



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

UNHCR procurement activities in the Democratic Republic of the Congo

**Ineffective procurement arrangements in place at
the time of the audit increased the likelihood of
financial loss**

28 October 2009

Assignment No. AR2008/110/03

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Antonio Guterres, High Commissioner
A: United Nations High Commissioner for Refugees

DATE: 28 October 2009

REFERENCE: IAD: 09- 03062

FROM: Fatoumata Ndiaye, Acting Director
DE: Internal Audit Division, OIOS

Fatoumata

SUBJECT: **Assignment No. AR2008/110/03 – Audit of UNHCR procurement activities in the Democratic Republic of the Congo (DRC)**
OBJET: **Republic of the Congo (DRC)**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 1, 3, 7, 12, 14, 16, 17 and 18 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 2 and 5) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. L. Craig Johnstone, Deputy High Commissioner, UNHCR
Ms. Janet Lim, Assistant High Commissioner, UNHCR
Ms. Karen Farkas, Controller and Director, DFAM, UNHCR
Ms. Maha Odeima, Audit Coordinator, UNHCR
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
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INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of UNHCR procurement activities in the Democratic Republic of the Congo (DRC)

OIOS conducted an audit of the Office of the United Nations High Commissioner for Refugees (UNHCR) procurement activities in the Democratic Republic of the Congo (DRC). The overall objective of the audit was to determine whether effective arrangements for managing procurement activities were in place for the UNHCR operation in the DRC. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the arrangements in place at the time of the audit were not effective in ensuring that: procurement was undertaken in compliance with rules; and the best use was made of UNHCR resources. The UNHCR Representation took prompt action in addressing the weaknesses noted below, which has resulted in implementation of most of the recommendations in the report.

The main findings were as follows:

- To ensure accountability and clear delegated authority, the roles and responsibilities of the Supply Unit in Kinshasa and offices in the field, which were undefined following the organizational changes in mid-2008, needed to be clarified alongside management reporting arrangements;
- Inadequate training arrangements for procurement staff increased the likelihood of errors, including failures to submit cases to the Local Contracts Committee for review;
- Use of an external contractor for six years to provide procurement services needs to be reviewed as the contractor had a limited background in procurement;
- There was weak compliance with UNHCR's Financial Internal Control Framework requiring a review of all non-purchase order purchases entered into in 2007 and 2008, and an urgent need to strengthen procurement documentation to ensure that procurement actions have been properly undertaken in a transparent manner; and
- The likelihood of financial losses increased due to inadequate controls. Accountability for a loss arising from payment of rent for office space at two premises in the same location had not been established.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office of the United Nations High Commissioner for Refugees (UNHCR) procurement activities in the Democratic Republic of the Congo (DRC). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The UNHCR office in the DRC was involved in sizeable local procurement. Since the roll out of the Managing for Systems, Resources and People (MSRP) system in mid-2007, purchase orders (PO) for goods and services are processed online, from requisition to payment of invoices. For 2007-2008, local procurement through POs amounted to \$5 million. Small value purchases below \$1,000 were made without issuance of PO and paid through the MSRP payment cycle. These purchases amounted to \$3.9 million for 2007-2008. The major items of local procurement were fuel, transport services, travel services, spare parts, construction works and utilities.

3. Until 2008, the Supply Unit of the UNHCR Representation in Kinshasa had the main responsibility for local procurement of goods and services for UNHCR in the DRC. The creation of the post of the UNHCR Coordinator for Eastern Congo in mid-2008, responsible for UNHCR operations in Province Orientale, North and South Kivu, involved also the decentralization of procurement functions away from Kinshasa. In addition to the Local Committee on Contracts (LCC) in Kinshasa, two new LCCs were established in Eastern Congo (covering Province Orientale, North and South Kivu) and Southern Congo (covering all offices in the Katanga Province). The procurement threshold delegated to Eastern and Southern Congo had not yet been finalized at the time of audit.

4. The Senior Supply Officer, who heads the Supply Unit, reports to the Assistant Representative (Operations) who, in turn, reports to the Representative. A decision on whether Eastern and Southern Congo would have their own Supply Units had not yet been made at the time of audit.

5. Comments made by UNHCR are shown in *italics*.

II. AUDIT OBJECTIVES

6. The overall objective of the audit was to determine whether effective arrangements for managing procurement activities were in place for the UNHCR operation in the DRC. Specifically, the audit assessed:

- (a) the effectiveness of governance arrangements for procurement activities;
 - (b) the efficiency and effectiveness of procurement activities; and
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- (c) the compliance of procurement activities with applicable rules, regulations and policies.

III. AUDIT SCOPE AND METHODOLOGY

7. OIOS reviewed local procurement systems and practices at UNHCR in the DRC for the period 2007-2008. The audit, conducted in December 2008, included visits to the Representation in Kinshasa, the sub offices in Goma, Bukavu and Lubumbashi, the field offices in Uvira and Baraka, and the field unit in Rutchuru. Although the auditor was granted security clearance for North and South Kivu, the security regulations in place for security phases three and four limited to a certain extent the choice of field sites to be visited.

8. The audit methodology comprised: (a) review of policies, procedures and administrative guidelines; (b) analysis of data available in the MSRP system; (c) interviews with responsible personnel; and (d) assessment of the adequacy and effectiveness of internal controls.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Governance

Roles and responsibilities not clearly defined

9. At the time of the audit, the impact of the organizational changes made in the DRC in mid-2008 were still under consideration and a number of areas needed urgent clarification to ensure that roles and responsibilities were defined and understood. The roles and responsibilities of the Supply Unit in Kinshasa had not been formally defined in relation to the new offices established in East and Southern Congo. According to the new structure, the Supply Unit in Kinshasa would monitor the fuel consumption reports only for Kinshasa, Katanga and Equator. However, the responsibility for performing these functions for North Kivu and South Kivu had not been established. The same applied to controls over the spare parts and non-food items. Finally, management reporting arrangements were not established. Therefore, there was uncertainty as to what extent the sub and field offices should report back to Kinshasa on their procurement and what role the Supply Unit should play in monitoring such reports and analyzing the information for management purposes.

Recommendation 1

(1) The UNHCR Representation in Kinshasa should clarify the roles and responsibilities of the Supply Unit in Kinshasa and offices in the field, as well as the management reporting arrangements.

10. *The UNHCR Representation in Kinshasa accepted recommendation 1 and stated that the Supply Unit in Kinshasa provides key guidance and training in the areas of supply and logistics implementation according to the rules stipulated in Chapter 8 of the UNHCR Manual. It coordinates purchases of fuel and lubricants for the UNHCR operation in the DRC and analyzes the consolidated fuel reports for corrective measures. It provides planning and support to the field offices in the DRC and is responsible for conducting supply chain training. It sets up a periodical physical inventory of assets, non-food items (NFIs) and spare parts. In light of the decentralization of the supply chain in DRC, the management in the DRC has delegated responsibility by requesting the Controller to approve two LCCs for Katanga and the Kivu region to effectively approve procurement requests. Supply staff from the Field Offices are providing monthly reports related to fuel, assets, and warehouse management to the Supply Unit in Kinshasa for analysis. A Supply Management Service (SMS) training mission in MSRP warehousing and stock management was conducted in April in Kinshasa (for Kinshasa and Katanga staff) as well as in North Kivu (for North Kivu and South Kivu staff). Based on the action taken by the Representation, recommendation 1 has been closed.*

Questionable outsourcing of procurement functions in the Sub-Office at Lubumbashi

11. In the absence of any suitably qualified staff within the Sub-Office at Lubumbashi, between 2002 and 2008 the entire procurement function was outsourced to a local company called SADRI, a provider of security and cleaning services. No procurement limits were established and SADRI performed significant procurement activities, around \$194,000 for the period 2007 - 2008.

12. OIOS was concerned that procurement, being a core UNHCR function, had been outsourced to a contractor who was not specialized in procurement activities, especially in the UN system, and that this situation had been allowed to continue for around six years. Furthermore, UNHCR changed the company in March 2008 from SADRI to BRAS, a security company. Though the company changed, the same staff member was still employed to carry out the procurement function. OIOS was not able to obtain any clear answers as to how the staff was able to work for UNHCR for this long, especially under two different contractors. The responsible officials explained that no procurement post existed at the Sub-Office at that time. However, satisfactory answers were not provided on:

- the decision to outsource the entire procurement function to an external security and cleaning service provider;
- the lack of evidence of qualifications to perform procurement activities;
- the Sub Office's inability to create the much needed post of procurement officer for several years; and
- outsourcing the activities with the same individual for the whole period.

13. The reasons for these decisions need to be established by UNHCR and follow-up action taken, as appropriate, in order to avoid recurrence of such instances.

Recommendation 2

(2) The UNHCR Regional Bureau for Africa should review the outsourcing of UNHCR procurement activities in the Sub-Office at Lubumbashi, over a period of six years, to two consecutive outside contractors who were not specialized in procurement and used the same person.

14. *The UNHCR Regional Bureau for Africa did not formally comment on recommendation 2. The Representation in Kinshasa stated that the Supply Unit has recommended recruitment of Supply Assistants (in Lubumbashi and Moba) to carry out procurement. This problem has been resolved since April 2008. The Supply Unit in Kinshasa continues to provide support to the newly recruited staff and has further recommended the creation of a senior post of Assistant Supply Officer (NOA) to strengthen the role of the supply chain in Katanga. OIOS reiterates recommendation 2, which will remain open pending confirmation by the UNHCR Regional Bureau for Africa of the results of the review of the procurement outsourcing activities in the Sub-Office at Lubumbashi.*

Inadequate training for supply clerks

15. Two senior supply clerks were hired in mid 2008 to strengthen procurement. OIOS found instances where these two clerks were not fully aware of procurement rules, including failure to submit split orders in excess of \$20,000 to the LCC for review (see also Section C of the report). The staff, recruited locally, had received no special training in UNHCR procurement prior to taking up the functions. This increased the risk of poor value procurement not in compliance with rules.

Recommendation 3

(3) The UNHCR Representation in Kinshasa should ensure that staff members involved in procurement receive adequate training prior to assuming their functions.

16. *The UNHCR Representation in Kinshasa accepted recommendation 3 and stated that a briefing has consistently been provided to newly recruited Supply staff at the time of entering his/her duty station, including briefing on UNHCR procurement procedures as contained in the Chapter 8 procurement guidelines. In April 2009, the Supply Unit organized a supply chain training in Katanga in procurement, asset management, warehouse and stock management, MSRP in procurement, consumption report analysis and procurement ethics. The Supply Unit in Kinshasa intends to carry out refresher training in all field Offices in October 2009. Based on the action taken by the Representation, recommendation 3 has been closed.*

No formal process in place for determining when additional guidelines are required for supply activities

17. The Supply Unit in Kinshasa was preparing procurement guidelines for the supply staff in the DRC, covering all aspects of procurement in the country operation. These documents were considered necessary to ensure that the rules were properly applied under local operating conditions -- for example, specialized guidance on areas like fuel management and procurement and handling of spare parts in the DRC. However, there were no procedures to give advice as to when these guidelines can be produced or mechanisms to check that they are consistent with the rules. Management had not made an assessment of what is needed to best assist supply staff in the DRC in the performance of their procurement functions and provide a formal authorization for the development of any related guidelines, or consulted SMS to ensure that there would be no duplication of guidance that already exists in the Organization.

Recommendation 4

(4) The UNHCR Representation in Kinshasa should ensure that a formal process of needs assessment and coordination with the UNHCR Supply Management Service is undertaken, before management authorization is given for embarking upon the development of internal guidelines on procurement related activities.

18. *The UNHCR Representation in Kinshasa accepted recommendation 4 and stated that for any internal guidelines on procurement prepared by the Supply Unit, it will seek approval of SMS to ensure full compliance with Chapter 8 of the procurement guidelines.* Recommendation 4 remains open pending receipt of a copy of the procedures established by the Representation to ensure that a formal process of needs assessment, coordination with SMS and management authorization is undertaken, before embarking upon development of internal procurement guidelines.

B. Financial control

Items purchased on non-PO basis in disregard of the Financial Internal Control Framework

19. According to UNHCR Financial Internal Control Framework (FICF), purchases of up to \$1,000 can be made without the issuance of POs. For the DRC operation, the non-PO purchases amounted to a total of \$2 million in 2007 and \$1.9 million in 2008. OIOS noted that controls were established in Kinshasa to ensure that the ceiling of \$1,000 per purchase was not exceeded. However, this was not the case in the Sub and Field Offices. For example, in 2008, a company called Robot Construction in Goma was paid \$19,000 via direct procurement. As a result, automated controls established in MSRP over the procurement through POs, including the three-way matching, were overridden. This issue requires action at the level of the Division of Financial and Administrative Management

(DFAM) at Headquarters, to determine whether the controls established in the FICF are designed properly.

Recommendation 5

(5) The UNHCR Division of Financial and Administrative Management (DFAM) should request the UNHCR Representation in Kinshasa to review and report to DFAM all non-purchase order purchases made in 2007 and 2008, for which the ceiling of \$1,000 was exceeded in violation of the UNHCR Financial Internal Control Framework (FICF), in view of determining whether the controls established in the FICF are designed properly.

20. *The UNHCR DFAM did not formally comment on recommendation 5. The UNHCR Representation in Kinshasa, whilst noting that they had not yet received any request from DFAM with respect to non-PO payments, stated that Administration and Programme Units have been advised by the Supply Unit to adhere to the rules and not exceed the ceiling of \$1,000. OIOS reiterates recommendation 5, which will remain open pending confirmation of the results of the review by DFAM to determine whether the controls established for non-PO purchases in the FICF are designed properly.*

Unliquidated obligations dating back to 2007

21. OIOS review of MSRP procurement budget activity reports for 2007 and 2008 showed unliquidated POs amounting to \$151,000 for 2007 and \$353,000 for 2008. The Representation needs to clear the outstanding POs expeditiously and ensure that in future there is better monitoring of the unliquidated amounts.

Recommendation 6

(6) The UNHCR Representation in Kinshasa should ensure that all long outstanding purchase orders amounting to \$504,000 are cleared. In the future, unliquidated purchase orders should be monitored at regular intervals.

22. *The UNHCR Representation in Kinshasa accepted recommendation 6 and stated that the Supply Unit is currently implementing the recommendation. By the end of October 2009, UNHCR Kinshasa should have finalized the clean up of POs. Close monitoring of uncleared POs will be conducted to ensure that unliquidated POs are cleared regularly. Recommendation 6 remains open pending receipt of documentation showing that the clean up process of the long outstanding POs has been finalized.*

C. Compliance

23. OIOS reviewed a sample of procurement actions undertaken in the DRC in 2007 and for ten months of 2008 to assess compliance with the UNHCR

procurement rules, contained in the UNHCR manual (Chapter 8 on Supply Management and Chapter 2 on Committees on Contracts). Instances of non-compliance were observed, including: questionable assessment of the technical capacity of a supplier; inconsistencies in comparing bids; and failure to submit split orders related to the same supplier in excess of the respective thresholds to the LCC or HCC for review, as explained below:

- In August 2008, the Representation decided to undertake a project for the rehabilitation of a boarding school in Moba involving an overall expenditure of \$150,000. As a first step, construction materials for the dormitory and sanitary installations had to be procured. For the bulk of the materials, bidding was waived in favour of the entity 'Catholic Nuns'. No documents were available on file as to the technical capacity of the Catholic Nuns to supply these materials. It was only stated that the Catholic Church had the means to procure the materials and to supply within the agreed timeframe. The cost of bricks quoted by the Catholic Nuns was also exceptionally high, amounting to \$6 in comparison to the market price of \$0.1.
- In May 2008, Field Office Uvira conducted procurement of spare parts for Toyota vehicles. Two bidders, Toyota Burundi and Kivu Motors, were contacted. OIOS review of the comparison of bids showed that the comparison was not done in a fair and consistent manner. Only the total amount of the bid was compared, but since Kivu Motors indicated prices for more items than requested, their quoted amount appeared to be higher (\$69,000 versus \$43,000). However, the comparison of the unit prices indicated that Kivu Motors' unit prices were lower. This was not reflected in the comparative table to the LCC, and Toyota Burundi was awarded the bid.
- In accordance with the UNHCR rules on local procurement (UNHCR Manual, Chapter 2, UNHCR Committees on Contracts), in case the value of a number of contracts with the same supplier exceeds \$20,000 in the course of the year, the case should be submitted to the LCC. In 2008, several contracts were concluded with United Petroleum in Lubumbashi for an overall value of \$72,000. However, these contracts were not submitted to the LCC for review. Similarly, in 2007, the Representation procured large quantities of fuel from ELF SCP for an overall amount of \$194,000. The case was not submitted to the Headquarters Committee on Contracts (HCC), although the combined amount of purchases exceeded the \$150,000 limit, which would require HCC approval in accordance with the UNHCR rules (Rule 7.1 of Rules and Procedures Governing the UNHCR Committees on Contracts).

Recommendation 7

(7) The UNHCR Representation in Kinshasa should develop procedures to ensure that sufficient documentation is on file to substantiate that procurement has been carried out in compliance with the UNHCR Procurement Rules contained in Chapters 2 and 8 of the UNHCR Manual, and that reasons for non-compliance, where they occur, are also fully documented.

24. *The UNHCR Representation in Kinshasa accepted recommendation 7 and stated that procedures relating to procurement have been developed and shared with the Field Offices, subsequent to training. In addition, due to the delegation of financial authority to the Kivu region as well as to Katanga, two LCCs have been created in addition to the LCC in Kinshasa. The related documentation has already been sent to sub offices and are being implemented. With the establishment of the LCC in Katanga and Kivu and the continuous training of procurement staff in the field, the Representation expects that Supply staff will be able to carry out procurement with a better understanding of Chapters 8 and 2 of the UNHCR Manual to ensure that procurement cases submitted to LCC are fully documented. Based on the assurances provided by the Representation, recommendation 7 has been closed.*

D. Procurement and contract management of specific goods and services

Procurement plans should take into consideration the need for security equipment for the UNHCR offices in the DRC, in view of the MOSS requirements

25. OIOS noted that the Supply Unit had not considered in their procurement planning the need to purchase security equipment in accordance with the Minimum Operating Security Standards (MOSS) requirements. Taking into account the volatile security situation in the DRC - and although all the UNHCR offices in the DRC were considered MOSS-compliant as per the information received from the Regional Bureau for Africa - the Field Office Uvira lacked the necessary equipment, such as CODAN communication equipment for office vehicles and speed boats and blast protection film for windows. Sub-Office Bukavu, on the other hand, had not procured an adequate stock of batteries for hand-held radios, resulting in radio checks not being properly performed. As discussed and agreed with the Field Safety Officer, failure to procure this equipment meant that the offices were not MOSS-compliant.

Recommendation 8

(8) The UNHCR Representation in Kinshasa should request an independent review of compliance with the Minimum Operating Security Standards and ensure that all necessary equipment has been procured.

26. *The UNHCR Representation in Kinshasa accepted recommendation 8 and stated that UNHCR Offices in Kinshasa and Goma are fully MOSS-compliant. UNHCR Bukavu received 10 hand set radios with battery at the end of August 2009; likewise, UNHCR Uvira received blast film as well as CODANs for all 7 vehicles. The UNHCR Representation in Kinshasa will indeed propose an independent review of the situation in the near future. Recommendation 8 remains open pending receipt of the results of an independent review of compliance with MOSS.*

Financial loss incurred due to double payment of rent for office space in the same location

27. In October 2006, UNHCR signed a lease agreement for the new office space for the Field Office Bukavu. However, due to the delays in refurbishment and the non-delivery of telecommunications equipment, the new premises were not used until June 2007. This caused combined payments for two UNHCR offices in the same location amounting to \$36,000 over the period of 9 months. Had the Representation harmonized the signing of the new lease agreement with the necessary refurbishment works and the delivery of equipment, and taken corrective action as soon as the problem became imminent, the financial loss arising from paying rent for two premises simultaneously could have been minimized.

Recommendation 9

(9) The UNHCR Representation in Kinshasa should establish the facts for the delay in moving the Field Office Bukavu to its new premises, which led to financial loss to UNHCR, and establish the accountability of those who may have failed to take swift corrective action to minimize the loss.

28. *The UNHCR Representation in Kinshasa accepted recommendation 9 and stated that the contract for the new premises in Bukavu was signed and took effect on 23 October 2006 and a six month rent was paid in advance, as stipulated in the lease agreement. The Supply Unit in Kinshasa was involved to analyze the tender process for renovation of the new premises prepared in Bukavu and submitted the case to the LCC. The LCC could not take immediate decision to choose the lowest bidder due to bidding procedures, doubts were also expressed regarding security at the location of the chosen premises (located very near to the Rwandan Border). Decision was, however, taken later in March 2007 by the LCC to approve the renovation of the new building. The works for the renovation of the new premises were completed at the end of April 2007. There was further delay in the movement to the new premises due to technical problems in the installation of information technology/telecommunications equipment. Finally, UNHCR Bukavu moved into the new premises in June 2007. OIOS takes note of the additional information. However, recommendation 9 remains open pending confirmation of the action taken to establish accountability for the failure to take swift corrective action to reduce the loss arising from paying rent for two premises.*

Payments to policemen in receipt of government salaries

29. In the Sub-Office at Lubumbashi, payments of premiums were made to the local policemen to guard the UNHCR premises in Lubumbashi, Kalemie, Moba and Pweto. The total payments amounted to \$17,000 in 2008. This was an established practice for which there was no documented justification. The absence of a justification for payments to someone already in receipt of a government salary raises a reputational risk that such payments could be misinterpreted.

Recommendation 10

(10) The UNHCR Representation in Kinshasa should ensure that payments to government officials are fully justified and documented.

30. *The UNHCR Representation in Kinshasa accepted recommendation 10 and stated that from 2006 to the present, the security situation in Moba, Pweto and Kalemie (phase III) warrants police protection in the office premises due to the political situation in North Katanga. The police authorities were requested to provide additional security to protect the personnel and the office premises. The payment to the policemen was effected as an incentive as their salaries are extremely low, in order to minimize stealing, absences, etc. As for the Lubumbashi Office, during 2006 and early 2007 the security phase was phase III and it has eventually been downgraded to phase II. However, due to several recent security incidents, police presence is still recommended. A new security evaluation in the four locations will be undertaken and the need for a police presence will be reviewed. Payments have been documented through the issuance of payment acknowledgment vouchers which the Representation can provide scanned copies to OIOS if required. OIOS appreciates the additional information provided and the reasons for the actions undertaken. Recommendation 10 remains open pending receipt of copies of the payment acknowledgement vouchers signed by the government officials providing security services in Lubumbashi, Kalemie, Moba and Pweto.*

Accountability for reimbursement of business losses to two contractors not addressed

31. The contracts for hiring a ship to transport refugees from Zambia to the DRC in 2007 and 2008 (contract value in 2008: \$820,000) were approved by the HCC due to the high amount involved. In December 2007, the LCC in Kinshasa reviewed a case of "Request for reimbursement of business losses" to two of the shipping contractors, Marine Services Company Ltd and Magnesho Caterers Ltd, totalling \$21,000. This was due to sailings that did not take place and which were not cancelled on time, and the loss of perishable foodstuff. The LCC decided to reimburse the amount to the contractors, as the incidents were due to miscommunication within UNHCR. In OIOS' view, since the contracts were originally reviewed by the HCC, the request for reimbursement to the companies for business losses should also have been submitted to the HCC for review and

possible improvements in contract terms in the future to protect the interests of UNHCR.

32. Also, the matter needs to be submitted to the Headquarters Asset Management Board (HAMB), since in accordance with Chapter 2 of the UNHCR Manual (Section 10, para.11 c), HAMB shall be reviewing and making recommendations on all cases involving the loss of liquid assets and making recommendations requiring the authority of the High Commissioner to write-off (i.e. more than \$10,000). Failure to do this means that accountability for the loss has not been properly reviewed. There has not been any review to assess whether the losses were preventable and whether any action should be taken.

Recommendation 11

(11) The UNHCR Representation in Kinshasa should submit, on an ex post facto basis, the “Request for reimbursement of business losses” to Marine Services Company Ltd and Magnesho Caterers Ltd to the Headquarters Contracts Committee for review. The matter should also be submitted to the Headquarters Asset Management Board in accordance with Chapter 2 of the UNHCR Manual.

33. *The UNHCR Representation in Kinshasa accepted recommendation 11 and stated that action is to be taken to refer the case to HCC and HAMB in the first week of October 2009.* Recommendation 11 remains open pending receipt of documentation showing the review of the matter by the HCC and the HAMB.

E. Fuel management

There is a need to roll out the new fuel management system country-wide, in order to strengthen controls over the procurement and consumption of fuel

34. Basic rules and procedures regarding fuel management are covered in Chapter 8 of the UNHCR Manual. Accordingly, the Supply Unit in Kinshasa had established a fuel management system, which combines all information on the number and types of vehicles and permits to compare the actual fuel consumption per 100 kilometres with the standard average consumption. However, the system was used only in Kinshasa, and only covered the 18 vehicles run by the Administrative Section. The Supply Unit did not have relevant fuel consumption data for the vehicles run by the Programme Section or for the six motorcycles run by the Administrative Section.

Recommendation 12

(12) The UNHCR Representation in Kinshasa should roll out the new fuel management system currently utilized in Kinshasa to all sub and field offices in the Democratic Republic of the Congo, in order to have a common reporting

tool to monitor the quantity and value of fuel procured and consumed.

35. *The UNHCR Representation in Kinshasa accepted recommendation 12 and stated that the recommendation is already implemented. The Supply Unit in Kinshasa has shared with all Field Offices a standard template for fuel management and requests monthly fuel reports for thorough analysis and monitoring.* Based on the action taken by the Representation, recommendation 12 has been closed.

Failure by management to control fuel properly may have resulted in annual losses estimated at \$175,000

36. As for the 18 vehicles used by the Administrative Section in Kinshasa, despite the new fuel management system put in place to control the consumption of fuel against the standard average consumption, only four vehicles out of the 18 consumed fuel in accordance with the prescribed norms. For the others, the consumption was higher, and the difference in some cases was quite sizeable. For example, a Nissan Patrol was consuming on average 45 liters per 100 kilometres, while the standard average consumption was 16 liters. The actual consumption in this case was thus 280 per cent over the standard average consumption.

37. Furthermore, based on the fuel consumption statistics, the vehicles in the Administrative Section in Kinshasa consumed 4,000 liters above the standard average consumption for the first 10 months of 2008. This corresponds to seven per cent of the overall consumption. The figure is expected to be even higher in the provinces where the new fuel management system has not been introduced. In view of the overall fuel consumption in the DRC, at \$2.5 million in 2007, the extrapolated losses, on the basis of the calculation above, could amount to a total of \$175,000 on an annual basis.

Recommendations 13 and 14

(13) The UNHCR Representation in Kinshasa should put in place procedures for regular review and analysis of fuel consumption.

(14) The UNHCR Representation in Kinshasa should review the reasons for the large consumption of fuel, estimated to result in a loss of \$175,000 annually, and take corrective action accordingly.

38. *The UNHCR Representation in Kinshasa accepted recommendation 13 and stated that a fuel monitoring system and procedure has been put in place. Moreover, training in fuel and fleet management by SMS, initially planned for July 2009, is expected to be conducted before the end of this year.* Recommendation 13 remains open pending receipt of documentation from UNHCR showing that regular reviews and analysis of fuel consumption are being conducted.

39. *The UNHCR Representation in Kinshasa accepted recommendation 14 and stated that the Supply Unit in Kinshasa conducted a comprehensive review of fuel consumption reports in Kinshasa by verifying data collected from log books as well as in light of the quantities registered on the fuel coupons. The over consumption was due to the fact that fuel coupons should have been filled out at the fuel filling stations, thus recording actual kilometers. However, during 2006/2007, all fuel coupons were prepared in the Office without considering the distance incurred between the Office and the fuel station. Consequently, this practice resulted in discrepancies and in accumulated over-consumption of fuel. The Supply Unit in Kinshasa has in the meantime put in place a proper system of refueling vehicles directly at the fueling stations, whereby the exact quantity of fuel and the actual kilometers are being recorded. Based on the Representation's response, recommendation 14 has been closed.*

Inadequate reporting on fuel consumption

40. The Supply Unit had difficulties in getting reliable and accurate fuel consumption reports from the sub and field offices. The reports from several offices, dating back to 2007, were still missing as at December 2008, despite several reminders by the Supply Unit. In addition, the comparison of those reports which had been received proved difficult, as they were presented in different formats. Although the Supply Unit had developed a template for the required reporting, OIOS noted that it was not user-friendly and left it to the field offices to fill it out as they considered necessary. Therefore, vital information was missing in the reports received, such as the number of kilometres run on a given amount of fuel or the odometer readings.

41. OIOS also found that there was no monitoring or feedback mechanisms from the Supply Unit regarding the information contained in the fuel consumption reports from the field. These reports were not analyzed to identify weaknesses and to take corrective action. In one report generated by UNHCR field offices in Uvira and Baraka, the extreme cases of fuel consumption for heavy trucks went up to 660 litres per 100 kilometres. OIOS pointed out that the calculations were questionable. There was no documentation in Kinshasa about these cases of excessive fuel consumption.

Recommendation 15

(15) The UNHCR Representation in Kinshasa should strengthen controls over the submission of fuel consumption reports from the field by improving and standardizing the reporting template and monitoring the reports received in terms of identifying discrepancies that call for corrective action to be taken.

42. *The UNHCR Representation in Kinshasa accepted recommendation 15 and stated that The Supply Unit in Kinshasa has already implemented the recommendation by providing the field offices with standard templates for fuel management. Recommendation 15 remains open pending receipt of*

documentation from UNHCR showing that discrepancies are being identified and corrective actions are being taken.

F. Management of spare parts

Inadequate inventory control over spare parts

43. In reviewing the management of vehicle spare parts in the Katanga province in 2007 and 2008, OIOS observed that the Supply Unit did not have accurate and reliable information on the spare parts that had been handed over from the International Organization on Migration (IOM), which used to handle the logistics in Katanga, to Erukin, a local implementing partner, which took over the handling of spare parts from IOM. The list of spare parts handed over did not contain the cost of the spare parts, used spare parts were mixed with new ones, and no stock cards were kept. Although OIOS followed up this issue with the Supply Unit, the Supply Unit was not in a position to provide any consolidated information on the opening and closing inventories of spare parts in the DRC operations, or the value of spare parts consumed, for a given year.

Recommendation 16

(16) The UNHCR Representation in Kinshasa should strengthen controls over the spare parts inventory by ensuring that logistics partners maintain reliable stock cards, which are submitted to the Supply Unit on a monthly basis, for consolidation of the opening and closing inventories of spare parts.

44. *The UNHCR Representation in Kinshasa accepted recommendation 16 and stated that the recommendation has been implemented with the new logistics partner GTZ; the former partner Erukin is no longer working with UNHCR in Katanga. Furthermore, the Supply Unit in Kinshasa requests physical inventory reports on a regular basis. Based on the action taken by the Representation, recommendation 16 has been closed.*

Questionable selection of logistics partner

45. When Erukin took over the logistics operation from IOM in 2008, it did not have logistical experience. The garages run by Erukin in Moba and Pweto lacked the tools to undertake important repairs of the trucks, which were needed for the repatriation operation, and did not keep records of spare parts utilized.

Recommendation 17

(17) The UNHCR Representation in Kinshasa should review the capacity of Erukin, the implementing partner, to manage UNHCR's logistics operation in the Katanga province and find a more suitable logistics partner if required.

46. *The UNHCR Representation in Kinshasa accepted recommendation 17 and stated that the recommendation has been implemented. GTZ has taken over the responsibility of logistics management in North Katanga. Based on the action taken by the Representation, recommendation 17 has been closed.*

Inefficient and ineffective procurement of spare parts from Zambia

47. In September 2008, the LCC in Kinshasa, citing the urgency of procurement, waived the competitive bidding for the purchase of spare parts and tyres for the Mercedes trucks transporting refugees in North Katanga, to be procured in Zambia for the overall amount of \$99,000. The Supply Unit did not have qualified staff with experience in auto mechanics, so the request was based on the views of Erukin staff. Two missions to Zambia by staff from North Katanga and Kinshasa had to be undertaken to make these purchases. The overall cost of the missions to Zambia was over \$7,000.

48. The selection of the supplier could not be considered efficient and effective. The Supply Unit proposed and the LCC approved the second lowest bidder (Bwana Tyres, at \$26,000, instead of Auto World Limited at \$18,000) on the grounds of the immediate availability of tyres. However, the protracted procedures within UNHCR and the lack of coordination between Supply Unit and Programme Section in Kinshasa resulted in the cancellation of the purchase order and the selection of the highest bidder (Tren Tyre, at \$33,000). There was no explanation why Auto World Limited could not be considered as the next best bid.

49. In the opinion of OIOS, had the procurement of spare parts been properly planned, the waiver of competitive bidding could have been avoided. There was no assurance that best value-for-money was achieved. International sourcing at a higher quality and lower price was not considered. Although urgency was cited as the main reason for waiving competitive bidding and not resorting to international procurement, at the time of the audit in December 2008 the shipment from Zambia had not yet arrived.

Recommendation 18

(18) The UNHCR Representation in Kinshasa should ensure that the procurement of spare parts is done more efficiently and effectively through enhanced planning and identifying frequently used items for international sourcing.

50. *The UNHCR Representation in Kinshasa accepted recommendation 18 and stated that the recommendation has been implemented. Currently, the Supply Unit in Kinshasa collaborates closely with the field offices in Katanga and South Kivu to ensure a consolidated procurement for frequently purchased items like spare parts, tires and truck batteries. Based on the action taken by the Representation, recommendation 18 has been closed.*

V. ACKNOWLEDGEMENT

51. We wish to express our appreciation to the Management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNHCR Representation in Kinshasa should clarify the roles and responsibilities of the Supply Unit in Kinshasa and offices in the field, as well as the management reporting arrangements.	Governance	Moderate	C	Action completed	Implemented
2	The UNHCR Regional Bureau for Africa should review the outsourcing of UNHCR procurement activities in the Sub Office at Lubumbashi, over a period of six years, to two consecutive outside contractors who were not specialized in procurement and used the same person.	Governance	High	O	Confirmation by the UNHCR Regional Bureau for Africa of the results of the review of the procurement outsourcing activities in the Sub Office Lubumbashi.	Not provided
3	The UNHCR Representation in Kinshasa should ensure that staff members involved in procurement receive adequate training prior to assuming their functions.	Governance	Moderate	C	Action completed	Implemented
4	The UNHCR Representation in Kinshasa should ensure that a formal process of needs assessment and coordination with the UNHCR Supply Management Service is undertaken, before management authorization is given for embarking upon the development of internal guidelines on procurement related activities.	Governance	Moderate	O	Receipt of a copy of the procedures established by the Representation to ensure that a formal process of needs assessment, coordination with SMS and management authorization is undertaken, before embarking upon development of internal procurement guidelines.	31 October 2009
5	The UNHCR Division of Financial and Administrative Management (DFAM) should request the UNHCR Representation in Kinshasa to review and report to DFAM all non-purchase order purchases made in 2007 and 2008, for which the ceiling of \$1,000 was exceeded in violation of the UNHCR Financial Internal Control	Financial	High	O	Confirmation of the results of the review by DFAM to determine whether the controls established for non-PO purchases in the Financial Internal Control Framework are designed properly.	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
6	Framework (FICF), in order to determine whether the controls established in the FICF are designed properly. The UNHCR Representation in Kinshasa should ensure that all long outstanding purchase orders amounting to \$504,000 are cleared. In the future, unliquidated purchase orders should be monitored at regular intervals.	Financial	Moderate	O	Documentation showing that the clean up process of the long outstanding purchase orders has been finalized.	31 October 2009
7	The UNHCR Representation in Kinshasa should develop procedures to ensure that sufficient documentation is on file to substantiate that procurement has been carried out in compliance with the UNHCR Procurement Rules contained in Chapters 2 and 8 of the UNHCR Manual, and that reasons for non-compliance, where they are occur, are also fully documented.	Compliance	Moderate	C	Action completed	Implemented
8	The UNHCR Representation in Kinshasa should request an independent review of compliance with the Minimum Operating Security Standards and ensure that all necessary equipment has been procured.	Operational	Moderate	O	Confirmation of the results of an independent review of compliance with Minimum Operating Security Standards.	Not provided
9	The UNHCR Representation in Kinshasa should establish the facts for the delay in moving the Field Office Bukavu to its new premises, which led to financial loss to UNHCR, and establish the accountability of those who may have failed to take swift corrective action to minimize the loss.	Governance	Moderate	O	Confirmation of the action taken to establish accountability for the failure to take swift corrective action to reduce the losses from paying rent for two premises.	Not provided
10	The UNHCR Representation in Kinshasa should ensure that payments to government officials are fully justified and documented.	Operational	Moderate	O	Receipt of copies of the payment acknowledged vouchers signed by the government officials providing security services in Lubumbashi, Kalemie, Moba and Pweto.	Not provided
11	The UNHCR Representation in Kinshasa should submit, on an ex post facto basis,	Operational	Moderate	O	Documentation showing the review of the matter by the HCC and the HAMB.	31 October 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	the "Request for reimbursement of business losses" to Marine Services Company Ltd and Magnesho Caterers Ltd to the Headquarters Contracts Committee for review. The matter should also be submitted to the Headquarters Asset Management Board in accordance with Chapter 2 of the UNHCR Manual.					
12	The UNHCR Representation in Kinshasa should roll out the new fuel management system currently utilized in Kinshasa to all sub and field offices in the Democratic Republic of the Congo, in order to have a common reporting tool to monitor the quantity and value of fuel procured and consumed.	Operational	Moderate	C	Action completed	Implemented
13	The UNHCR Representation in Kinshasa should put in place procedures for regular review and analysis of fuel consumption.	Operational	Moderate	O	Documentation from UNHCR showing that regular reviews and analysis of fuel consumption are being conducted.	
14	The UNHCR Representation in Kinshasa should review the reasons for the large consumption of fuel, estimated to result in a loss of \$175,000 annually, and take corrective action accordingly.	Operational	Moderate	C	Action completed	Implemented
15	The UNHCR Representation in Kinshasa should strengthen controls over the submission of fuel consumption reports from the field by improving and standardizing the reporting template and monitoring the reports received in terms of identifying discrepancies that call for corrective action to be taken.	Operational	Moderate	O	Documentation from UNHCR showing that discrepancies are being identified and corrective actions are being taken.	
16	The UNHCR Representation in Kinshasa should strengthen controls over the spare parts inventory by ensuring that logistics partners maintain reliable stock cards, which are submitted to the Supply Unit on	Operational	Moderate	C	Action completed	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/ O ¹	Actions needed to close recommendation	Implementation date ²
	a monthly basis, for consolidation of the opening and closing inventories of spare parts.					
17	The UNHCR Representation in Kinshasa should review the capacity of Erukin, the implementing partner, to manage UNHCR's logistics operation in the Katanga province and find a more suitable logistics partner if required.	Operational	Moderate	C	Action completed	Implemented
18	The UNHCR Representation in Kinshasa should ensure that the procurement of spare parts is done more efficiently and effectively through enhanced planning and identifying frequently used items for international sourcing.	Operational	Moderate	C	Action completed	Implemented

¹ C = closed, O = open

² Date provided by UNHCR in response to recommendations