS' review concentrated on the activities implemented by INTERSOS - expenditure of US\$ 187,000; Adventist Development and Relief Agency (ADRA) - expenditure of US\$ 155,000; CCM - expenditure of US\$ 150,000, NRC – expenditure of US\$ 207,000, Islamic Relief Worldwide (IRW) - expenditure of US\$ 126,000 and the Sudan Relief and Rehabilitation Commission (SRRC) - expenditure of US\$ 151,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 2.6 million.

8. The audit reviewed the administration of the Office of the Operations Manager, SO, Juba and FOs, Rumbek and Malakal with administrative budgets totalling US\$ 12.2 million for 2005 and 2006. The number of staff working for the UNHCR Operation in the offices reviewed in South Sudan was 171. This included staff on regular posts, United Nations Volunteers, secondees and staff on mission.

9. The audit also followed up on findings and recommendations made in OIOS' November 2005 and February 2006 audits regarding SOLAR, financial and cash management, operational advances and supply 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. Administration

(a) Inadequate action on OIOS' findings and recommendations

11. OIOS' previous recommendations contained in its audit report dated 22 August 2006 to strengthen internal controls were not immediately implemented and as a consequence, opportunities to improve programme performance and financial management were not realized or were delayed.

(b) Frequent changes in personnel

12. A problem that has characterised the operation is the rapid turnover of international staff in key positions. This has hampered the carrying out of administration and other support functions besides slowing down programme implementation. There were multiple changes of staff members in crucial posts (Finance Officer, Programme Officer and Supply Officer) and some posts were still filled by staff on mission as of January 2007. This situation impeded programme delivery, as staff and implementing partners had to repeatedly get used to dealing with new managers and supervisors. Also, in OIOS' view, excessive reliance on incoming mission staff and the relatively short mission periods meant that many staff lacked a long-term commitment to the operation and were either unwilling or not in a position to train local staff who were in general very inexperienced and needed close supervision. OIOS observed that due to the short incumbency of staff, little or no transfer of knowledge, skills and experience took place from international to local staff. This highlights the need for UNHCR to again review its staffing deployment arrangements to ensure it has the ability to speedily assign personnel to high-risk operations.

Recommendation:

- The UNHCR Bureau for Africa and the UNHCR Representation in Sudan should ensure that existing vacancies in key positions are filled in a timely manner by staff assigned to the post rather than by staff on mission (Rec. 01).

13. *Management agreed with the recommendation and stated that key positions in Administration and Finance had been filled, while action to recruit staff for Programme and Logistics had been initiated.* OIOS takes note of the action taken, and will record the recommendation as implemented on confirmation that all key positions have been filled.

(c) Financial Management

14. In the areas of administration and finance, in the UNHCR offices in Juba, Rumbek and Malakal, internal controls were found to be weak and needed to be strengthened to ensure rules and procedures are consistently applied. The finance function, which is an important aspect contributing to the efficiency of an operation, was not working effectively. In OIOS' opinion, urgent action was needed to provide more training to increase the capacity and skills of the national staff.

15. OIOS identified numerous misclassifications of expenditure. DSA advances were charged directly to object of expenditure 242, instead of to VF 369, advance DSA for MEDEVAC was charged to VF 369 instead of VF 367 and in other cases it was charged directly to 243. Advances to partners were charged to AB 521, purchase of water for Bor charged to VF 321, and salary cost for security guards allocated to 921, instead of 415. The frequency of such incorrect postings highlighted the need for better training and closer supervision.

Recommendation:

- The UNHCR Representation in Sudan should ensure that finance staff are provided with the requisite training to ensure they are fully conversant with UNHCR's rules and procedures with the aim of

reducing errors and mis-classification of expenditure (Rec. 02).

16. *Management stated that staff training (workshops and on-the job training) was a priority, with the objective of increasing staff competence. Oversight over field operations would also be strengthened.* OIOS is pleased to note that action will be taken, and will record the recommendation as implemented on confirmation that the staff training referred to has taken place and procedures have been established to systematically supervise staff in field locations.

(d) The running of parallel FMIS systems

17. Two parallel FMIS systems were operating in Juba, with separate ABODs, cashbooks and bank accounts even though the Office of the Operations Manager and SO Juba had been integrated. The cashbooks and bank accounts were used interchangeably, depending on the balances available in the bank and with payments charged to both ABODs there was a risk of duplicate entries. The existence of two ABODs entailed considerable work in separately sending the monthly accounts and other associated documents, for what is essentially one office. *Since October 2006, there is only ABOD, which will streamline procedures and provide assurance to management that expenditure transactions are not duplicated.*

(e) SOLAR and Hazard Allowance payments

18. OIOS regrets that action had not been initiated to implement many of OIOS' previous recommendations for the calculation and payment of SOLAR and Hazard Allowance (HA). Many of the weaknesses noted earlier had persisted without remedial action.

19. OIOS appreciates the difficulties: as the South Sudan operation has multiple locations responsible for determining the eligibility and subsequent payment of SOLAR and HA entitlements. The recurrent overpayments of staff entitlements (mainly SOLAR and HA) was due in OIOS' opinion to a lack of coordination between various offices, non-compliance with UNHCR's rules and procedures, and a lack of due care and attention by staff members in completing travel claims and accounting for entitlements. Several cases of overpayments totalling about US\$ 57,000 have been found due to double payments, non-recovery of advances, payment of SOLAR during sick leave outside the SOA and calculation errors. Refer to Annex 1 for details. Prompt action has not been taken so far to recover overpayments and only US\$ 8,700 out of US\$ 57,000 has been recovered, even though these cases were pointed out several months back.

Recommendations:

- The UNHCR Representation in Sudan should, in conjunction with the Finance Section at Headquarters, thoroughly review all SOLAR and Hazard Allowance payments made in South Sudan for 2005 and 2006 to identify the reasons for the breakdown in internal controls allowing so many errors and overpayments to be made. The Representation, with the assistance of the Finance Section, should ensure internal controls are strengthened to ensure non-recurrence of such widespread errors (Rec.03).

- The UNHCR Representation in Sudan should ensure that overpayments identified by OIOS and estimated at US\$ 57,000 are recovered. Copies of the receipt vouchers should be forwarded to OIOS (Rec.04).

20. OIOS will record recommendations 03 to 04 as implemented on confirmation that a thorough review has been undertaken for all SOLAR and Hazard Allowance payments made in South Sudan for 2005 and 2006, internal controls have been strengthened to ensure non-recurrence and the overpayments identified by OIOS have been satisfactorily resolved and appropriate recoveries made.

(f) Other financial management issues

21. OIOS had previously raised concerns about the procedures for the payment and clearance of operational advances. OIOS noted that the controls had been strengthened, however further attention was required to monitor the payment and clearance of advances. For example, advances were given to staff prior to the settlement of previous advances, and the recovery or settlement was not done in a timely and accurate manner. *Management stated that instances of delays in settling operational advances could be partly attributed to the difficult operating environment. Management hoped that with closer monitoring the situation would improve.*

22. VF accounts were not well managed; particularly those at SSLU in Nairobi where VF accounts were not monitored and cleared systematically. The VF 521 account was extensively used without observing UNHCR's procedures. At the time of the audit, US\$ 250,000 was pending clearance in the suspense account across various locations in South Sudan. Other VF accounts such as 364 and 369 also required attention. OIOS recommended that the Representation ensure that payable and receivable accounts, as well as all suspense accounts are monitored on a continuous basis. *A reconciliation process for clearing outstanding advances has been initiated. With the establishment of new bank accounts at Juba, recourse to the VF 521 account would be minimized.*

23. A professional finance staff member received a rental advance of KSH 900,000 (US\$ 12,500) in January 2006 (from the SSLU) for leased accommodation in Nairobi. OIOS noted that while the rental advance had been requested and received in January 2006, the rental agreement only commenced in March 2006. At the time of the audit in August 2006, no monthly deductions had been made. This, in OIOS' opinion was not acceptable as UNHCR professional staff members dealing with administration and finance should be fully aware of the procedures. *The rental advance of US\$ 12,500 was recovered in a lump-sum from the relocation grant paid to the staff member on reassignment in November 2006, some 11 months after the advance was taken.*

24. In the absence of banking facilities at most locations in South Sudan, cash payments were the norm. However, adequate procedures were not in place, and some of the offices neglected to establish basic controls over the payment and accounting for cash. For instance, proper handover procedures were not in place when custodians changed, regular reconciliations were not carried out, and instances of cash shortages were not reported. At FO Rumbek, OIOS was able to partially reconcile, with the help of the Finance Assistant, a shortage of about US\$ 9,000. This should have been detected and cleared by the Finance

Officer who had earlier been based at that location. Also, at FO Bor, in May and June 2006, a petty cash discrepancy and theft of US\$ 2,007 was reported. The Head of Office did not undertake a full investigation of the loss, nor was a report forwarded to the Finance Section at Headquarters.

Recommendation:

- The UNHCR Representation in Sudan should ensure that cash shortages and excesses are promptly followed-up and the reasons for differences properly documented. The Representation should complete documenting the case of theft at Field Office Bor and report it to the Controller and submit it to the Headquarters Asset Management Board for action (Rec.05).

25. *The Deputy Representative reported that the matter was still under investigation and would be submitted to the LAMB and HAMB and in the meanwhile the attention of field offices has been drawn to setting up basic controls for petty cash, designation of cash custodian, regular cash counts and maintenance of appropriate accounts.* OIOS will record the recommendation implemented on confirmation that the petty cash discrepancy has been reconciled and the case of theft submitted to the Controller and the Headquarters Asset Management Board and appropriate action has been taken.

(g) **Human resources management**

26. The South Sudan operations did not have a Human Resources Officer or sufficient staff conversant with Human Resource matters. The absence of adequate support in this area had an impact on various facets of the operations, such as regulation of staff entitlements, PARs, MIP and medical evacuations. In Juba, Rumbek and Malakal, OIOS could not obtain any documents for 2005 and 2006 that staff and their supervisors had agreed on their work objectives and on the competencies to be demonstrated. For staff on mission, including those on relatively long missions, PARs were not completed and as such it was difficult to evaluate their performance in the absence of agreed goals and objectives.

Recommendation:

- The UNHCR Representative in Sudan should strengthen the human resources function for the South Sudan operations. In order to make the best use of staff on mission, consideration should be given to assigning specific performance goals to staff who arrive in the region on short or long term missions so that such personnel can be held accountable for their performance during the mission period (Rec.06).

27. *Management reported that PAR compliance has improved and that efforts would be made to comply with OIOS' recommendation.* OIOS will record the recommendation as implemented on confirmation that the human resources function has been strengthened. Also that regular staff and staff on mission are fully aware of their work objectives and duly evaluated on the level of achievement.

28. The MIP system was not operational. Medical claims were submitted by staff but not

processed, as the software had been corrupted. As a result, no reimbursement of medical claims for local staff had been made, even though the MIP contributions were regularly deducted. OIOS recommended that this be addressed expeditiously. *The MIP system is now running and MIP claims are being settled as of November 2006.*

29. Medical evacuations had been permitted for UNVs and Consultants, even though UNHCR's eligibility instructions on the subject are clear. OIOS informed the Representation that a UNV medically evacuated received DSA for which he was not eligible and recommended a recovery and settlement in accordance with the MEDEVAC scheme applicable to UNVs. *Management conceded that costs had been wrongly offset against ABOD and that recoveries would be made.* Additionally, OIOS observed the case of a staff member (index # 017792), on mission to South Sudan who was medically evacuated to Paris in June 2006. This was just one day before the end of his mission. The recognised place for MEDEVAC from Sudan was Nairobi or Johannesburg; therefore it is not clear from the records why he was evacuated to Paris. OIOS already highlighted its concerns on the approval of entitlements with regard to MEDEVAC in its comprehensive review issued in May 2006.

(h) Monitoring use of official vehicles

30. The recording of travel, whether official or private in UNHCR vehicles required substantial improvement. Logbooks in many cases were not completed in a way that allowed the mileage to be checked and to assess whether the journey was official or private. Significant unaccounted mileage was observed and in numerous cases the purpose of the visit had not been recorded. In several cases there was no indication about who had used the vehicle and for what purpose. *Corrective measures have been introduced and logbooks are regularly checked by the Administration and drivers have been made aware of the need to consistently complete the logbooks.*

B. Review of Implementing Partners

31. For the partners reviewed, reasonable assurance could be obtained that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements with the exception of SRRC and NRC.

32. Three of the partners received only nominal funding and therefore were below the threshold for obtaining audit certificates from an external audit firm. For SFM, the required audit certificate for 2005 had not yet been initiated. *OIOS was informed that arrangements would be made for the audit certificate in respect of this partner.*

(a) Comitato Collaborazione Medica

33. The sub-project aimed to rehabilitate the paediatric ward (budget of US\$ 65,000) and to provide electricity for the Rumbek Hospital (budget of US\$ 75,000). The latest SPMR was not available either at CMM or at the SSLU in Nairobi. OIOS observed that CCM did not adhere to the UNHCR IP Procurement Guidelines for the selection of suppliers. CCM awarded the contracts to a company already employed on another donor's project.

34. Electrical equipment (generators, electrical fittings and air conditioners) purchased at a cost of US\$ 72,000 had not yet been installed and had been lying unused for more than a year

at the hospital site. As such, one of the major objectives to upgrade the hospital and to improve the quality of health care has not been achieved. CCM have estimated that a further US\$ 25,000 would be required to install the electrical equipment. The failure to install these valuable assets indicates a lack of planning and coordination between the partner and UNHCR. It does not seem logical to procure items without the necessary resources to install them.

Recommendation:

- The UNHCR Representation in Sudan should ensure that valuable assets costing US\$ 72,000, which are essential for generating electricity for the hospital, are installed. This service should be speedily rendered for the benefit to the community (Rec. 07).

35. *Management stated that due to funding and other constraints, the generators could not be rendered operational in 2005 and 2006. The partner had expressed an inability to provide funds, and as a result, UNHCR will ensure that the generators are installed by 31 March 2007.* OIOS will record the recommendation as implemented on confirmation that the equipment purchased by CCM has been installed to generate electricity for the hospital.

(b) Sudan Relief and Rehabilitation Commission

36. The 2005 sub-project with a budget of US\$ 65,000 was aimed at enhancing the capacity of SRRC by setting up temporary offices for its Headquarters and furnishing of SRRC offices. SRRC did not establish proper books of account for managing and reporting on UNHCR funds. In the absence of basic records, OIOS was unable to obtain assurance that the expenditures reported to UNHCR were in fact disbursed. Internal controls were weak and the partner did not comply with UNHCR's IP Procurement Guidelines. While sub-project objectives were largely achieved, further capacity building was required to ensure SRRC plays an effective role in the repatriation, relief, resettlement and rehabilitation efforts.

37. For the 2006 sub-project, at the time of the audit, UNHCR had entered into a Letter of Mutual Intent, dated 24 April 2006 under which the partner had been advanced SDD 20 million (US\$ 90,000) for 'enhancing the capacity of the SRRC'. The funds were allocated as a lumpsum under 'Agency Operational Support' and not broken down into specific lines. SRRC was unable to demonstrate how the funds were disbursed, or provide project related documents to substantiate them. SRRC explained that the person responsible was not available and those present lacked sufficient knowledge of the sub-project.

38. OIOS appreciates that UNHCR needs to work with government partners, and it is important to build their capacity. It should be clear however that the partner is responsible for accounting for UNHCR funds and having proper records and to able to substantiate how the funds have been spent. The Representation should insist that proper books of account are maintained.

Recommendations:

- The UNHCR Representation in Sudan should ensure that the Sudan Relief and Rehabilitation Commission establish a basic accounting system that meets UNHCR's financial reporting requirements. The Representation should also review the functioning of SRRC in

relation to the 2006 sub-project and ensure the partner provides documents to support expenditures reported by them. The level of funds misappropriated should be determined and at least some of the funds should be recovered from the partner (Rec. 08).

39. *Management attributed the problems faced by the SRRCC to the high turnover of staff and large-scale management changes. On the issue of unsubstantiated 2006 expenditures, SRRCC reported to UNHCR that following an internal investigation; it came to light that some funds had been misappropriated. UNHCR will deploy the Project Control Officer to work closely with SRRCC to follow up the matter.* OIOS will record the recommendation as implemented on confirmation that the Project Control Officer has conducted an in-depth review of the partner and provide the necessary assistance and guidance to ensure internal controls are strengthened and reimbursement where appropriate is received.

(c) INTEROSOS

40. OIOS conducted an interim review of INTERSOS' 2006 sub-project that envisaged community based rehabilitation projects (CBRPs) and a profiling exercise to obtain reliable information on returnees and IDPs.

41. A Letter of Mutual Intent was signed in March 2006, and the Sub-Project Agreement concluded in June 2006. An initial instalment of US\$ 70,000 and SDD 26 million was transferred to the partner in April 2006. At the time of OIOS' review the implementation rates were low due to the onset of the rains and the absence of expatriate staff on the ground. Despite this, three budget lines were overspent in the SDD budget.

42. Internal controls over financial management needed to be improved; banking controls were not adequate and the proper segregation of duties was not in place. The partner also received five per cent Headquarters support costs on the basis of the sub-project budget without deducting the local procurement component. Headquarters support costs were therefore over budgeted by US\$ 9,250.

Recommendation:

- The UNHCR Representation in Sudan should ensure that INTERSOS improve internal controls; bank accounts should be operated on a joint signatory basis, and there should be proper segregation of duties over the authorising and approving functions. Overhead support cost budgets should be established only after deducting significant amounts allocated to local procurement (Rec.09).

43. OIOS will record the recommendation as implemented on confirmation that the internal controls of INTERSOS have been strengthened and that the budgeted and accepted charges for overhead support costs have been calculated net of significant local procurement costs.

(d) Adventist Development and Relief Agency

44. The partner was responsible for a sub-project with a budget of US\$ 240,000 for establishing and managing the way-station infrastructure, the logistics of transporting

returnees and the provision of food and non-food items.

45. ADRA did not submit SPMRs in a timely manner, as the accounting system was not adequate. OIOS recommended that the system be enhanced and vouchers and supporting documents better organised.

46. The way station construction contract was awarded for SDD 27.6 million (US\$ 121,000) without competitive tendering. Several mandatory requirements specifically mentioned in the Sub-Project Agreement pertaining to insurance of buildings, a penalty clause for delays, retention of warranty monies and a defect rectification clause were not part of the contract. Progress on construction had been slow, though at the time of the audit all the work had been completed, except for the generator room.

47. The partner and UNHCR have not had a smooth working relationship, arising primarily from the partner's inability to meet UNHCR's reporting and compliance requirements. Also, as project implementation was delayed, UNHCR had to step in and directly implement the transport of returnees, a responsibility delegated to the partner.

48. In its February 2006 audit, OIOS had already raised concerns about this partner's performance in Yambio, particularly related to procurement matters. OIOS was assured that UNHCR would not renew their partnership with ADRA. This has not been the case, and with two Sub-Project Agreements concluded in 2006, it is an indication that UNHCR were satisfied with their performance. Management informed OIOS that *ADRA Yambio was managed and controlled from Nairobi while ADRA Malakal was managed from Khartoum, Nonetheless, in view of ADRA Malakal's failure to deliver satisfactory performance, UNHCR have decided not to continue with this partner in 2007.*

(e) Norwegian Refugee Council

49. NRC was no longer a UNHCR partner in the Sudan operations. In 2005, it implemented an education programme for improving and promoting girls' education, as well as the provision of school equipment. The most important part of the sub-project involved construction activities with a budget of US\$ 175,000. The project management had undergone changes and the expatriate staff member was new and not fully conversant with what had happened in 2005.

50. OIOS had difficulties in reconciling from the partner's books of account to the amounts reported in the SPMR. The SPMR submitted was greatly delayed and the final version was only sent to UNHCR in June 2006. Most of the major budget lines could not be reconciled and a number of discrepancies per budget line were noted. This reportedly came about as the partner had changed their accounting system at the beginning of 2006.

51. OIOS noted that assets on loan to the partner had not yet been returned. This included two desktops, two printers and two stabilizers.

52. Even though large amounts were involved, OIOS could obtain no evidence that construction contracts were awarded after a competitive bidding exercise had been conducted. Although copies of contracts were on file, important documents such as the completion certificate were not available. Thus, it could not be assessed whether the works were completed on time. When OIOS visited the school site, it was observed that solar equipment

purchased at a cost of US\$ 7,000 was not functioning properly, as the battery terminals had corroded. Such issues should have been detected and sorted out by UNHCR's periodic project monitoring and control procedures. *Partnership with NRC was discontinued in 2006 and the assets that remained with the partner would be retrieved from the partner and donated to the resource centre constructed by UNHCR.*

C. Other Programme Issues

53. As noted by OIOS in its February 2006 audit, project financial and performance monitoring was weak. This was due mainly to the frequent turnover of Programme Officers and the relative inexperience of national staff. Even by August 2006 the in-coming international staff had still not properly trained the Programme Assistant and Senior Programme Clerk. As a consequence, programme staff were unable to contribute in a meaningful manner to programme activities such as project control, FOBS and IPR recording. The presence of a Senior Programme Officer in Juba should have addressed many of these issues, but at the time of the review this was not the case. The following outlines the pressing problems faced by the operation.

(a) Programme management weaknesses

54. There was no evidence of adequate and systematic planning of programme activities. For a number of the partners, even in August, 2006 Sub-Project Agreements had not been signed and the current partnerships were mainly on the basis of a Letter of Mutual Intent. This may have been caused by the late closure of the 2005 sub-projects, with many of them extended into 2006. These delays will considerably shorten implementation time and perhaps cause a recurrence of the same problem in 2007.

55. For some of the partners reviewed the implementation rate was low. For example, at the time of the audit SFM had not started its programme implementation, even though funds had been received from UNHCR several months ago. INTERSOS also showed low implementation rates. *Management acknowledged some delays in executing Sub-Project Agreements but attributed these to the late receipt of LOIs from Headquarters. It was further stated that Sub-Project Agreements have since been signed, replacing the Letters of Mutual Intent under which funds had initially been made available. It was added that the Senior Programme Officer, who was responsible for this function had no back-up capacity in dealing with matters of concern in South Sudan. Regarding implementation rates, it was stated that these were low as the funds had been belatedly received and furthermore the rainy season had also impacted on operations.*

(b) ABOD and Programme Costs

56. It is a matter of concern that the pace of growth of administrative and support expenditure has far exceeded that of the programme expenditure. As calculated by OIOS, the administrative expenditure for Juba and Malakal was US\$ 6.65 million, against programme expenditure of only US\$ 4.87 million, meaning that the administrative support expenditure was 58 per cent of the total expenditure. This seems rather high, and would be even higher if FO, Rumbek ABOD costs had been added.

(c) Ineffective projects and UNHCR-implementing partner relations

57. Building effective partnerships with its implementing partners is one of UNHCR's main priorities in every operation. An open collaborative relationship will ensure that the decision making process is effective and delivery of assistance is efficient. OIOS noted in South Sudan that there was not always a good relationship with partners, and on a few occasions this had an adverse impact on the effectiveness of project implementation. For example, the sub-project with ACCOMPLISH was signed only in October 2005 due to delays in deciding budget provisions and procedures to apply in procuring goods. Due to the differences of opinion, the sub-project, which among other things included the fencing of a school premises at Juba, was abandoned even though it was nearing completion. For CCM, in the absence of proper coordination and funding arrangements, the generators and electrical equipment (as referred to above) had not yet been installed in the Rumbek hospital. For SFM, due to a breakdown in communication whereby expectations from both sides were not properly discussed and agreed, they had not yet assembled school desks even though the materials had been received in August 2005.

58. Given the prevalence of the problems identified and the apparent lack of cooperation with some partners, the Representation needed to evaluate how to improve relationships to reduce any negative impact on the effectiveness of the implementation of the projects.

Recommendation:

- The UNHCR Representation in Sudan should ensure improved coordination and communication between programme staff and implementing partners so that problems are worked out together and issues of concern are addressed in a timely manner. The sub-projects that were ineffective in achieving their objectives in 2005 should be quickly completed in order to assist the targeted beneficiaries (Rec.10).

59. *While conceding that the partner had failed to meet expectations, management insisted that the delays in the ACCOMPLISH sub-project were attributable to problems the partner had with the contractor rather than with UNHCR.* If this was the case, then considering UNHCR's responsibilities over project implementation, UNHCR should have intervened either by ensuring that the partner completed the work or by direct implementation, particularly as the school site is easily accessible and located within Juba town. *For CCM and SFM, Management stated that the relationship was normal, albeit there were 'healthy disagreements' at times.* With regard to SFM, it is still not clear whether the projects have been implemented and the desks assembled. OIOS notes that UNHCR has decided not to work with SFM in 2007. The issue with regard to CCM is already referred to above. OIOS will record the recommendation as implemented on confirmation that the 2005 sub-project objectives have been achieved.

D. **Supply Management**

60. Given the vast geographical spread, remoteness of locations and absence of road infrastructure, logistics and supply management is a critical support function for the operations in South Sudan. OIOS' review showed that there were still serious weaknesses in the internal controls over asset and fuel management affecting the efficiency of operations.

(a) **Fuel management**

61. The estimated monthly fuel requirements prepared by UNHCR for Juba and Bor were around 30,000 litres for generators and vehicles, with generators accounting for over 75 per cent of the fuel consumption. As such, with fuel costing a dollar per litre, the yearly expenditure could be in the order of US\$ 360,000.

62. OIOS' audit focused on major aspects of the fuel supply chain such as its procurement, storage and handling, as well as the coordination of fuel requirements. Some serious internal control weaknesses were noted including inaccurate estimation of fuel requirements, unreliable records regarding consumption and a lack of opening and closing balances, as well as inefficient storage practices. Stock taking measures also needed to improve.

63. OIOS noted that two years into the operations, UNHCR was still procuring fuel in drums and only recently have measures been taken to contract fuel in bulk. OIOS appreciates that efforts have been made to monitor the consumption of fuel per asset nonetheless the procedure was ad hoc and was not consolidated and reported in a manner that was useful for management or control purposes.

64. At FO Rumbek, OIOS observed fuel stock records that were inaccurate as balances were not correctly carried forward and quantities were shown as received, even though no receipt actually took place. When the inaccuracies were pointed out, the errors were corrected.

65. *OIOS was pleased to note the action taken, whereby a fuel contract has been entered into and the 20,000 litres fuel dispenser was expected to be operational by December 2006. Also several measures have been instituted for strengthening fuel management procedures covering receipt, issue and stocktaking of fuel.*

(b) Asset Management

66. As observed and previously reported by OIOS, asset management was weak, and very little had been done since OIOS' last audit to strengthen internal controls. At all offices, except for FO Rumbek, AssetTrak was not operational. Even at FO Rumbek, with the frequent staff turnover and numerous missions, a large number of assets such as Thuraya phones and laptops were unaccounted for as staff had left the location taking the assets with them. Procedures for handover of UNHCR assets on departure from the mission area or location have not been established. OIOS also noted that assets with partners were not recorded, and recommended that action be taken to address this. *Management attributed the weak internal controls to the absence of professional staff and the relative inexperience of national staff/UNVs. It was added that AssetTrak had been installed in Juba and Yei, and training conducted. Steps to resolve discrepancies in AssetTrak data for South Sudan have been taken and many assets recorded on AssetTrak, with the aim of having a comprehensive inventory of assets, including those with implementing partners.* OIOS is pleased to note the positive action taken.

(c) Procurement

67. OIOS reviewed procurement of US\$ 520,000 mainly construction contracts for office premises, security upgrades and staff residences. OIOS assessed that the procedures followed in 2006 were generally satisfactory and had improved in comparison to 2005. Nonetheless, construction work should continue to be closely monitored and completion reports should be

obtained. OIOS was pleased to note that a UNV civil engineer was at hand to provide much needed technical supervision.

68. The quality of the prefabricated units procured for UNHCR staff at Juba at a cost of US\$ 150,000 was unsatisfactory, and value for money has not been obtained. These expensive units were procured in late 2005 from Khartoum but were only installed in Juba in July 2006. The UNHCR engineer has identified numerous defects and the quality in general is poor, especially for plumbing and electrical fittings. Considerable expenditure will have to be incurred to make them habitable. *A joint inspection of the defects was undertaken in September 2006 with the supplier of the prefabs. In case the supplier failed to keep his commitment to rectify the defects, UNHCR will proceed with the rectification work and the cost thereof deducted from the 10 per cent contract value still retained by UNHCR.*

E. Security and Safety

69. UNHCR offices in South Sudan were not MOSS compliant and OIOS' review showed that at some locations even basic security measures, such as adequate perimeter security (armed guards and fencing); fire extinguishers or first aid kits at offices/residences, have not been put in place. Furthermore, regular security assessments were not conducted in order to evaluate possible risks to staff, offices, residences and UNHCR assets. *The Deputy Representative stated that comprehensive measures have recently (October 2006) been instituted to improve the level of MOSS compliance at all locations across South Sudan.*

V. ACKNOWLEDGEMENT

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



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