



## **INTERNAL AUDIT DIVISION**

### **REPORT 2018/128**

---

#### **Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees**

**There was a need to strengthen monitoring  
controls both at the level of the  
Representations and at headquarters to  
achieve consistent application of the policy  
framework for warehouse management  
across field operations**

**12 December 2018  
Assignment No. AR2018/167/01**

# **Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether the UNHCR country operations were managing their warehouses and inventory in an efficient and cost-effective manner, in compliance with policy requirements, and whether UNHCR headquarters was ensuring effective oversight of warehouse related matters. The audit covered the period from 1 January to 31 December 2017, and the UNHCR offices covered in the audit included the Representations in Afghanistan, Angola, Djibouti, Lebanon, South Sudan, Syria, Uganda and Zambia that held inventories valued at \$36.5 million as at 31 December 2017.

Overall, OIOS assessed that while UNHCR had a well-articulated warehouse and inventory management policy framework, it lacked monitoring controls both at the level of the Representations and at headquarters to achieve consistent application of the policy framework across operations.

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

- Ensure that: i) all warehouses controlled by UNHCR are identified by the country operations and recorded in Managing for Systems, Resources and People, the UNHCR enterprise resource planning system, and the value of inventories in these warehouses is tracked, recorded and adequately insured; and ii) the different policy and guidance documents supporting UNHCR's warehouse and inventory management are reviewed for consistency and clarity;
- Put in place an action plan to strengthen monitoring and oversight of inventory management, both in the country operations and at headquarters, with the objective of achieving consistent and accurate inventory records and addressing, in a sustainable manner, the systemic control deficiencies identified;
- Develop and implement an action plan to strengthen monitoring and oversight of warehouse management, both in the country operations and at headquarters, with the objective of achieving effective controls over the establishment and operation of warehouses and addressing, in a sustainable manner, the systemic deficiencies identified in this audit;
- Strengthen monitoring and oversight arrangements, both in the country operations and at headquarters, over surplus inventory and items beyond shelf life; and facilitate disposal by the Representations of the identified obsolete inventory and assist them in the redeployment of identified surplus inventory in a timely manner; and
- Strengthen monitoring and oversight arrangements in ensuring that the Representations consistently implement access controls and fire prevention measures in warehouses to ensure safe and secure storage.

UNHCR accepted the recommendations and has initiated action to implement them.

# CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1-2
III. AUDIT RESULTS	2-9
Management of warehouses	2-9
IV. ACKNOWLEDGEMENT	9
 ANNEX I      Status of audit recommendations	
 APPENDIX I   Management response	

# **Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. A warehouse is a planned space managed either by UNHCR, an implementing partner or a commercial provider, where inventories are stored in either global warehouses (called the UNHCR Global Stock Management or GSM warehouses) or local warehouses. GSM warehouses are maintained at strategic locations around the world and managed centrally by the Supply Management and Logistics Service (SMLS) of the UNHCR Division of Emergency, Security and Supply (DESS). The purpose of GSM warehouses is to store adequate levels of core relief items to enable their supply to emergency operations. Local warehouses are maintained by country offices to serve the planned needs of field operations.
3. Chapter 8 of the UNHCR Manual provides guidance on warehouse management. In November 2012, DESS and the Division of Financial and Administrative Management (DFAM) jointly issued the UNHCR Inventory Management Policy. In December 2013, DESS issued Standard Operating Procedures (SOP) for Warehouse and Inventory Management in UNHCR, covering *inter alia* the following: the roles and responsibilities of UNHCR and the warehouse manager (regardless if they are UNHCR staff, logistics partners or commercial providers); receipt and issuance of inventory; controlling and monitoring of inventory, inventory documentation requirements; and overall management of warehouses. In March 2017, UNHCR also issued an Administrative Instruction on Global Inventory Insurance Coverage.
4. DESS is mandated to provide strategic direction, support and oversight to Regional and Country Offices in relation to supply chain management. In this regard, DESS has the responsibility to maintain high quality supply chain delivery capacity to meet the requirements of persons of concern, in accordance with relevant policies, administrative instructions and procedures. The Supply Chain Planning Section (SCPS) is part of SMLS and provides advice and capacity building in respect of inventory supply chain planning. SCPS is tasked with providing functional support to UNHCR country operations, in order to have comprehensive, accurate and up-to-date information on inventories maintained at all warehouses. SCPS is also required to review and analyze periodic inventory report activities submitted by operations. At the time of the audit, SCPS was headed by a Chief at the P-5 level and had 12 authorized posts, including 5 posts under the Inventory Management Unit.
5. As at 31 December 2017, UNHCR had 156 warehouses in 56 field operations storing a total inventory value of \$226 million. This included inventories valued at \$32 million in the GSM warehouses in Accra, Amman, Copenhagen, Douala, Dubai, Kampala and Nairobi. The value of inventory holdings as at 31 December 2016 was \$204 million.
6. Comments provided by UNHCR are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

7. The objective of the audit was to assess whether the UNHCR country operations manage their warehouses and inventory in an efficient and cost-effective manner, in compliance with UNHCR's policy requirements, and whether UNHCR headquarters is ensuring effective oversight of warehouse related matters.

8. This audit was included in the 2018 risk-based work plan of OIOS due to the risks associated with managing warehouses and controlling inventories in field locations, including the risk of fraud.

9. OIOS conducted this audit from March to August 2018. The audit covered the period from 1 January to 31 December 2017. Based on an activity-level risk assessment, the audit covered higher risk areas related to the: (a) recording, controlling and monitoring of inventories; (b) adequacy and completeness of insurance coverage; and (c) structure and location of warehouses. The UNHCR offices covered in the audit included the Representations in Afghanistan, Angola, Djibouti, Lebanon, South Sudan, Syria, Uganda and Zambia that held inventories valued at \$36.5 million as at 31 December 2017. For the eight field operations, OIOS visited 20 warehouses recorded in Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system. GSM warehouses were not within the scope of this audit.

10. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data, including financial data from MSRP; (d) sample testing of controls; and (e) visits to selected UNHCR offices, warehouses and partners or vendors who managed UNHCR warehouses.

### **III. AUDIT RESULTS**

#### **Management of warehouses**

##### UNHCR-controlled warehouses needed to be identified and recorded in MSRP and the policy framework harmonized to ensure consistency in warehouse and inventory management

11. All UNHCR warehouses should be recorded in MSRP and the value of related inventories included in the financial statements. UNHCR should also provide adequate insurance coverage for its inventory. The UNHCR Accounting Policy for Inventories, which is based on the International Public Sector Accounting Standards (IPSAS), Standard 12 on Inventories, states that inventories are expensed when they are released for distribution.

12. As at 31 December 2017, the eight country operations covered in the audit had non-food items (NFIs) stored in 20 warehouses that were duly recorded in MSRP. The total value of these NFIs, at \$36.5 million, was adequately insured. However, OIOS found areas that could be improved and clarified, as discussed in the following paragraphs.

13. In six of the eight country operations reviewed (Afghanistan, Angola, South Sudan, Syria, Uganda and Zambia), 34 warehouses were characterized by the Representations as “partner warehouses” or “distribution point facilities”. These warehouses served as intermediary storage facilities for NFIs issued from official UNHCR warehouses for onward distribution to persons of concern. The respective Representations had established these temporary facilities to ensure a timely response to emergencies. As at 31 December 2017, NFIs stored in these 34 warehouses were valued at \$10.3 million. SMLS knew of the existence of 8 of them located in Afghanistan, which was justified on operational context, but was not aware of the remaining 26 warehouses in the other five operations. SMLS also did not have information on how many of these warehouses were established globally in UNHCR operations, or the value of inventory stored in them. The lack of centralized information on all major storage points for UNHCR inventory increases the risk that certain warehouses could meet the definition of a UNHCR warehouse and not be recorded in MSRP. This could result in the inventory value in UNHCR’s Balance Sheet being understated and its insurance coverage over inventory being insufficient.

14. DESS and DFAM agreed on the need to identify, based on clear criteria, all UNHCR warehouses, as well as their whereabouts and the inventory value contained therein, and record the details in MSRP, and distinguish them from those that were not considered UNHCR warehouses. This was particularly important as, according to the 2013 SOP for Warehouse and Inventory Management, a UNHCR warehouse was defined as “a planned space managed by either a partner, commercial entity or directly by UNHCR, where UNHCR owned goods were stored and recorded, and recognized in the UNHCR financial statements”.

15. In addition, the Representation in Uganda had 12 warehouses which it considered as short-time storage facilities, and UNHCR had already expensed the items stored in them. However, NFIs were stored in these warehouses for periods ranging from months to as long as four years (as observed in Adjumani), indicating that these facilities were long-term or even permanent in nature. This contradicted the clause in the Accounting Policy for Inventories which stated that inventories should be recognized as an expense in the period during which the goods were distributed.

16. Given the issues raised in paragraphs 14 and 15 above, in OIOS’ view, UNHCR’s various policy and guidance documents over warehouse and inventory management needed to be reviewed and revised for consistency of language and terminology.

17. The UNHCR Accounting Policy for Inventories also stipulated that the distribution point for NFIs was the point when the goods were shipped from the UNHCR warehouse to the implementing partners performing the distribution and they were no longer in UNHCR’s control. However, in the view of OIOS, as regard inventories stored in the non-UNHCR warehouses, UNHCR still had legal ownership, access to the items, and the means to ensure that these were used to meet project objectives. For example: i) it had the right to retrieve the items in case of termination of the Project Partnership Agreement (PPA) with a partner; ii) no transfer of ownership agreement was signed for NFIs transferred from UNHCR warehouses to partner warehouses; and iii) according to the PPA template, for partner managed warehouses the release of inventory could be executed only after formal approval from UNHCR, which meant that even in partner managed warehouses UNHCR retained ownership and control until the goods reached the persons of concern. Therefore, the issuance of NFIs from UNHCR’s warehouses to partners resulted in UNHCR losing possession of them rather than releasing ownership and control. OIOS was also of the view that the above-mentioned definition of a distribution point did not adequately consider the situation when the partner to whom the items were shipped from the UNHCR warehouse was not the partner responsible for performing the distribution to final recipients.

18. DFAM stated that, as per the Accounting Policy for Inventories, it was not necessary for inventory to be distributed to the final beneficiary for it to be considered distributed and therefore expensed. In their view, distributions to “uncontrolled” distribution centers/warehouses (e.g. partner managed) could be expensed, while distributions to controlled UNHCR warehouses (i.e. MSRP-recorded warehouses) were not expensed. DFAM added that this accounting interpretation was made after careful consideration and in consultation with other United Nations organizations. In addition, the accounting treatment was the same as when project instalments were transferred to implementing partners: they were immediately recorded as an expense and not as an advance. Finally, DFAM added that it would not be cost-efficient to implement the same accounting controls that existed for UNHCR warehouses also for partner managed warehouses.

19. Whilst acknowledging UNHCR’s interpretation of the concept of “being in control” in accounting terms, OIOS was of the view, especially following recurrent audit observations on weaknesses identified in UNHCR’s controls over distribution of NFIs to persons of concern, that being in control of the NFIs for IPSAS expense recognition purposes was different from being in control of their delivery to final beneficiaries. In this regard, OIOS was of the opinion that this needed to be further clarified in the Accounting Policy for Inventories. DFAM stated that whilst it was important to distinguish between accounting controls for IPSAS purposes and operational controls to ensure items reach the beneficiaries,

making a clear distinction between them might not be straight-forward and even further confuse matters. The term “control”, in DFAM’s view, covered a variety of possible situations, which could not all be anticipated and described in detail, and UNHCR should be able to exercise judgment where necessary.

**(1) The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of Financial and Administrative Management and the Division of Programme Support and Management as well as the Regional Bureaux, should ensure that: i) all warehouses controlled by UNHCR are identified by the country operations and recorded in MSRP and the value of inventories is tracked, recorded and adequately insured; and ii) the different policy and guidance documents supporting UNHCR’s warehouse and inventory management are reviewed for consistency and clarity.**

*UNHCR accepted recommendation 1 and stated that DESS, DFAM and the Division of Programme Support and Management, in close cooperation with the Regional Bureaux, would: a) review the different policy and guidance documents related to warehouse and inventory management for consistency, and revise them if necessary; and b) review all storage facilities, currently not recorded as warehouses, for UNHCR inventories and determine whether UNHCR had effective control over the inventories therein. Storage facilities under the control of UNHCR would be assessed to determine the right solution. Recommendation 1 remains open pending receipt of evidence that all warehouses controlled by UNHCR have been identified and recorded in MSRP and the value of inventories in these warehouses has been tracked, recorded and adequately insured; and that the policy and guidance documents on warehouse and inventory management have been reviewed for consistency and clarity.*

#### Field operations needed to improve the recording, controlling and management of inventory records

20. Representations are required to develop, implement and maintain inventory recording arrangements to ensure complete and accurate records and conduct periodic reconciliation of quantities stored.

21. OIOS review of the eight country operations identified the following shortcomings in the recording, controlling and issuance of inventory.

- In Afghanistan, Lebanon, South Sudan, Syria and Zambia, OIOS test-counted five kinds of NFIs at each warehouse visited and the respective quantities tallied with the bin cards. However, in Angola, Djibouti and Uganda discrepancies were observed. In Angola, there were discrepancies between the stock count and MSRP records for family tents, sleeping mats, jerry cans, plastic tarpaulins and soaps. In Djibouti, there were discrepancies in respect of plastic tarpaulins, jerry cans and kitchen sets. The total value of discrepancies noted in these three operations was estimated at \$115,897. The Representations in Angola and Djibouti stated that the shortages/overage were due to items being issued without MSR, delayed physical release where MSR had been issued, theft (in the case of Angola), and storage of items in partner managed warehouses. However, no documentary evidence was provided to substantiate these statements.
- In Afghanistan, Lebanon, South Sudan and Syria, the Representations had conducted annual physical counts and performed subsequent reconciliations between the counts and records. However, in Angola, Djibouti, Uganda and Zambia physical counts and reconciliations were not fully implemented. In Angola, in the absence of a reconciliation as of December 2017, the discrepancies in blankets, mats and tarpaulins with a value of \$42,000, attributable to theft, had not been communicated to SMLS, and MSRP records remained unadjusted. In Djibouti, the Representation, instead of conducting 12 months of reconciliations of bin cards and MSRP records

in 2017, had conducted the reconciliation for only six months, without providing supporting documentation to SMLS. In Uganda, adjustments were made for missing items based on the partners' periodic physical counts without proper investigation. Such practices increased the risk of loss of inventory through theft. For instance, the Uganda Representation's Project Control Unit discovered in February 2018 that 15,000 solar lamps worth \$279,860 and 29,525 sanitary pads worth \$10,248 were missing from one distribution point. In Zambia, due to tardy record keeping, NFIs valued at \$78,490 could not be accounted for and MSRP records had to be adjusted to correspond to physical stock.

- Receipt and issuance of NFIs were not adequately controlled in four operations. In Afghanistan, household items in the Jalalabad warehouse were not recorded in MSRP as there were no supporting purchase orders to document and track its origin when transferred from the previous warehouse. In Angola, sleeping mats, plastic tarpaulins and solar lamps were issued without material stock requests (MSRs) authorizing the release of inventory. There were also discrepancies between releases from the warehouse in Luanda and receipts in the warehouse in Lovua. In Djibouti, NFIs were issued through email notification to the warehouse manager instead of approved MSRs. In Zambia, proper record keeping was not maintained as NFIs were expensed upon receipt, implying that they had been distributed, yet some were still held in storage.
- The first-in first-out method of issuance of NFIs was implemented in Afghanistan, Angola, South Sudan, Syria and Zambia but was not systematically done in Djibouti, Lebanon and Uganda.
- The inventory related documentation in Angola, Djibouti, South Sudan and Uganda was not complete or accurate. In Angola and Djibouti, inventory files were incomplete and lacked MSRs, goods received notes, waybills and delivery notes, inspection and weekly reports, inventory counting sheets, and loss/damage forms. In South Sudan, there were miscalculations, missing dates and unreadable number entries in the bin cards in the Wau warehouse. In Uganda, receipt and issuance of NFIs in the warehouse in Yumbe were not controlled, and there were no bin or stock cards, goods received notes, waybills or daily stock reports to monitor the NFI movements.

22. These shortcomings occurred because of the lack of adequate management supervision by the respective Representations as well of lack of adequate monitoring and oversight at UNHCR headquarters in ensuring that Representations maintain accurate inventory records. Ineffective inventory management could result, *inter alia*, in incorrect quantities released, incorrect data recorded, unnecessary purchases, excessive inventory levels, inefficient use of funds, and damage or loss of inventory.

**(2) The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should put in place an action plan to strengthen monitoring and oversight of inventory management, both in the country operations and at headquarters, with the objective of achieving consistent and accurate inventory records and addressing in a sustainable manner the systemic control deficiencies identified in this audit.**

*UNHCR accepted recommendation 2 and stated that DESS was monitoring and overseeing the consistency and accuracy of inventory recording through a small team within SMLS. In future, the missions conducted by the Compliance and Risk Management Unit and the Regional Supply Officers would include as an additional focus area the recording, controlling and management of inventory records. The results of these missions would be reported to the operations concerned, SMLS and the Regional Bureaux for follow-up. Mission plans and check lists would be available by January 2019. Recommendation 2 remains open pending receipt of evidence of actions taken to strengthen monitoring and oversight of inventory management, in order to ensure consistent and accurate*

inventory records and to address the systemic deficiencies identified in this audit in a sustainable manner.

UNHCR needed to strengthen controls over the establishment and operation of warehouses

23. Representations are required to maintain an appropriate number of warehouses to cover their inventory requirements, and ensure optimal utilization of the existing capacity and adequate segregation of ownership of inventories.

24. The requirement to conduct a feasibility study was not followed by the Representations in Djibouti, Uganda and Zambia. In Zambia, the Representation established a warehouse in MSRP in Nchelenge so that NFIs from Nairobi valued at \$567,544 could be delivered closer to where they were needed. However, upon delivery, no physical warehouse space was available and new premises had to be hired to store the NFIs. This was the consequence of a lack of feasibility study.

25. Control arrangements over space allocation and management were not adequate in Djibouti, South Sudan, Uganda and Zambia. In Djibouti, the Representation did not segregate UNHCR owned items and those owned by others, thereby posing risks of disputed ownership and mixing up of inventory owned by different parties. In South Sudan, pending the reconstruction of five rubbhalls in Juba, NFIs were stored in containers making physical counts impossible as boxes were piled from wall to wall in the containers. Items owned by a partner were stored together with UNHCR's equipment in the Juba warehouse. In the Kaya warehouse, there were used plastic tanks and large jerry cans left behind by a third party. In Uganda, OIOS noted that 135 wheelbarrows and 2,350 plastic toilet slabs were placed outside of warehouses due to insufficient internal space, and established procedures on stock stacking and distance between piles were not followed. Goods owned by another United Nations agency and a government partner were stored in Yumbe without proper separation, increasing the risk of disputed ownership.

26. The warehouse layout and storage plans were not consistently implemented in Djibouti, Lebanon, South Sudan, Syria and Uganda. Similarly, sourcing and distribution plans were not shared with the warehouse managers in these locations. The warehouse main information sheets were not effectively maintained in Djibouti, South Sudan, Syria and Uganda. In Djibouti, this led to SMLS not being informed about the change in the location of one warehouse and the transfer of the NFIs to the warehouse of another United Nations agency in 2018. In South Sudan, Syria and Uganda, the warehouse main information sheets did not include important information required by UNHCR rules, such as: (i) storage capacity size of the area designated for UNHCR inventory; (ii) description of the system for control of key(s) and the location of spare keys; (iii) name of the partner managing the warehouse; and (iv) contact details of the warehouse manager, the UNHCR inventory focal point and the back-up persons.

27. These shortcomings occurred because of the lack of adequate management supervision by the respective Representations as well as inadequate monitoring and oversight at UNHCR headquarters in ensuring that Representations adequately manage and controls its warehouse operations. As a result, UNHCR had not ensured that consistent arrangements were in place to maintain adequate storage conditions, and to ensure that the inventory is in an accessible and usable or serviceable condition when needed. UNHCR was also not effectively protecting its inventories against the risk of damage or financial losses due to obsolescence and misappropriation.

**(3) The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should develop and implement an action plan to strengthen monitoring and oversight of warehouse management, both in the country operations and at headquarters, with the objective of achieving effective controls over the establishment and**

**operation of warehouses and addressing in a sustainable manner the systemic deficiencies identified in this audit.**

*UNHCR accepted recommendation 3 and stated that DESS and the Regional Bureaux would establish a project team to: a) analyze the root causes for the deficiencies identified; b) review the existing mechanisms for monitoring and overseeing warehouse management, and revise them if necessary; and c) develop an action plan to address the root causes identified, and improve monitoring and oversight of warehouse management in coordination with country offices and the Regional Bureaux. Recommendation 3 remains open pending receipt of evidence of actions taken to strengthen monitoring and oversight of warehouse management, in order to ensure effective controls over the establishment and operation of warehouses and to address the systemic deficiencies identified in this audit in a sustainable manner.*

UNHCR needed to strengthen monitoring of the Representations' controls over NFIs beyond shelf life and excessive stocks

28. SMLS and Representations are required to implement procedures to manage inventory levels and take appropriate action on inventories at local warehouses nearing standard shelf life and those considered surplus or excessive.

29. OIOS noted that the monthly country financial reports issued by DFAM to the Representations indicated that as at 30 June 2018, NFIs valued at \$1.3 million were considered beyond shelf life in five of the eight operations covered by this audit, and inventory of \$13.9 million was considered as potentially surplus or excessive in all eight operations. OIOS also noted that six months after 31 December 2017, the value of obsolete items had increased by a further \$0.6 million and potential excess stocks by \$6.7 million.

30. The statistics indicated that despite the monthly monitoring done by UNHCR headquarters, a significant amount of NFIs became obsolete (beyond shelf life), which is an indication of a control breakdown in mitigating the risks of obsolescence and waste of resources. The inventory surplus was considered significant as UNHCR funds were tied to these slow-moving inventories instead of using the funds in more meaningful operational activities. This also indicated that the risks of subsequent acquisitions by the operations of the inventories considered surplus without headquarters' approval were not mitigated.

31. These shortcomings occurred because of inadequate management supervision by the respective Representations as well as the inadequate monitoring and oversight at UNHCR headquarters in requesting operations with significant surplus inventory and items beyond shelf life to provide explanations and remedial action plans. This might be related to the fact that the decision for releasing funds for purchase of inventories lies currently with the country operations. Hence, UNHCR was not fully effective in managing inventories against the risk of inventory obsolescence and ensuring optimal utilization of scarce funds.

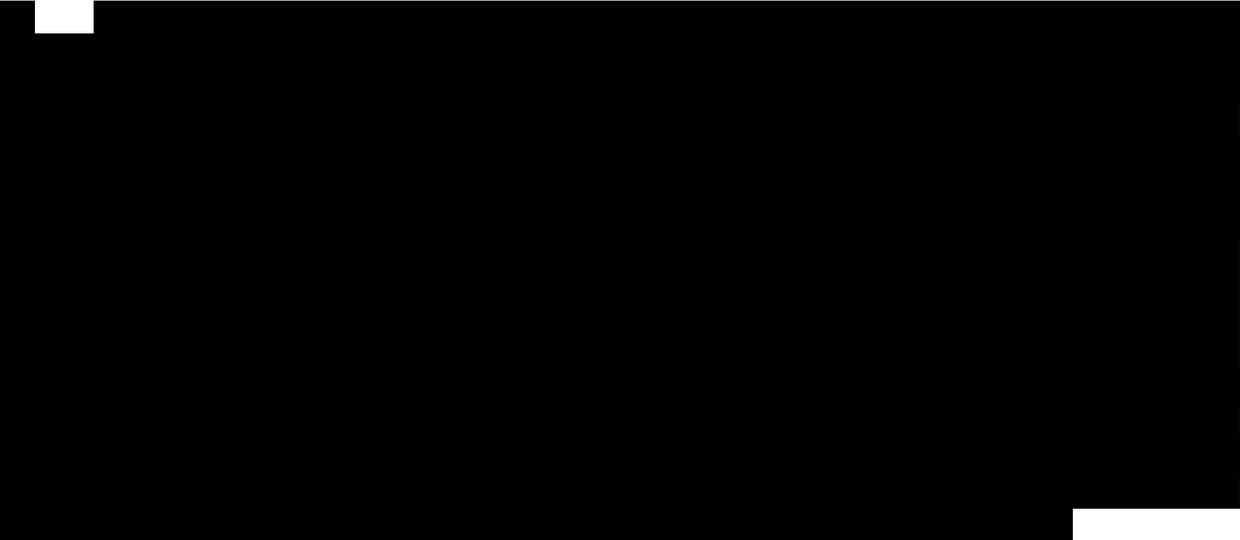
**(4) The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of Financial and Administrative Management and the Regional Bureaux, should: a) strengthen monitoring and oversight arrangements, both in the country operations and at headquarters, over surplus inventory and items beyond shelf life; and b) facilitate disposal by the Representations of the identified obsolete inventory and assist them in the redeployment of identified surplus inventory in a timely manner.**

*UNHCR accepted recommendation 4 and stated that DESS and DFAM, in close cooperation with the Regional Bureaux, would establish a cross-functional project team to: a) strengthen oversight and monitoring mechanisms over surplus inventory and inventory items beyond shelf life; b) develop procedures and define responsibilities and accountabilities to facilitate the disposal of obsolete*

*inventory and the redeployment of surplus inventory, if economical; and c) define and implement an action plan regarding the treatment of obsolete and surplus inventory.* Recommendation 4 remains open pending receipt of evidence of actions taken to strengthen monitoring and oversight of surplus inventory and items beyond shelf life; and disposal of the identified obsolete inventory and redeployment of surplus items.

There was a need to improve access and fire safety arrangements in the warehouses

32. In order to safeguard inventory and mitigate the impact of fire and safety risks to staff and premises, Representations are required to implement various fire safety procedures and measures as outlined in the UNHCR warehouse and inventory management policies.



34. While the operations in Afghanistan, Angola, Djibouti and Zambia had adequate fire prevention arrangements, there was a need for improvements in this regard in Lebanon, South Sudan, Syria and Uganda. In Lebanon, the warehouse in Zhale had a designated smoking area in the compound contrary to the rules that smoking should be prohibited in UNHCR warehouses. In addition, there was no evacuation plan for the Zhale and Quobayat warehouses. In South Sudan, fire extinguishers had expired in Kaya and Gendrassa rendering them potentially ineffective in the event of a fire incident. Furthermore, there were no smoke detectors and ‘no smoking’ signs; and no fire alarms and markings for escape exit. No fire drills had been conducted in Kaya, Gendrassa and Jamjang. In all the four warehouses, the assembly point in case of fire was not indicated and the overall evacuation plan had not been prepared. In Syria, the Representation did not identify and mark the fire exits and assembly points and had no incident response plan for warehouses in Damascus and Homs. In Uganda, fire drills and testing of the alarm were not conducted in 2016 and 2017 in the Kampala warehouse. In the Yumbe warehouse, there was no fire extinguisher in any of the 18 rubbhalls, no smoke detectors and ‘no smoking’ signs, no fire alarms and no escape exit markings, and no fire drills had been conducted in 2017.

35. The above-mentioned shortcomings occurred because of inadequate management supervision by the respective Representations as well as inadequate monitoring and oversight at headquarters in ensuring that Representations were implementing effective access controls and fire prevention arrangements in the warehouses. As a result, UNHCR was not sufficiently protecting its inventories against the risks of damage or financial losses due to fire, fraud, theft or looting.

**(5) The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should strengthen monitoring and oversight arrangements in ensuring that the Representations consistently implement access controls and fire prevention measures in warehouses to ensure safe and secure storage.**

*UNHCR accepted recommendation 5 and stated that DESS, in coordination with the Regional Bureaux, would send a joint communication to all operations maintaining warehouses reiterating the key measures to maintain a secure and safe warehouse. This would be done by 31 March 2019. Considering the new regional structures, DESS in consultation with the Regional Bureaux, would develop monitoring mechanisms to ensure adequate access controls and fire prevention mechanisms in UNHCR warehouses. Recommendation 5 remains open pending receipt of evidence of actions taken to strengthen monitoring and oversight of the implementation of access controls and fire prevention measures in warehouses to ensure safe and secure storage.*

#### **IV. ACKNOWLEDGEMENT**

36. 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.

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of Financial and Administrative Management and the Division of Programme Support and Management as well as the Regional Bureaux, should ensure that: i) all warehouses controlled by UNHCR are identified by the country operations and recorded in MSRP and the value of inventories is tracked, recorded and adequately insured; and ii) the different policy and guidance documents supporting UNHCR's warehouse and inventory management are reviewed for consistency and clarity.	Important	O	Submission to OIOS of evidence that all warehouses controlled by UNHCR have been identified and recorded in MSRP and the value of inventories in these warehouses has been tracked, recorded and adequately insured; and that the policy and guidance documents on warehouse and inventory management have been reviewed for consistency and clarity.	31 October 2019
2	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should put in place an action plan to strengthen monitoring and oversight of inventory management, both in the country operations and at headquarters, with the objective of achieving consistent and accurate inventory records and addressing in a sustainable manner the systemic control deficiencies identified in this audit.	Important	O	Submission to OIOS of evidence of actions taken to strengthen monitoring and oversight of inventory management, in order to ensure consistent and accurate inventory records and to address the systemic deficiencies identified in the audit in a sustainable manner.	28 February 2019
3	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should develop and implement an action plan to strengthen monitoring and oversight of warehouse management, both in the country operations and at headquarters, with the objective of achieving	Important	O	Submission to OIOS of evidence of actions taken to strengthen monitoring and oversight of warehouse management, in order to ensure effective controls over the establishment and operation of warehouses and to address the	31 October 2019

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNHCR in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
	effective controls over the establishment and operation of warehouses and addressing in a sustainable manner the systemic deficiencies identified in this audit.			systemic deficiencies identified in the audit in a sustainable manner.	
4	The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of Financial and Administrative Management and the Regional Bureaux, should: a) strengthen monitoring and oversight arrangements, both in the country operations and at headquarters, over surplus inventory and items beyond shelf life; and b) facilitate disposal by the Representations of the identified obsolete inventory and assist them in the redeployment of identified surplus inventory in a timely manner.	Important	O	Submission to OIOS of evidence of actions taken to strengthen monitoring and oversight of surplus inventory and items beyond shelf life; and disposal of the identified obsolete inventory and redeployment of surplus items.	31 October 2019
5	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should strengthen monitoring and oversight arrangements in ensuring that the Representations consistently implement access controls and fire prevention measures in warehouses to ensure safe and secure storage.	Important	O	Submission to OIOS of evidence of actions taken to strengthen monitoring and oversight of the implementation of access controls and fire prevention measures in warehouses to ensure safe and secure storage.	30 November 2020

# **APPENDIX I**

## **Management Response**

## Management Response

## Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments (to be published)
1	The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of Financial and Administrative Management and the Division of Programme Support and Management as well as the Regional Bureaux, should ensure that: i) all warehouses controlled by UNHCR are identified by the country operations and recorded in MSRP and the value of inventories is tracked, recorded and adequately insured; and ii) the different policy and guidance documents supporting UNHCR's warehouse and inventory management are reviewed for consistency and clarity.	Important	Yes	DESS DFAM DPSM Regional Bureaux	October 2019	The Divisions of Emergency, Security and Supply, Programme Support and Management, and Financial and Administrative Management, in close cooperation with the Regional Bureaux, will implement the following actions:  a) Review the different policy and guidance documents related to warehouse and inventory management for consistency, and revise them, where deemed necessary.  b) Review all storage facilities for UNHCR inventories, which are currently not recorded as warehouses, and determine for each of them whether UNHCR has effective control over the inventories in there. Storage facilities under the control of UNHCR will be assessed to determine the right solution.
2	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should put in place an action plan to strengthen monitoring and oversight of inventory management, both in the country	Important	Yes	DESS Regional Bureaux	February 2019	The Division of Emergency, Security and Supply is already monitoring and overseeing the consistency and accuracy of inventory recording through a small team within the Supply Management and Logistics Service (SMLS) at Headquarters in Budapest. In future, the

<sup>5</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>6</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees

	operations and at headquarters, with the objective of achieving consistent and accurate inventory records and addressing in a sustainable manner the systemic control deficiencies identified in this audit.					missions conducted by the Compliance and Risk Management Unit (CRMU) and the Regional Supply Officers will include as an additional focus area the recording, controlling and management of inventory records. The results of these missions will be reported to the operation, SMLS at Headquarters and to the Regional Bureaux for follow-up. Mission plans and check lists will be available by January 2019.
3	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should develop and implement an action plan to strengthen monitoring and oversight of warehouse management, both in the country operations and at headquarters, with the objective of achieving effective controls over the establishment and operation of warehouses and addressing in a sustainable manner the systemic deficiencies identified in this audit.	Important	Yes	DESS Regional Bureaux	October 2019	<p>The Division of Emergency, Security and Supply and the Regional Bureaux will establish a project team to:</p> <p>a) Analyze the root causes for the deficiencies identified;</p> <p>b) Review the existing mechanisms for monitoring and overseeing warehouse management, and revise them, where necessary;</p> <p>c) Develop an action plan to address the root causes identified, improve monitoring and oversight on warehouse management in coordination with country offices and Regional Bureaux.</p> <p>The implementation of new mechanisms for monitoring and oversight will depend on the available resources considering that for example 6 positions of Supply Management and Logistics Service (SMLS) were cut in 2018.</p>
4	The UNHCR Division of Emergency, Security and Supply, in coordination with the Division of	Important	Yes	DESS DFAM	October 2019	The Divisions of Emergency, Security and Supply, and Financial and Administrative Management, in close

## Management Response

## Audit of warehouse management in field operations of the Office of the United Nations High Commissioner for Refugees

	Financial and Administrative Management and the Regional Bureaux, should: a) strengthen monitoring and oversight arrangements, both in the country operations and at headquarters, over surplus inventory and items beyond shelf life; and b) facilitate disposal by the Representations of the identified obsolete inventory and assist them in the redeployment of identified surplus inventory in a timely manner.			Regional Bureaux		cooperation with the Regional Bureaux, will establish a cross-functional project team in order to: a) Strengthen oversight and monitoring mechanisms over surplus inventory and inventory items beyond shelf life; b) Develop procedures and define responsibilities and accountabilities to facilitate the disposal of obsolete inventory and the redeployment of surplus inventory, if economical; c) Define and implement an action plan regarding the treatment of obsolete and surplus inventory.
5	The UNHCR Division of Emergency, Security and Supply, in coordination with the Regional Bureaux, should strengthen monitoring and oversight arrangements in ensuring that the Representations consistently implement access controls and fire prevention measures in warehouses to ensure safe and secure storage.	Important	Yes	DESS Regional Bureaux	March 2019  November 2020	The Division of Emergency, Security and Supply in coordination with the Regional Bureaux, will send a joint communication to all operations maintaining warehouses reiterating the key measures to maintain a secure and safe warehouse. This will be done by 31 March 2019.  Furthermore, UNHCR is currently undergoing a regionalization and decentralization process where Regional Bureaux will be relocated in seven strategic countries. Considering these new regional structures, the Division of Emergency, Security and Supply, in consultation with the Regional Bureaux, will develop monitoring mechanisms to ensure adequate access controls and fire prevention mechanisms in UNHCR warehouses.