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AUDIT OF UNHCR OPERATIONS IN SIERRA LEONE

Auditors:

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Office of Internal Oversight Services UNHCR Audit Service

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EXECUTIVE SUMMARY

In August 2006, OIOS conducted an audit of UNHCR Operations in Sierra Leone. The audit covered activities with expenditure of US\$ 30 million in 2005 and 2006 (to July). The comments, which were received in December 2006 and February 2007, are reflected where appropriate in the final report. *The Representation accepted to undertake the implementation of the recommendations.*

Overall Assessment

• OIOS initially rated the UNHCR Operation in Sierra Leone as below average. During the audit OIOS was unable to obtain supporting documentation for various decisions made and UNHCR personnel were unable to clarify actions taken to ensure effective internal controls were in place. This was due to the absence and/or non-availability of key staff at the Representation and Sub-Office even though adequate notice was given of the audit and the timing was agreed by the Representative. Subsequently, in the follow-up to OIOS' draft communications management provided copies of most of the missing documents and initiated positive action to address many of OIOS' preliminary recommendations. Taking this into account, the rating has been revised to average. The implementation of the recommendations outlined in the report will further strengthen internal controls.

Programme Management

- The Representation had complied with UNHCR audit certification requirements but with improved planning, audit certificates could be submitted earlier. *The Representation took action and has contracted the auditors in a timely manner*.
- Project monitoring had been improved since OIOS' 2004 audit. However it could be further
 enhanced to provide reasonable assurance to management that partners are complying with
 UNHCR sub-project requirements and if not, recommendations are made to ensure projects
 objectives are achieved. The Representation has taken action to improve project monitoring.
- OIOS questioned the integrity, performance and level of project implementation by a local partner, BPDA. Considering the number of negative findings reported (doubtful procurement practices and non-implementation of projects) UNHCR should re-evaluate its relationship. *The Representation stated they were not aware of any reason to doubt the integrity of the partner. In 2007, the Representation is no longer working with the partner.*
- The LRRD project funded by the European Commission was not implemented as planned; several posts were not properly filled or were employed on non-project related activities and the reports were not available locally for review. A report covering the 2005 activities has been finalized and is being submitted to European Commission. OIOS is no longer in a position to verify the adequacy of the content of the report.

Asset Management

- The internal controls over the safeguarding and use of assets could be improved. Given the phasing-down of the operations, up-to-date and reliable information is required to ensure there is proper decision-making on the redeployment and/or disposal of assets. *The Representation provided assurance that internal controls have been improved.*
- Cases of theft were reported to the Local Asset Management Board after significant delay. Compensation from one partner was still pending. *The Representation will submit the case to Headquarters Asset Management Board*.

Workshop and Fuel Management

- From OIOS' discussions, UNHCR and partners staff were, in general, dissatisfied with the quality and timeliness of the work carried out by GTZ. OIOS' analysis found a large number of assets had remained in the workshop for more than 30 days, many assets had broken down within days of repair and 39 assets were sent to the workshop more than 20 times in one year. The Representation provided assurance to OIOS that they are now satisfied with GTZ's performance.
- At the time of the audit, OIOS could not obtain GTZ's cost estimates that enable sound decisions to be made. It appeared that GTZ embarked on significant repairs costing up to US\$ 15,600 without prior authorization. For 2005 there were 60 vehicles where the cost of repairs exceeded US\$ 5,000. Copies of instructions and cost estimates for repair have been provided. The Representation will endeavour to continue to improve its monitoring of the GTZ workshop.
- GTZ had a good stock management system (for spare parts), but the available information was not adequately used to identify slow moving or obsolete stock. OIOS noted that stock valued at US\$ 300,000 had been in stock since January 2004. The sale and/or the deployment of this stock could generate significant income. *The Representation is reviewing the spare parts inventory to ensure they are dealt with accordingly.*

Security and Safety

• At the time of the audit, there were no UNHCR security staff in Freetown although the post of Field Security Advisor had been redeployed from Kenema to Freetown. The appointed staff member had not taken up the assignment. UNHCR depended on the UN Department of Safety and Security to liaise with the host government on security issues. *The newly appointed FSA took his post in January 2007*.

Administration

- Administration and finance functions could be improved. There were still control weaknesses over payments made by SO Kenema; the Representation made an inordinate number of payments and adjustments at the end of 2005; errors were found in the settlement of travel claims, and a significant number of receivable accounts were still unreconciled. The Representation considers it normal practice to make adjustments and clear errors at the yearend. The Representation will continue efforts to reconcile receivable accounts.
- The Representation was not fully complying with the requirements made by DHRM following the 2004 MIP fraud cases. *The Representation stated the legality of DHRM's instructions was questioned by the IGO, and they had been referred back to DHRM for clarification.*

March 2007

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I. INTRODUCTION

- 1. From 14 August to 2 September 2006, OIOS conducted an audit of UNHCR's Operations in Sierra Leone. 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 Sierra Leone and its Sub-Office (SO) in Kenema and of four of its implementing partners.
- 2. OIOS' previous audit of UNHCR in Sierra Leone was conducted in 2004. That review focused on 2002 and 2003 activities covering expenditure of US\$ 50 million. OIOS assessed the operation as below average. The audit revealed significant deficiencies in the management of programme, supply and administration. In addition, project control was not effective, local procurement procedures were deficient and asset management required considerable improvement.
- 3. The main objective of the operation was to provide protection and assistance to approximately 87,000¹ persons of concern. Care and maintenance assistance was provided to Liberians living in eight camps in Kenema district, and repatriation efforts were underway. From 2003 to 2005, UNHCR also implemented a large reintegration project for Sierra Leone refugees in various districts. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conferences held on 31 August and 2 September 2006. The comments, which were received in December 2006 and February 2007 respectively, are reflected where appropriate in the final report. *The Representation accepted to undertake the implementation of the recommendations*.

II. AUDIT OBJECTIVES

- 4. 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

5. The audit focused on 2005 and 2006 programme activities under projects 05/AB/SLE/CM/200; 05/AB/SLE/RP/300; 05/AB/SLE/RP/350 and 05/AB/SLE/LS/401 with expenditure of US\$ 13.5 million. Our review concentrated on the activities implemented by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) - expenditure of US\$ 3.6 million; Peace Wind Japan (PWJ) - expenditure of US\$ 1 million; National Commission for Social Action (NaCSA) - expenditure of US\$ 832,000 and Bo/Pujehun Development Association (BPDA) - expenditure of US\$ 594,000. OIOS also reviewed activities directly

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¹ As of 31 December 2005.

implemented by UNHCR with expenditure of US\$ 1.8 million.

- 6. The audit reviewed the administration of the Office of the Representation in Freetown and SO Kenema with administrative budgets totalling US\$ 2 million for 2006 and assets with an acquisition value of US\$ 9.6 million and a current value of US\$ 3.6 million. The number of staff working for the UNHCR Representation in Sierra Leone was 131. This included staff on regular posts and United Nations Volunteers.
- 7. The audit followed up on findings and recommendations made in the 2004 OIOS audit regarding programme monitoring, asset management, procurement and financial management.
- 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. The audit focussed on risks related to the closing down of the operations such as disposal of assets, closure of projects, etc.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme Management

(a) Audit certification

- 9. OIOS reviewed the audit certificates issued by the external audit firm for 2004 and the draft for 2005, and had a discussion with the auditors. OIOS assessed that the work had been competently performed and generally complied with UNHCR's rules and procedures on audit certification.
- 10. There were delays in the initiation of the audit certificate process. The external auditors commenced their work only in June 2006. OIOS suggested that to accelerate the process, which is now even more important considering the introduction of a new three-month deadline, the audit work be divided into two phases. The first phase (conducted prior to the end of the sub-project period) to conduct field visits and review expenditures would be followed by a second phase after the liquidation period to review the remaining transactions. This would result in the more timely submission of audit certificates, and would have the advantage of reviewing CEPs in the course of implementation instead of six months after the end of the projects. The early issuance of management letters would allow early corrective action. The Representation informed OIOS that the audit engagement letter for 2006 audits was signed on 14 December 2006. The audit is in progress and reports are expected by 31 March 2007. OIOS is pleased to note the positive action taken.

(b) Financial project monitoring

- 11. OIOS assessed that project financial monitoring had improved since the 2004 audit. Verification visits were planned and generally a report was issued on the work done. The partners indicated to OIOS that they appreciated the support and guidance given by the Programme Unit in developing/improving their accounting and internal control systems. Partners also welcomed the training sessions organized by UNHCR on financial requirements and procedures.
- 12. OIOS suggested that project monitoring could be further enhanced in terms of

frequency and coverage. For instance, for partners in field locations there was only one review in November 2005 and, in 2006, none until September. It was OIOS' view that it would have been more effective to conduct the review early on so that remedial action could be taken in the case of major deficiencies. The Representation was of the opinion that November monitoring was geared towards streamlining performance to enable a smooth project closure at the end of the liquidation period.

- 13. OIOS had recommended in its 2004 audit that a monitoring checklist be developed to coordinate the verification work carried out by various units, to ensure key areas had been covered and to ensure the work was systematically and consistently documented. *The Representation indicated that a financial monitoring checklist had been developed, and used as a guide during the project monitoring review.* OIOS takes note that a financial checklist has been developed. OIOS would also suggest that to further enhance project monitoring, other key activities (assets, fleet management of vehicles and fuel, staffing matters, and a comparison of project objectives against actual achievement) should be included.
- 14. OIOS appreciates that the Programme Unit in Freetown cannot be responsible for performing all monitoring functions and therefore has to rely on reviews carried out by other units and offices. The programme staff at SO Kenema could assist in project monitoring given their proximity to partners and to the activities being implemented. While OIOS was informed that daily visits to camps were made, this was not documented and therefore could not contribute to the formal project monitoring process. As documentary evidence of the participation of the field staff to financial monitoring, the Representation attached copies of some Sit-Reps. These reports, although useful for management purposes do not aim to report on the performance of each implementing partner. As a result all the necessary information may not be collected systematically.
- 15. OIOS recommended that the Representation improve project monitoring of implementing partners to ensure there is sufficient coverage of all the activities undertaken. Monitoring tools should be developed and disseminated to field offices to enable them to contribute in a more meaningful way to project monitoring and to ensure a consistent approach. *The Representation has since disseminated the project monitoring tools to all concerned staff.*

(c) Budgetary process

16. OIOS assessed that the Representation should improve its budget process. OIOS could not obtain information on the basic budget components for major items such as fuel, workshop expenditures and hospital referrals. It was not clear therefore how the budgeted provisions were developed. For example, for fuel OIOS could not be provided with an official list of vehicles and their average consumption, even though the information was readily available from GTZ. The Representation explained that the initial budgets were needs driven but because of financial constraints, the revised budgets were resource-driven. This is why the components of the budget had lost pertinence. OIOS recognizes that the budget has to be adapted to the level of available resources, however the basic data for building the initial budget should have been available. Operational data is available and has been used, together with the Sub-Project Agreement details, for monitoring day-to-day activities. In reply to OIOS' recommendation, the Representation provided a list of vehicles showing fuel consumption and repair costs.

(d) Linking Relief, Rehabilitation and Development project

- 17. In early 2004, the European Commission (EC) initiated the Linking Relief, Rehabilitation and Development (LRRD) project, and an MOU was signed in July 2004. The EU's contribution was € 567,000 (US\$ 720,000) of which € 407,000 (US\$ 518,000) had been received in 2005 and 2006. The objectives of the project were to ensure closer coordination and harmonization of programmes offered to the local community and the refugee population, and to compensate the local population for the land provided to refugees. The project was cofunded by the EC, Swiss Development Corporation (SDC) and UNHCR. UNHCR's activities were for two years ending on 30 June 2006, and related to the Technical Cellule Unit (TU).
- 18. Due to the lack of staff, the TU was not fully effective. It was foreseen that there would be 15 posts in the TU, but some of the posts including those at the professional and national officer levels were either never filled or remained vacant for a considerable period. At the general service staff level, from the six posts provided, only one driver had been assigned to the project. The administrative assistant recruited was generally assigned to other functions. The lack of staff available to the project was not communicated to the EC, and there was no evidence that the MOU was revised accordingly.
- 19. Even though the project ended on 30 June 2006, there was still no final report prepared for submission to the EC. OIOS also noted that there was limited information on the implementation of activities and the minutes of coordination meetings were only available starting in July 2005. OIOS recommended that the Representation in cooperation with the Desk ensure that the relevant reports are submitted to the donor as of 31 December 2005 and 30 June 2006. The Representation should ensure that the activities carried out and the associated expenditures incurred are properly recorded. If it is not too late, the "revised role" of UNHCR should be agreed in writing with the European Commission and the budget revised accordingly. *The Representation has now provided OIOS with a copy of a narrative and financial report covering the 2005 activities.* OIOS does not any longer have access to the Representation project records and therefore is not in a position to verify the content of this report. OIOS will accept the Representation's assurances that they have complied with the European Commissions reporting requirements.

(e) <u>Community Empowerment Projects (CEP)</u>

- 20. The CEP projects were initiated in 2003 and UNHCR's participation ended on 31 December 2005. In 2005, 521 projects had been implemented costing US\$ 6.3 million. As the CEP activities were completed and were implemented in locations not visited by OIOS, our review focused on the available field monitoring and technical reports. Additional information requested from NaCSA, the partner responsible for coordinating activities, and from the Representation has not been forthcoming.
- 21. In several of the reports reviewed, reference was made to the difficulties encountered in the CEP's implementation in particular with the partner BPDA (for further details, see paragraphs 24 to 28). In OIOS' opinion, there was a lack of timely action by UNHCR to follow up and resolve the difficulties encountered. This may have resulted from the unclear roles and responsibilities among the various UNHCR programme units and staff, as well as from inadequate coordination by the Representation. Also, procurement activities were delegated to partners without assurance that they had sound procurement practices. The partners reviewed, BPDA and PWJ located in Bo requested price lists on a quarterly basis

from the same three local vendors. When OIOS compared them, the price for cement quoted to BPDA by the three vendors was usually higher (by approximately 10 per cent) than that quoted to PWJ. In 2005, BPDA made a number of purchases (for cement and other materials) totalling US\$ 134,000 from a supplier who quoted a higher price for cement than the supplier chosen by PWJ at the same location during the same period. This in OIOS' opinion is unacceptable and warranted further review. *The Representation could not corroborate the statement made by OIOS, and therefore did not reach the same conclusion.* OIOS noted that the Representation had not reached the same conclusion because it assumed that BPDA had always purchased cement from the supplier that provided them with the lowest quote, which was not the case in 2005.

22. The Representation ended the CEP projects as of 31 December 2005, but no measures had been established to ensure they would be properly completed. In order to ensure the smooth continuation of these activities, proper hand-over procedures to the local community should have been done. Consideration should have been given to dedicating a Programme Officer to oversee the closure of projects, the handover to the local community and the recovery of any unspent balances. According to the Representation, there are no handover procedures as they are already community owned projects. The Representation agreed to resolve any outstanding issues and will deploy the Programme Officer for follow-up as appropriate.

B. Review of Implementing Partners

- 23. Taking into consideration the work already done by the external auditors, OIOS' audit strategy was to review areas not covered by the external auditors to avoid duplication and to follow up on their recommendations to ensure internal controls had been strengthened. OIOS concluded that overall there were improvements by partners in their maintenance of project records and the internal controls they established.
- (a) Bo/Pujehun Development Association
- 24. BPDA is a local partner and in 2005 and 2006 was delegated responsibilities under the care and maintenance projects and in 2005 also implemented reintegration projects for Sierra Leonean returnees.
- 25. Under the 2005 Sub-Project Agreement for reintegration, BPDA was provided with US\$ 194,000 to develop and improve water systems. In February 2006, the District Programming Team (DPT) (which included UNHCR) conducted an independent assessment of these projects. DPT reported problems with some of the wells; many of them were not functioning during the dry season, and two sites selected for the construction of wells had been abandoned without completion. On questioning the quality and quantity of the implementation, OIOS was informed by UNHCR staff that BPDA had taken action to address the concerns. OIOS' visit to the BPDA office in Bo found however that some action had been taken, but that not all the non-functioning wells had been made fully operational. BPDA disagreed with DPT on some of its findings with regard to the status of the wells. This disagreement had not been formally communicated to UNHCR, and BDPA had only verbally told UNHCR that corrective action had been taken. UNHCR accepted this without verifying the status of the wells. The Representation confirmed that no action has yet been taken, but indicated that further follow-ups will be done to amicably resolve the issue. Considering the passage of time, OIOS was of the opinion that the planned follow-up will not be fully

effective.

- 26. Under the community service sector (budget of US\$ 118,000), BPDA should have provided sports equipment and support in the construction of sports and youth facilities. The external auditors' report confirmed DPT's findings that the correct sport equipment had not been supplied and no sports pavilion had been constructed. It was reported that the community members expressed dissatisfaction with the implementation of the project, and their complaints were publicized through radio announcements, and by a formal letter from a councillor of the community to several agencies including UNHCR. OIOS was unable to obtain a copy of the letter, but BPDA claimed that the allegations of poor implementation were false. OIOS urged BPDA to correspond in writing to UNHCR especially where they disagree with the DPT report and/or the external auditors' report. BPDA agreed to do so, but OIOS has not received any feedback to determine if this has been done. *The Representation is not aware of these complaints*.
- 27. OIOS found discrepancies in the narrative SPMR submitted by BPDA. For example, the statistics showing wells constructed and rehabilitated did not agree with a table provided by BPDA to OIOS. *The Representation assured OIOS that they were satisfied that appropriate action had been taken*.
- 28. Overall, there was concern with the integrity of BPDA's performance in project implementation and the procurement practices it adopted as well as the number of negative findings reported by DPT, the external auditors and OIOS. In view of the findings made, OIOS recommended that the Representation review its working relationship with BPDA and consider whether it has the capacity to be an effective UNHCR partner. *The Representation assured OIOS that appropriate follow-up on all matters arising out of monitoring of the project activities implemented by partners was undertaken. The Representation stated that in line with downsizing of the operation BPDA is not implementing 2007 sub-projects.*

(b) Deutsche Gesellschaft für Technische Zusammenarbeit

- 29. The external auditors issued a qualified opinion on the 2005 sub-projects due to the non-availability of supporting documents for expenditures for spare parts (internationally procured) and international staff salaries. Although after the 2004 OIOS audit, assurances were given that copies of relevant documents would be kept locally to verify the expenditures, this had not been done. If this continues the Representation should request an audit certificate from GTZ's external auditors. This is allowed under the conditions stipulated in the UNHCR audit certification guidelines. *The Representation has requested an audit certificate from GTZ's external auditor*.
- 30. At the time of the audit, GTZ had not liquidated 2005 sub-project commitments. A number of significant advances charged as expenditures had been made to field locations, which had not been settled. OIOS noted that as of 1 February 2006 (after the liquation period), GTZ had paid advances to its field project managers of SLL 364 million (US\$ 125,500) for which SLL 31 million (US\$ 10,700) had not been spent as of 30 August 2006. Immediate action should be taken to resolve this, as GTZ will soon close its offices in Sierra Leone. *The Representation has resolved the issue. GTZ has revised the SPMR for 2005.* The expenditures already charged to UNHCR were reduced by US\$ 34,000.

(c) National Commission for Social Action

- 31. OIOS visited NaCSA's office in Kenema to review the monitoring files maintained on the CEPs implemented by GTZ. NaCSA had concluded that GTZ had performed very well despite the remoteness of the location. In Kenema, most of the communities had received a monthly visit from NaCSA's field monitoring team. These reviews were adequately documented.
- 32. The host community projects included the construction of a community centre built in 2003 and a market initiated in 2004. In 2005, the annual budget for each activity was SLL 15 million (US\$ 5,200). This was insufficient to start a new project and was used instead to complete projects initiated in 2003 and 2004. The community awarded construction contracts without involving NaCSA in the selection process and without competitive biding. NaCSA was not aware of its responsibilities in this area, and should be reminded that they are accountable for the efficient use of UNHCR funds.

(d) Sierra Leone Red Cross

- 33. In 2005, SLRC was delegated responsibilities under care and maintenance, repatriation and reintegration activities. For both 2004 and 2005 projects, the external auditors issued a qualified audit opinion. No assurance could be taken that UNHCR funds were properly accounted for and disbursed by SLRC in accordance with the Sub-Project Agreements. The main finding was the inadequacy of documents supporting the payments made. SLRC indicated that they were dealing with suppliers on the local market with no formal invoices. Thus, SLRC gave the vendors a book of receipts, which they were requested to use.
- 34. The Project Control Officer and the Programme Assistant visited SLRC in Bo in November 2005. It was the first field visit in 2005. Given that a qualified opinion had been issued in 2004, a more in-depth review earlier in the year would have been more beneficial. The monitoring review identified that the accounting system was inadequate and it was impossible to reconcile the expenditures recorded in Bo with the SPMR submitted by SLRC headquarters in Freetown. The Representation provided SLRC with accounting software, but they did not install it. *The Representation confirmed that there were serious management problems with SLRC and this was the reason that UNHCR discontinued the partnership.*
- 35. OIOS was concerned about the major component of SLRC project expenditure incurred in the Bo district, relating to hospital referrals of SLL 400 million (US\$ 136,000). Due to weaknesses in internal control, no assurance could be taken that all charges reported by SLRC corresponded to assistance provided to genuine beneficiaries. There was no documentary evidence that the referrals were duly authorized, no verification to ensure that patients were living in a camp, no documentation attesting the authorization of the referral and the beneficiaries' identity was not attached to the invoices submitted by the hospitals. Given that the problems with SLRC had been previously identified, OIOS suggests that the activity be closely monitored by the UNHCR Medical Coordinator.

C. Supply Management

(a) <u>Asset Management</u>

- 36. The controls over the management of assets continued to be weak, and data was incomplete and unreliable. In view of the downsizing of the operation and the considerable investment UNHCR has made over the past years, OIOS stressed the importance of the Representation being in a position to properly account for all assets. It is only on the basis of reliable information that a proper plan can be developed for the disposal, transfer, sale or redeployment of assets. The Representation stated that they have endeavoured to improve asset management, and a physical inventory was done in 2005 and another undertaken in 2006 and AssetTrak is being updated to incorporate the results.
- 37. AssetTrak data entry was centralized in the office of the Representation. Information was not systematically provided on assets to SO, Kenema nor did the SO ever request it. Both offices were unaware of what their asset management responsibilities were. OIOS suggested that dedicated focal points be assigned to each office to improve communication and sharing of information. The Representation has now assigned focal points. An example where OIOS noted insufficient communication was with the purchase and delivery of 40 laptops to SO Kenema. The Representation did not adequately follow up on the transfer/delivery to ensure they had been delivered and received by the intended persons in good order. At the time of the audit, only four of them were recorded in the EDP inventory. The SO was not aware of the consignment and whether it had been received either by SO Kenema or any other FO under its responsibility. OIOS was concerned about the lack of action taken to look into this apparent loss of assets, and requested it be followed up. Upon OIOS' enquiry, the location and custodians of 36 of the laptops were found. Four laptops remained missing. This identified a serious weakness in internal controls. The Representation informed OIOS that the matter of the four missing laptops has been referred to the IGO. OIOS is pleased to note that the matter has been referred to the IGO and is hopeful that internal controls have been strengthened to ensure that UNHCR's property is not easily open to theft.
- 38. The procedures for assets on loan to partners should be improved. Right of Use Agreements were not systematically updated, the lists of assets attached to the agreements were incomplete, and not all partners submitted details of UNHCR assets with the SPMR. *Action is being taken by the Representation to complete and update Right of Use Agreements.* BPDA and IRC had two outstanding cases of reimbursement to UNHCR, as two vehicles on loan were involved in accidents in 2001 and 2004 respectively. In December 2005, UNHCR requested IRC and BPDA compensate for the depreciated value (US\$ 25,000), but at the time of the audit no payment had been received. *The Representation has made several follow-ups with the partners, and IRC reimbursed US\$ 5,978 in September 2006. For BPDA, the Representation inferred that no reimbursement would be forthcoming and will submit the case to the Headquarters Asset Management Board for action.*
- 39. The documentation to support the Local Asset Management Board's (LAMB) decisions needed to be improved; documents were not filed in an orderly manner and the theft of assets was not systematically reported to the LAMB or were reported with significant delay. For instance, the theft of over 20 pieces of telecommunications equipment in December 2004 was not submitted to the LAMB until June 2006. OIOS was also informed that there were several thefts such as laptops, fuel and a motorcycle. Although requested by OIOS during and again after the audit, the Representation did not furnish OIOS with copies of

all the relevant reports requested. The Representation stated that they were of the opinion that cases of loss/theft were reported in a timely manner, and they were also reported to IGO as required.

Recommendation:

- ➤ The UNHCR Representation in Sierra Leone should submit to the Headquarters Asset Management Board for a decision relating to a vehicle at a depreciated value of about US\$ 19,000 that was involved in an accident while on loan to the implementing partner Bo/Pujehun Development Association (Rec. 01).
- 40. OIOS takes note of the follow-up done in response to the draft report and has amended the recommendation accordingly. The recommendation will remain open pending confirmation that the BPDA case has been submitted to HAMB and a decision has been made to write off the unrecoverable amount.

(b) Workshop Management

- 41. For 2005 and 2006, GTZ was allocated a budget of US\$ 3 million for the repairs and maintenance of UNHCR's vehicles and generators. GTZ had two workshops: one in Kenema and the other in Freetown (Wellington). In 2006, GTZ closed the Wellington workshop and all repairs were transferred and dealt with in Kenema. GTZ used its workshop management system (WMS) to record maintenance activities. OIOS obtained a copy of the information and analysed the WMS files for the Kenema workshop for the year 2005 and the first seven months of 2006.
- 42. UNHCR did not adequately manage and monitor repair costs incurred and charged by GTZ, and only requested information on the costs of repairs of its administrative assets to apportion the costs to the ABOD. For programme assets no details of the total repair costs per asset, their downtime or frequency of repair were requested. As a consequence, there was no assurance that UNHCR was getting value for money and repair work was cost effective. The Representation will continue to work to improve this situation. In the SO, it was confirmed that measures were in place to track and monitor the repairs and maintenance of admin assets, and GTZ had been requested to provide cost estimates before embarking upon major repair activities to vehicles, generators and motorcycles under SO Kenema administration. OIOS would like to stress that SO Kenema should extend its monitoring role over programme assets and not just limit it to administrative assets.
- 43. Both UNHCR and the implementing partners indicated that the services provided by GTZ were not satisfactory, but the complaints were not documented and formally communicated to GTZ. The repair work usually took a long time and on some occasions, soon after the repair, the vehicle acquired new problems. OIOS' analysis of the WMS data collaborated this. In 2005, 232 assets (trucks, light vehicles, motorcycles or generators) remained in the workshop for more than 30 days, and 39 assets had more than 20 visits to the workshop. Moreover, at the time of the audit, an inordinate number of assets according to GTZ's records were in the workshop or outside in the compound for repair. In a number of instances, the asset broke down within days/weeks of the repairs and was sent back to the workshop. This happened despite GTZ's claim that a thorough inspection was conducted each time an asset was in the workshop. GTZ believed the frequency of repairs of some assets could be attributed to the poor road conditions as well as the quality of parts purchased. *The*

Representation stated that due to GTZ not closing its job cards, the number of assets under repair as recorded in their system was not correct. The Representation submitted no documentary evidence of the verification done.

44. At the time of the audit, OIOS was not presented with any evidence that a cost estimate was requested before embarking on repairs so that a decision could be made as to whether or not the repairs would be cost effective. OIOS found that the cost of one repair was US\$ 15,600 in 2005, and there were 60 vehicles repaired at a cost exceeding US\$ 5,000. Also, although GTZ maintained a history of the repairs per vehicle, this information was not requested by or shared with UNHCR. This information is of particular importance given the decisions that will have to be made regarding the sale, redeployment and/or retention of vehicles. Considering that UNHCR is downsizing its operations, it may not be cost effective to perform all the repairs. The Representation provided assurances to OIOS that they had asked for cost estimates before repairs were undertaken by GTZ. This requirement had been communicated to GTZ in March 2006 and a reminder sent in July. The Representation will continue to follow up on this issue.

Recommendation:

- The UNHCR Representation in Sierra Leone should obtain from GTZ the list of assets currently being repaired together with the reasons for any delays in completing the work. Based on this information and with GTZ's assistance, UNHCR should decide on the appropriate action to take (Rec. 02).
- 45. The Representation has requested GTZ to provide information on the assets that were in the workshop at the time of the audit in August 2006 together with explanations of why there were delays in completing the necessary work. OIOS takes assurance from the fact that the Representation has confirmed that they are satisfied with GTZ's performance, and that cost estimates are requested prior to repair work being undertaken. Nonetheless, OIOS will keep the recommendation open until information has been provided as to cause of the delays (as seen at the time of the audit) to the timely repair of vehicles in the workshop.

(c) Physical inventory of spare parts

46. Although the information was available, the Representation did not ask GTZ to provide relevant management information for monitoring purposes, such as the results of physical inventories undertaken, stock ageing reports and details of obsolete items. OIOS noted that in August 2006, of the 2,500 spare part types in the workshop, 1,400 types (56 per cent) had not been used during 2005 and 2006. The value of this unused stock in Kenema was about US\$ 300,000 (36 per cent of the value of the stock on hand). GTZ confirmed that there were still spare parts kept in Freetown but was unable to provide OIOS with the stock listings. Immediate action is required to identify spare parts that will no longer be required and are suitable for redeployment or sale before the closing down of the operation.

Recommendation:

➤ The UNHCR Representation in Sierra Leone should regularly review relevant stock management information reports such as stock ageing reports and take appropriate action to ensure effective stock management decisions are made. All unused and possible obsolete stock, estimated at over US\$ 300,000, should be redeployed or sold as

soon as possible. This could result in considerable income and/or cost savings for UNHCR (Rec. 03).

47. The Representation was of the opinion that their monitoring of GTZ's activities was done regularly. The Representation stated that the unused obsolete stock of spare parts estimated at US\$ 300,000 could not be corroborated, and following discussion with GTZ, it was thought that this figure included spare parts purchased with BMZ funds and held for use by GTZ-BMZ Projects. After a discussion with the Division of Operational Support, OIOS is of the opinion that under the UNHCR- GTZ/BMZ agreement, these spare parts are part of the UNHCR project and should be managed as such. The project expenditures paid directly by BMZ to GTZ are recorded by UNHCR as a BMZ contribution. The Representation is reviewing the spare parts inventory following transfer of the workshop to Regional Fleet Management in Liberia. The usable parts will be transferred to Liberia and the remaining obsolete parts will be disposed of.

(d) <u>Fuel Management</u>

- 48. There had been an improvement in the internal controls established by UNHCR for the management of fuel for administrative vehicles. The fleet managers in Freetown and Kenema closely monitored this. GTZ had taken over responsibility and had established a system to monitor fuel issuance and consumption per vehicle. The effectiveness of this was questionable: GTZ stated that the speedometer was broken in about 60 per cent of the vehicles, and therefore heavy reliance was placed on the fuel attendant. Considering past experiences, the risk associated with this was high. OIOS suggested that a further tightening of internal controls was necessary.
- 49. For implementing partners, although each asset (e.g. vehicle and generator) had a monthly fuel quota, UNHCR did not have a complete list of approved quotas per asset, and did not monitor the total fuel taken per vehicle in a month to ensure the quota was observed. Also, UNHCR had authorized higher quotas for some partners but did not review the quota sufficiently regularly. There was a risk therefore that UNHCR did not re-adjust the quota downwards when activities decreased. *The Representation provided assurances to OIOS that there was now a complete list of fuel quotas per asset. This was revalidated and issued in November 2006.*

(e) <u>Local Procurement</u>

- 50. There had been a significant reduction in local procurement since OIOS' last audit. It amounted to US\$ 1.8 million and US\$ 786,000 for 2005 and 2006 respectively.
- 51. Most of the local purchases were for fuel/diesel and lubricants. Despite the value involved, regular competitive bidding to select the supplier was not done until the end of 2005. While three companies were invited to submit an offer, only two offers were received, and the winning company was the supplier UNHCR had been using for many years. As one company did not apply, it would have been prudent for UNHCR to follow up to determine the reasons for it not replying to ensure a more competitive and transparent process in the future. The Representation explained that the selected company had been providing fuel after a competitive bidding process in 2000 and the next tender was done in 2005. Management did indeed follow up with the company that did not apply, and they were informed that they had not yet invested in fuel containers around the country as had its competitors and could not

have produced a competitive bid.

- 52. For the procurement of spare parts, GTZ addressed its request to SO Kenema and for fuel to UNHCR Logistics Unit in Freetown. UNHCR approved the purchase orders for spare parts without having adequate management information such as stock on hand. OIOS suggested that this information is provided to ensure more informed decisions are made. In addition, UNHCR procured lubricants at GTZ's request, and similarly, UNHCR did not have any relevant information of the stock on hand or forecasted requirements to justify the need for the quantities requested. *The Representation informed OIOS that internal controls have been strengthened, and justifications for purchases are now requested.*
- 53. OIOS would welcome a copy of the instructions sent to GTZ to ensure that UNHCR is properly included in the decision making process.
- 54. The Logistics Unit was involved in small transactions (less than US\$ 1,000) that should have been done by the requesting unit. In other cases, OIOS saw that transactions exceeding US\$ 1,000 were not channelled through the Logistics Unit: a policy established by the Representative in June 2006. Also, competitive biding was made when it was not necessary for low-value and recurring transactions. These could have been sourced under a frame agreement. OIOS suggests that the procurement processes adopted by UNHCR in Sierra Leone be reviewed to become more cost effective. The Representation was of the opinion that the procurement process was effective, and also that decentralizing procurement to requesting units will significantly weaken the internal controls.

Recommendation:

- ➤ The UNHCR Representation in Sierra Leone should review its procurement activities to ensure the process is cost effective. Formal competitive biding should be done only when required, with low and recurring purchases sourced under frame agreements (Rec. 04).
- 55. The Representation was of the opinion that appropriate internal control mechanisms have been established suitable to the prevailing conditions in Sierra Leone. The Representation will however explore the possibilities of establishing frame agreements for frequently purchased items. OIOS will keep the recommendation open until confirmation that the establishment of frame agreements have been explored to ensure the procurement process can become more cost effective.

D. Security and Safety

- 56. The Office of the Representation and SO Kenema were generally MOSS compliant. The United Nations Department of Safety and Security (DSS) carried out assessments on a regular basis. The last review took place on 4 August 2006.
- 57. There are four UNHCR security posts, with the Field Safety Advisor based in Kenema responsible for supervising three Field Safety Assistants. In Freetown, UNHCR relied on the services of a security company and DSS. A review of the office of the Representation by the former UNHCR Field Safety Advisor (FSA) identified some weaknesses and recommended improvements to the reporting structure, infrastructure of the UNHCR buildings, stronger access controls to UNHCR premises, and limiting refugees' access within UNHCR, to name a few. The report also stated that the Administrative Assistant in Freetown who acts as the

security focal point was not able to properly execute the assigned responsibilities due to other official commitments.

- 58. The security focal point in Freetown was unable to provide OIOS any security incident reports for 2005 and 2006. OIOS' discussions with UNHCR staff and partners revealed several cases of theft/suspected theft involving UNHCR staff and external parties during 2005 and 2006. The office of the Representation could only provide OIOS with two security incident reports: one relating to 12 June 2006 in Freetown, the other in Kenema in October 2005. The Representation stated that the new incumbent of the post was expected to assume functions as of 1 January 2007.
- 59. The Representation stated that all the critical recommendations of the former FSA have been implemented. The Representation shared with OIOS reports of security incidents involving UNHCR. OIOS is pleased to note that all critical security recommendations have been implemented.

E. Administration

60. In the areas of administration and finance, the UNHCR offices in Sierra Leone should take action to improve internal controls to ensure compliance with UNHCR's rules and procedures. *The Representation indicated a willingness to ensure that they fully complied with UNHCR's rules and procedures.*

(a) Weaknesses in internal controls

- 61. OIOS' 2004 audit identified significant financial control weaknesses. OIOS was of the opinion that further action was required to ensure there was sound internal controls over administrative functions. There were still cases where expenditure was authorized and approved without adequate supporting documentation. *The Representation was of the opinion that the examples disclosed by OIOS were exceptions rather than common practice.* OIOS can confirm that a number of omissions were found, and therefore further strengthening of internal controls is required.
- 62. In December 2005, SO Kenema recorded all the expenditures incurred since May 2005 by the three field offices (FOs) under its responsibility. Several advances totalling SLL 60 million (US\$ 20,500) were made to each office during the year, without the required budgetary and financial controls. A manual voucher was prepared by FOs but coded by SO, Kenema on settlement of the advances instead of by the FO. The recipients of the advances did not submit documents to substantiate that the previous advance had been disbursed when requesting replenishment. This did not allow reconciliation of individual advances made against the balance still on hand. This occurred, according to the Representation, as a result of the staffing structure of the Sub and Field Offices (only one staff member is available to do all the finance related functions in Kenema). Also, there has been a backlog of work in 2005. Despite staffing constraints, progress has been made in settling operational advances. Beginning 2007, the advances will be liquidated on a monthly basis. OIOS is pleased to note that this issue has now been resolved.
- 63. Attention was required by both the Representation and the SO to improve cash and financial management. The bank reconciliation for a cash book in SO, Kenema had showed unreconciled items for a number of years. This should be resolved and corrected prior to the

transfer of data to MSRP. The unreconciled items in SO Kenema's Cash Book have been cleared.

- 64. SO, Kenema prepared a payment voucher for each petty cash transaction; this was time consuming considering the large number of transactions. For example, 81 payment vouchers were issued for each individual payment of SLL 15,000 (US\$ 5) to casual workers. A list of payments duly authorized and approved, showing the signature of the beneficiaries and the date of the payment is sufficient. OIOS also identified that the petty cash of SO Kenema was improperly used for payments, such as DSA advances, that should have been made by cheque. *The Representation stated that the practice will be discontinued.*
- 65. OIOS recommended that the Representation closely supervise financial transactions made by SO Kenema due to the identified repeated non-compliance with UNHCR's rules and procedures and the fact that the accounting function was not competently performed. *The Representation agreed to undertake supervisory missions to Kenema*.
- 66. At the office of the Representation, there were a large number of payments and adjustments made at the end of 2005. There were also several errors made in the settlement of travel claims for which the Representation could not identify the cause. Efforts were required to ensure that receivables were cleared in a timely manner.
- 67. Contrary to the Controller's instructions, costs relating to the private use of UNHCR communication facilities were initially recorded as a receivable. Therefore a large portion of the transactions in the receivable account was related to the recovery of personal telephone calls. As recommended by OIOS, *the Controller's instructions are now implemented*.
- 68. OIOS observed that the number of unreconciled items was increasing monthly and, if this continues, these accounts will become more difficult and time consuming to clear. For instance, from an FMIS printout, 80 items required settlement. However, in MSRP the number of transactions was much higher, corresponding to 4,300 lines. Although Headquarters will have to reconcile these, in the future as MSRP is rolled out, the responsibility for this will lie with the field. A more proactive approach by Financial Resources Services (FRS) in Headquarters is necessary to ensure the Representation improves its accounting practices. Further guidance and assistance may be required from FRS to ensure that this accumulation of receivables is not repeated. The Representation stated that a considerable number of adjustment entries were made in relation to sub-accounts that had not been reconciled. The Representation was of the opinion that sub-accounts were cleared in good time but there were a number of outstanding issues dating back to 2000. Considerable resources are required to clear these.

Recommendation:

- ➤ The UNHCR Representation in Sierra Leone, with the assistance of Financial Resources Service at Headquarters should take action to settle the VF accounts (open items) (Rec. 05).
- 69. The Representation is following up with the Desk and FRS to get assistance to clear old outstanding items dating back to 2000. As for the new items, the Controller's instruction on the recovery of private telephone calls has been implemented and other newly recorded items are regularly reconciled and cleared. OIOS is pleased to note that assistance has been sought from FRS and has amended the recommendation to monitor the process on the action

taken to settle the VF accounts so that they are reduced to a manageable level.

(b) <u>Missions to Freetown</u>

70. For two days every month, UNVs working in field locations travel to Freetown. Due to the travel time they were absent from the office for three working days. The Representation explained that UNVs came to Freetown every month to collect their living allowances. The reasoning behind this was not clear, given that there were banking facilities in the field locations. OIOS recommended that the Representation make the necessary arrangements with UNDP to transfer funds to the field. The Representation did not agree with OIOS' recommendation, and was of the opinion that they should not diverge from UNDP's practices. They were also of the opinion that the administration of UNV personnel should follow UNDP's procedures and practices. OIOS accepts that this may be local practice, but doubts that UNHCR is obliged to follow it. Such a procedure which results in a regular loss of manpower (15 per cent of working days) on a monthly basis is questionable, particularly as alternative arrangements could easily be established.

(c) <u>Medical evacuation</u>

71. OIOS found two cases where the office of the Representation paid 100 per cent DSA (approximately US\$ 8,500) without proof that the staff member stayed in a hotel. Therefore, 50 per cent of the applicable DSA rate should have been paid. OIOS' discussions revealed that the Administrative Assistant dealing with this was not aware of this rule and had not advised staff members accordingly. OIOS was pleased to note that immediate action was taken to circulate the established rules to the Finance and Human Resources personnel in Freetown and Kenema to prevent similar oversight in future. The Representation should follow up with the relevant staff members and request them to submit the appropriate receipts. The Representation should initiate recoveries where appropriate. OIOS recommended that the Representation provide documentary evidence that all staff in receipt of 100 per cent DSA had provided proof that they resided in a hotel during the relevant period. *The Representation provided OIOS with some of the hotel receipts for the two staff members receiving 100 per cent DSA*.

(d) MIP payments

- 72. The Human Resources Assistant was administering MIP instead of the administrator designated by DHRM in Geneva. OIOS noted that the number of MIP claims reduced significantly after the MIP fraud cases of 2004, and no claims were submitted or approved during 2004. In 2005, MIP claims totalled approximately US\$ 13,000, which was significantly lower than the US\$ 108,000 in 2003. The number of claims has also reduced from 362 in 2003 to 67 in 2005.
- 73. Some physicians and pharmacies were blacklisted and more stringent rules were imposed before MIP claims were reimbursed. For instance, MIP claims must be cleared by the UN Designated Physician and invoices could not exceed a period of one-week's treatment and had to be submitted within 30 days. The Representation did not comply with these conditions when processing the MIP claims for 2005 and 2006. DHRM had also requested that the Representation should establish a list of doctors and physicians and to obtain price lists from hospitals, doctors and pharmacies. The MIP administrator could not provide us with this list or evidence that these measures had been implemented.

74. According to the MIP administrator, the conditions stated in DHRM's memorandum of October 2004 were only applicable for processing of the backlog MIP cases from 2004, DHRM confirmed to OIOS that these conditions should be applicable to all Sierra Leone cases until further notice.

Recommendation:

- ➤ The UNHCR Representation in Sierra Leone should comply with the conditions established by the Division of Human Resources Management and should seek clarification when in doubt and inform DHRM the reasons for designating a different MIP administrator (Rec. 06).
- 75. The Representation stated that the conditions introduced in DHRM's memorandum, such as the 30 days time limit for submission of MIP claims, contravene UN Staff Rules 103.15 and the MIP Statue, and have sought clarification from DHRM. The Representation explained that there were difficulties in establishing the price list for doctors, physicians, hospitals and pharmacies, however, they have managed to obtain price lists from some pharmacies and doctors. OIOS will maintain the recommendation as open until the appropriate procedures to follow are clarified by DHRM.

V. ACKNOWLEDGEMENT

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

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