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AUDIT OF UNHCR TOGO EMERGENCY - BENIN

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EXECUTIVE SUMMARY

In November 2005, OIOS conducted an audit of UNHCR Togo emergency operation in Benin. The audit covered activities with a total expenditure of US\$ 1.6 million in 2004 and 2005. A draft of this report was shared with the Director of the Bureau for Africa and the Regional Representative in March 2006. The comments, which were received in May 2006, are reflected as appropriate in the final report. *The Representative has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Togo Emergency Operations in Benin as average, it was adequately run but, although the majority of key controls were being applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the three partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. Recommendations were made to improve internal controls for all the partners reviewed.
- CARITAS made loans to and from UNHCR sub-projects, without UNHCR's prior agreement and without adequately accounting for them. Although the practice was discontinued, OIOS was concerned as to the correctness of the final loan balance owed to UNHCR. *The Regional Representation has confirmed CARITAS' willingness to refund the amount due and expects the matter to be settled by end of June 2006.*
- Due to poor performance, micro-credit activities implemented by CARITAS were discontinued in 2004. An amount of US\$ 21,500 was retained however in CARITAS' bank account. OIOS recommended that this amount be refunded to UNHCR with immediate effect.
- OCDI paid loans on a recurrent basis to staff from UNHCR project funds, which were, on average, six times the staff member's monthly gross salary. The monthly repayments represented over 50 per cent of their monthly income. The loans were not recorded in OCDI's accounting system, thus leaving no audit trail. OIOS recommended that this practice be discontinued.
- OCDI did not comply with the social security tax law. OCDI increased its staff's salaries by an amount equal to the social security amount, so that staff still obtained their gross salary instead of paying the required tax to the authorities. OCDI did not remit the tax to the social security authority as required but in some cases directly to the staff, arguing that they had their own private social security arrangements. *The Regional Representation was informed that the partner had*

taken the necessary action to ensure the practice of making loans to staff stopped and OCDI would in the future fully comply with applicable income tax and social security laws. The Regional Representation indicated it would confirm actual compliance by the end of June 2006 after verifying the position on the ground.

- OIOS assessed that the emergency situation was well administered. Camps with latrines, boreholes and other facilities were established well before the arrival of the first refugee caseload. According to a mission report by the Chief of ESS, the overall emergency response of UNHCR was well managed due to an active contingency planning process that resulted in good coordination and proactive management.
- OIOS also assessed that programme financial monitoring was generally good as evidenced by project review reports and other records maintained by the partners reviewed.

Supply Management

- The Regional Representation needed to improve its procurement procedures, as companies supplying goods and services such as travel, customs clearance, and fuel were not selected competitively. For example, for 2004 and 2005 over US\$ 170,000 was paid to a travel agent that had not been selected competitively and with which no contract or frame agreement had been signed. It was similar for the fuel supplier and the clearing agent. *A competitive bidding exercise for the selection of travel and clearing services has now been conducted. For fuel, the UN system has, after an internal evaluation exercise, signed an agreement with a fuel supplier on behalf of all UN agencies present in the country.*

Security and Safety

- Although a recent Security Compliance report assessed that UNHCR made great efforts to comply with MOSS, the Field Security Coordinator informed OIOS that a number of improvements were still needed, such as the installation of metal detectors, blast resistant film and smoke detectors. *The required improvements for metal detectors, blast resistant films, cameras and iron grills have been made. Smoke detectors and an alarm system would be considered, subject to availability of funds.*

Administration

- In the areas of administration and finance, the UNHCR Representation in Benin generally complied with UNHCR's regulations, rules, policies and procedures, and controls were operating effectively during the period under review.
- OIOS noted that expenditure was often certified by an Administrative Assistant, with no signing authority, rather than by the designated certifying officer. OIOS observed this for MIP claims (a UNHCR high risk area), and for many travel authorizations (PT-8s).
- Urgent action was needed to prepare the 2005 Performance Appraisal Reports. *These have been finalized at the time of the issuance of the report.*

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I. INTRODUCTION

1. From 14 to 23 November 2005, OIOS conducted an audit of UNHCR's Togo emergency operation in Benin. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Regional Representation in Benin, its Field Office in Lokossa and three of its implementing partners.
2. OIOS' previous audit of UNHCR in Benin was conducted in 2000. That review focused on 1998 activities covering expenditure of US\$ 1.5 million. The main audit issues raised pertained to financial management, non-adherence to personnel policies and procedures, lack of physical inventory and a lack of strong internal controls systems established by implementing partners. Prior to this present OIOS audit, the Regional Representation requested a 'pre-audit' of activities by the Senior Regional Finance Officer. OIOS noted that most of the recommendations of the 'pre-audit' had been implemented.
3. In early 2005, following social tensions relating to political succession in Togo, a massive exodus of refugees totalling 40,000 took place of which 25,000 were hosted in Benin while some 15,000 fled to Ghana. About 60 per cent of the Togolese refugees in Benin reside in host communities, while the remaining 40 per cent live in camps situated near the border with Togo.
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 23 November 2005. A Summary of Preliminary Findings and Recommendations was shared with the Regional Representative in December 2005. The comments, which were received in January 2006, are reflected in the final report. In addition, a draft of the report was shared with the Director of the Bureau for Africa and the Representative in March 2006. The comments, which were received in May 2006, are reflected in the final report. *The Representative has accepted 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-Project Agreements.

II. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on the 2005 programme activities under projects 05/AB/WAF/EM/100, with expenditure of US\$ 877,000, and 05/AB/WAF/LS/402, with expenditure of US\$ 453,000. Our review concentrated on the activities implemented by CARITAS – expenditure of US\$ 200,000; the Centre Panafricain de Prospective Sociale (CPPS) – expenditure of US\$ 39,000; and the Organisation de la Charité pour un Developpement integral (OCDI) – expenditure of US\$ 190,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 312,000.

7. The audit also reviewed the administration of the Regional Representation at Cotonou with administrative expenditure totalling US\$ 0.7 million for the years 2004 and 2005, and assets with acquisition cost of US\$ 1.1 million and a current value of US\$ 23,000. In 2005, the number of staff working for the UNHCR Operation in Benin was 17.

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. Review of Implementing Partners

9. For the three partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. However, OIOS assessed that internal controls of all partners could be improved.

10. The final audit certificates covering the 2004 sub-projects were not available at the time of the review; draft audit reports were available with unqualified audit opinions expressed.

(a) CARITAS

11. CARITAS commingled UNHCR funds with other donor's funds, even though it had not been agreed in the relevant Sub-Project Agreements that funds could be deposited in a pooled account. In addition, a significant number of loans were made between UNHCR sub-projects and CARITAS' own funds. A complicated system had been established for recording these transactions which did not facilitate the tracking and subsequent repayment of loans. OIOS was pleased to note that the practice of loans to and from UNHCR sub-projects was discontinued in September 2005, following the pre-audit recommendations. Nonetheless, OIOS was concerned that CARITAS' calculations of the final loan balance due to UNHCR was incorrect as various errors were noted in the recording of the loans, making the records not reliable. OIOS recommended that UNHCR ensure that all loans made to and from UNHCR sub-projects are properly recorded and corrected. *The Regional Representation carried out financial review of CARITAS' s activities and confirmed OIOS' findings. Corrective measures were taken on the basis of conclusive supporting documentation. It was reconfirmed that the practice of loans to and from UNHCR sub-projects has been discontinued and that appropriate refunding took place.*

12. CARITAS' micro-credit activities had a very low success rate. From loans totalling some US\$ 77,000 only US\$ 14,000 was repaid, and very few projects were actually implemented by the beneficiaries of the loans. Consequently, given the poor performance observed, this activity was discontinued in 2004. At the time of our review, however, a cash balance of some US\$ 21,500 was still kept in CARITAS' bank account for income generation activities. *The Regional Representation explained that this issue had been discussed at length with the Senior Regional Finance Officer, and that it was a common and well-known problem in UNHCR, for which no clear solution existed*

13. OIOS takes note of the explanation, but does not agree with the advice/information provided to the Regional Representative. These funds were provided to CARITAS for income generating activities, and as these funds were not disbursed they should be refunded to UNHCR. The only issue/problem encountered in the past was with funds related to country operations that had a revolving fund managed directly by UNHCR. OIOS recommends that CARITAS refund to UNHCR some US\$ 21,500, without any further delay. *The Regional Representation subsequently explained that steps were taken to request CARITAS to refund the unused balance, and that the partner has indicated its willingness to do so, and that the actual refunding would be made within weeks.*

Recommendation:

- The UNHCR Regional Representation in Benin should ensure that CARITAS refund to UNHCR US\$ 21,500, representing the unused balance of income generation funds under local settlement sub-projects (Rec. 01).

14. Internal controls over warehousing needed to be strengthened. The issuance of Non-Food Items (NFI) was initiated/authorized by CARITAS using official blank UNHCR forms, which were not even pre-numbered for control purposes. Instead, the form was photocopied and used by CARITAS' storekeeper as and when needed. This practice should be discontinued and proper inventory movement control established. CARITAS also needed to introduce the use of contracts for the transportation of NFIs. The observed practice was not satisfactory as it was solely based on oral agreements with the transporters. The relevant invoices were paid in cash, but there was no evidence of service delivery. OIOS made a number of recommendations to address the weaknesses noted. *The Regional Representation requested that CARITAS immediately implement OIOS' recommendations and pointed out that an interim logistician has been hired to follow up on all warehousing matters. For the future, contractual documents would be required to transport NFIs to ensure that UNHCR's interests are protected.*

(b) **Organisation de la Charité pour un Développement intégral**

15. OCDI made salary loans to its staff on a recurrent basis, using UNHCR project funds. Each of the loans reviewed represented about six times the monthly gross salary of the beneficiaries, with repayment over a 12-month period. Consequently, monthly repayments often represented more than 50 per cent of the staff's monthly income. The next advance was given immediately after full repayment of the preceding loan. This practice was found to be widespread and had been used consistently throughout 2004 and 2005. Further, the loans had

not been tracked in OCDI's accounting system thus leaving no audit trail except for the payslips showing the deduction from the salary. There was neither an advance ledger (sub-account) nor any other document showing the total amount loaned to staff, repayments to date, or outstanding loans.

16. OCDI did not comply with the social security tax law, which required that an amount representing 20.5 per cent be deducted and paid to the local social security authority. OIOS found that OCDI had instead increased its staff salaries by an amount equal to the applicable salary tax amount, giving staff gross salaries at the expense of UNHCR. OCDI explained that the tax was given to those employees who claimed that they were paying insurance premiums directly to an insurance company. OIOS did not obtain any evidence of this, and pointed out that such an option might not be available, given that businesses were generally required to directly deduct social/tax contributions, and to make the relevant submissions to the local tax authorities. The non-compliance with this requirement might expose OCDI to heavy penalties. OIOS recommended that this practice be discontinued. The partner should be made fully aware that UNHCR is not responsible for and will not pay any penalties related to non-compliance with the local tax law.

17. *The Regional Representation explained that a letter has been sent to OCDI requesting clarification on the measures taken to address the shortcomings highlighted by OIOS. The Regional Office subsequently pointed out that it has been informed that actions were taken, and that by the end of June 2006 it would physically verify whether the practice of personal loan was discontinued, and outstanding loans accounted for.*

B. Other Programme Issues

18. OIOS assessed that the activities of the emergency operation had been successfully managed, with an Inter-Agency Contingency Plan prepared by the Regional Representation, on the basis of early political developments in Togo. A leading role was assigned to each UN agency in Benin in their respective fields of competence, with UNHCR acting as the coordinating agency. Camps with latrines and boreholes and other essential facilities were established well before the arrival of the first caseload of refugees. In addition, with the assistance of local authorities and some implementing partners, procedures were put in place for registration upon the refugees' arrival. According to a mission report by the Chief of ESS, the overall emergency response of UNHCR in Benin was well managed thanks to an active contingency planning process that resulted in good coordination and proactive management. The only shortfall noted pertained to financial obligations that were not met in the health sector, which was under the responsibility the World Health Organization. *Starting in 2006, this sector has been assigned to Médecins Sans Frontières (MSF).*

C. Supply Management

(a) Procurement

19. In 2004 and 2005, procurement totalled US\$ 450,000. OIOS assessed that the Regional Representation generally complied with UNHCR procurement procedures, albeit some improvement was required in the areas of the procurement of services. For example, for the years 2004 and 2005, over US\$ 170,000 was paid to a travel agent with no evidence that the supplier was selected competitively, and with whom no contract was signed. *The*

Regional Representation explained that three quotations were obtained from travel agents prior to each travel. In OIOS' view, considering the financial volume involved, it would be more cost effective and less cumbersome to select a travel company and issue an annual contract than requesting quotations for each travel.

20. Similarly, tenders should have been issued for a clearing agent and a fuel supplier, both of whom had not been competitively selected. The current clearing agent was introduced to UNHCR by a former staff member, and has been supplying services since, at least 2003. The fuel supplier had been selected mainly because it was able to provide prepaid fuel coupons and, according to the Regional Representation, had the largest network of fuel outlets in the country. There was no evidence of any tender (or requests for quotations) and the basis of the selection of the fuel supplier was not documented in the files.

21. *The Regional Representation stated that a competitive bidding exercise for a travel agent and a clearing agent has now been conducted. With regard to fuel, the UN system has, after an internal evaluation exercise, signed an agreement with a fuel supplier (TOTAL) on behalf of all UN agencies present in the country.*

(b) Asset management

22. Despite the fact that a physical inventory was recently carried out, the AssetTrak system was not up-to-date. OIOS found that AssetTrak data did not take into account a significant number of assets in the custody of partners in Benin and in other countries under the responsibility of the Regional Representation (Burkina Faso and Togo). For example, the system did not include vehicles, computers, refrigerators and photocopying machines. Further, for those recorded assets, the required data entry form was either not always filled out, or did not have proper documentation attached to it. Moreover, OIOS noted some data anomalies in the AssetTrak data, such as the asset's Net Book Value being higher than the Acquisition Value, or of equal value though acquired years back. This meant that the depreciation had not been calculated or the value of assets was incorrectly recorded. *The Regional Representation took note of the findings, and indicated that updating and correctly calculating Net Book Value amounts should be finalized by the end of July 2006.*

Recommendation:

- The UNHCR Regional Representation in Benin should update AssetTrak to fully reflect those assets in countries under its responsibility, and ensure that the Net Book Value of assets is correctly calculated (Rec.02).

D. Security and Safety

23. In a recent Security Compliance report (dated 24 February 2005), UNHCR was assessed as having 'done a great effort in complying with MOSS'. During its meeting with the Field Security Coordinator (FSCO), however, OIOS was informed that a number of improvements were still needed, including for example the installation of metal detectors, blast resistant film and smoke detectors. The FSCO further stated that other security devices still needed to be included such as an alarm system, cameras and iron grills.

24. *The Regional Representation stated that metal detectors, blast resistant films, cameras and iron grills have now been installed in the Cotonou Office. The Regional Representation also stated that smoke detectors and an alarm system would be later installed subject to availability of funds. It further indicated that training sessions on the warden system have been scheduled for all UN staff in Benin, and that evacuation procedures would be part of the training by the FSCO.*

E. Administration

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

26. In November 2005, the 2005 cycle for the Performance Appraisal Reports (PARs) had not been initiated, nor had the objectives been established and/or discussed with the staff. According to the Regional Representation, the main reason for the non-compliance was the emergency situation in Togo. Given the key role that performance records can play in ensuring fair and transparent comparative reviews and posting exercises, OIOS recommended that the Regional Representation immediately agree with staff on work objectives, and prepare the mid-year reviews. *The Regional Representation indicated that the post emergency phase has now allowed it to finalize the PARs, and that all cases but one have been completed.*

27. OIOS noted that expenditure was often certified by an Administrative Assistant, with no signing authority, rather than by the designated certifying officer. OIOS observed this for MIP claims (a UNHCR high risk area), and for many travel authorizations (PT.8s). OIOS recommended that the Regional Representation comply with the established delegation of authority chart, and ensure that expenditures are certified by an officer with delegated authority. *The Regional Representation stated that it has taken note of the findings, and that action would be taken wherever required.*

V. ACKNOWLEDGEMENT

28. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and its implementing partners in Benin.

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