

UNITED NATIONS

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

Assignment AR2004/131/04
Audit Report R04/R032

30 September 2004

OIOS AUDIT OF UNHCR'S SUPPLEMENTARY PROGRAMME FOR IRAQ

Auditor:

C. Lakshmi Varahan

UNITED NATIONS



NATIONS UNIES

Office of Internal Oversight Services
UNHCR Audit Service

OIOS AUDIT OF UNHCR'S SUPPLEMENTARY PROGRAMME FOR IRAQ
(AR2004/131/04)

EXECUTIVE SUMMARY

In April 2004, OIOS conducted a financial audit of UNHCR's Supplementary Programme for Iraq at UNHCR Headquarters in Geneva. Total expenditure for the Supplementary Programme was US\$ 51.6 million in 2003. Of this, UNHCR offices and UNHCR Headquarters expended US\$ 29.5 million, various implementing partners disbursed US\$ 12.5 million and the balance of US\$ 9.6 million was reported as outstanding commitments at the end of 2003. The audit covered activities with a total expenditure of US\$ 23 million. A draft Audit Report was shared with the Director of Bureau of CASWANAME in June 2004, on which comments were received by July 2004. *The Bureau has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the financial management of the Supplementary Programme for Iraq as average. The programme was adequately managed and the majority of key controls were being applied. The recording and monitoring of expenditure against budgetary provisions was affected by certain deficiencies in the legacy systems FMIS and PURUND, which the Iraq Support Unit (ISU) mitigated by maintaining detailed subsidiary records.

Human Resources, Salaries and Travel Costs

- The expenditure data on payroll and travel, that originated from UNOG and was incorporated in FMIS, provided only limited information. Consequently, it was not possible: (a) to match the US\$ 5 million in salary payments to the individual staff members either by name or index number or any other unique identifier in FMIS; and (b) to match over US\$ 2 million in travel expenditure recorded in FMIS to the travel authorisations or to the individual staff members. *ISU concurred with OIOS and stated that it was difficult to obtain accurate and updated expenditure data, which was required for donor reporting.* Nonetheless, to address some of the systemic deficiencies, ISU maintained additional records in order to be able to meet reporting requirements. OIOS has been informed that system deficiencies are being addressed by MSRP.

Financial Management

- About 50 per cent of the total expenditure or US\$ 25 million was reported against 'Unspecified' sub-item (z99999). OIOS subsequently found that about US\$ 13.5 million related to procurement and another US\$ 10 million related to salaries and travel and other administrative expenses through various entities, inter alia UNOG. Nevertheless, such incorrect recording in the legacy financial systems prevented a meaningful expenditure analysis. The Finance Section explained that a quality control mechanism is now in place to ensure expenditure recording in MSRP is in line with the approved budget and programme activities.

Supply Management

- As part of the operations preparedness, UNHCR procured relief items and assets costing over US\$ 16 million. These were stored in five warehouses in Jordan, Iran and Turkey. OIOS assessed that ISU had established satisfactory controls over the procurement, storage, receipt, distribution and/or redeployment of these items.
- Considering that over US\$ 13 million of relief items are still held in warehouses in the Middle East, UNHCR should explore the possibilities of recording these items in the inventory module of MSRP. This may be a good pilot project to prepare for the MSRP roll out to the field. *The Bureau agreed and indicated they will coordinate this with the Supply Management Service.*

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1 - 5
II. AUDIT OBJECTIVES	6
III. AUDIT SCOPE AND METHODOLOGY	7 - 9
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Financial Data Recording	10 - 13
B. Accounting for Staff Cost and Travel Cost	14 - 24
C. Supply Management	25 - 33
V. ACKNOWLEDGEMENT	34

I. INTRODUCTION

1. From 17 March to 26 April 2004, OIOS conducted a financial audit of the UNHCR's Supplementary Programme for Iraq at UNHCR Headquarters in Geneva. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations.

2. UNHCR was prepared to meet the needs of an expected outflow of Iraqis to neighbouring countries in early 2003. By the end of the first quarter of 2003, UNHCR and the International Federation of Red Cross and Red Crescent Societies had stockpiled relief items to meet the needs of 600,000 refugees. A regional approach was adopted and UNHCR prepositioned supplies and equipment in strategic locations like Amman and Aqaba in Jordan, Kermenshah and Ahwaz in Iran and Iskenderun in Turkey. UNHCR worked closely with the governments in the region. UNHCR also deployed emergency preparedness and response teams in all the countries in the region.

3. The large-scale population movements into neighbouring countries ultimately did not take place. UNHCR started, however, concentrating on protecting refugees within Iraq as their living conditions had deteriorated considerably. Also UNHCR planned for the return of uprooted Iraqis from within the region and from other places. As the security situation remained unstable and short-term social-economic prospects were not promising, UNHCR did not promote large-scale return to Iraq, but was prepared to assist voluntary, orderly and gradual returns.

4. Following the attack on the UN offices in Baghdad on 19 August 2003, international staff were withdrawn and offices were established in Amman and Kuwait to support the national staff and the implementing partners that would shoulder the responsibilities to manage the programme inside Iraq.

5. 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 13 May 2004. A draft audit report detailing the audit findings and recommendations was shared with the Director of the Bureau of CASWANAME in June 2004. The comments, which were received in July 2004, are reflected in the final report. *The Bureau has accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:

- Reliability and integrity of financial information;
- Safeguarding of assets; and,
- Compliance with regulations, rules and policies.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on the 2003 special programme in Iraq with expenditure of US\$ 51.6 million (budget US\$ 62 million). UNHCR's expenditure was US\$ 29.5 million in the first phase (SB1- January to June 2003), which related to programme preparedness to address a possible exodus of Iraqi refugees to countries in the region. The second phase (SB2 – July to December 2003) mainly related to voluntary repatriation of Iraqi refugees to Iraq and their reintegration inside Iraq. The total expenditure in the second phase was US\$ 22.1 million.

8. OIOS reviewed the activities of the Iraq Support Unit (ISU) of the Bureau for Central Asia, South West Asia, North Africa and the Middle East (CASWANAME). Our review concentrated on the procurement of relief items and assets (costing about US\$ 16 million) during the preparedness phase and programme support costs such as salaries (over US\$ 5 million) and travel of staff members (over US\$ 2 million) for the entire Supplementary Programme. Our review also covered the monitoring and administration of the programme by the Bureau. OIOS did not undertake any field missions for this audit nor did we assess the substance of the activities.

9. The audit activities included a review and an assessment of the internal control systems established, interviews with staff, analysis of applicable data and a review of the available documents and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Financial Data Recording

10. The overall financial information for the Programme is provided below:

(millions of US Dollars)

	Disbursements	Commitments	Total
SB1	28.20	1.30	29.50
SB2	13.80	8.30	22.10
	42.00	9.60	51.60

It was difficult to ascertain how much was disbursed on relief items, assets and other programme costs for the Supplementary Programme as extracting critical information from the UNHCR's legacy systems (FMIS and PURUND) was complex. Furthermore the financial data from these two systems varied and it was difficult to reconcile the data separately recorded on them. OIOS hopes that with the implementation of MSRP these difficulties will be resolved.

11. The following table provides an overview of the US\$ 51.6 million expenditure by sector:

(millions of US Dollars)

SECTOR	DISBURSED	BUDGETED
Domestic Needs/Household Support	7.60	6.90
Instalments to Implementing partners	6.70	
Shelter/Other Infrastructure	6.20	16.20
Salaries	4.90	6.00
Transport and Logistics	4.60	8.00
Agency Operational Support	3.30	8.90
Acquisition of Furniture/Equipment	2.30	2.50
Official Travel	2.20	2.60
General Operating Expenses	1.40	1.90
Water (non-agricultural)	1.00	2.40
Others	1.80	6.30
Sub-total	42.00	61.70
Commitments outstanding (mainly Purchase Orders)	9.60	
	51.60	61.70

12. From the expenditure recorded of US\$ 42 million, UNHCR offices and UNHCR Headquarters spent US\$ 29.5 million. Various implementing partners expended the balance of US\$ 12.5 million.

13. *ISU and the Finance Section stated that most of the financial reports from the implementing partners had been received and that the outstanding instalments of US\$ 6.7 million had also been cleared since the end of 2003.*

An analysis of the disbursement at the sub-item level (for example, tents, stoves and vehicles) disclosed that US\$ 32 million (or 78 per cent of expenditure) was recorded under 'Unspecified – code z99999'. Of this, outstanding instalments to implementing partners, the only type of disbursements, which should have been recorded under z99999, amounted to US\$ 7 million. The bulk of the balance related to procurement (US\$ 13.5 million) and salaries and travel expenses (US\$ 10 million). The practice of charging unspecified is not only misleading and incorrect it also prevents any meaningful expenditure analysis. OIOS considers that these expenses should have been recorded under appropriate sub-items to reflect the actual implementation and to provide a better overview of the programme. *The Bureau accepted that there was a problem, but under FMIS/PURREQ when processing a payment, only the Sector-Activity code is required and therefore, the system did not allow the Bureau to specify the budget code at the Sub-Item level. The Finance Section explained that these deficiencies had now been resolved in MSRP and that quality control mechanisms had been put in place to ensure that the use of 'Unspecified' sub-item code is restricted to outstanding instalments to partners, and not for other transactions.* OIOS will review this issue as part of its overall audit of MSRP.

B. Accounting for Staff Cost and Travel Cost

14. According to IOM/18/95 and FOM/17/95 of 1 March 1995 titled 'Headquarters and Field Staff Travelling on Official Mission for a Period of More Than Two Months', for all missions of a duration of less than two months, the requesting country or Bureau will normally be required to meet the costs of travel and DSA. For missions of two months or

longer the full salary of the staff member concerned must also be charged to the location benefiting from the mission.

15. This policy was reiterated in 2004 in IOM/FOM/012/2004 titled ‘Special Operations Approach – Payments of SOLAR’. Accordingly, when a staff member ‘on travel status’ remains in the Special Operations Area (SOA) beyond 60 days, the salary of that staff member must be charged to the operation. This is in addition to all the travel costs such as DSA and Hazard Allowance which are charged to the budget of the operation from the first day the staff member is on travel status in the SOA. If the staff member is a SIBA (staff in between assignments), his/her salary and other related costs must be charged to the operation from day one.

16. The ISU confirmed that the above guidelines were used for accounting for the staff costs for the Iraq operations. ISU also provided lists of staff travel and staff appointed and had estimated the staff costs by compiling information from different sources. This information was used for the internal monitoring of programme expenditure.

Salaries

17. OIOS found that the total salaries charged to the Supplementary Programme amounted to US\$ 4.86 million (US\$ 3.65 million and US\$ 1.21 million in the first and second phase respectively). Our review of the UNHCR administrative projects for the Iraq operations (700 and 800 series projects – programme support and administration) that corresponded to the 15 digit administrative budget code used for accounting for salaries etc., disclosed the following:

- From the expenditure recorded in FMIS, it was impossible to identify most of the staff members, because neither the staff member’s name nor index number was recorded on the voucher.
- Some of the personnel actions initiated by the Division of Human Resources Management (DHRM) did not provide any allotment code for salary payment.
- UNHCR’s Budget Section sometimes made adjustment entries in FMIS to change allotment codes to reflect staff movements like mission to SOAs and reassignments. A review of these adjustment entries provided little information on the staff members involved.

Travel costs

18. OIOS found that US\$ 2.16 million was spent on official travel (US\$ 1 million and US\$ 1.16 million in the first and second phases respectively). ISU provided a list of staff members and copies of the travel authorisations for staff who were authorised to proceed on mission to the SOA. However, most of the names on the ISU’s mission list could not be traced to FMIS due to a lack of transparency since the travel costs recorded could not be identified to a staff member or a travel authorisation (example, adjustment voucher F8360 of 30 November 2003 for US\$ 131,180 transferring travel costs from SB1 to SB2).

19. OIOS noted that the bulk of the less informative data (personnel and travel related expenditure) in FMIS was recorded through UNOG. As a result of the deficiencies in data

recording the reconciliation of differing sources of information was difficult. For example:

- The reconciliation of payroll information to FMIS. Consequently, the salaries paid to a staff member as recorded in FMIS could not be traced back or matched to the staff members listed in a staffing table and vice-versa.
- The travel expenses recorded in FMIS (particularly the travel authorized by Headquarters) could not be identified to a staff member or a travel authorisation.
- The salaries and related costs and travel costs of a staff member could not be matched or compared with the services rendered (for example, missions undertaken).

20. As a result, OIOS was unable to obtain assurance that:

- All the staffing and travel related expenses charged to the Iraq programme were legitimate, complete and related to the staff members who worked on the Iraq Supplementary Programme;
- Staffing and travel related costs for the Iraq Supplementary Programme were not charged to other programmes;
- The salaries and travel related costs charged to the Iraq Supplementary Programme were in conformity with the policies spelt out by the above IOM/FOMs.

21. OIOS is aware that the deficiencies mentioned above are not limited to the Iraq Supplementary Programme, but are an organization-wide issue as salaries and travel costs under the Annual Budget are subject to the same flaws. It is significant to note that DHRM in IOM/FOM 26/2004 of 24 March 2004 on 'Temporary Assistance lines in the context of the 2005 Annual Programme Review' acknowledged that there has been a growing gap between the total number of posts and the number of staff members in UNHCR, a trend which was brought about by the extensive use of temporary assistance lines under administrative budgets (ABOD).

22. DHRM has estimated that between US\$ 30 and US\$ 40 million of staff costs are embedded under ABODs and that 25 per cent of staff workforce is performing functions on temporary assistance. These conclusions make it imperative for UNHCR to match/identify the staff costs charged to the programme to the staffing table and vice versa. These shortcomings should be addressed in MSRP without waiting for the new payroll module. *The Bureau stated that it had faced difficulties to obtain accurate and updated financial data on personnel and travel from FMIS, which was required for donor reporting. Though the constraints were systemic in nature, the Bureau would work together with other operational units to overcome this issue.*

Recommendations:

- The UNHCR Division of Operational Support and the Division of Financial and Supply Management should ensure that all payment vouchers for salaries and related costs recorded in MSRP through the UNHCR payroll (or adjustment vouchers affecting payroll costs) are easily identified to staff members. This should be applicable to both Special and Annual Programmes effective from

2005. The key field should be either the staff member's name or the index number (Rec. 01).

- The UNHCR Division of Operational Support and the Division of Financial and Supply Management should ensure that all travel costs recorded in MSRP are identified to a travel authorization or to a staff member's name or index number. As the information could be sensitive, the staff costs and travel information should be available for query/review on-line to certain users, for example, business unit managers, Senior Resource Managers and Bureau Directors. (Rec. 02)

Human Resources Management

23. UNHCR issued the first fast-track compendium for the Iraq operation in early February 2003. Later in July 2003, after the approval by ORB, the fast-track compendium for the Iraq operation with 94 professional and 239 general and field service temporary lines was issued. The attack on UN office in Baghdad in August 2003, however, postponed the staff placement decision process. The Bureau explained that since then the staff members have been assigned to the functions based on the operational needs.

24. According to the Bureau, no staffing table was available for the Supplementary Programme. ISU provided an overview on the staffing such as the positions needed, positions filled, date the staff members took over their assignments, staff on mission status performing various functions and vacant positions. OIOS found that of the 94 professional positions required, staff members were assigned to only 26. In addition, there were 7 staff members on mission status (most of them for more than 6 months) and 10 under temporary assistance. For staff in the general service category, no such overview was available. *The Bureau explained that due to the continuing uncertainty in Iraq the staffing issues were complex. The staffing requirements for the second half of 2004 would be revised based on the operational needs in the foreseeable future, taking into account the political and security constraints.*

C. Supply Management

Relief items

25. In the months leading up to the military intervention in Iraq, UNHCR (and other humanitarian agencies) prepared for possible large-scale population movements into neighbouring countries. UNHCR procured over US\$ 16 million worth of relief and other items (mainly vehicles, telecom and IT equipment) for the emergency preparedness phase. In addition, over US\$ 5 million of relief items and assets were redeployed mainly from the Balkans.

26. The relief items have been stored in five warehouses in Iran, Turkey and Jordan. UNHCR has contracted commercial companies for warehousing services, both storage and handling in Jordan and Turkey. For the stockpile in Iran, the warehousing functions are directly implemented by UNHCR. The ISU in Geneva is responsible for controlling and monitoring of these stocks.

27. ISU has systems and procedures in place to track the movements in and out of the warehouses in the region. No stocks are released from these warehouses unless there is an authorisation from ISU. Our review noted that satisfactory controls existed in ISU for the procurement, receipt and distribution of relief items for Iraq operations or their redeployment to other operations (valued at over US\$ 2 million to African operations).

28. ISU reported that the Supplementary Programme neither paid nor obtained any consideration for the stocks received or redeployed. OIOS has already recommended that UNHCR establish a policy to account for stocks and assets redeployments between operations in the Audit of UNHCR's Central and Regional Stockpiles.

Vehicles

29. OIOS noted that about 150 vehicles were purchased for the entire Supplementary Programme. ISU has performed a physical verification of the vehicles in the region and confirmed the existence of about 125 vehicles in all locations except about 25 used in Central and Northern Iraq. ISU explained to us that it was difficult to obtain confirmation from the offices inside Iraq due to the prevailing security situation. OIOS noted that over 70 light vehicles, trucks and armoured vehicles valued at over US\$ 3 million were not used but were kept ready for deployment in case of a need.

MSRP inventory module

30. Since ISU would continue to retain control over the stocks, the warehouses for Iraq operations should be considered for inclusion in the inventory module of MSRP implemented at UNHCR Headquarters. In fact, most of the relief items stored in the region were procured through the SMS (over US\$ 13 million of them still held in stocks) and all the controls over their receipt, issue and storage are vested in ISU Geneva. Further, while the assets (for example, vehicles) procured by the SMS are recorded in the Asset Management module of MSRP through the AssetTrak system at the field offices, the relief items procured by SMS will not be subject to similar controls until MSRP is implemented in the field (except for the warehouses in Copenhagen and the IT and Telecoms in Geneva).

31. Including the stocks in the MSRP Headquarters inventory would facilitate redeployment and managerial decisions and could also be a pilot project to prepare for the MSRP roll out to the field. *The Bureau agrees and supports this recommendation to include the Iraq regional stock in MSRP. The Bureau explained that it would coordinate with SMS and MSRP teams to formulate the implementation strategy.*

Recommendation:

- The UNHCR Bureau of CASWANAME in coordination with the Supply Management Service should explore the possibility of including the stocks valued at over US\$ 13 million held in Iran, Turkey and Jordan for the Iraq operation in the Headquarters MSRP (Rec. 03).

Future Use of Assets and Relief Items

32. In the 2004 operational plan for Iraq, some of the following activities were envisaged: the orderly return of Iraqi refugees, protection and durable solutions to refugees in Iraq, reintegration for the internally displaced persons, capacity building of national institutions, and the provision of legal and technical advice on property issues. While these activities are subject to a number of assumptions including favourable security situation, functioning public administration, implementation of the transfer of sovereignty, etc UNHCR has stated that no international staff presence is envisaged in Iraq at least in the near future.

33. Considering that UNHCR has invested substantially in the region, ISU should ensure that a strategy is in place for the use of the relief items and assets already procured to ensure the best interests of the Organisation, and that these items are effectively utilised. For example, alternate use of the vehicles held in the warehouses should be explored. Moreover, leaving some of these items, like blankets in extreme temperatures may result in their deterioration. *ISU responded that it had been decided to maintain a stock level that would benefit 300,000 beneficiaries to appropriately respond to a humanitarian crisis or to any eventuality. The overall usefulness and life span of the stocks are part of the Bureau's strategy.*

V. ACKNOWLEDGEMENT

34. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of the Bureau of CASWANAME.

Egbert C. Kaltenbach, Chief
UNHCR Audit Service
Office of Internal Oversight Services