INTERNAL AUDIT DIVISION

OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

UNHCR Fleet Management

6 July 2007
Assignment No. AR2006/161/01

United Nations 🇺🇳 Nations Unies

INTEROFFICE MEMORANDUM   MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OIOS · BSCI

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

DATE: 6 July 2007

REFERENCE: AUD-(07- *00324*)

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AR2006/161/01 – Audit of UNHCR Fleet Management**
OBJET:

1.   I am pleased to present the report on the above-mentioned audit, which was conducted from July 2006 to February 2007.

2.   In order for us to close the 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 critical (i.e. 1 to 10) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

4.   IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

cc: Mr. L. Craig Johnstone, Deputy High Commissioner, UNHCR
     Ms. Judy Cheng-Hopkins, Assistant High Commissioner, UNHCR
     Mr. Colin Mitchell, Controller and Director, DFAM, UNHCR
     Mr. Arnauld Akodjenou, Director, Division of Operational Services, UNHCR
     Mr. Peter de Clercq, Head, Supply Management Service, UNHCR
     Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
     Mr. Byung-Kun Min, Programme Officer, OUSG, OIOS
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     Ms. Eleanor T. Burns, Acting Chief, UNHCR Audit Service, IAD, OIOS

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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OIOS conducted an audit of UNHCR Fleet Management from July 2006 to February 2007. The major objectives of the audit were to evaluate the adequacy and effectiveness of UNHCR's fleet management policies and procedures, and more specifically to: (a) ensure adequate resources were assigned and proper guidance was in place; (b) assess the quality and usefulness and data available from the established information systems; and, (c) ensure compliance with UNHCR's regulations and rules. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Effective logistics is vital to UNHCR's larger operations and it is critical in UNHCR's response to emergencies. On average, over $100 million is spent annually by UNHCR on transport and logistics activities.

There are many opportunities to improve UNHCR's fleet management capabilities and for UNHCR to gain efficiencies by introducing global supervision and monitoring of these activities. Overall OIOS is of the opinion that sufficient fleet management controls, commensurate with such high value resources, have not yet been properly established:

- There is no effective global monitoring of fleet management, and although a P-4 Fleet Manager post has been established, the diversity of the incumbent's functions will most likely dilute the quality and focus of his advisory and monitoring capacity.

- There is no Fleet Management Manual (or comprehensive section in the Supply Manual) to clearly outline UNHCR policies and procedures to guide staff and implementing partners delegated such responsibilities.

- There are limitations to the newly developed Fleet Management System (FMS). Implementing partners use different systems that are not readily compatible. In the end, FMS might not provide the necessary global information required for sound decision-making.

- The proposed new in-house leasing concept of vehicles located in Dubai has its benefits, however before it is fully implemented a number of practical policy issues need to be addressed, including rates to be charged as well as accounting and budgetary procedures.

- The controls over asset management are still not fully effective and therefore UNHCR asset records cannot be fully relied upon.

- Key performance indicators have not always been properly established to measure the effectiveness of workshops.

- The abundance of reports available from implementing partners fleet management systems such as from the implementing partner Gesellschaft

für Technische Zusammenarbeit are not regularly used by UNHCR to monitor their activities, identify efficiencies and obtain assurance on whether or not UNHCR is getting value for money.

- The cost effectiveness of the establishment of in-house vehicle workshops found in some operations and the use of private garages often could not be justified or supported.

OIOS' main recommendations include: allocating adequate resources to fleet management activities to ensure they are globally well managed and monitored to identify efficiencies and best practices; developing clearer policy and procedural guidelines on fleet management; developing a strategy to ensure consolidated data on all fleet management activities can be obtained for management information and decision making purposes; and, ensuring there is reliable and complete data on assets pending the implementation of the International Public Sector Accounting Standards.

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I. INTRODUCTION

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of UNHCR's Fleet Management activities from July 2006 to February 2007. The audit work was carried out at UNHCR Headquarters and involved a specific field visit to Guinea in July 2006. Related inputs from OIOS' audits of field operations in Sierra Leone and Liberia in August and November 2006 respectively have been included in this report, as well as other observations found in recent audits.

2.   Fleet management activities including related procurement, storage and distribution of fuel and spare parts, as well as the management of the repairs and maintenance of vehicles are assessed by OIOS as high-risk areas. It is the focus in many audits of large field operations. Over $100 million on average has been spent annually since 2003 on transport and logistics activities.

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

II. AUDIT OBJECTIVES

4.   The major objectives of the audit were to evaluate the adequacy and effectiveness of UNHCR's fleet management policies and procedures, and more specifically to:

- Ensure adequate resources were assigned and proper guidance was in place;
- Assess the quality and usefulness of the established information systems and to determine whether they provide comprehensive and reliable information;
- Ensure compliance with UNHCR's regulations and rules.

III. AUDIT SCOPE AND METHODOLOGY

5.   The audit focused on UNHCR fleet management policies and related issues, particularly as they were found within the Supply Management Service (SMS). To confirm the issues at hand and verify actual implementation, certain 2005 and 2006 transport and logistics activities implemented in Guinea, Sierra Leone and Liberia were closely reviewed. OIOS also considered the activities implemented by Gesellschaft für Technische Zusammenarbeit (GTZ), UNHCR's main implementing partner in logistics. OIOS reviewed certain aspects of activities directly implemented by UNHCR, such as fuel management, maintenance of vehicles and vehicle replacement policies. The value of activities reviewed was not easily determined, however UNHCR has estimated and OIOS concurs that total fleet management related expenditure exceeds $100 million annually.

6.   The audit scope excludes the general procurement of vehicles and contracts entered into by UNHCR with third parties for transportation services.

7.   OIOS reviewed operational and financial data relating to fleet

management from: (1) the Management Systems Renewal Project (MSRP); (2) the legacy systems used by the African operations; and, (3) asset data from the asset management systems (AssetTrak and MSRP). As part of our review, OIOS visited the offices of GTZ in Conakry, Freetown and Monrovia. OIOS was also in constant contact with the Logistics Unit in the Supply Management Service (SMS).

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Fleet Management Capabilities

8. Effective logistics are vital to UNHCR's operations and good logistics management is critical in UNHCR's response to emergencies. Despite the importance of the activity, and that it was assessed as a high-risk area (identified by SMS in a recently facilitated OIOS/SMS risk assessment), adequate attention has not been given to its internal management. For example, apart from the posting of a fleet manager within SMS from 1996 to 1998, a post that discontinued, no effective global monitoring of fleet management and the associated costs has been established. For expertise in this area, UNHCR has had to depend on various *ad hoc* arrangements such as the sourcing of consultants or logistics experts from implementing partners. While this may be effective at the country level, on a global basis, it did not enable the development of in-house expertise. OIOS also appreciates that there are regional global supply officers posted to the regional support hubs, as well as supply officers at the country level with responsibilities over logistics. However these, more often than not, focus on procurement related activities and not on logistics. OIOS is pleased to note that a P-4 post of Fleet Manager has been established in Dubai and will be responsible for managing a revolving pool of 60 light vehicles available to country operations under a new leasing arrangement.

9. In OIOS' opinion, the post of Fleet Manager is a positive step forward, and it might result in more effective global fleet management if clear structural reporting lines and operating procedures are established with supply/logistics officers in the regional hubs and field offices. Less positively, the Fleet Manager's proposed job description included a number of non-fleet management responsibilities such as providing support to the countries in the region on asset management and warehousing, and consolidating procurement and contracting procedures. Consequently, the diversity of the functions of this post could mean that the quality and focus of the core services expected of a fleet manager will be diluted. Other considerations should be taken into account, such as ensuring there is a sufficient travel budget to enable frequent travel to country operations in need of expert advice and particular attention.

> **Recommendation 1**
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> **(1) The UNHCR Supply Management Service, Division of Operational Services should ensure that the designated fleet manager concentrates on core issues, and**

is not involved in too many additional non-fleet management activities. An appropriate budget should be established to secure travel to various locations in need of such expertise.

10.   *The UNHCR Supply Management Service accepted recommendation 1 and stated that the job description of the Fleet Manager is being revised to concentrate on fleet management issues and an adequate budget had also been established.* Recommendation 1 remains open pending receipt of a copy of the revised job description for the Fleet Manager and confirmation of the budget provided in order for the function to be carried out effectively.

Lack of policies and overall central guidance

11.   OIOS reviewed the present guidelines/manuals available to UNHCR staff on fleet management including the revised Handbook for Emergencies (third edition).   The UNHCR Manual, Chapter 8 has some relevant fleet management guidelines and procedures, but these are dispersed over 300 pages without subject headings or common grouping. Accordingly, any research by UNHCR staff on relevant policies and procedures is difficult and not likely to ensure effective and economical results. In OIOS' view, the development of a Fleet Management Manual will greatly assist both logistics and non-logistics staff to understand Organizational issues, to identify best practices and recommended approaches and to provide assistance in monitoring activities delegated to partners.

12.   OIOS encountered difficulties in determining the overall cost of UNHCR fleet management activities. In UNHCR's chart of accounts, direct fleet management expenses alone are recorded in over fifteen expenditure codes, and OIOS noted numerous examples of inconsistent recording of expenditure.   In OIOS' view therefore, important policy and procedural guidelines for accounting for and monitoring costs associated with fleet management need to be further developed. There should be an overall policy on what are fleet management costs. In OIOS' opinion it should include fuel and spare parts, but consideration should also be given to including indirect costs such as driver salaries. With the pending implementation of International Public Sector Accounting Standards (IPSAS), depreciation might have to be considered part of the fleet's operational costs.   Clear policies should be developed to ensure country operations account for costs in a systematic way. Once implemented, this will facilitate global monitoring.   Global costs should encompass both directly implemented fleet management activities as well as those delegated to implementing partners.

13.   OIOS appreciates that classification of expenditure is outside the purview of SMS, but without reliable and complete financial information, it becomes difficult to conduct effective monitoring and provide assurance to management of value for money and adoption of best practices in field operations.

14.   Some provisional cost estimates of annual fleet management expenditure prepared by UNHCR indicated that it exceeds $100 million annually.   OIOS'

own estimates arrive at the same amount. These total costs consist of both UNHCR Administrative and Programme activities, including funds entrusted to implementing partners. In both cases, charges are made up of direct costs as well as overhead and support activities. This last element can be difficult to define or to estimate, e.g. staff costs and overhead both at UNHCR and implementing partners. Further, as implementing partners' reporting depends on information from sub-project monitoring reports, there is normally a time gap between the expenditure incurred by implementing partners and the accounting in MSRP (and the former legacy system).

15.   While MSRP holds financial data on fleet management, the reports reviewed by OIOS do not facilitate the easy extraction of information for decision-making purposes or analysis. For example, existing reports do not facilitate obtaining the UNHCR budget and expenditure data for fuel and spare parts for the entire organization or for a region or a country. Likewise, the existing reports do not provide the total expenditure on salaries and allowances to drivers (both UNHCR and implementing partners). Without such reports the estimations of any fleet management expenditure will remain very subjective.

16.   More importantly, expenditure reporting is based on disbursements rather than consumption, which may have an impact once IPSAS is introduced. Once implemented, assets and inventories will be included in the accounting process. The effect on fleet management will be the necessity for tracking fuel, spare parts etc. from purchase to consumption, and the reporting of year-end inventories in the financial statements. The Sub-Project Monitoring Reports (SPMRs) should change from expenditure to consumption for implementing partners like GTZ who manage workshops and fuel pumps.

Recommendations 2 and 3

The UNHCR Supply Management Service, Division of Operational Services should:

(2)   Ensure that appropriate guidelines on fleet management are consolidated in a Fleet Management Manual or a dedicated Section in Chapter 8 of UNHCR's Manual. At the same time, clear Organizational policies and procedures on fleet management should be developed, as well as the related reports to facilitate global monitoring and controlling of activities and costs; and,

(3)   Develop a strategy with the Division of Financial and Administrative Management on how to collate the information necessary to meet the new accounting and reporting requirements under the International Public Sector Accounting Standards.

17.   *The UNHCR Supply Management Service accepted recommendation 2 and stated that fleet management guidelines will be developed after the Fleet Manager is acquainted with UNHCR field operations.* Recommendation 2

remains open pending receipt of a copy of UNHCR's fleet management guidelines.

18.   *The UNHCR Supply Management Service accepted recommendation 3 and indicated that the IPSAS implementation strategy is in progress.* Recommendation 3 remains open pending the establishment of procedures to collate the information required to be able to fully implement IPSAS.

Strengthening accountability of fleet management activities

19.   The 'ownership' of the fleet (and inventories), decisions on budgetary allocations for maintenance and the redeployment and allocation of staff resources have been substantially vested in UNHCR representations. Though SMS is generally consulted on such issues, it has only an advisory role. OIOS considers that these limitations do not allow for the optimal use of UNHCR resources in managing an extensive worldwide vehicle fleet operation, a view shared by SMS. It also does not promote a culture of accountability with clear managerial and functional controls to ensure compliance with established policies and procedures and assurance that resources are used to their best effect.

20.   The logistics or supply officers in country operations are normally seen as part of the local operation. OIOS noted that sometimes there was little interaction and sharing of experiences between field offices in the same country. For example, the supply function in Conakry was restricted to Conakry operational limits and did not have an overall country level focus. This could result in the duplication of effort and a lack of efficiency. Furthermore, though over 80 per cent of the local procurement was for fuel, the procurement of small and regular items nevertheless absorbed most of the work of the supply function. As a result, very little attention was given to the logistics/fleet management function, a high-risk area due to financial value and the size and diversity of a fleet ranging from motorbikes to heavy trucks.

21.   OIOS recommends the establishment of clear reporting lines between the field logistics/supply function, officers in Regional Hubs and SMS. Only when the chain of supervision and command is clear and understood can accountability be established. OIOS has not made a specific recommendation, as OIOS expects this will be addressed as part of the Structural & Management Change project, where further regionalization is being examined. Any new structure and hence reporting lines should ensure more effective operational support to higher risk areas and to allow accountability to be properly assigned.

Leasing of vehicles

22.   UNHCR has embarked on a new in-house leasing concept for its vehicle fleet, starting with the most common type of light vehicles. By the end of 2006, UNHCR had already set up a base in Dubai and purchased 60 vehicles that will be the starting pool of a revolving global stockpile to be released under a leasing arrangement to country and emergency programmes. This concept will also allow UNHCR to either sell or quickly redeploy vehicles between country programmes if they are no longer needed after the lease period. Such an arrangement is

already considered successful within International Federation of the Red Cross and Red Crescent Societies (IFRC) and other UN Organizations are contemplating a similar scheme. UNHCR's initial operational plans were contained within a project plan dated April 2006, for which the Operations Review Board agreed to the $1.8 million funding for the initial vehicle purchases and for related staff and other project costs.

23.   OIOS appreciates the effort UNHCR has made in this new approach and looks forward to the benefits that this new concept will have on general fleet management, such as ensuring value for money in vehicle replacement costs as well as quick deliveries, particularly eliminating costly purchases in emergencies.

24.   Many issues need to be clarified to ensure the leasing concept can work properly. OIOS would like to mention the importance of establishing proper and detailed leasing arrangements including rates payable. Also, the related accounting and budgetary procedures need to be considered as well as clearly defining management responsibilities. One important question is, who is responsible for the revolving pool of vehicles. In OIOS' view, central decision-making should rest with the fleet manager. However, if the manager has merely an advisory role this will not ensure efficient global management.

Recommendation 4

(4)   The UNHCR Supply Management Service, Division of Operational Services should ensure that the leasing of vehicles under the new revolving arrangement in Dubai is properly established and fully supported from the outset and clear lines of responsibilities are known at all levels in the Organization.

25.   *The UNHCR Supply Management Service accepted recommendation 4 and stated that the leasing concept will not be implemented until sound procedures and clear responsibilities are established throughout UNHCR. The leasing concept will be piloted in late 2008.* Recommendation 4 remains open pending a copy of the established procedures relating to the leasing of vehicles.

B.   General Programme Matters

MSRP fleet management module

26.   SMS demonstrated to OIOS its strategic vision for the development of the Fleet Management System (FMS) for which the main elements would include life-cycle (from purchase to disposal) fleet monitoring and reporting. The system will be linked to MSRP's asset management module and have sub-modules including running costs (fuel, maintenance and repair) of vehicles. Though the development of this module did not cost much, other additional costs could surface (staff salaries and training) when the module is rolled-out to various operations. At the time of the audit, a draft manual for running FMS and uploading data had been prepared, however some relevant policies had not been developed. For example, the system covered general recording of information

and relevant expenditure controls, but the reporting of the related expenditure and regular management reports were not clearly defined. OIOS could not establish whether the system would provide management with sufficient details for making informed decisions on the various management issues, either locally or globally.

27.   The system has been piloted in the Balkans, but no time frame has been fixed for its roll-out and an implementation strategy was still being developed. Discussions with SMS disclosed that the module would require UNHCR staff members to record vehicle maintenance details based on invoices, reports and data received from garages and implementing partners responsible for workshop and fuel distribution. This is necessary because the fleet management module has limited interface with other MSRP modules like finance and supply. Furthermore, with implementing partners using different fleet/workshop management systems that are not compatible, it appears that substantial data would have to be re-entered in UNHCR's system. This could be a time-consuming exercise and prone to error. It may also require several full-time data entry personnel on the UNHCR side of the operations.

28.   Prior to moving forward with this project, OIOS is of the opinion that a detailed strategy needs to be developed to ensure it is successful. At present, fleet management information comes from various sources; directly from UNHCR field offices, implementing partners and independently sourced garages and workshops. The different systems and procedures in place may, in most cases, not be compatible with UNHCR's FMS. To avoid difficulties, UNHCR should request all users, implementing partners and others, either to use the new system or adjust their systems to facilitate data up-loads to the UNHCR system. While this is the preferred approach, partners such as GTZ, which already have a sound fleet management system – might not easily be persuaded to change or adjust their systems to make them compatible with UNHCR's. In the long run, this would be an expense that UNHCR would inevitably have to cover. Issues like this need to be resolved prior to channelling more resources into a system that may, in the end, only provide piecemeal and incomplete global information.

29.   UNHCR should also ensure that a bulk import utility to transfer data from diverse sources to the FMS is available to reduce repeated and time-consuming manual data entry.

Recommendation 5:

(5) The UNHCR Supply Management Service, Division of Operational Services should establish an appropriate strategy and deadlines to implement the fleet management module to ensure common usage of systems and data for all UNHCR fleet management activities, including the easy import of data from other sources.

30.   *The UNHCR Supply Management Service accepted recommendation 5 and stated that FMS is currently at its embryonic stage and requires further development to (a) integrate the other MSRP modules and (b) to find out a mechanism of importing information from other systems, particularly from GTZ.*

FMS is prepared for data upload, but more resources and a longer implementation period is required. Recommendation 5 remains open pending the receipt of the strategy developed to introduce a fleet management system that will provide global information from the various sources available.

Changes to implementing partner reporting

31.   Some of the reporting requirements of UNHCR implementing partners need to change to ensure effective fleet management, as well as meeting IPSAS standards. For example, implementing partners tasked with the procurement of spare parts and fuel normally report the total financial value of the procurement in the SPMRs. It should be noted that previous OIOS' audit reports have highlighted considerable difficulties in obtaining audit assurance on such procurement, inventories and consumption from the SPMRs. For example, from OIOS' review in West Africa we noted that the value of spare parts reported in the SPMRs could not be reconciled with the value of consumed items contained in GTZ data, as the opening and closing inventory balances were not established.

32.   OIOS noted the information provided from GTZ's fleet management was used to monitor past activities rather than used to facilitate the decision-making process. There is a need for UNHCR staff to be proactive in making decisions about the maintenance and replacement of vehicles. Most of the information is available in-house, and any additional information can be requested from GTZ and UNHCR's other partners. By properly tracking a vehicle from its procurement through its running and maintenance expenditure, UNHCR should be able to decide in advance whether it is replaced or is continued to be used, incurring additional expenses. OIOS understands this is one of the main goals of UNHCR's new fleet management system.

33.   Due to the high value of stock items in UNHCR's large operations, SMS should endeavour to include the reporting of opening and closing inventory balances with implementing partner as part of the reporting requirements. In fact, in cases where UNHCR's own operations cover considerable fleet management activities, (like fuel and spare parts), the same detailed accounting and reporting are necessary.

Recommendation 6

(6)   The UNHCR Supply Management Service, Division of Operational Services should ensure that the implementing partners responsible for buying spare parts and fuel properly account for them in the final Sub-Project Monitoring Reports. The reports should include yearly opening and closing balances of inventories and fuel as well as the quantity and value of items consumed.

34.   *The UNHCR Supply Management Service accepted recommendation 6 and stated that given the scope of the task, SMS will implement the recommendation provided that it receives adequate resources to monitor the implementing partners*

involvement in buying spares and fuel. Recommendation 6 remains open pending the establishment of a mechanism that ensures that implementing partners properly account for and report of the movement of spare parts and fuel.

Asset management issues

35.   SMS presently estimates that they have about 8,000 vehicles of all categories with a total acquisition cost of $174 million that are being used in UNHCR's operations worldwide.   These vehicles are presently recorded in two asset management databases (AssetTrak and MSRP). There are still uncertainties regarding the completeness and accuracy of this information as observed by OIOS' various audits of field offices. OIOS was unable to correlate asset figures to other operational indicators. For instance in some country operations significant gaps existed between the number of vehicles planned for repair and maintenance and the number of vehicles actually repaired.

36.   Despite considerable efforts, establishing the correct numbers of vehicles is still proving to be complex and identifying obsolete, grounded or damaged vehicles continues to be a daunting task which demands active and constant participation of the field offices and regular exchange of data with SMS. With the completion of the roll-out of MSRP to Africa in the next few months (where most of the major fleet management operations are), SMS hopes to resolve a significant number of outstanding issues including the physical existence of vehicles and their operational status.

> **Recommendation 7**
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> **(7)   The   UNHCR   Supply   Management   Service, Division of Operational Services should ensure that its asset database fairly reflects the actual asset holdings, particularly the details of vehicles held by the field offices and their operational statuses.**

37.   *The UNHCR Supply Management Service accepted recommendation 7 and stated the mechanisms being developed for the implementation of IPSAS will enable SMS to achieve the goal set by the recommendation.* Recommendation 7 remains open pending the establishment of a mechanism that ensures that UNHCR's information on assets is complete and can be relied upon.

C.   Other Issues

Performance Indicators

38.   Performance indicators have not been established for the various workshop activities. Absence of such indicators considerably constrains the ability to measure the functioning of workshops funded by UNHCR including the effective use of labour. For example, in Guinea and Liberia, GTZ could not readily provide the total days a vehicle spent in the workshop as compared to the established or normal time, reasons for exceptional delays, frequency of visits and recurrence of problems, if any.   Finally, various performance indicators and management

information on fleet costs and activities cannot be easily found within UNHCR's information and data systems.

39.   In Sierra Leone, from information received from GTZ's fleet management system, in 2005, 232 assets (trucks, light vehicles, motorcycles or generators) had waited for repairs for more than 30 days, 39 assets had more than 20 visits to the workshop and in a number of cases the asset broke down within days/weeks of repairs. GTZ explained that they thoroughly inspected each vehicle at the time of entry into workshop and the frequent repairs were due to several factors including the bad road conditions and poor quality of driving. Further, in Sierra Leone, OIOS found that UNHCR could have better monitored repair and maintenance costs of its fleet by systematically requesting and reviewing management reports including information such as total repair costs per asset, their downtime and/or frequency of repair. Without detailed monitoring and questioning exceptions to the norm, there was no assurance that UNHCR was getting value for money and repair work was cost effective.

40.   In general, in all the locations reviewed, UNHCR did not systematically seek cost estimates before embarking on repairs. Consequently, some of the repairs were not cost effective. For example, in Sierra Leone a light vehicle was repaired at a cost of almost $16,000. We also found that there were about 60 vehicles that were repaired at a cost exceeding $5,000. There was no assurance that the asset management rules were complied with in cases where the repair cost exceeded $3,000 or in excess of 50 per cent of the depreciated value. Although in Sierra Leone, GTZ maintained a history of repairs per vehicle, this important information was not regularly shared with UNHCR. In this case, as UNHCR was downsizing its operations, it is essential to ensure it is cost-effective to perform all repairs.

Recommendation 8

(8)   The UNHCR Supply Management Service, Division of Operational Services should work closely with implementing partners to establish key performance indicators for the various repairs and maintenance activities.   Against   these   established   indicators, implementing partners should be asked to report on the actual results and the reasons for any significant variance.

41.   *The UNHCR Supply Management Service accepted recommendation 8 and stated that fleet management is one of the main areas where SMS requires strengthening. The recruitment of a fleet manager in the near future will enhance and enable SMS to establish and monitor against the required benchmarks.* Recommendation 8 remains open pending receipt of a copy of standard indicators which will enable the performance of vehicle workshops and related activities to be properly measured and monitored.

Private garages

42.   Where UNHCR has decided to entrust to an implementing partner fleet

management responsibilities such as managing a workshop or the storage and distribution of fuel, there were no indications found that such decisions were made after considering all possible options, including the use of private entities for some or all the activities.

43.   In some field operations, OIOS found that UNHCR had invested considerably in developing the capacity of implementing partners and continues to work with them even though its was stated that their performance was poor, leading to additional costs. For instance, in Conakry, Guinea, OIOS observed that in addition to working with GTZ for the repair of implementing partner's vehicles, the office contracted private garages to maintain UNHCR's fleet. The reason being that there was an overall dissatisfaction in GTZ's performance leading UNHCR's previous management to outsource this activity. No documentary evidence could be found to confirm that such a decision was economically justified, based on proper appraisals and that the garages were selected in accordance with UNHCR procurement rules. OIOS found that in Guinea, the total amount paid to private garages in 2003, 2004 and the first half of 2005 was $220,000. OIOS would have expected therefore that by reducing the use of the GTZ garage in Conakry, there would be an equivalent budget reduction. There was no evidence to confirm this reduction. The UNHCR Supply Officer explained that upon arrival in Guinea at the end of 2003, dissatisfaction existed in the performance of these private garages and as a result, UNHCR slowly shifted back to GTZ.

44.   Similarly, in Liberia, the Representation spent considerable amounts running a workshop in Monrovia for repairs and maintenance of UNHCR administrative vehicles. Administration vehicles from field offices were brought to Monrovia for major repairs. In OIOS' view, this was not necessary, as GTZ had established workshops with UNHCR's funds all over the country.

45.   Although the examples listed above were identified in these countries, OIOS has frequently encountered similar situations in other countries. In OIOS' view, an effective fleet manager will be able to establish a common and economical way of running UNHCR fleets and provide advice on what the most cost effective options would be. In the meantime however, field offices need to comply with UNHCR procurement guidelines in the selection of garages to carry out repair and maintenance work.

Recommendation 9

(9)   The UNHCR Supply Management Service, Division of Operational Services should ensure that representations use the most cost effective option to run vehicle workshops, which would normally be under an implementing partner arrangement. If alternatives are to be considered, their cost effectiveness should be properly justified and any private garages selected in accordance with UNHCR's procurement procedures.

46.   *The UNHCR Supply Management Service accepted recommendation 9 and stated that it will issue a memorandum through the Director of the Division of*

Operational Services advising the Representations of the field to comply with OIOS' recommendation. SMS will provide the required support to the Representations. Recommendation 9 remains open pending the issuance of a memorandum to field operations.

Insurance

47.   Implementing partners are required, under the right of use agreements, to insure assets provided to them against theft, damage and third party liability. In practice third party liability coverage of vehicles is mandatory at all times, while comprehensive insurance can be an option. This option for project vehicles should be reconsidered given the associated cost and to ensure value for money. While there may be some countries where UNHCR would not want to bear that risk without insurance, comprehensive coverage should be the exception.

48.   Total payments for insurance premiums at UNHCR (account code 610230) amounted to some $1.7 million per year in 2004 and 2005. Of this amount, $300,000 was paid for insurance premiums on marine cargo and storage risk values. Therefore, it appears that about $1.4 million was paid for vehicle insurance, the biggest part by the implementing partners. OIOS' efforts to reconcile the insurance coverage for vehicles with those recorded in AssetTrak rarely succeeded, as the asset data was not complete. In a number of situations, a complete list of insurance premiums paid with details of vehicle plate number and value insured was not available for our review. In addition, there was no information available or a transparent process found on how to track any compensation received from insurance companies.

49.   UNHCR therefore should reconsider its vehicle insurance strategy. It might be more beneficial, not to purchase insurance coverage for losses and damages, but use the saved funds to meet "self-insurance" costs. For example, since all the vehicles must have third party coverage, UNHCR would have to absorb the loss of vehicles that are seriously damaged and where no personal liability was established through the Asset Management Board. While there may not be significant losses to the Organization as such, the individual country operations could be assisted with resources to replace them. To mitigate this risk, UNHCR may consider self-insurance funding arrangements.

Recommendation 10

(10)   The UNHCR Supply Management Service, Division of Operational Services should consider the advantages of changing to self-insurance concepts in order to save on high premium payments.

50.   *The UNHCR Supply Management Service accepted recommendation 10 and stated that they will explore in-depth the possibilities of a self-insurance scheme in order for a decision to be made.* Recommendation 10 remains open pending the decision as to whether or not self-insurance will result in financial benefits to the Organization.

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O[1]	Actions needed to close recommendation	Implementation date[2]
1	O	Receipt of a copy of the revised job description for the Fleet Manager and confirmation of the budget provided in order for the function to be carried out effectively.	30 November 2007
2	O	Receipt of a copy of UNHCR's fleet management guidelines.	31 December 2008
3	O	Establishment of procedures to collate the information required to be able to fully implement IPSAS.	31 December 2008
4	O	Receipt of a copy of the established procedures relating to the leasing of vehicles	30 June 2009
5	O	Receipt of the strategy developed to introduce a fleet management system that will provide global information from the various sources available.	31 December 2008
6	O	Establishment of a mechanism that ensures that implementing partners properly account for and report of the movement of spare parts and fuel.	31 December 2008
7	O	Establishment of a mechanism that ensures that UNHCR's information on assets is complete and can be relied upon.	31 October 2008
8	O	Receipt of a copy of standard indicators which will enable the performance of vehicle workshops and related activities to be properly measured and monitored.	31 December 2008
9	O	Issuance of a memorandum to field operations advising them to comply with OIOS' recommendation.	31 October 2007
10	O	Decision taken as to whether or not self-insurance will result in financial benefits to the Organization.	31 October 2009

1. C = closed, O = open
2. Date provided by UNHCR in response to recommendations.

UNITED NATIONS

OIOS Client Satisfaction Survey

Audit of: <u>UNHCR Fleet Management</u>   (AR2006/161/01)

By checking the appropriate box, please rate:	1 Very Poor	2 Poor	3 Satisfactory	4 Good	5 Excellent
1. The extent to which the audit addressed your concerns as a manager.	☐	☐	☐	☐	☐
2. The audit staff's understanding of your operations and objectives.	☐	☐	☐	☐	☐
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	☐	☐	☐	☐	☐
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	☐	☐	☐	☐	☐
• Clarity and conciseness;	☐	☐	☐	☐	☐
• Balance and objectivity;	☐	☐	☐	☐	☐
• Timeliness.	☐	☐	☐	☐	☐
5. The extent to which the audit recommendations were appropriate and helpful.	☐	☐	☐	☐	☐
6. The extent to which the auditors considered your comments.	☐	☐	☐	☐	☐
Your overall satisfaction with the conduct of the audit and its results.	☐	☐	☐	☐	☐

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name:_____ Title:_____ Date:_____