

UNITED NATIONS

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

Assignment AR2004/121/01
Audit Report R04/R23

28 July 2004

OIOS AUDIT OF UNHCR OPERATIONS IN ALBANIA

Auditor:

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UNITED NATIONS



NATIONS UNIES

Office of Internal Oversight Services
UNHCR Audit Service

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EXECUTIVE SUMMARY

In April/May 2004, OIOS conducted an audit of UNHCR Operations in Albania. The audit covered activities with a total expenditure of US\$ 2.2 million in 2002 and 2003. Audit Observations were shared with Representative in June 2004, on which comments were received by July 2004. *The Representative has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operations in Albania as above average. Overall, it was well run, and although some weaknesses in the application of internal controls were identified, the weaknesses concerned were not sufficiently critical to compromise the overall system of internal control.

Programme Management

- For the five partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements, except for IPLS who did not give the OIOS Auditor access to records of sub-project disbursements.
- Project financial and performance monitoring was adequately performed: visits to the implementing partners were performed regularly; written recommendations have been issued when improvements were required and verification records were kept and made available for review.

Supply Management

- Important discrepancies existed between AssetTrak records maintained at Headquarters and in Albania. A physical inventory including reconciliation with the asset records needed to be performed in order to ensure AssetTrak data are accurate and completed.

Security and Safety

- Basic security measures are in place in UNHCR, Tirana. They consist of security guards 24 hours a day; participation in weekly inter-agency security meetings; security training sessions; security film, etc.

Administration

- In the areas of administration and finance, the UNHCR Representation in Albania generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

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I. INTRODUCTION

1. From 26 April to 10 May 2004, OIOS conducted an audit of UNHCR's Operations in Albania. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of the UNHCR Representation in Albania and of five of its implementing partners.
2. OIOS' previous audit of UNHCR in Albania was a special review of the activities of an implementing partner, the Office for Refugees (OFR) conducted in January 2002. OIOS has recommended either to discontinue working with OFR or to ensure that OFR implement financial controls and meet the objectives of the sub-project. UNHCR, Albania terminated its partnership with OFR in 2002. In September 2003, the UNHCR Representative in Albania sought the approval of the HAMB for writing-off of a balance of some US\$ 14,000 still due by ORF.
3. After the return of almost all Kosovar Albanians, UNHCR's role changed to technical advisor to the Government in developing Albania's asylum system. In its partnership with governmental and non-governmental organizations, UNHCR provided protection and assistance to 21 refugees and 108 asylum seekers in 2003 (274 and 988 respectively in 2002). UNHCR is also involved in capacity building of local authorities and organizations with the aim of strengthening the capacity and professionalism of institutions involved in refugee protection, human rights, and migration issues.
4. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 10 May 2004. Audit Observations detailing the audit findings and recommendations were shared with the Representative in June 2004. The comments, which were received in July 2004, are reflected in the final report. *The Representative has accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations;
 - Safeguarding of assets; and
 - Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2002 and 2003 programme activities under projects 02 and 03/AB/ALB/CM/270 with expenditure of US\$ 1.5 million. Our review concentrated on the activities implemented by Children's First Foundation (CFF) - expenditure of US\$ 387,000; Refugee and Migrant Services in Albania (RMSA) - expenditure of US\$ 173,000; the Institute for Policy and Legal Studies (IPLS) - expenditure of US\$ 95,000; International Catholic Migration Commission (ICMC) - expenditure of US\$ 350,000; and Comunita Internazionale di Capodarco (CICa) - expenditure of US\$ 83,700. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 247,000.
7. The audit reviewed the administration of Branch Office Tirana with administrative budgets totalling US\$ 542,000 for 2002 and 2003 and assets with an acquisition value of US\$ 3.9 million and a current value of US\$ 1.1 million. In April 2004, 17 persons were working in UNHCR Office Tirana: 11 on authorized posts on the staffing table; two on Temporary Assistance (TA); 2 project staff; a UNV and the receptionist on a contractual agreement.
8. The audit activities included a review and assessment of internal control systems, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme Issues

9. OIOS assessed that project financial monitoring was competently performed. Visits to the implementing partners were performed regularly and organized in order to cover the most significant aspects of finance and administration. Written recommendations have been issued when improvements were required and records of the verification work performed were kept and made available for OIOS' review. Due to the vigilance of UNHCR, the consequences of the misallocation of expenditures by ICMC have been kept below the UNHCR materiality level.

Programme Management

10. The 2002 and 2003 programme was characterized by the continuing downsizing of activities. The number of refugees and asylum seekers (approximately 200 at the end of 2003) was reduced significantly as well as the budget for the programme, which had been US\$ 3.9 million in 2000 compared to only US\$ 664,000 for 2003.
11. The major modification in the orientation of the programme was the signing of an agreement with the EU for the implementation of the project Community Assistance for Reconstruction, Democratization and Stabilization (CARDS). For the implementation of this project, UNHCR was designated the lead agency. Consequently UNHCR would report on expenditure of Euros 2 million and ensure the planning of the programme, the coordination and monitoring of the partners for this

project: the Government of Albania, International Organization for Migration (IOM) and Organization for Security and Co-operation in Europe (OSCE).

12. In view of the commitment taken by UNHCR to coordinate and monitor the activities of the partners of the CARDS project, current project monitoring procedures should be further strengthened. UNHCR will be ultimately accountable for financial reporting to the EU. Considering the size of the partners and their international status, we believe that international staff should be directly involved in the monitoring process, which was not the case in 2002 and 2003. *The Representation has confirmed that in future international staff would be involved in monitoring.*

Rehabilitation of the Babrru Centre

13. The most significant project expenditure since the end of the emergency operation was the furnishing and rehabilitation of the Babrru Centre used for accommodation of asylum seekers. Since 2001 UNHCR, Albania has spent ALL 56 million (US\$ 541,700) on rehabilitation works. When UNHCR launched the rehabilitation of these former military barracks, it was understood that the Government of Albania would take over the management of the centre. However, no significant progress has been made since the end of the reconstruction work in 2002. It seems that the Albanian Government is reluctant to take over. There is also a legal problem due to the transfer of responsibility of the Office for Refugees (OFR) from the Ministry of Local Governments to the Ministry of Public Order. In addition, the buildings renovated were military barracks that belong to the Ministry of Defence, which implies a multi-partite agreement.

B. Review of Implementing Partners

14. For the five partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements, with the exception of IPLS. Due to the lack of cooperation and refusal to give access to records of disbursements, OIOS could not conclude that the IPLS' internal control and accounting systems can be relied on.

15. OIOS assessed that internal controls of most partners were generally in place and operating effectively. Proper documentation of financial transactions was accessible. Procedures were in place for authorization of expenditure, approval of payment and the expenditures were properly supported. In CFF, the internal controls were weak in terms of segregation of duties (with husband and spouse co-signing transactions). . OIOS recommended that the UNHCR Representation in Albania request CFF to revise the delegation of authority to ensure adequate segregation of duties and to avoid any conflict of interest. *CFF stated that measures have been taken to avoid any conflict of interest.*

16. Audit certificates for the 2003 sub-projects have not yet been provided. UNHCR has done a bidding process and action was being taken on this matter. For 2002, an audit certificate was required only for ICMC. The consolidated financial statements submitted by ICMC as audit certificate did not include an opinion by the auditor that the funds provided by UNHCR were spent in accordance with the terms of

sub-projects agreements. In addition, the financial statements showed as total amount granted by UNHCR in Albania, US\$ 332,000, which had not been reconciled with the sub-project expenditures, US\$ 350,581.

Contribution to local partners' capacity building

17. During the downsizing, the International NGO partners have been gradually replaced by national NGOs, most of them newly established and with no experience of working with UNHCR. In 2003, no sub-agreement was signed with an international NGO. Three partners, CFF, RMSA and IPLS, were established between 1999 and 2001 and signed their first sub-agreement with UNHCR in 2002.

18. Since 2002, UNHCR, Tirana has significantly contributed to RMSA and CFF capacity building in terms of salaries and various administrative expenditures. In order to pursue such assistance, UNHCR needs to be informed on the progress made by the partners in improving their financial sustainability and fundraising capacity. UNHCR also needs such information to determine its contribution to the IP common costs. To avoid over-funding of common costs, UNHCR should be aware of contributions received by its partners from other donors. The partners have not provided such information. OIOS recommended that the UNHCR Representation in Albania remind CFF and RMSA of their obligation to provide information on the progress made in becoming self-sufficient. *RMSA indicated that the records of contributions from other sources are available to UNHCR, Tirana. CFF did not comment on this issue.*

Recommendation:

- The UNHCR Representation in Albania should obtain from its implementing partners the necessary information to assess the progress made in becoming self-sufficient and reduce its financial contribution on capacity building. (Rec. 01)

Financial Management

19. All partners (CFF, RMSA, ICMC and CICa), with the exception of IPLS, maintained separate accounting records for UNHCR sub-projects, which consisted generally of a cashbook, bank journals and a general ledger. They also provided a quarterly comparison of the expenditure and the budget. For all the sub-projects audited, the data provided by the accounting system could be reconciled with the expenditures reported to UNHCR on the SPMR.

20. IPLS did not adhere to UNHCR's instructions regarding the maintenance of project records. The records made available for the audit consisted of payment vouchers and a compilation of amounts charged per budget line, which IPLS consider to be an accounting system. Despite the fact that all the payments for project expenditures were made by cash, no cash journal was maintained or was made available to the auditor. There was also no record of cash advances made for payments related to training activities taking place outside of IPLS' premises. We

recommended that before signing any further partnership agreement with IPLS, UNHCR should ensure that the IP is aware of its responsibility in terms of maintenance of project records and understands the “Evaluation, Inspection and Audit” clause of the sub-agreement with UNHCR.

Budgetary control

21. The budgetary rules need to be better understood and strictly adhered to. A comparison of the expenditure and the budget was done on a quarterly basis by most of the partners, which allowed a revision of the budget when necessary. Due to a misunderstanding of budgetary control requirements, RMSA, ICMC, IPLS recorded some payments incorrectly recorded to a budget line where funds were still available in order to “avoid” over expenditure. At the end of 2002, because of an expected balance of funds, several advance payments were made. The budgets of the 2002 sub-projects were also unnecessarily complex, in particular for ICMC. UNHCR expenditures for office premises were incorrectly charged as project expenditures. Due to unclear budgetary procedures, we could not verify the appropriateness of salary charged for the Director of the project. *In their reply to our recommendation, most of the partners indicated that they had followed instructions received from UNHCR, Tirana.*

Banking arrangements

22. Implementing partners operated separate bank accounts and performed bank reconciliation regularly. However, the instalments received from UNHCR and deposited in the separate bank account were subsequently withdrawn to replenish cash common to other activities implemented by the partner, thus defeating the purposes of using a separate bank account for the UNHCR project. In RMSA, all payments in 2002 had been made in cash but improvements took place in 2003 with payments of salaries and for shelter made by cheque.

Vocational training

23. UNHCR, Tirana spent approximately US\$ 50,000 for vocational training activities to be implemented by CFF and RMSA. The outcomes of the project implemented by CFF were low in regard to the resources involved (some US\$ 46,000). Only eight out of the 16 initially selected beneficiaries completed the programme and only four trainees were successful in getting jobs.

International Catholic Migration Commission (ICMC)

24. Despite the fact that some key internal controls were in place, OIOS could not assess the ICMC, Albania internal control system as satisfactory. ICMC’s controls for approval of payments were not properly performed. ICMC did not pay attention to prorate the expenditure common to various projects and first charged common costs to UNHCR (i.e., salaries charged by HQs and other payments made locally: office rental, communication, maintenance of vehicles, etc.). As a result, in June 2002, the budget for some lines was already overspent. At the end of 2002, it was decided that ICMC will absorb the overcharge of US\$ 34,523 and UNHCR will consent for expenditures

up to the budget allocated, despite the fact that they did not necessarily represent the actual project disbursement.

25. ICMC was allocated an amount of US\$ 19,748 as support costs. However, no corresponding IP's contribution to the project was reported to UNHCR. In accordance with the rules, ICMC needs to provide UNHCR with evidence of its contribution to the project or to the same beneficiaries with its own funds. OIOS recommended that the UNHCR Representation in Albania request ICMC to provide evidence of its contribution to the project for an amount at least equivalent to the support costs allocated by UNHCR. The expenditures of US\$ 34,523 initially overcharged by ICMC and rejected by UNHCR should not be considered as a *de facto* contribution from ICMC to the UNHCR project. ICMC did not provide UNHCR with evidence that the overcharges were directly related to assistance to UNHCR beneficiaries.

C. Supply Management

26. OIOS' review of supply management activities covered 2002 and 2003. The internal controls on asset were found weak mainly due to the rotation of staff, inadequate training, lack of supervision and lack of the verification of records and physical assets. Since asset management is an area, which the UN Board of Auditors has again highlighted as a problem area, attention needs to be given to address the issues identified. In our review of the procurement activities, we considered not only the transactions made during the period covered by the audit but also the requirements related to the implementation of the CARDS project, which involve significant procurement. *The Representation stated that the problems in asset management dated back to the 1999 Kosovo crisis, when huge quantities of vehicles, computers and other equipment had been received and subsequently redeployed to the neighbouring countries.* OIOS appreciates that many of the problems have been inherited from the initial emergency operation and that it takes major efforts to address them now. In the view of OIOS, this demonstrates once more the need for UNHCR to put proper systems and procedures in place at the beginning of large-scale emergency operations.

Asset Management

27. AssetTrak records maintained in Albania were not up to date and had not been reconciled with HQ's records. There was a difference of some US\$ 312,000 between the total acquisition value recorded at HQ (US\$ 3,774,437) and recorded in Albania (US\$ 4,086,365). Field records had not always been updated to reflect the decisions of the LAMB and HAMB. Some items already donated were still recorded as active assets. Other items, which the Controller recommended for redeployment, sale or transfer of ownership, were still recorded as non-active assets. In two cases, where the HAMB did not endorse the recommendation of the LAMB, the corresponding assets, which are no longer with UNHCR, Tirana, were still shown in AssetTrak (the HAMB recommended the sale of computer equipment, which UNHCR Tirana had already donated to a hospital, prior to seeking the approval of the HAMB).

28. The inventory of active assets included assets with an acquisition value of US\$ 163,000, which had been handed over to implementing partners, who were no longer

working with UNHCR; it was not possible to find out whether these assets still existed nor to determine their location. Furthermore, the records showed 63 items in-transit with an acquisition value of some US\$ 270,000, including two light vehicles and one heavy vehicle, although there was no recent redeployment. *The Representation stated that these assets had been redeployed long time ago and has initiated a correction of the AssetTrak data.*

29. There were 16 light vehicles currently used in Tirana in April 2004 compared to 20 recorded in AssetTrak. A review of the records revealed that: three vehicles have been sold; four vehicles could not be found; one vehicle had been transferred from active to non-active status following a LAMB's decision and, two vehicles currently used by UNHCR were not in AssetTrak. One of them had been incorrectly recorded as redeployed. For computer equipment, AssetTrak records indicated 128 active items, while only 63 were used by UNHCR or were in stock, waiting for a LAMB decision. A total of 28 portable and 21 desktop computers were missing. Only 34 power supplies (UPS) were found during the physical inventory of computer equipment when the records indicated 190 items in the "Power supply and generators" category. AssetTrak also showed two warehouses and water equipment of whose existence we could find no evidence. *The Representation has taken action to determine the actual situation of these assets and to update the AssetTrak records accordingly.*

30. No physical inventory was completed during the period covered by the audit except for communication equipment, but this exercise was not efficient since it was carried out without comparison with the AssetTrak records. A physical inventory and an attempt of reconciliation with the records were carried out during the audit for vehicles and for computer equipment, including power supplies (UPS). OIOS recommended that the Representation conduct a physical inventory, reconcile its AssetTrak records with the corresponding records maintained at HQ and reflect the HAMB's recommendations in the AssetTrak records. *The Representation confirmed that a physical inventory had now been conducted. The office would put full efforts to reconcile the AssetTrak records and would seek the assistance of HQ as required.*

Procurement

31. OIOS reviewed the records for bidding processes made in 2002 and 2003 for both administrative and programme purchases. We noted that three bidders for office supplies issued quotations for all the 37 items required. The same bidder quoted the lowest price for all items, which is somewhat unusual. The same situation was observed for warehousing, loading and transport services made in January 2002. The successful bidder submitted the lowest price for all types of warehousing services. The bidding process resulted in renewing the contract of Pelikan with an increase in cost. This raised doubts in the reliability and the transparency of the bidding process. *The Representation assured that UNHCR procurement procedures would be adhered to, taking into consideration the local procurement conditions.*

32. In view of planned local procurement for the CARDS project, additional measures should be taken to ensure that any bidding process leads to more competitive price and purchasing conditions. For instance, a survey of the market price for

significant items should be done and documented, in order to be compared to the bid received. OIOS recommended that the UNHCR Representation in Albania improve its internal control to systematically analyse the bids received and compare the offer with general conditions in the open market.

Procurement by the Implementing Partners

33. None of the local partners were pre-qualified for procurement. As a consequence, no procurement activities exceeding US\$ 20,000 have been delegated to them. However, for CFF a budget of some US\$ 235,000 had been allocated for Phase II of the rehabilitation of the reception Centre. UNHCR, Tirana authorized CFF to award the contract to the contractor for Phase I without a tendering process. The ex-post facto justification given to the HCC for selecting this contractor was that the contractor had agreed to execute the works at the price/unit cost of the original bid made in 2001, which would imply substantial savings for UNHCR.

34. CFF was also in charge of recruiting trainers for vocational training, which was done without a price comparison. CFF could not explain how the trainers were invited to submit their offers. The contracts with the trainers were not properly drafted, which lead to some implementation problems.

35. The implementing partners are not registered for VAT reimbursement. To obtain VAT refund, contractors' invoices must therefore be issued in the name of UNHCR. CFF did not follow UNHCR's instructions in that regard. As a result, UNHCR might not be able to obtain the refund of VAT totalling some US\$ 25,000.

D. Security and Safety

36. Basic security measures are in place in UNHCR, Tirana. They consisted of the use of guards 24 hours a day; a UNHCR official participating in the weekly inter-agency security meetings; a training session for security has been carried out; purchase of protective glass film etc. However, there was no evidence that a proper assessment of the guard service has been made recently to ensure that the services provided are in accordance with UN standards. *The Representation stated that the UNFSO would be requested to undertake a periodical assessment of the services provided by the security company.*

37. In the areas of administration and finance, the UNHCR Representation, Tirana generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

E. Administration

Medical Insurance Plan

38. The dental fees corresponded to between 40 and 60 per cent of the total amount of the reimbursement of medical claims. UNHCR, Tirana took some measures to verify whether the services had been provided. This control does aim to assess whether the costs incurred by the staff are reasonable. The most significant

claims should be analysed and, any high value claims should be compared to the monthly salary of the claimant in order to determine its reasonableness. *The Representation stated that ceilings for each type of medical treatment had been established on the basis of a recent survey.*

Communications costs

39. Communications expenditures for 2002 and 2003 amounted to some US\$ 115,000, which is considerable in regard to the size of the office. In order to reduce these charges, a new type of arrangement for electronic communications was initiated in April 2004. Other actions should be envisaged such as: limiting the access to international calls and reducing the access to the Internet. There was in each section a telephone with access to international calls and there was 24/24 hours access to the Internet with an annual cost of US\$ 8,400. *The Representation has discussed cost saving measures in a meeting with all staff members.*

40. The number of private calls was exceptionally high because the cost of using UNHCR communication facilities were only about 40 per cent of the cost of a commercial provider. The office had a system in place to collect the cost of private calls from the staff; however, the calculation of the charges to be reimbursed by the staff and the recording of the reimbursements was time consuming for the Finance Section. *The Representative stated that in future staff members would be requested to calculate the cost of their private calls for verification by the Finance Section.* This new procedure is expected to reduce the administrative workload.

Human Resources Management

41. Human Resources Management in Tirana was marked by the reduction of the number of authorized staff from 75 in 2000 to 11 in April 2004, which required the termination of contracts, revision of the structure and job descriptions, etc. The rate of downsizing was however reduced in 2003 since UNHCR was identified as the lead agency for the implementation of the CARDS project. Two staff members on TA, who remained with UNHCR after their posts were cut, will work for the implementation of the CARDS project for the duration of this project.

42. OIOS noted that among the national staff, the only persons having a background in finance are the two TA staff working for the implementation of the CARDS project. Given that an extension to their employment contract is not expected after the end of the project, UNHCR Tirana may face difficulties in running the financial system and maintaining accounting and financial project records. *The Representation stated that the incumbent of the Administrative/Finance Assistant post would be trained in UNHCR financial procedures and systems.*

V. ACKNOWLEDGEMENT

43. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and its implementing partners in Albania.

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