



INTERNAL AUDIT DIVISION

REPORT 2023/045

Audit of the management of non-food items in UNHCR response to the Ukraine crisis

The management of non-food items was generally aligned to UNHCR's rules and procedures with some exceptions noted for improvements

25 September 2023

Assignment No. AR2023-121-03

Audit of the management of non-food items in UNHCR response to the Ukraine crisis

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of non-food items (NFIs) in the United Nations High Commissioner for Refugees (UNHCR)'s response to the Ukraine crisis. The objective of the audit was to assess whether UNHCR's management of NFIs for the Ukraine situation was adequate and effective in meeting the needs of the affected populations. The audit covered the period from 24 February 2022 to 31 December 2022 and included the management of NFIs by Representations in Moldova, Poland and Ukraine, the Regional Bureau of Europe (RBE) and the Division of Emergency, Security and Supply (DESS). The audit covered: (a) planning and coordination; (b) implementation and monitoring; (c) inventory management and warehousing; and (d) procurement of NFIs.

UNHCR procured and managed NFIs totaling \$186 million between February to December 2022. The RBE and DESS supported the Representations in scaling up their operational presences and thereby delivering strategic and targeted assistance to beneficiaries. By pre-positioning warehouses and essential supplies, UNHCR met the fundamental needs of displaced populations through direct and partnered distributions. However, UNHCR needed to strengthen controls over NFIs distribution modalities, monitoring and reporting, inventory management, warehousing and procurement.

OIOS made four recommendations. To address issues identified in the audit, UNHCR needed to:

- Finalize its strategy and related standard operating procedures in Poland to direct and guide the planning, distribution, monitoring and accounting processes of NFIs. It should also update the risk registers in Moldova and Poland with NFI-related risks.
- Reinforce controls to ensure NFIs are properly accounted for and reach intended beneficiaries by discontinuing the use of the Transfer of Ownership distribution modality entered into with government entities and partners.
- Ensure through reinforced monitoring that government entities and partners maintain accurate data of the NFIs distributed and beneficiaries reached.
- Strengthen controls over inventory and warehouse management to ensure NFIs are properly received, stored, safeguarded, recorded and accounted for.

UNHCR accepted all recommendations and has initiated actions to implement them. Actions required to close the recommendations are indicated in Annex I.

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Audit of the management of non-food items in UNHCR response to the Ukraine crisis

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the provision of non-food-items (NFIs) assistance by the United Nations High Commissioner for Refugees (UNHCR) in response to the Ukraine crisis.
2. As of December 2022, 8 million Ukrainian refugees had been recorded across Europe, with another 5 million internally displaced and estimated to be in urgent need of humanitarian assistance. UNHCR scaled up its presence and declared a Level 3 emergency in Ukraine and Level 2 in the neighboring countries on 25 February 2022. On 15 March 2022, a UNHCR Level 3 emergency was also declared for Hungary, Moldova, Poland, Romania, and Slovakia. The emergency expired for the neighbouring countries on 31 December 2022, and on 5 March 2023 in Ukraine.
3. UNHCR procured and managed NFIs totaling \$186 million between February to December 2022. The audit covered expenditures of \$168 million, including 6 per cent each in Moldova and Poland, 52 per cent in Ukraine, and 36 per cent charged to the cost centers of the Division of Emergency, Security and Supply (DESS) and Regional Bureau for Europe (RBE). The value of NFIs held in warehouses increased from \$66 million at 31 December 2022 to \$81 million at 19 May 2023..
4. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess whether UNHCR's management of NFIs for the Ukraine situation was adequate and effective in meeting the needs of affected populations.
6. This audit was included in the 2022 risk-based work plan of OIOS due to the significant amount spent by UNHCR on NFIs and its relevance in meeting the needs of forcibly displaced persons under the Ukraine situation.
7. OIOS conducted this audit from December 2022 to May 2023. The audit covered the period from 24 February to 31 December 2022, during which time a Level 3 emergency was underway. The audit scope included the management of NFIs by UNHCR Representations in Moldova, Poland and Ukraine as well as by the RBE and DESS. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the management of NFIs¹, which listed the key sub-processes as planning and coordination, implementation and monitoring, inventory management and warehousing and procurement.
8. The audit methodology included: (a) interviews of key UNHCR staff and partner personnel; (b) review of operational and financial documentation; (c) analytical review of financial data and documentation from Managing for Systems, Resources and People (MSRP) and Power BI; (d) review of monitoring by Representations and oversight by RBE and DESS; (e) visits to UNHCR warehouses and physical verification of inventory; (f) observation of distribution exercises; and (g) sample testing of controls.

¹ UNHCR/OG/2021/04/Rev.01 on Operational Guidelines on Non-Food Item Management defines NFI as any inventory item excluding food which addresses the basic needs of displaced populations and that will be distributed to forcibly displaced persons and/or host communities.

9. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Planning and coordination

There was a need to implement an NFI strategy in the Representation in Poland

10. Operations should, as part of their planning for NFI interventions, analyze the situation, assess needs and establish baseline population figures. In 2022, the Representations in Moldova, Poland and Ukraine updated demographic analysis in Multi Sector Needs Assessments and in other profiling exercises. Furthermore, when establishing their strategies, they also determined if assessed needs would be delivered through cash-based interventions, in-kind assistance (NFIs) or both.

11. Ukraine's NFI country strategy was informed by joint market monitoring initiative reviews. These reviews highlight difficulties retailers faced in keeping the stores operational in the East, South and Kyiv; and the impact that escalation of hostilities had on customers/beneficiaries' ability to physically access stores. Market assessments were not conducted at the early phase of the emergency in Moldova and Poland, but cash-based interventions was selected as the default mechanism for service delivery with NFI distribution only considered as a supplementary activity. This was because of the fully functional markets in place in the two countries. OIOS found that the country strategies for 2022 in COMPASS² did not reflect these situations since they had been prepared in 2021. NFI interventions in COMPASS were only highlighted in the 2023 Ukraine country strategy but not for Moldova and Poland.

12. The Representation in Poland had a contingency plan in place but did not have a strategy to govern and guide NFI distribution. The Representation approved standard operating procedures (SOPs) for NFI distributions in November 2022, some five months after the first release of the items. However, it had not established compensating controls during this time to ensure that NFIs reached intended beneficiaries. The Representation subsequently submitted revised SOPs in July 2023, but they remained deficient regarding reporting, maintenance of distribution documents and monitoring.

13. In Poland the local authorities submitted their requests through the Government and the Representation accepted them, following a 'no regrets' approach. The Representation consulted other stakeholders in the Basic Needs Working Group on whether they had provided NFIs to these government entities.

14. Government entities and their accredited non-governmental organizations provided information on total NFIs distributed between June 2022 and March 2023. However, these did not share supporting documentation such as distribution lists due to a lack of data sharing agreements and citing the General Data Protection Regulation (GDPR) on sharing of personal data. The shortcomings in Poland occurred because of the lack of adequate monitoring at the Representation and insufficient oversight at the Bureau.

² COMPASS is UNHCR's new results-based management approach that supports its goal of delivering better protection and solutions to displaced and stateless people.

Risk registers needed updating

15. The risk register for “Ukraine-Russia armed conflict: global risks for UNHCR” indicated the strategic risks and opportunities to UNHCR’s operations worldwide. The RBE established a separate risk register for the Ukraine situation and it included risks on the supply chain (including procurement, logistics) and cross-cutting issues that were relevant for NFI management. A review of the country risk registers for Ukraine, Moldova and Poland showed that only the Representation in Ukraine identified NFI related risks and mitigating actions. This was despite the Moldova and Poland operations facing challenges in managing, distributing and accounting for NFIs totaling \$13 million as per 19 May 2023 stock balances. The two countries also had issues related to incorrect adoption of distribution modalities, absence of distribution lists and shortcomings in inventory and warehouse management.

- (1) The UNHCR Representation in Poland, in coordination with the Regional Bureau for Europe, should finalize its non-food items (NFI) strategy and revise related standard operating procedures to reinforce its guidance on distribution monitoring and reporting. Additionally, the Representations in Poland and Moldova should incorporate NFI specific risks and mitigating measures in their risk registers.**

UNHCR accepted recommendation 1 and stated that for Poland a revised strategy was submitted to the RBE for review and the SOP was revised to include provisions for final distribution lists, reconciliation exercises, and post-distribution monitoring processes. The SOP covers different distribution modalities, for direct implementation and distribution through operational/funded partners. For Poland and Moldova, risks related to non-food items and mitigating measures will be reflected in the Country Risk Registers in the coming risk review.

B. Implementation and monitoring

Distribution lists needed to be consistently maintained and the modality of transfer of ownership through donations clarified

16. Robust arrangements should be in place for monitoring and reporting NFI distributions. To ensure accountability, reports covering daily distribution and reconciliations of items distributed with quantities issued by the warehouse should be in place. Contrary to these requirements, the Representations in Moldova, Poland and Ukraine donated a substantial volume of items to government entities through agreements, without specifying their monitoring and reporting requirements. Further, the adoption of the Transfer of Ownership through Donation of UNHCR Assets (ToO) modality in the three operations circumvented UNHCR controls over distribution monitoring, reconciliation and accounting for NFIs distributed (including maintenance of distribution lists). Despite this, compensating controls were not instituted to ensure assistance reached intended beneficiaries.

17. The ToO modality was used inconsistently. The audit noted that the Representation in Poland signed 6 ToOs out of the 9 NFIs releases reviewed. Even then, the ToOs were signed after the release of NFIs. The Representation has not signed ToOs for the other three releases in 2022 totaling \$108,769 by the end of March 2023. The Representation also released NFIs to government entities totaling \$6.3 million between June and December 2022, but it did not have reports to support their distributions to beneficiaries. Over the course of the emergency, the number of refugees crossing the border as well as the corresponding needs decreased. Thus, donated NFIs totaling \$4.3 million were still held by the Government as of 29 March 2023.

18. The Representation in Moldova did not have a consistent stand on the use of ToO. For example, it donated items worth \$47,329 to a United Nations entity through a ToO agreement, but also released NFIs worth \$224,951 to government entities, without signing such an agreement. The related distributions were not monitored by UNHCR to ensure that they reached intended beneficiaries as in their assessment this was not necessary for donated items.

19. The Representation in Ukraine released items totaling \$12 million to government entities including collective centers, state administrations, village councils and other local authorities. The Representation did not consistently apply the ToO modality. The audit reviewed eleven issuances totaling \$2.3 million, with four having signed ToOs and the remaining seven, none. Two of the ToOs were signed after the items had been delivered. Of the seven samples without ToOs, two acknowledged receipt of items, one of which was only signed in March 2023 (four months after the release of items). The Representation had reports to evidence monitoring missions for three issuances; with the other eight having no such documentation. Distribution lists were provided for four releases (one of which has a signed ToO); while the other seven for NFIs totaling \$1.7 million were not supported by such documentation.

20. The audit also reviewed the documentation for 182 distributions by partners (including local authorities and collective centers) totaling \$1.8 million. However, there were signed distribution lists in only 100 cases, leaving 82 cases (45 per cent) of distributions unsupported. Where distribution lists were not available, collective centers signed as acknowledgments of receipt on behalf of the beneficiaries assisted. This, however, was not in line with the SOPs that required that distribution documents are completed even when distributions are organized by others than the partner.

21. Due to the operational context, none of the three operations used the Global Distribution Tool, a biometrics-based tool to verify beneficiary attendance at distributions. Thus, their distributions entailed partners having to maintain paper-based distribution lists with signatures of beneficiaries who received assistance.

(2) The UNHCR Representations in Moldova, Poland and Ukraine, in coordination with the Regional Bureau for Europe should: (a) replace the Transfer of Ownership modality for releasing non-food items to Government entities and partners with suitable arrangements; and (b) ensure that distribution lists are maintained and institute compensating controls to confirm receipt of NFIs by beneficiaries.

UNHCR accepted recommendation 2 and stated that: (a) the UNHCR Representations in Ukraine, Moldova and Poland will replace the ToO modality by issuing letters of understanding to release non-food items to government entities; (b) the operations will continue to pursue submission of distribution lists through operational partners and are also working on compensating controls such as monitoring missions and pseudonymized distribution reports, in case the lists cannot be shared by operational partners.

Overreporting on the number of beneficiaries in Ukraine

22. The Shelter and Non-Food Item cluster in Ukraine used ‘ActivityInfo’, a data collection and reporting tool where the number of beneficiaries were reported against related indicators. Following a review of 17 reporting lines which covered 182 distributions, the audit identified weaknesses in the monitoring and reporting of distributions performed by partners. This affected UNHCR’s reporting.

23. The number of beneficiaries reported as assisted was higher than the supporting documentation provided for 4 of the 17 reporting lines as reflected below:

- One partner reported that 1,240 individuals received hygiene packs/kits in October 2022. However, the distribution lists reviewed showed that 277 beneficiaries (23 per cent) received only soap and not hygiene kits.
- Another partner reported that 1,111 beneficiaries received other non-kits core relief items. However, the partner was reporting the number of items distributed instead of the number of beneficiaries assisted, which was not correct, since one beneficiary received more than one item. The audit could not establish the correct total because distribution sheets were available for only 1 of the 8 distributions.
- One partner reported 1,855 beneficiaries as having received non-kit core relief items. However, the audit verified 1,585 beneficiaries, i.e., 15 per cent less.
- For the indicator “number of households supported with heating appliances” the partner reported not only the number of households that received heating appliances but also an estimated number of households/persons who visited the community heating points. While this was in line with the Shelter and Non-Food Item Cluster’s guideline for calculating the number of beneficiaries, it inflated the number of households reported for this indicator.

24. The shortcomings occurred due to ineffective monitoring and oversight. Hence, UNHCR lacked accurate data on beneficiaries supported and NFIs distributed and accounted for in accordance with the UNHCR procedures.

(3) The UNHCR Representation in Ukraine should strengthen its monitoring of government entities and partners to ensure they maintain accurate data of the non-food items distributed and beneficiaries reached.

UNHCR accepted recommendation 3 and stated that the Representation in Ukraine would ensure regular oversight and verification of the distribution data shared by government entities and partners through: (a) revised templates for distributions; (b) monthly triangulation of the information in ActivityInfo against the actual distribution data; and (c) regular meetings with government and where feasible spot check monitoring of distributions.

C. Inventory and warehousing management

There was a need to identify and address slow moving items

25. To ensure delivery and best use of funds, Representations need to forecast and monitor if sufficient stocks are maintained to meet future demands and ensure that stocks are monitored against risks of obsolescence and shrinkage and considering holding/storage costs. Table 1 provides inventory values at different points in time.

Table 1: Inventory values at warehouses

Location	Value of NFIs in warehouses as of 31 December 2022 (\$)	Value of NFIs in warehouses as of 19 May 2023 (\$)
Ukraine	45,245,567	50,792,036
Moldova	7,858,884	5,502,580
Poland	4,251,502	7,643,938
Regional Bureau of Europe (RBE) in Hungary	8,878,307	17,407,803
Total	66,234,260	81,346,357

26. Based on inventory stock levels as of 19 May 2023, the audit assessed that some items had not been issued or only low quantities were released from the warehouses for the Ukraine emergency situation. For example, 5,982 fire retardant family tents (\$2.2 million) were in stock in Moldova, Ukraine and Hungary as of 19 May 2023, and only two per cent was released from the quantity received. Other types of tents and related accessories worth \$1.2 million were also stored in the three countries without any releases. Other items with low turnover included partitions, shampoo and deodorant valued at \$4.4 million that were received as donations from private sector partners. The Representation in Ukraine stated that it was working on their utilization.

27. UNHCR responded that it did not consider the items slow-moving, because: (i) the conflict was still active and there were new displacements; and (ii) substantial quantities (for example tents and tent-winterization kits) were transferred to the Turkey earthquake situation from Moldova in February 2023. Thus, OIOS did not raise a recommendation on slow-moving stock.

There was a need to improve inventory management and warehousing control arrangements

28. Representations should design, implement and maintain control mechanisms in storing and accounting for NFIs in a transparent and accountable manner. This includes: (i) timely recording of stock received and issued from the warehouses; (ii) maintaining adequate storage conditions; and (iii) securing the goods. OIOS visited twelve warehouses, eight in Ukraine, one in Poland, one in Moldova and two in Hungary managed by RBE and made the following observations.

29. The management of the warehouse in Moldova was generally adequate except for discrepancies identified between the physical count and records for two items. Also, items such as mattresses and blankets were not properly stacked, and this complicated physical verification process.

30. The Representation in Poland was given a warehouse by a vendor to use free of charge from April to October 2022, but this came with challenges of instituting controls in accordance with UNHCR warehousing guidelines. For instance, the Representation could not conduct physical verification of stock because the items were not well organized. Once the management of the warehouse converted from a donation to a commercial contract, the Representation was able to institute required controls including conducting a physical verification of stock. While this improved warehouse management, some weaknesses remained. For instance: (i) purchase order numbers were not indicated on all stacks; (ii) bin cards were not placed next to relevant stacks; and (iii) 11 mattresses were damaged and needed to be written off.

31. The audit identified a need for improved recordkeeping and storage of NFIs in Ukraine warehouses:

- Shelter items totaling \$1.8 million were not recorded as inventory in the MSRP under a Kyiv warehouse but were tracked offline. This resulted in an understatement of the inventory in the MSRP at 31 December 2022. The items were recorded in the MSRP after the audit field work.
- Another warehouse in Kyiv was used from October 2022 but only registered in the MSRP six months later in March 2023. At this point, items totaling \$18.9 million were stored in the warehouse, which was recorded in the MSRP under another existing warehouse.
- Mattresses were poorly stacked in one of the Kyiv warehouses and thus, could not be physically verified. In the Vinnytsia warehouse, the opening of boxes of folding beds did not follow the sequence of related purchase orders (Pos); boxes from more than one POs were opened simultaneously because partly used boxes were placed on top of high stacks, making it difficult to reach them again.
- In one of the Kyiv warehouses, the audit could not reconcile the quantity of timber, because some stacks did not have PO numbers. Roofing sheets could also not be counted because bin cards had

been dispersed by the wind. Items like timber and lath were stored outside the warehouse in an open area without a canopy to protect the items from the weather elements. This was despite the warehouse agreement providing for option that items could be stored under canopies.

- During the visit to the Lviv warehouse (main facility), the audit learnt that there was another storage location under the same code in the MSRP. At this location: (a) stacking was poorly done without possibility of access; and (b) bin cards were not available. As a result, partitions and mattresses could not be counted due to the way they were stored.
- At a Kyiv and the Dnipro warehouses, UNHCR was paying rent per pallet, but the items were stored in different places within the warehouses. For example, the audit was unable to count 6,130 metal beds in Dnipro because these items were in 406 different locations. The Supply Unit Dnipro informed OIOS that it took a team of 5-6 UNHCR staff five days to count the items during the periodic physical count, which was inefficient.

Year-end discrepancies needed to be clarified

32. UNHCR identified significant inventory discrepancies between the stock count and records per MSRP in the Representations of Poland and Ukraine during the 2022 year-end physical inventory as reflected in Table 2:

Table 2: Discrepancies between the stock count and records at year end

	Shortages		Overages	
	Quantity	\$	Quantity	\$
Poland	539,198	\$598,873	2,265	\$11,089
Ukraine	429,727	\$3,935,025	1,181,753	\$11,055,532

33. The audit attributed the overages/shortages above to: (i) delays in preparing Material Stock Requests (MSRs) or MSRs issued to other destinations or issued with different quantities; (ii) duplicated MSRs; (iii) inaccurate quantity adjustments; (iv) cross-picking of the items from different purchase orders; and (v) disorganized packaging and delivery of donated items. The Representations attributed discrepancies to MSRs not being issued and challenges with donations in kind items, which needed to be rearranged so as to be counted.

34. For Ukraine, the audit reviewed all justifications provided in inventory adjustments and noted that some did not explain why the discrepancies occurred. For instance, some merely stated that the issued items were untraceable. Based on a review of discrepancies resolved on the basis of retroactive transactions and physical verification performed by the audit team, the audit assessed that overages of \$786,962 and shortages of \$285,376 remained unresolved as of March 2023.

Retroactive MSRs issued to third parties in Ukraine

35. MSRs entailed a proper approval process prior to the physical release of items, especially to external parties. In 10 of the 104 discrepancies reviewed that were subsequently resolved, the audit noted that stock worth \$0.8 million was released retroactively to third parties. Based on its review, the audit observed that seven retroactive issuances did not have documentation evidencing their approval. For example, no MSR was in place to support the release of 50 solid fuel heaters, and the items were still listed as stock in the system three months after the release. The unrecorded releases in the system affected the accuracy of the inventory balance.

Inventory discrepancies identified by OIOS

36. The audit counted NFIs in the eight warehouses visited in Ukraine and identified variances between the physical stock counted and quantity recorded in the MSRP. The number of items verified, and discrepancies identified are presented in Tables 3 and 4.

Table 3: Number of items verified by OIOS

	Kyiv	Lviv	Vinnytsia	Dnipro
Total counted	25	25	16	14
Verified without discrepancy	14	16	12	14
Items with discrepancy	11	9	4	0
Percentage of discrepancy	44%	36%	25%	0%

37. Table 4 provides examples of discrepancies observed by the audit during physical verification:

Table 4: Examples of discrepancies observed by OIOS

Warehouse	Item	Shortage	Overage	Value \$
A	Donated partitions	3,035		(146,590)
B	Mattresses		26,795	807,894
C	Mattresses	23,482		(817,149)
B	Sleeping bags		1,710	24,870
D	Tarpaulins	1,385		(14,750)
B	Heaters	7		(2,695)

38. The shortcomings occurred because there was not enough staff capacity to manage the numerous transactions and there was a high volume of inventory that was released from several locations. Also, the limited staff had to rearrange and count the donations in kind. Hence, UNHCR did not record inventory movements in a timely manner; nor conduct regular monitoring of inventory at warehouses. This resulted in inaccurate records of inventory levels, and retroactive issuance of stock to third parties which increased the risk of loss.

(4) The UNHCR Representations in Poland and Ukraine, in coordination with the Regional Bureau for Europe, should: (a) ensure that all items available in UNHCR warehouses are recorded in the enterprise resource management inventory module; (b) strengthen warehouse management including maintenance of bin-cards and proper stacking to facilitate physical counts; and (c) address discrepancies identified during physical verifications.

UNHCR accepted recommendation 4 and had partly implemented it. The Representation in Ukraine recorded all shelter items in the enterprise resource management inventory module and would: (a) develop SOPs for warehouse management; and (b) provide training to the new warehouse service provider. The Representation in Poland too developed and implemented SOPs for effective warehouse management and addressed inventory discrepancies.

D. Procurement

Procurement by the Supply Management Service

39. OIOS reviewed 15 purchase orders issued by the Supply Management Service (SMS) for the procurement of NFIs and assessed that these were generally compliant with the rules. Nonetheless, the audit identified price differences for some items such as mattresses. For example, SMS ordered 495,000 mattresses from one supplier (supplier 1) at an average unit price of \$28.4 and 405,648 mattresses from another (supplier 2) at \$31.7. However, conditions for the delivery of items by supplier 2 (shipped with incoterm ex works) were not as favorable as the ones for supply 1 (which was made with delivered at place). The SMS explained it was not always possible to order the full desired quantity from the supplier offering the lowest prices.

40. UNHCR made significant advance payments of \$39 million to two suppliers at 90 and 30 per cent of the contracted price. UNHCR justified these payments on the basis that large quantities were required in a short period of time and the suppliers could not bear the cost of raw materials. However, the supplier that received the 90 per cent advance payment had stated in their offer that certain items were available in significant quantities. This implied that the supplier could have dispatched items without the advance payment. For instance, SMS ordered 2,400 winterization kits, of which 10,000 were on stock as per the supplier's offer; however, 90 per cent advance was still paid. UNHCR explained that advance payment secured stock and production capacity in an emergency situation. Given the explanation provided, no recommendation was made.

Local procurement in Ukraine

41. The Representation in Ukraine issued purchase orders totaling \$11 million in the period under audit. The audit reviewed five purchase orders totaling \$3.2 million and found them to be generally compliant with the rules. The Representation followed the requirements for procurement in emergencies and obtained competitive prices except as follows.

42. The Representation launched a tender for electric and solid fuel heaters, with purchase orders totaling \$3 million issued. For solid fuel heaters only one supplier passed the technical evaluation, with the second one disqualified because they did not submit VAT registration documentation. Faced with a comparable situation and poor response for electric heaters, the Supply Unit contacted another supplier for electric heaters to submit missing documents. This implies that the Supply Unit could have approached the second vendor for solid fuel heaters as well, considering that they had qualified for another local tender. The Representation stated that this was an isolated case considering over 125 procurements completed in 2022. Since then, the Representation had instituted corrective actions in terms of capacity building, procurement planning and monitoring, to ensure the procurement rules are followed. Accordingly, no recommendation was made.

IV. ACKNOWLEDGEMENT

43. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of non-food items in UNHCR response to the Ukraine crisis

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
1	The UNHCR Representation in Poland, in coordination with the Regional Bureau for Europe, should finalize its non-food items (NFI) strategy and revise related standard operating procedures to reinforce its guidance on distribution monitoring and reporting. Additionally, the Representations in Poland and Moldova should incorporate NFI specific risks and mitigating measures in their risk registers.	Important	O	Receipt of documentary evidence of the: (a) finalization of the NFI strategy for UNHCR Poland and revision of SOPs to address deficiencies in reporting, maintenance of distribution documents and monitoring; and (b) inclusion of NFI related risks in the risks registers for Poland and Moldova.	31 December 2023
2	The UNHCR Representations in Moldova, Poland and Ukraine, in coordination with the Regional Bureau for Europe should: (a) replace the Transfer of Ownership modality for releasing non-food items to Government entities and partners with suitable arrangements; and (b) ensure that distribution lists are maintained and institute compensating controls to confirm receipt of NFIs by beneficiaries.	Important	O	Receipt of documentary evidence of the: (a) replacement of the Transfer of Ownership modality for releasing non-food items to Government entities and partners with suitable arrangements; and (b) systematic maintenance of distribution lists and institution of compensating controls to confirm receipt of NFIs by beneficiaries.	31 January 2024
3	The UNHCR Representation in Ukraine should strengthen its monitoring of government entities and partners to ensure they maintain accurate data of the non-food items distributed and beneficiaries reached.	Important	O	Receipt of documentary evidence of strengthened monitoring of government entities and partners to ensure they maintain accurate data of the non-food items distributed and beneficiaries reached.	31 December 2023
4	The UNHCR Representations in Poland and Ukraine, in coordination with the Regional Bureau for Europe, should: (a) ensure that all items available in UNHCR warehouses are recorded in the enterprise resource management inventory module;	Important	O	Receipt of documentary evidence from Ukraine of physical verification and stock reconciliation, strengthened warehouse management including maintenance of bin-cards and proper stacking to facilitate physical counts.	31 December 2023

³ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

⁴ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

⁵ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁶ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of non-food items in UNHCR response to the Ukraine crisis

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
	(b) strengthen warehouse management including maintenance of bin-cards and proper stacking to facilitate physical counts; and (c) address discrepancies identified during physical verifications.				

APPENDIX I

Management Response

Management Response

Audit of the management of non-food items in UNHCR response to the Ukraine crisis

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
1	The UNHCR Representation in Poland, in coordination with the Regional Bureau for Europe should finalize its non-food items (NFI) strategy and revise related standard operating procedures to reinforce its guidance on distribution monitoring and reporting. Additionally, the Representations in Poland and Moldova should incorporate NFI specific risks and mitigating measures in their risk registers.	Important	Yes	Asst Representative – Operations, Poland Senior Operations Coordinator, Moldova	31 December 2023	Poland: A revised strategy has been submitted to the bureau for review. Relevant SOPs were revised to include provisions on final distribution list and reconciliation exercise, as well as more details on the post-distribution monitoring process. The SOPs also removed any mention to Transfer of Ownership (TOO), and covers different distribution modalities, both for Direct Implementation (DI) and distribution through operational/funded partners. This is especially relevant for the distribution lists prepared by operational/funded partners, which must comply with GDPR requirements. Poland and Moldova: Risks related to non-food items (NFI) and mitigating measures will be reflected in the Country Risk Registers in the coming risk review.

⁷ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

⁸ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Rec. no.	Recommendation	Critical ⁷ / Important ⁸	Accepted? (Yes/No)	Title of responsible individual	Implementation date	UNHCR comments
2	The UNHCR Representations in Moldova, Poland, and Ukraine, in coordination with the Regional Bureau for Europe should: (a) replace the Transfer of Ownership modality for releasing non-food items to Government entities and partners with suitable arrangements; and (b) ensure that distribution lists are maintained and institute compensating controls to confirm receipt of NFIs by beneficiaries.	Important	Yes	<p>a: Deputy Representative, Ukraine</p> <p>b: Principal Situation Coordinator, Ukraine</p> <p>Assistant Representative – Operations, Poland</p> <p>Senior Operations Coordinator, Moldova</p>	31 January 2024	<p>Ukraine:</p> <p>a) The UNHCR Representation in Ukraine will replace the Transfer of Ownership (ToO) modality with issuing letters of donation to release non-food items to government entities.</p> <p>b) The UNHCR Representation in Ukraine will continue to pursue distributions lists for items distributed through operational partners. When distribution lists are not available, the following compensating controls will be implemented:</p> <ul style="list-style-type: none"> - Follow up with operational partners to obtain letters of confirmation that items were distributed to beneficiaries as defined in the MoUs - Monitoring missions, whenever the security situation in the areas where the items were distributed allows and when these become accessible to UNHCR. <p>Poland:</p> <p>Part a: The use of TOO has been discouraged after the auditors visit and Letters of Understanding (LoU) have been signed instead, notably with Caritas Poland (March 2023).</p> <p>There are instances where LoU or a specific Partnership Agreement is not in place for NFI distribution, and the operation continues to use TOO when</p>

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						<p>inventory falls under the authority of the Representative to approve transfer values below USD 50,000.00.</p> <p>Part b: In view of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons about the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation) UNHCR partners in Poland have shown reluctance to provide detailed distribution lists. It has been agreed however that partners provide pseudonymized distribution reports with acceptance by beneficiaries on their receipt of NFIs.</p> <p>Furthermore, the new procedures introduced in the revised SOPs have a chapter on a monitoring tool that has two components:</p> <p>NFI POC Registration POLAND: This component registers beneficiaries prior to the distribution. UNHCR then uploads a distribution list or scan passports with mobile phones to collect the required data when refugees arrive at a distribution site. After registering in the NFI POC Registration system, refugees go to the next point, where they receive the assigned items. The items received</p>

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						<p>are recorded for each refugee. The Assistance Distribution Tracking System relates to the NFI POC Registration.</p> <p>These two solutions enable UNHCR Poland to produce a Distribution Report POLAND in Power BI. Currently, the monitoring tool is only used by UNHCR Poland for distributions done through direct implementation.</p> <p>For partners and due to GDPR limitations, UNHCR is discussing compensating controls that could show evidence of distribution of the NFI to beneficiaries.</p> <p>Moldova:</p> <ul style="list-style-type: none"> a. UNHCR Moldova will work through LOU modalities for distribution of NFIs in line with this recommendation. b. Additional compensating controls will be put in place to confirm receipt of beneficiaries.
3	The UNHCR Representation in Ukraine should strengthen its monitoring of government entities and partners to ensure they maintain accurate data of the non-food items distributed and beneficiaries reached.	Important	Yes	Senior Information Management Officer, Ukraine	31 December 2023	<p>The UNHCR Representation in Ukraine will ensure regular oversight and verification of the NFIs distribution data shared by government entities and partners on the data for through:</p> <ul style="list-style-type: none"> - Revised templates for distribution reports already in

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						<p>place for monthly reporting on NFIs distribution</p> <ul style="list-style-type: none"> - Monthly triangulation of the information in ActiviyInfo against the actual distribution data <p>Follow up with government through regular meetings and spot check monitoring of distributions carried out by government entities, where security situation allows access for UNHCR personnel.</p>
4	<p>The UNHCR Representations in Poland and Ukraine, in coordination with the Regional Bureau for Europe, should: (a) ensure that all items available in UNHCR warehouses are recorded in the enterprise resource management inventory module; (b) strengthen warehouse management including maintenance of bin-cards and proper stacking to facilitate physical counts; and (c) address discrepancies identified during physical verifications.</p>	Important	Yes	Principal Situation Coordinator, Ukraine	31 December 2023	<p>Ukraine:</p> <ul style="list-style-type: none"> a) The UNHCR Representation in Ukraine has recorded all the shelter items referenced in the report for which evidence was provided on 27 July 2023. b) The UNHCR Representation in Ukraine will develop local SOP for warehouse management, following the selection of new warehouses. Additionally, and as part of implementing the warehouse management improvement plan, the operation will provide a training to the new service provider. c) The discrepancies have been identified and corrected. <p>Poland:</p> <ul style="list-style-type: none"> a. The last physical count conducted in March 2023 with zero discrepancy, indicating all items are now recorded in the ERP.

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						<ul style="list-style-type: none"> b. Poland operation has established standard SOPs for warehouse management, and they are being implemented since beginning of 2023. c. The latest stock reconciliation report of May 2023 showed zero discrepancy.