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AUDIT OF UNHCR OPERATIONS IN LIBERIA

Auditors:

C. Lakshmi Varahan
Esa Pääkkönen
Guillaume Hendriks

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Office of Internal Oversight Services
UNHCR Audit Service

AUDIT OF UNHCR OPERATIONS IN LIBERIA (AR2006/111/02)

EXECUTIVE SUMMARY

In November 2006, OIOS conducted an audit of UNHCR Operations in Liberia. The audit covered activities with a total expenditure of US\$ 33.2 million in 2005. A draft of the report was shared with the Director of the Bureau for Africa and the Representative in January 2007, on which comments were received in February 2007. *The Representation has accepted most of the recommendations and is in the process of implementing them.*

Overall Assessment

- For the period covered, internal controls over major expenditure categories were not in place to provide management with assurance that project objectives were achieved. As a result OIOS assessed the internal controls as below average. The weaknesses identified, taken together or individually, significantly impaired the overall system of internal control. OIOS is pleased to note that positive action has been taken in 2006 to improve systems and procedures, and further measures are envisaged to address the weaknesses identified during the audit. The implementation of the recommendations outlined in the report will further strengthen internal controls.

Programme Management

- In 2005, US\$ 2.4 million was spent on 500 quick-impact Community Empowerment Projects (CEPs). OIOS assessed that the CEPs could have been better managed, as complete and comprehensive information was not readily available to monitor their implementation. There were no detailed budgets versus actual expenditures or evidence that proper procurement procedures had been complied with. There were also no status reports on CEPs to allow an assessment of the effectiveness of the projects. OIOS was pleased to note that efforts were made in 2006 to monitor the activities more closely.
- UNHCR's partners were delegated the responsibility of paying travel grants of US\$ 3.7 million to internally displaced persons. Even though serious concerns were raised by UNHCR's Programme Unit about NRC's financial management of the payment of grants of US\$ 2.4 million, the activity was continually delegated to them without any positive action to resolve the discrepancies found, or to ensure internal controls were strengthened. Also, US\$ 300,000 was paid via a GTZ manager but recorded as an activity directly implemented by UNHCR. This meant that clear lines of authority over these payments had not been established.
- Project financial monitoring of partners was assessed as weak in 2005, but notable improvements were made in 2006, including the creation of a National Project Control Assistant's post. Considering the number of partners and the resources allocated to sub-project

financial monitoring, higher-risk areas like cash grant payments and CEPs should be focused on to make more effective use of resources. *The Representation informed OIOS that cash payments had significantly reduced in 2006 and 2007 due to the conclusion of the IDP return phase.*

- A qualified audit opinion on the financial information presented in the SPMR had been expressed for many of the major partners including LUSH, NRC, GTZ and CCC. The external auditor also reported that LUSH had fraudulently charged US\$ 100,000 against project 04/SB/WAF/EM/133 and a further US\$ 233,000 could not be supported. *The Representation informed OIOS that an in-depth review has been conducted, and LUSH's new management has sought funding to complete the projects. The Representation confirmed that these were completed to an acceptable standard.*

Supply Management

- OIOS noted that improvements were required to supply management systems and procedures. OIOS is pleased to note that improvements were implemented in the latter part of 2006.
- The internal controls over the procurement and payment of fuel, costing US\$ 1 million (including VAT) during the period from 1 January 2005 to April 2005, were weak. In some cases there were no purchase orders for fuel or receiving reports confirming that the fuel had been received. To support some of the payments made only photocopies or carbon copies of invoices were attached. It was clear that the approving officer was aware of the lack of original documents, but still approved payment. This was not a sound management practice. Improved controls were established from May 2005 when the fuel was procured via UNMIL.
- GTZ was responsible for most of the logistical activities in Liberia and, overall, OIOS assessed that they had established proper internal controls to manage the activities effectively.

Administration

- OIOS questioned the continuation of a separate workshop managed by a UNV and staffed by non-UNHCR personnel (project staff) for administration vehicles. The Representation was of the opinion that the arrangement should be continued, but had not yet conducted a reliable cost/benefit study. This would be particularly pertinent considering the funding arrangement with GTZ, and that their regional structure will be based in Liberia. Economies of scale may be achieved with the transfer of the administration's fleet maintenance to GTZ.
- Financial management needed improvement. Controls to record cash transfers to the field offices (amounting to US\$ 700,000 between January 2005 and August 2006) were unsatisfactory, and large outstanding receivables had not been cleared – some going back to 2003. Further guidance and support was required by the Representation to sub and field offices. *The Representation is clearing receivables.*

March 2007

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I. INTRODUCTION

1. From 30 October to 17 November 2006, OIOS conducted an audit of UNHCR's Operations in Liberia. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Liberia and its Sub-Offices (SO) in Voinjama and Saclepea and of six of its implementing partners.

2. OIOS' previous audit of UNHCR in Liberia was conducted in 2004. That review focused on 2003 and part of the 2004 project activities covering expenditure of US\$ 16 million. Project development and implementation had been hindered by the security situation, and as the country had just emerged from a war, many systems and procedures were only being re-established. OIOS found that there was no financial monitoring of partners, that supply systems and procedures required to be significantly strengthened and that administrative issues such as the reimbursement of duty on fuel and SOLAR deductions for staff provided accommodation by UNHCR needed to be addressed.

3. Following the voluntary disarmament and demobilization of ex-combatants by UNMIL, in October 2004 UNHCR started organized voluntary repatriation of Liberian refugees. By November 2006, with the assistance of UNHCR, 314,000 internally displaced persons and 81,000 Liberian refugees returned to their places of origin. UNHCR's programme in Liberia was characterized by the 4Rs, Repatriation, Reintegration, Rehabilitation and Reconstruction. This included the provision of transport and basic household items, the reconstruction of sanitation and health facilities, wells and shelters, as well as self-reliance activities. Additionally, at the beginning of 2006, UNHCR took the lead in protection, emergency shelter and camp coordination under the cluster approach.

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 16 November 2006. A draft of the report was shared with the Director of the Bureau for Africa and the Representative in January 2007, on which comments were received in February 2007. *The Representation has accepted most of the recommendations made and are 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
- Compliance with regulations and rules, Letters of Instruction and Sub-Project Agreements

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2005 programme activities under project 05/AB/LBR/RP/373

with expenditure of US\$ 29 million. Our review concentrated on the activities implemented by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) – expenditure of US\$ 4 million, Norwegian Refugee Council (NRC) – expenditure of US\$ 3.2 million, Concerned Christian Community (CCC) – expenditure of US\$ 1 million, Africa Humanitarian Action (AHA) – expenditure of US\$ 0.6 million, African Concern International (ACI) – expenditure of US\$ 0.9 million and Liberian Refugee Repatriation and Resettlement Commission (LRRRC) – expenditure of US\$ 0.6 million. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 6 million.

7. The audit reviewed the administration of Monrovia and SOs Voinjama and Saclepea with administrative budgets of US\$ 4.2 million for 2005 and assets with an acquisition value of US\$ 16.7 million and a current value of US\$ 6.8 million. The number of staff working for the UNHCR Operation in Liberia was 206. This included staff on regular posts, United Nations Volunteers, project staff (personnel hired under service agreements) and staff on mission.

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. The project description of the Letter of Instruction for 05/AB/LBR/RP/373 did not provide sufficient details on the programme implementation including the accelerated IDP return, disbursement of US\$ 3.7 million dollars as travel grants and an emphasis on community empowerment projects. Consequently, OIOS was unable to match the 2005 project objectives with the results cited in the 2005 Country Report or assess the overall effectiveness of programme execution. *The Representation explained that the constraints they had been working under during this period had an effect by delaying the up-dating of programme instruments.*

(a) Community Empowerment Projects

10. The implementation of Community Empowerment Projects (CEPs) was delegated to a number of partners. The established criteria for the CEPs aimed at empowering returnees and receiving communities through a participatory process to gain control of resources and make fair decisions over the use of these resources. Each CEP had a financial ceiling of US\$ 5,000 although several exceptions after individual consideration had been made.

11. OIOS had concerns with the Representation's management of CEPs. There was a lack of complete and comprehensive information available to monitor and control these project activities. For example, the Representation did not budget separately for CEPs nor did it have consolidated financial data on CEP implementation. It was only after a lengthy exercise that OIOS was able to establish that the amount disbursed was about US\$ 2.4 million. The Reintegration Section was able to provide details of all the approved CEPs from 2004 to 2006, which according to the database was 1,500. They did not however record on the database the budgeted amount against actual expenditure per CEP to enable progress to be monitored. Additionally, it was not possible for OIOS to correlate the information recorded in

the database to the LOIs to ensure the project objectives were achieved. Also, in OIOS' opinion a significant part of the US\$ 2.4 million was for procurement. No assurance could be obtained that goods were procured competitively and in compliance with well-established procurement procedures.

12. A lack of information hindered OIOS' ability to assess the effectiveness of CEP implementation. For instance, the SPMRs submitted by partners did not disclose CEP expenditure separately, and the level of information provided in partners' narrative SPMRs was limited. It was unclear therefore whether they had been completed to an acceptable level and their envisaged impact on the community had been achieved. In OIOS' opinion, some of the CEPs warranted extensive monitoring and required considerable cooperation and coordination among different functional units in the Representation to ensure they were successfully implemented. This was not done. For example, the effectiveness of the CEPs relating to farming projects (accounting for about 25 per cent of the 2005 CEPs) could only be known if the community was able to independently continue the agricultural activities beyond the initial assistance. There were no records or indication that this had been the case and hence it is unlikely that it was sufficiently monitored.

13. OIOS appreciated the positive steps taken by the Representation to almost half the number of partners it was working with. Nonetheless, more tangible action should have been taken to ensure all CEPs initiated by partners working with UNHCR in 2005 (but discontinued with in 2006) had been completed. For example, for the former partner DEN-L, in November 2006, OIOS was provided with a list of ongoing CEPs in Nimba county that included four DEN-L 2005 projects. As these had not been satisfactorily completed, OIOS was of the opinion that they should have been continually monitored to ensure they achieved the expected outcome, and if not, that UNHCR was appropriately compensated. *The Representation assured OIOS that the Community Services Section had monitored DEN-L activities. A satisfactory performance had been reported.*

14. Additionally, Liberians United to Serve Humanity (LUSH) had been delegated the responsibility for CEPs in 2004, but these had not been completed. The external audit firm contracted locally had stated that US\$ 100,000 reported as expenditure by LUSH against the project 04/SB/WAF/EM/133 was fraudulent. In addition, an amount of US\$ 223,000 reported against the same project and 04/AB/LBR/RP/201 could not be substantiated. The auditors had also pointed out that LUSH used the 05/AB/LBR/RP/373 funding of US\$ 200,000 to complete unfinished 2004 activities. OIOS could not find evidence that this issue had been systematically followed up on file. *The Representation assured OIOS that they had raised this issue with LUSH in 2005, and subsequently various letters had been addressed to them and various meetings held. The Representation stated the projects had been completed to the specifications/ quality acceptable to UNHCR, and confirmed that projects planned for 2005 had been implemented. LUSH owes UNHCR US\$ 97,843 resulting from shelter kits not procured, unspent balances, and unsubstantiated expenditures. LUSH had taken legal action against the identified perpetrators upon UNHCR's advice; the trial is still in progress.*

15. For the CEP construction activities, the community, the implementing partner and UNHCR should have signed the project document indicating that they had been satisfactorily completed. None of these documents could be presented to OIOS, raising a concern that the projects had not been properly completed to the satisfaction of all the parties involved. *The Representation informed OIOS that the CEP completion report had now been signed by three community representatives and one implementing partner staff-member and addressed to*

UNHCR. A number of implementing partners (i.e. ACI, ZOA Refugee Care) had systematically undertaken this procedure while others had failed to do so.

16. OIOS appreciates that an extended rainy season, inexperienced implementing staff and the delayed identification of the projects were some of the factors that reduced the implementation rate. Nonetheless, these factors should have been documented by the Representation and partners in their various reports in order to present a fair picture of the implementation status, and to provide justification for failing to achieve project objectives. OIOS accepts that this may be a labour intensive exercise, but it is good practice.

Recommendation:

- The UNHCR Representation in Liberia should in future budget Community Empowerment Projects separately to ensure that actual expenditure against the budgets can be monitored. The Representation should also considerably strengthen the monitoring of and reporting on Community Empowerment Projects to ensure they achieve the objectives established (Rec. 01).

17. The Representation stated that it has taken measures to improve the monitoring of CEPs. From 2006 such projects had no longer been budgeted solely under sector H but rather under the relevant sector e.g. Water or Sanitation. The Representation also referred to the data being stored in a “Compendium of CEPs”. OIOS accepts that steps have been taken to improve the monitoring of CEPs. Nonetheless the 2006 budgeting practice did not readily provide comprehensive information about CEP budgets, as the CEPs were usually budgeted under ‘Other Contracts’. OIOS would advice that to adequately manage these activities complete and comprehensive information should be readily available and monitored centrally.

(b) Travel Grants

18. In 2005, UNHCR assisted over 260,000 IDPs to resettle in their communities of origin. A travel grant was paid; the amount was dependent on the distance to the final destination. The Representation paid about US\$ 3.7 million in travel grants to IDPs. Of this NRC was responsible for the disbursement of US\$ 2.4 million. In order to establish an eligibility list, the Representation used WFPs IDP registration/ration card details.

19. OIOS’ review of the payment of travel grants revealed an unusual practice whereby the Representation initially delegated this responsibility to a GTZ project manager. OIOS noted that over US\$ 300,000 had been recorded as paid to IDPs between January and March 2005 via a GTZ employee. It was not specified in the Sub-Project Agreement with GTZ and was accounted for and reported by UNHCR as an activity that they had directly implemented. Such a practice was not correct and did not establish clear lines of accountability. *The Representation stated that they resorted to this procedure because, due to security risks in the first quarter of 2005, other NGOs were reluctant to execute the travel grant payments. The Representation further explained that it had to resort to this approach as the UNHCR-BMZ-GTZ Grant Agreement framework did not allow such additional activities to be covered under the GTZ sub-project.* OIOS is aware of the UNHCR-BMZ-GTZ agreement, and the constraints it may impose. This does not negate the Representation from ensuring that a proper procedure was established. Such transactions should have been outlined in a formal document and signed by UNHCR and the GTZ employee. This would have ensured transparency, the proper accounting treatment of UNHCR funds and clear lines of

accountability.

20. For the payment of travel grants, the beneficiary list was provided by WFP in a data file. The file was updated by UNHCR to record the payment to be paid and then transferred to implementing partners to effect payment. Due to numerous reasons not all of the beneficiaries collected their travel grants at designated dates. Consequently, the amount recorded as 'to be paid' did not match the 'actual amount paid'. As a result there was no assurance that: (a) every incoming beneficiary data file from WFP had a matching outgoing file; and (b) the beneficiary details remained the same and were free of unauthorized modifications throughout their movement from WFP to implementing partners through UNHCR. The process was further complicated as WFP provided some beneficiary lists directly to the partners NRC and CCC without involving UNHCR. This increased the risk of making incorrect payments.

21. Overall internal controls were assessed as weak. There were no procedures established to ensure that the amounts withdrawn from the bank agreed with the actual payments made as evidenced by beneficiary signatures, taking into account the re-deposit of unpaid amounts. There was no evidence that the number of beneficiaries paid was matched or reconciled to the cancelled ration cards or to the new resettlement cards provided in exchange for the cancelled ration card. The Representation did not consistently request the partners responsible for the payments (NRC, ARC and CCC) to report on the amounts paid to beneficiaries by destination in each camp and the total amount paid. Furthermore, the payment lists were not countersigned by other representatives claimed to be present during the payment exercises, such as the camp manager to obtain third party confirmation of the correctness of the payments. *The Representation pointed out that this matter along with other observations on NRC's practices of the payment and recording of travel grants were provided to NRC and ICF in August 2005 with a request for improvement.* OIOS takes note that a request was made as far back as 2005, but positive action to strengthen internal controls was not established.

22. The monitoring practices for the payment of travel grants by UNHCR programme could have been more effective. As early as March 2005, the Programme Unit was concerned with NRC's poor financial management of UNHCR funds, and had uncovered some discrepancies between NRC's accounting records and the SPMRs submitted to UNHCR. In August 2005, the Programme Unit found that of the US\$ 900,000 reported by NRC as paid to IDPs only US\$ 436,000 could be substantiated. Despite this, appropriate action was not taken with NRC to resolve the discrepancies or to ensure internal controls were strengthened. The Representation continued to delegate this responsibility to NRC making further payments of US\$ 1.5 million. Similarly, in October 2005, the Representation found a variance of US\$ 57,000 when CCC's distribution list was compared to the payments made. The Representation asked CCC to explain these discrepancies within three days, which they did. In November 2006, more than a year later, no follow-up action had been taken by the Representation to verify the correctness of CCC's partial explanation for the differences and the US\$ 12,000 that remained unexplained. *The Representation stated that there had been very few international organisations, which could be held accountable in the handling of such activities. Constant follow up and verification had led to the discovery of discrepancies.*

23. Due to the number of deficiencies in accounting for travel grants to the IDPs, OIOS was unable to obtain reasonable assurance that the travel grants paid were made to the targeted beneficiaries.

Recommendation:

- The UNHCR Representation in Liberia should ensure that internal controls over the payment of travel grants are significantly improved. This includes the controls established by implementing partners and those of UNHCR's Programme Unit. Considering the gravity of the findings with regard to the Norwegian Refugee Council, serious consideration should be given as to whether they have the competence to perform this activity on behalf of UNHCR (Rec. 02).

24. *The Representation has sent a memorandum to UNHCR field and sub-offices to ensure that UNHCR staff evidence the travel grant payments to returnees. Furthermore, the Representation is contemplating involving other implementing partners in paying the travel grant to returnees that fit in to their administrative areas of responsibility.* OIOS takes note that the Representation has instructed field offices to strengthen internal controls over the payment of travel advances and that they will explore the possibility of contracting more partners to delegate this activity to. OIOS will close the recommendation on confirmation that internal controls have been significantly strengthened to provide assurance to UNHCR management that travel grants are provided to the intended beneficiaries.

(c) Project Monitoring

25. Financial monitoring of 2005 sub-projects was weak mainly because the staff member responsible was utilized for other functions. For 2006 improvements were evident, and the project monitoring reviews were properly documented. OIOS appreciated the work done by the Representation to strengthen project monitoring, including the addition of a GL-4 Project Control Assistant post and the reduction of the number of partners. The Representation however should establish procedures to ensure corrective action has been taken on all major weaknesses identified during project monitoring to strengthen internal controls and improve procedures.

26. In 2005, only one staff member (at the P-3 level) was assigned project-control responsibilities. Considering the number of partners and the volume of activities, OIOS can see that this was a considerable task for one person. OIOS suggested that in order to accomplish the function more effectively, project financial monitoring is focused on higher risk areas. For example, there should have been a focus on partners' field activities due to the substantial cash amounts transferred to field offices to meet local operating expenditure.

27. Also, considering the volume of activities directly implemented by UNHCR, an independent review of the effectiveness of these projects would have been beneficial and could have resulted in improving systems and procedures. For example, the payment of travel grants to the IDPs and returnees was not well managed or properly controlled. If the assigned project control officer had effectively reviewed this, it would have been likely that management would have been alerted to the weaknesses and gaps in internal controls.

28. OIOS recommended that the Representation should continue further improving the project monitoring function. Project control and monitoring of implementing partners activities should be better planned and more focused to provide assurance to the Representative and Programme Managers that partners' activities are well-managed and

implemented in accordance with the terms of the Sub-Project Agreement or, if not, the problems have been identified and corrective action has been taken. *The Representation elaborated that the project control officer, who arrived in January 2006, has put in place measures to further enhance the financial recording and reporting of implementing partners. In 2006 his focus was on identification of gaps in financial management and verification and closure of 2005 projects. Other focus areas during the second half of 2006 were non-food item inventory and training of UNHCR staff. The workplan for 2007 includes following up on the audit observations and recommendations.* OIOS would suggest that focus could also be made on directly implemented activities and the higher-risk areas such as travel grants.

Recommendation:

- The UNHCR Representation in Liberia should continue to enhance its project monitoring activities and also place more focus on directly implemented activities and higher risk activities, such as the payment of travel grants. An independent review by the project control officer will ensure there are no weaknesses or gaps in internal controls (Rec. 03).

29. OIOS is pleased to note the action taken to improve project monitoring. OIOS will close the recommendation upon confirmation that further improvements have been made with more focus on higher-risk areas.

30. The quality of the narrative SPMRs provided by partners should be improved. OIOS noted that the narrative SPMRs from most of the implementing partners did not clearly outline the achievements of planned activities, reasons for delays and explanations for non-achievement of project objectives. It was difficult to assess the overall impact of the sub-projects.

Recommendation:

- The UNHCR Representation in Liberia should ensure that the narrative reports submitted by the partners reflect the actual project status and achievements, whether positive or negative (Rec. 04).

31. *The Representation agreed that the quality of narrative reports had been wanting in some aspects. The Representation elaborated that the programme management decentralization process initiated in late 2006 would devolve more authority to sub-offices which would be able to better monitor activities of partners. Partners are currently required to submit their activity progress reports to offices on a weekly basis while financial reports are required on a monthly basis.* OIOS will keep the recommendation open pending confirmation that a system has been implemented to ensure partners provide a clear report of the activities undertaken together with the level of achievement of sub-project objectives.

B. Review of Implementing Partners

32. For the six partners reviewed, reasonable assurance could be obtained that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements, with the exception of NRC and CCC. OIOS assessed that the internal controls for most of the partners should be improved. For example, although the bulk of the expenditure reported by LRRRC was for incentive payments to government staff, the quality of records was assessed as poor. In the case of GTZ, out of expenditure of US\$ 3.1 million,

US\$ 2.4 million related to salaries, travel costs and overheads, and the disparity between budget and actual expenditure was very apparent. For example GTZ, under Community Services, reported expenditure of US\$ 2,700 while the salaries and related costs of implementing this activity was US\$ 41,000.

(a) Africa Humanitarian Action

33. AHA managed 2 health centres and 17 health clinics in three counties and was allocated a budget of US\$ 585,000 in 2005. The expenditure reported was mainly for the salaries of health workers (US\$ 325,000) and for the procurement of medical equipment and drugs (US\$ 109,000). Unfortunately due to time constraints and the distances involved, OIOS was unable to visit the health centres or clinics. OIOS assessed that the books of account and the internal controls established were generally satisfactory with the exception of the procurement of drugs where there was no evidence of competitive bidding. It transpired however that a Liberian government agency held a monopoly over most drugs sold and therefore there was not a true competitive market.

34. OIOS found that under the 2005 sub-project, UNHCR was charged US\$ 15,000 for drugs procured through AHA's Headquarters. The drugs were never received. The amount there should be refunded to UNHCR.

Recommendation:

- The UNHCR Representation in Liberia should recover from Africa Humanitarian Action an amount of US\$ 15,000 that was charged to UNHCR in the 2005 SPMR for drugs that were never received (Rec. 05).

35. *The Representation informed OIOS that the AHA Office has confirmed in writing that the cost of undelivered medicines will be reimbursed to UNHCR.* OIOS is pleased to note that a recovery will be made. The recommendation remains open pending confirmation that US\$ 15,000 has been refunded to UNHCR.

(b) Norwegian Refugee Council

36. NRC's books of account were not kept to an acceptable standard. The accounting records could not be reconciled to the SPMR. The payment of travel grants of US\$ 2.4 million from the reported expenditure of US\$ 3.2 million constituted the most important activity. Unfortunately, due to the relocation of the Country Director and most of the other staff involved in travel grant payments, OIOS was unable to obtain a complete explanation of the issue. OIOS therefore was unable to provide assurance that UNHCR's funds were properly accounted for. Moreover, NRC commingled funds from the UNHCR specific bank account with their own funds leaving no clear audit trail.

Recommendation:

- The UNHCR Representation in Liberia, considering the serious weaknesses identified during the audit, should monitor closely the activities of the Norwegian Refugee Council. This should include regular visits to review their accounting and other records, to assess whether internal controls and procedures have improved and to obtain assurance that UNHCR funds were correctly disbursed (Rec. 06).

37. *The Representation explained that on various occasions high-level discussions took place with the Country Director and the senior staff in an effort to improve their financial management and internal control mechanisms. However, due to the frequent turnover of expatriate staff especially in administration and finance, the internal control system was weak and therefore exposed them to the mismanagement of funds. The lack of a banking network had compounded the problem, leaving NRC to hand carry huge sums of money to all locations outside Monrovia. Some improvements were exhibited in areas of internal control focusing on accountability and delineation of responsibilities, and the maintenance of separate files for UNHCR project payments. In 2007 the payment slip is being redesigned to accommodate UNHCR involvement in authenticating travel grant payment. OIOS takes note that efforts have been made to improve NRC's internal controls and its accountability of UNHCR funds. OIOS will keep the recommendation open pending confirmation (including copies of monitoring reports) that NRC's accounting and internal controls have been improved and UNHCR management provided assurance that they can now rely on NRC to implement UNHCR's activities in accordance with the Sub-Project Agreement.*

(c) **African Concern International**

38. OIOS was able to match the expenditure of US\$ 888,000 reported in the SPMR to the accounting records. OIOS noted however that 57 per cent of the expenditure, which was reported under Sector P – Agency Operational Support, appeared excessive, as compared to the standard benchmark of 15 per cent. Some of these expenses should have been allocated to the substantive sectors to reflect the actual cost of the work done.

39. OIOS noted that the staffing list provided with the final 2005 SPMR did not provide accurate information on salaries paid. Reconciliation of the staffing list to payroll documentation revealed that salaries were paid to non-listed staff. In some cases, changes in salary rates were not reflected in the staffing table. In addition, some of the staff members were paid 'end-of-contract pay' in December 2005, which was not included in the Sub-Project Agreement. These payments totalled US\$ 18,000 and should be recovered.

Recommendation:

- The UNHCR Representation in Liberia should review the salaries paid by African Concern International and recover any non-budgeted payments. Also the "end-of-contract pay" made to several staff totalling US\$ 18,000 in December 2005 should be recovered (Rec. 07).

40. *The Representation stated that a lump sum allocation was provided to all implementing partners under salary related costs to enable them to cover medical insurance,*

income tax and national security contributions. Out of this allotment, ACI had erroneously paid an amount as retrenchment benefit to their staff. The Representation has requested ACI to replace the US\$18,000 swiftly. OIOS will keep the recommendation open pending confirmation that US\$ 18,000 has been recovered from the partner.

(d) Audit Certificates

41. The Representation had contacted a local audit firm to audit the sub-projects of implementing partners for 2004 and 2005. The auditors had completed most of the audit work though there were delays, and some of the reports had still not been received. OIOS noted that the audit firm had expressed a qualified opinion on many of the major implementing partners including LUSH, NRC, GTZ and CCC. The qualified opinion pertaining to GTZ and CCC was due to the weaknesses noted in the distribution of travel grants to IDPs. For NRC, in addition to the weakness in the distribution of travel grants, the auditors noted that no verification of the expenditure of US\$ 379,000 provided under 04/SB/WAF/EM/133 was possible as the accounting records were not available for review.

Recommendation:

- The UNHCR Representation in Liberia should ensure that the adverse comments made by the external auditors on the accounts of the Norwegian Refugee Council have been addressed and documentation to support the charges made in the 2004 sub-project of US\$ 379,000 have been presented and verified as bona fide project expenditure (Rec. 08).

42. *The Representation has advised NRC to present pertinent documents to support the expenditure of US\$ 397,000 for verification in response to the external auditors observations. OIOS takes note of the action taken and will keep the recommendation open pending confirmation that the Representation is satisfied that the expenditure reported was bona fide UNHCR sub-project costs.*

C. Supply Management

43. In 2005, the total value of internationally procured non-food items, vehicles and office equipment was over US\$ 5.5 million. During 2005, in general, improvements in supply management were required. OIOS was pleased to note, that during 2006 there was a considerable improvement. In 2006, the total value of internationally procured items was US\$ 3.2 million. The bulk of local procurement was for fuel and valued at over US\$ 1 million per year.

(a) Local procurement of fuel from Mobil

44. OIOS reviewed the procurement of 4 million litres of fuel costing about US\$ 3 million from UNMIL for the period from May 2005 to August 2006. OIOS was able to obtain reasonable assurance satisfactory internal controls and procedures had been established to match the quantity ordered, received and paid for. Prior to this period, the controls established were weak, as outlined in the following paragraphs.

45. Previously, the Administration Unit was responsible for the local procurement of fuel from Mobil Oil. Fuel costing US\$ 835,000 had been expensed between January and June

2005 for both programme and administration. No purchase orders had been established for this procurement, with Mobil delivering the fuel based on a simple request letter from the Administration Unit.

46. Our review of the transactions with Mobil Oil indicated that satisfactory internal controls were not in place before the Representation made payments to the suppliers. Some of the payment vouchers did not have authenticating documents like invoices or confirmation of deliveries. For example, the payment of US\$ 121,000 to Mobil Oil in June 2005 (vouchers 6/P/2025, 26 and 27 refer), were checked by the Senior Administration Officer and authorized by the Deputy Representative. OIOS established that the documentation was incomplete; invoices totalling US\$ 22,800 were missing. It was clear when the payment was approved that the approving officer was aware of the lack of documents, but still made a decision to initiate the payment. Subsequent to our audit, the Representation retrieved the required documents. For another payment of US\$ 21,000, only photocopies of invoices instead of the originals supported the payment. In a different case, there was no confirmation that fuel costing US\$ 37,800 was delivered. Similarly, carbon copies of invoices aggregating to US\$ 7,650 supported another payment to Mobil in April 2005 (voucher 6/P/2023 refers). OIOS would caution management against approving payments without original and complete supporting documentation, as they could be held accountable for any losses or unsubstantiated amounts relating to these transactions. OIOS recommended that sound management practices be adopted. *In response the Representation referred to the improvements already made in 2006.*

47. OIOS attempted to reconcile the quantity of fuel ordered, received and paid for. However this was not possible due to the poor documentation available and inadequate records maintained. A large difference of 22,000 litres (costing about US\$ 20,000) was found between fuel received and fuel issued during January and May 2005. No explanation could be given for this variance. In OIOS' view, poor internal controls, exacerbated by the absence of a division of responsibilities regarding procurement and access to physical stock in the Representation, led to the situation where amounts could not be reconciled. Assurance could not be obtained that all fuel paid for had been received.

Recommendation:

- The UNHCR Representation in Liberia, in order to obtain reasonable assurance over the transactions with Mobil Oil, should reconcile the quantity ordered, received and paid for. The Representation should also ensure that only authentic original documents such as invoices and receiving reports are attached to the payment vouchers (Rec. 09).

48. *The Representation informed OIOS that the quantities ordered, received and paid for had been reconciled. Also the original invoices had been received from Voinjama.* OIOS takes note of the action taken, and will close the recommendation on receipt of a copy of the documents supporting the reconciliation of purchase orders, receipts and payments.

49. The Representation paid US\$ 248,000 on duty for the fuel procured for the period from January 2004 to June 2005. The amount had been shown as a receivable in the account VF 316. The Representation however, considering the financial constraints of the new Government, is not hopeful of recovery. If this is the case, and in the Representation and Bureau's view the matter has been properly pursued with the Government, appropriate action

should be taken in conjunction with the Division of Financial and Administration Management.

Recommendation:

- The UNHCR Representation in Liberia should coordinate and seek advice from the Division of Financial and Administration Management on how to deal with the receivable of US\$ 248,000 relating to possible VAT reimbursements for which recovery is doubtful. An appropriate provision in the accounts should be made (Rec. 10).

50. *The Representation reiterated that several attempts has been made to recover the outstanding amount. The Representation in consultation with DFAM continues to follow up this issue.* OIOS will close the recommendation on confirmation that either the amounts have been reimbursed, or if this is deemed not possible, that action has been taken to clear/make a provision against the recorded receivable of US\$ 248,000.

(b) Unpaid invoices

51. OIOS noted that invoices totalling US\$ 10,000, relating to procurement transactions in 2004 and 2005 by the Representation such as travel, stationery and maintenance, were received for payment only in the second half of 2006. In OIOS' opinion such delays in presenting invoices for payment (if goods and services have been received) is not acceptable. Although these were not paid at the time of audit, OIOS was unable to obtain reasonable assurance that they related to bona fide UNHCR expenses and whether or not they should be settled.

Recommendation:

- The UNHCR Representation in Liberia should carefully review the invoices and other supporting documents to ensure these relate to services and goods actually received. Also, considering the delay in the submission of the invoices, assurance should be obtained that they are genuine, have not been paid earlier and are based on established obligations (Rec. 11).

52. *The Representation stated that the above mentioned invoices were still pending and investigation was underway to confirm goods and services had actually been received and had not yet been paid for before any further action can be taken. The Representation provided assurances that internal controls had been strengthened.* OIOS is pleased to note the positive action taken, and will keep the recommendation open pending confirmation that an in-depth review has been conducted to establish whether the invoices should be paid.

(c) Vehicle workshop activities - Administration

53. The Representation still maintained a workshop headed by an international UNV, with non-UNHCR personnel employed under service agreements to maintain administration vehicles. While the programme vehicles are serviced at the GTZ managed workshops, the decision to operate an independent garage was based on the view that GTZ was too

expensive. OIOS recommended in 2004 that if GTZ proved to be too expensive, it would be better to procure such services rather than to run a workshop directly. The situation however remained the same and there was no evidence that a cost/benefit study had been completed, or a market survey conducted to ensure efficiencies were gained by this approach.

54. OIOS noted that between 1 January 2005 and 31 August 2006, the Representation had spent about US\$ 192,000 for the maintenance of administration vehicles (account 462 cumulative expenditure of US\$ 297,000 from January 2004). The Representation paid about US\$ 25,000 as rent for the Monrovia workshop. In addition, personnel costs and other overheads such as security and utilities were paid.

55. The spare parts used in the workshop were procured locally, and were several times more expensive than internationally procured ones. In 2005 all spare parts were procured locally, while in 2006, OIOS noted that there was a consignment of imported spare parts, and a stock system was being established. OIOS is pleased to report on the improvements made, but the cost effectiveness of establishing a separate workshop and hiring project staff (under Service Agreements) is questionable and needs to be reviewed.

56. OIOS' visit to the workshop noted that over 60 per cent of the space was occupied by scrap and unroadworthy vehicles. Most of the vehicles did not have number plates and had been deposited there a number of years ago. *The Representation commented that in May 2006, the process of submitting G.45s for unroadworthy/vandalized vehicles to LAMB had started. The Representation expected that by mid 2007 the disposal of vehicles beyond repair would be finalized.*

57. OIOS also noted that administration vehicles from field offices were driven to the UNHCR garage in Monrovia for major repairs. This happened despite the availability of GTZ workshop facilities in the area of operations. In OIOS' opinion, the servicing of these vehicles by GTZ would considerably improve operational efficiency and would result in better utilization of the sunk costs (and would result in some savings to UNHCR). Furthermore, with GTZ poised to become a regional player for fleet management activities from 2007, the usefulness of maintaining a separate establishment for administration vehicles has become moot.

Recommendations:

- The UNHCR Representation in Liberia should entrust the repairs and maintenance of the administration vehicles to GTZ as this would ensure better utilisation of UNHCR resources, and it should discontinue the running of its own workshop unless it is proven to be economically viable (Rec. 12).
- The UNHCR Representation in Liberia should discontinue hiring additional staff under Service Agreements. This is not a legal basis in UNHCR for hiring of non-UNHCR personnel (Rec. 13).

58. *The Representation did not agree with the recommendation (# 12) to discontinue its own vehicle workshop in Monrovia. They were of the opinion that as the bulk of the expenditure related to spare parts, if this was delegated to GTZ or a service provider, it may result in higher costs.* OIOS takes note of the Representations concerns. However, since GTZ

is already procuring spare parts on behalf of UNHCR there should be economies of scale if further procurement is delegated to them, as well as a reduction in UNHCR staffing costs. OIOS will keep the recommendation open until a cost/benefit study has been conducted.

59. *The Representation also stated that GTZ does not have facilities in the field to provide major repair services for light vehicles.* OIOS takes note of this, but understands that GTZ is responsible for UNHCR's programme vehicles (whether in the field or in Monrovia). A similar arrangement should be established for administration vehicles.

60. *The Representation had taken note of the recommendation (# 13) to discontinue hiring additional staff under Service Agreements.* OIOS will keep the recommendation open until appropriate action has been taken to ensure personnel hired by UNHCR are provided with an employment contract that is in accordance with UNHCR's rules.

(d) Vehicle workshop activities – GTZ

61. OIOS visited GTZ's workshop in Monrovia, Voinjama and Saclepea. GTZ is using standalone databases in these locations to record workshop activities. At the year-end, the databases from different locations are consolidated in Monrovia, mainly for country level reporting purposes. Systems used included the procurement, receipt and use of spare parts, receipt and distribution of fuel. In 2006, GTZ also put to use another database to improve planning, management, monitoring and reporting for fleet utilization. This is currently operational in Monrovia. In general, OIOS was satisfied that GTZ had established appropriate controls and procedures for the various workshop activities.

62. In OIOS' view, GTZ has the necessary infrastructure, systems and details to provide critical reports relating to fleet management to meet the information requirements of UNHCR. OIOS noted during the audit that the Representation was still in the process of establishing the necessary reports and key performance indicators (KPIs) for the various repairs and maintenance activities for their monitoring requirements. OIOS recommended that the Representation decide on the reports required from GTZ in order to monitor fleet management activities. OIOS also recommended that the Representation work closely with GTZ to establish KPIs for the various repairs and maintenance activities. *The Representation informed OIOS that the types of reports required from GTZ to monitor the overall performance of the logistics operation in the Liberia had been communicated to GTZ in October 2006. The first of the requested reports had been received in January 2007. Discussions about KPIs had been initiated with GTZ.* OIOS is pleased to note the action taken.

63. GTZ spent over US\$ 160,000 in 2005 on local procurement of spare parts. In 2006, this had reached about US\$ 300,000. GTZ explained that it was necessary to procure locally due to the delay in receiving them internationally. The local spare parts were ten times more expensive than those procured internationally. OIOS highlighted the need for proper planning to ensure the timely ordering and receipt of spare parts.

Recommendation:

- The UNHCR Representation in Liberia should focus on better planning to source the required spare parts from the international market in order to keep local procurement to a minimum considering the price differential (Rec. 14).

64. *The Representation explained that there was a lead-time (six months) in most international procurement processes for spares and tyres, which had led to the need to locally procure vehicle spare parts. A tangible and current example is the 2006 third quarter procurement of Toyota and truck spare parts and various size tyres that would probably not even arrive in the first quarter of 2007.* OIOS followed up this issue with SMS and was told that the normal lead-time for spare parts after the requisition has been sent to SMS is 14 weeks. OIOS is of the opinion that with a proper forward planning most of the spare parts could be procured cost effectively without adversely affecting operations. OIOS will keep the recommendation open pending confirmation that longer-term plans for spare parts procurement to be established.

(e) Warehousing

65. The value of the major NFI's such as kitchen sets, sleeping mats and blankets kept in warehouses in Liberia at the time of audit was about US\$ 1.4 million. OIOS visited the GTZ managed warehouses in Monrovia, Saclepea and Voinjama. A manual system of record keeping was in place with information consolidated by GTZ in Monrovia. OIOS assessed the procedures for receipt, issuance and physical verification of stock items as satisfactory. Damaged items however, although identified in all warehouses had still been included in the stock records. OIOS advised that the Representation decide what action to take with the damaged items and instruct GTZ to take them out of its inventory.

66. OIOS observed in the warehouse in Monrovia that almost half of the warehouse space had been taken up for over a year by NFIs like kitchen sets, blankets, plastic buckets and used clothing donated by UNMIL. The Representation should exhaust these goods in the next distribution cycles and reduce procurement accordingly. *The Representation commented that this stock is not available for general distribution but has been allocated as an emergency stock for which its use had to be decided upon in close coordination with UN partners.* OIOS found that in the warehouse in Monrovia medical supplies including drugs valued at US\$ 22,000 were not stored under correct conditions. These items had been in the warehouse for over a month and the risk of deterioration and damage was high. *The Representation informed OIOS that these items would be dispatched to various distribution points in the course of February 2007.*

(f) Aircraft agreement with WFP

67. Following interagency consultations it was decided that WFP would take responsibility for air operations. This decision was applied in Liberia in 2004. For the second half of 2005, UNHCR paid US\$ 980,000 to WFP under a Technical Service Agreement for the provision of air transportation services in the region. OIOS' review of the payment vouchers disclosed that critical details such as passenger manifests and the nature of the trips (official or private) were missing. *The Representation explained that pre-flight manifests were received one or two days before the flight.* OIOS takes note of this, but these were not

the final manifests and the numbers did not match the total number of passengers in the flight utilisation report. Upon enquiry OIOS was informed that WFP's office in Abidjan managed the aircraft and UNHCR had little say in the entire operation.

68. Obtaining appropriate information from WFP or securing a seat in the aircraft was reported as difficult. Furthermore, UNHCR passengers had no priority. With all these operational difficulties, UNHCR terminated the Technical Service Agreement at the end of 2006. Due to the missing information, OIOS was not able to obtain assurance that the amounts paid to WFP were justified.

D. Administration

69. In the areas of administration and finance, the UNHCR offices in Liberia generally complied with UNHCR's regulations, rules, policies and procedures. However, some of the financial controls needed improvement.

(a) Cash in transit

70. Due to the lack of a banking infrastructure outside of Monrovia, cash had to be hand carried to field locations by staff members. OIOS appreciated the difficulties, and was pleased to note that no losses had been reported or unnecessary risks taken by staff members.

71. OIOS noted that cash transfers were not correctly recorded in the sub-offices accounting records. While the recording of the cash transfers between the Representation and the sub-offices was satisfactory, the recording of the US\$ 700,000 transfers (between January 2004 and August 2006) from the Representation to the field offices was deficient. Instead of recording it as an operational advance, it was recorded through VF 121 'cash in transit'. Moreover, there was a significant delay, sometimes months, in the recording of funds transferred by the Representation to the field offices. Similarly, there were delays in the reporting / recording of the field offices' transactions. The effects of these delays resulted in the accumulation of outstanding amounts in VF 121 and the understatement of expenditure. According to the findings of the then Finance Officer from the Representation, about US\$ 80,000 pertaining to 2005 was recorded against the 2006 budget. With several long pending items still in suspense and cash in transit accounts, there is no assurance that the expenditure recording for the past years was complete. *The Representation explained that effective January 2007 cash transferred to field locations is recorded as an operational advance under VF369. Also a request had been sent to DFAM to request the creation of petty cash books for two large field offices Zwedru and Harper.*

72. Considering the volume of cash transfers from the Representation to the field offices and high-risks involved in these transactions, closer monitoring of the recording and clearance of these transactions was warranted. The Finance Officer based in the Representation only visited the field offices to resolve many of the accounting issues just prior to her reassignment. This was insufficient and a considerable part of the exercise was left unresolved. In OIOS' opinion, frequent visits to oversee the financial matters of the field offices would have been beneficial to provide guidance and support to the offices, as well as to properly monitor activities.

73. With the arrival of the incumbent Admin/Finance Officer in the Representation, significant efforts have been made to clear/reconcile these outstanding balances.

Nevertheless, considerable work is still to be done.

(a) Monitoring of receivables (VF) accounts

74. OIOS reviewed the reports of the receivable accounts and found that there were large amounts outstanding sometimes dating back to 2003. OIOS also found that many transactions were incorrectly recorded. For example, VF 364, a receivable account had a credit balance of US\$ 784,000, which was substantially due to incorrectly recorded adjustments of US\$ 720,000 made in May and July 2005. Similarly, about 35 cases were found where travel advances (VF 369) had negative balances indicating either excess recovery or, more likely, erroneous recording. OIOS also noted that 28 cases of travel advances made during 2005 were not cleared. This trend continued in the first half of 2006.

Recommendation:

- The UNHCR Representation in Liberia should undertake a thorough review of all receivable accounts and all pending items in cash in transit and ensure that they are satisfactorily cleared/reconciled. The Representation should seek the advice of the Division of Financial and Administration Management on the accounting for the transfer of funds to the field offices and their expenditure recording (Rec. 15).

75. *The Representation informed OIOS that every effort had been made to clear all outstanding receivables. The Representation pointed out that more than 50 per cent of the amounts under accounts receivable were cleared by closure of accounts in December 2006. The task is expected to be finalized mid 2007.* OIOS appreciates the efforts made and will close the recommendation once we have been informed that the task to clear receivables has been completed and proper accounting for the transfer of funds has been implemented.

(b) Human Resources Management

76. OIOS assessed that the human resources rules and procedures were generally in place and operating effectively during the period reviewed. However, OIOS noted that PARs for 2005 had not been prepared in a timely manner and in November 2006 some 46 per cent of the PARs were still outstanding.

(c) MEDEVAC

77. There were over 20 MEDEVAC cases in 2005 and 2006. Though these cases were mostly processed in accordance with the established guidelines, the documentation quality needs to be improved. For example, the Control Sheet for Medical Evacuation was not available in most cases and there were no separate files for MEDEVAC cases. Also, most of the 2006 travel claims relating to MEDEVAC remained unsettled. Our review identified potential recoveries of DSA payments and the Representation is following-up on this issue. *The Representation agreed that the quality of MEDEVAC documentation should be reviewed.*

VI. ACKNOWLEDGEMENT

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

Eleanor T. Burns, Acting Chief
UNHCR Audit Service
Internal Audit Division
Office of Internal Oversight Services