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**AUDIT OF UNHCR OPERATIONS IN MEXICO**

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EXECUTIVE SUMMARY

In December 2004, OIOS conducted an audit of UNHCR Operations in Mexico. The audit covered activities with a total expenditure of US\$ 3 million in the years 2003 and 2004. Audit Observations were shared with the Regional Representative in January 2005, on which comments were received by February 2005. *The Regional Representative has accepted the recommendations made and is in the process of implementing them.*

Overall Assessment

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

Programme Management

- For the two partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements.
- Project financial and performance monitoring was adequately performed. Some improvements to the documenting of the monitoring missions carried in the region were required to ensure coverage of all main issues and to facilitate follow-up.
- OIOS noted significant delays for the Eligibility Committee (EC) to take a final decision on the RSD process. This has financial implications for UNHCR since it implies an extension of the duration of the assistance by a few months. In principle, the UNHCR assistance to refugees in Mexico is initiated when the temporary residency documents are issued, approximately a month after a favourable EC decision.
- This structural problem in the RSD process emphasizes the need for the Regional Representation to obtain from Sin Fronteras, the implementing partner in charge of providing assistance, more detailed information on the cost of assistance at the various steps of the RSD process.

Supply Management

- The receivable for VAT currently exceeds US\$ 300,000 in spite of a write-off of US\$ 190,000 approved by the High Commissioner in 2002. The amount of VAT recorded as a receivable is continually increasing since a law reform passed in 1998 restricts VAT reimbursement to major purchases of only some commodities, in violation of its obligations under the Convention on

the Privileges and Immunities of the United Nations.

#### Security and Safety

- The Regional Representative has demonstrated its security awareness and has undertaken measures to improve security such as providing basic security training to all staff members and the reinforcement of the security measures at the entrance to the building and the UNHCR premises. Additional measures need to be taken by UNHCR on training on fire and security evacuation.
- The security measures for the UN in general in Mexico needed however to be improved. The main security risks are related to the building where UNHCR premises and most of the UN agencies operating in Mexico City are located given that the underground parking is not controlled by the UN, there are no barriers and outer perimeter and shatter resistant film have not yet been installed.

#### Administration

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

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## I. INTRODUCTION

1. From 30 November to 14 December 2004, OIOS conducted an audit of UNHCR's Operations in Mexico. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Regional Representation in Mexico City (ROMEX) and of two of its implementing partners.
2. OIOS' previous audit of UNHCR in Mexico was conducted in March 2000. The audit focused on 1998 and 1999 projects covering expenditure of US\$ 13.8 million. The follow-up done during the current OIOS' mission indicated that most of the recommendations made in 2000 were implemented.
3. Given a gradual scaling down of its presence in Mexico, the focus of UNHCR's role has evolved from protection and local integration to broader protection issues. UNHCR focuses on the development of mechanisms for Mexico's support and interest for refugee rights namely by providing training and technical support to Government agencies and in supervising access to asylum seekers in the context of migration control. ROMEX also organized an Annual Regional Protection Network meeting where stakeholder organizations in refugee and asylum matters were trained. Since 2003 material assistance is only provided to new arrivals and vulnerable refugees. A micro-finance programme was initiated in 2004 to assist the refugees in becoming self-sufficient.
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 14 December 2004. Audit Observations detailing the audit findings and recommendations were shared with the Regional Representative in January 2005. The comments, which were received in February 2005, are reflected in this report. *ROMEX has accepted the audit recommendations made and is in the process of implementing them.*

## II. AUDIT OBJECTIVES

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

## III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2003 and 2004 programme activities under projects 03/ and 04/AB/NLA/LS/400; 03/ and 04/AB/NLA/LS/402 and; 03/04/AB/NLA/LS/405 with expenditure of US\$ 2.4 million. Our review concentrated on the activities implemented by Comisión Mexicana de Ayuda a Refugiados (COMAR) - expenditure of US\$ 363,700 and Sin Fronteras (SF) - expenditure of US\$ 592,900. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 208,000.
7. The audit reviewed the administration of ROMEX with administrative expenditures totalling US\$ 620,000 for the years 2003 and 2004 and assets with an acquisition value of US\$ 1.5 million

and a current value of US\$ 116,000. The number of staff working for the UNHCR Operation in Mexico was 23. This included 17 staff on regular posts, three United Nations Volunteers, two consultants based in Cuba and a Fundacion Galileo employee (the service provider for the Spanish Website).

8. The audit also followed up on findings and recommendations made in the 2000 OIOS audit. Since the previous OIOS audit, the activities in Mexico have drastically changed in terms of nature and magnitude. Our follow-up therefore covered only the issues considered still relevant which were mainly related to the implementing partner activities such as the closure of the Trust Funds for Land and Micro-Credit, the naturalization of refugees, and the private use of vehicles.

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

#### IV. AUDIT FINDINGS AND RECOMMENDATIONS

##### A. Review of Implementing Partners

10. For the two partners reviewed COMAR and SF, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements.

11. COMAR and SF maintained computerized accounting records, which were adequate for budgetary control and reporting to UNHCR. Their respective internal control system was operating adequately in terms of segregation of duties, supervision, documentation of transactions and evidence of the controls on authorization and approval of payments. Both partners maintained an interest bearing bank account and reported interest to UNHCR. A panel of bank signatories was established and the account was operated on a joint signatory basis. Bank reconciliations were performed on a monthly basis.

12. Audit certificates for all partners were received. COMAR's accounts for 2003 were audited by *Órgano Interno de Control (OIC) en la Secretaria de Gobernación*, and although this organization reviewed the accounts and issued observations, no opinion was expressed on the UNHCR sub-project nor was a separate UNHCR expenditure statement attached to their report. OIOS recommended that ROMEX obtain from COMAR an audit certificate, which includes their opinion on the UNHCR sub-projects. *ROMEX indicated that such request was done.*

13. SF submitted for the years 2002 and 2003 an audit certificate relating to its global financial statements. As a national NGO, this did not comply with the requirements of the Sub-agreement, as it does not provide specific information on the financial situation of the UNHCR sub-project. OIOS recommended that ROMEX request SF to submit an audit certificate providing the required information on the UNHCR sub-project. *ROMEX stated that starting in 2005 SF was requested to submit an audit certificate providing the necessary information on the UNHCR sub-project.*

##### (a) COMAR

14. COMAR, an agency of the Ministry of Interior, grants protection and legal status to refugees and ensures the coordination of the provision of assistance. Since the signature of the 1951 Convention by the Government of Mexico, COMAR is in charge of the RSD process from the reception of the newly arrived asylum seekers to the submission of the case to the Eligibility Committee (EC). A total of 428 requests for refugee status were made in 2004 (11 months) and 342 in 2003.

15. COMAR is responsible for conducting the interviews, for analyzing the information obtained, for performing investigation, if necessary, for documenting the file and for submitting it to the Working Group (WG). It usually takes between one to two months to reach this stage. The WG members meet weekly to issue a recommendation to the EC. Based on the WG recommendation, asylum seekers may be authorized to leave the Migration Centre. As soon as they leave the Migration Centre, SF assists asylum seekers without financial resources by the provision of food and accommodation. The assistance is extended until the refugee has been given the temporary residency documents, i.e. approximately 30 to 40 days after the decision of the EC.

16. Due to its composition (high-ranking officials), the EC cannot meet more than an average of four times a year. This results in significant delays (usually two to three months) for the EC to take decisions. OIOS was informed that the Government envisages releasing the asylum seekers from the Migration Centre soon after the interview in cases where the first result of the interview is positive. Although OIOS is highly in favour of such a measure, action would be needed to find accommodation for these asylum seekers.

17. Considering that delays have a financial impact on programme expenditure, UNHCR should take all possible action to reduce them. Many decisions of the EC do not require a discussion but could be taken on the basis of the WG's recommendation, which could shorten the procedure. OIOS recommended that ROMEX discuss with the members of the EC the adoption of fast-track procedures to reduce the duration of the RSD process. For example, straightforward cases, which do not require extensive discussions, could be circulated to the members of the EC for their decision. *ROMEX indicated that they are working actively in promoting the adoption by Congress of a draft law, drafted with UNHCR's advice, which will modify the current legislation and contribute to solving this problem.*

**Recommendation:**

- The UNHCR Regional Representation in Mexico should continue promoting the adoption by Congress of a draft law, which will modify the current legislation. In case such a measure is not successful, other action should be envisaged to reduce the duration of the RSD process (Rec. 01).

**Follow-up of Previous OIOS Audit**

18. OIOS' recommendations made in 2000 were not fully implemented. For instance, COMAR continued to borrow UNHCR funds for a Government project. Although the money was later reimbursed to the UNHCR project, such a practice is contrary to UNHCR rules and procedures and should be discontinued. *ROMEX indicated that COMAR has committed itself to desist from this practice.* COMAR did not take timely action to stop the private use of UNHCR vehicles. In September 2004, COMAR had to reimburse UNHCR for a project vehicle, which was stolen when it was being used by a COMAR staff member for private purposes outside of working hours. It was only after this incident that strict instructions were issued to stop the private use of UNHCR vehicles by COMAR staff.

19. Following the issuance of the previous OIOS report, the Government has agreed to absorb most of the costs related to the naturalization of refugees. Its contribution for finalizing the naturalization programme has been estimated at MN\$ 2,600,000 (approx. US\$ 236,000).

20. In 2000, a significant number of projects were being implemented with the Trust Funds for Land and Micro-Credit made available by UNHCR. Due to staff rotation in ROMEX and in COMAR, it was not possible to verify the micro-credit funds and to determine whether the reporting

and hand-over procedures had been conducted in a satisfactory manner. Regarding the Trust Fund for Land, UNHCR's involvement resulted in the signature of an agreement for the final transfer of property to the former Guatemalan refugees locally settled by the Government of Mexico.

(b) Sin Fronteras

21. SF provides assistance to urban refugees living in Mexico covering the sectors of domestic needs, health-nutrition, community services and legal assistance.

22. The report that SF submits to UNHCR does not give details on the assistance provided, in particular on the number of beneficiaries and the amount of assistance paid at the various steps of the RSD process. In principle, financial assistance is provided to refugees in Mexico for a maximum of three months following the issuance of the migration documents. Financial assistance and hotel accommodation are however provided when asylum seekers leave the Migration Centre.

23. Given that this period tends to be longer, OIOS believes that, for monitoring and planning purposes, ROMEX needs data on the cost of the assistance provided before the issuance of the migration documents, the three months of assistance paid at the issuance of the migration documents and any additional assistance paid afterwards. OIOS recommended that ROMEX request SF to report on the assistance provided to asylum seekers and recognized refugees at various steps of the RSD process and after the payment of the standard assistance foreseen for three months. *ROMEX indicated that they will follow the recommendation.*

Contractual status of staff

24. SF is currently modifying the contract of its staff to consultancy contracts to avoid paying the employer's contribution to the *Instituto mexicano del seguro social* (IMSS) equivalent to 40 percent of the gross salaries paid. In his report, the external auditor refers to the possibility that IMSS may not accept the contractual status of the staff working for the project. An eventual retroactive revision of the contribution to IMSS would have significant impact on project expenditures. OIOS recommended that ROMEX ensure that SF is not using contractual arrangements for project staff, which may be contested by the social security authorities and may lead to financial liabilities for the UNHCR project. *ROMEX indicated that in 2005 SF would change the employment contracts of its staff to "regimen de honorarios", commonly used in Mexico by government and non-government institutions.*

25. In providing assistance, SF procures some services, such as hotel accommodation for asylum seekers, for which the number of beneficiaries is increasing. In October 2004, 39 persons were accommodated in hotels compared to only 12 in December 2003. The previous OIOS audit had recommended that the process for the selection of services be made competitively and be adequately documented. OIOS did not note significant improvement in this regard. The selection of the hotel is made after a prior visit to ensure that it meets the requirements. Although this visit includes a negotiation of the price, this is not documented. OIOS recommended that ROMEX request SF to properly document the selection of hotels for the accommodation of asylum seekers as well as the services provided. *ROMEX indicate that they will endeavor to work with SF at finding the least costly accommodation for asylum seekers in 2005. Meanwhile SF will be requested to properly document the selection of hotels for the accommodation of the asylum seekers.*

B. Other Programme Issues

26. OIOS assessed that project financial monitoring was competently performed. ROMEX carried out regular missions in the region (Guatemala, Belize, El Salvador, Nicaragua, Honduras



and Cuba) and mission reports were usually prepared. Some improvements were however required in planning and documenting the monitoring of activities where programme activities were carried out by implementing partners. The mission reports did not provide comparable information on the monitoring exercises made and did not evidence that all significant aspects of programme management were regularly reviewed.

27. To facilitate subsequent monitoring missions and to ensure a regular follow-up of previous missions, OIOS recommended that ROMEX establish standard terms of reference (TOR) for monitoring missions, prepare a checklist of monitoring activities and maintain current and permanent files for each implementing partner. *ROMEX indicated that standard TOR and a checklist were being prepared and would be used to undertake regular monitoring missions. Documents supporting the verification procedures shall be collected and current and permanent files shall be opened and maintained.*

#### Micro-Finance

28. UNHCR initiated a micro-finance programme as of December 2003. A contribution of US\$15,000 was made and a further US\$10,000 is envisaged. For the implementation of this activity, UNHCR is working with SF and a micro-finance institution, the *Fundación Dignidad* (FD). OIOS found that appropriate pre-screening was conducted, refugee performance was monitored on a regular basis and guidance was provided where required. Also, monthly meetings were held to discuss individual projects. FD conducts regular site visits as part of its programme to ensure that refugee projects are functioning as envisaged and to provide professional guidance where necessary. For the current size of the projects, OIOS considers the current system of monitoring performance as adequate. However, given that the number of projects is expected to grow and with a larger portfolio, OIOS recommended that additional financial indicators and information be requested to facilitate the financial monitoring, *which was agreed by ROMEX.*

### C. Supply Management

#### Procurement process

29. ROMEX did not fully comply with UNHCR procurement rules and procedures. There was no focal point for procurement, a Local Contracts Committee (LCC) was not established and the documenting of procedures was weak. There was not always an invitation to bid or a request for quotation, a tabulation of bids was not always prepared, the offers received were not always for similar goods and services, and a purchase order was not always sent to the selected supplier. OIOS recommended that ROMEX designate a focal point for procurement, establish a LCC, better document the procurement process and, maintain procurement files containing evidence of compliance with the UNHCR procurement rules and procedures. *ROMEX indicated that a LCC was to be created with immediate effect and that adequate procurement files had been opened in January 2005.*

30. Due to its regional responsibility, ROMEX often procured plane tickets for regional activities. Since 2002, an amount of US\$ 190,000 was paid to the same travel agency. There was no evidence of price comparisons or a contractual agreement with the supplier to ensure competitive prices. *In 2003, the UNDP Resident Coordinator appointed a task force composed of UN Agencies including UNHCR staff to look into the issue of travel. The procedures to select a new travel agency for all UN agencies operating in Mexico have been initiated. The request to bid prepared is awaiting the approval of the standing committee in Mexico.*

VAT

31. In December 2002, the High Commissioner approved the write off of an amount of US\$ 190,957 representing unrecoverable VAT paid between 1992 and 1996. ROMEX could not substantiate the amount, as it was transferred in bulk when UNHCR took over the management of VAT from UNOG in 1997. Despite of the significant amount written off, the balance of receivables for VAT recorded since 1 January 1998 exceeds US\$ 300,000. The amount has accumulated due to the passing of a VAT law reform, which the Government of Mexico introduced in late 1998. This law restricts the reimbursement of VAT to major purchases and only for some commodities. As a consequence, the total amount of VAT recorded as a receivable has been continually increasing for the last four years. Out of the US\$ 360,000 paid and recorded since January 2000, only approximately US\$ 68,000 has been recovered.

32. A request for write-off of US\$ 310,000 for VAT paid between January 1998 and December 2002 was submitted to the Headquarter Asset Management Board (HAMB) in early 2004. In April 2004, the HAMB submitted the request to the Financial Resources Service (FRS) for endorsement. No decision has yet been taken. OIOS did not obtain any evidence that advice of the UNHCR Legal Affairs Section (LAS) was sought on this particular request for write-off.

**Recommendation:**

- The UNHCR Financial Resources Service should seek the advice of the UNHCR Legal Affairs Section prior to endorsing any further write-offs for outstanding VAT refunds in Mexico (Rec. 02).

33. To implement OIOS' recommendation made in 2000, ROMEX and the Bureau for the Americas sought the advice of the UNHCR Legal Affairs Section (LAS) to determine whether the decision of the Government of Mexico was common practice in the region by the States party to the 1946 Convention on the Privileges and Immunities of the UN. Various correspondences took place between UNHCR and the Government of Mexico, in particular with the Ministry of Foreign Affairs (MFA) and the Treasury. The MFA agreed that UNHCR has the right to be reimbursed for all VAT paid for humanitarian assistance. However, the Treasury maintains the current position that only VAT on important purchase of goods for official purposes will be reimbursed.

34. Given that this does not solely affect UNHCR, LAS recommended that the VAT issue be raised by the United Nations Office of Legal Affairs (OLA) on behalf of all UN agencies operating in Mexico. In a letter to the Permanent Mission of Mexico to the United Nations, OLA pointed out that Mexico was violating the Convention of Privileges and Immunities of United Nations and the Cooperation Agreement between UNHCR and Mexico.

35. In view of the significant amounts at stake and in view of the fact that the practice adopted by the Mexican authorities is in violation of international law, OIOS believes that UNHCR should pursue the negotiations with the Government on this issue at the highest level.

**D. Security and Safety**

36. ROMEX has demonstrated its security awareness and undertaken measures to improve security such as the installation of security doors at the entrance of UNHCR office premises, access control over the visitors entering in the UN building, basic security training done by all staff members and regular participation to the Security Management Team meetings. ROMEX is MOSS compliant except that the warden system has not yet been fully implemented. Additional measures need to be taken by UNHCR on training on fire and security evacuation.

37. UNHCR has also corresponded with UN central administration in Mexico on security matters. UNHCR drafted a Note Verbale to the Government of Mexico to improve the security measures for the UN. The main security risks are related to the building where UNHCR premises are located given that the underground parking is not controlled by the UN, there are no barriers, outer perimeter and shatter resistant film have not yet been installed.

#### E. Administration

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

##### Cash management procedures for Field Office, Tapachula

39. Since the transfer of the Sub-Office Comitán's activities to Field Office (FO), Tapachula at the end of 2002, ROMEX has not established adequate banking and cash management procedures. Also, no petty cash imprest system or other operational cash system has been authorized. Advances of up to MN\$ 10,000 (US\$ 875) were paid and monitored through a receivable account. When additional funds were required for operational reasons, advances were paid, but recorded directly as expenditures. The advanced amounts were deposited in the personal bank account of the Field Assistant based in Tapachula. Such a practice contravenes UNHCR rules and procedures.

40. The above arrangement does not allow for proper segregation of duties given that the same person is responsible for receiving the advance, making payments and subsequently reporting on the expenditure incurred. We also noted that some payments were made and recorded on the basis of either a pro-forma invoice or a memorandum by the Field Assistant, which reduces the effectiveness of the financial controls over payments. OIOS recommended that ROMEX establish a formal cash procedure for FO, Tapachula. A request to establish a petty cash balance imprest system with an appropriate ceiling should be addressed to FRS. A separate cashbook should be opened and proper delegation of signing authority should be effected. *A petty cash balance and cashbook were authorised by FRS and opened in FMIS for FO Tapachula as of January 2005. Replenishments are to be sent through a bank order addressed to the custodian of this petty cash.*

##### Cuba Expenses

41. Following the introduction of the Atlas system by UNDP in January 2004, ROMEX is no longer provided with a copy of the supporting documents for payments and therefore, cannot fully verify the charges made. In addition, ROMEX does not have the necessary resources for monitoring individual assistance paid on a long-term basis, which is the case in Cuba. OIOS recommended that measures be taken either to provide ROMEX with the supporting documents to verify the payments made and to ensure that the accounting system can provide a list of payments by beneficiary for the projects implemented in Cuba. *Since the OIOS mission, the UNHCR consultants in Cuba send on a monthly basis scanned supporting documents of payments made by UNDP on behalf of UNHCR. Establishing a list of payment per beneficiary is however not feasible considering the cost involved.*

**V. ACKNOWLEDGEMENT**

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

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