



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

UNHCR Operations in the Russian Federation

17 July 2008

Assignment No. AR2007/121/02

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr. António Guterres, High Commissioner
A: United Nations High Commissioner for Refugees

DATE: 17 July 2008

REFERENCE: IAD: 08-01560

FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AR2007/121/02 - Audit of UNHCR Operations in the Russian Federation**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 13, 14, 15 and 23 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Your response indicated that you did not accept recommendation 10. In OIOS' opinion however, this recommendation seeks to address a significant risk area. We are therefore reiterating it and request that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1, 2, 8 and 18) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. L. Craig Johnstone, Deputy High Commissioner, UNHCR
Ms. Judy Cheng-Hopkins, Assistant High Commissioner, UNHCR
Mr. Karen Farkas, Controller and Director, DFAM, UNHCR
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. Anders Hjertstrand, Chief, Geneva Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

UNHCR Operations in the Russian Federation

OIOS conducted an audit of UNHCR Operations in the Russian Federation. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls in programme management, supply chain management, safety and security management, and administration. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The system of internal control in the areas reviewed was assessed as average. It was adequately run and although the majority of key controls were applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

In view of the fact that the recent years were marked by considerable progress in economic development of the Russian Federation, the Representation needs to realign its strategy for the North Caucasus and the rest of the Russian Federation. The monitoring of projects in the North Caucasus, which was often done remotely, was not always effective. Consequently, there was no assurance that UNHCR funds were used efficiently and effectively.

With regard to implementing partners, there were opportunities for improving accounting and internal control systems. The partner NIZAM did not use a reliable accounting system, and expenditures reported in the sub-project monitoring report could not be reconciled with its records. Particular attention needs to be paid to eliminating implementing partners' excessive reliance on cash operations, as well as to establishing sound procurement procedures.

For security and safety, expenditures for UNHCR in the North Caucasus are covered through a special Donors Fund created by the United Nations Department of Safety and Security amounting to \$1.6 million. UNHCR needs to have a contingency plan to fund security requirements on its own in case this funding ceases.

The effectiveness of the supply chain established by the Representation needs to be enhanced. The Representation needs to strengthen planning and coordination of work to obtain the reimbursement of \$1 million paid as Value Added Tax to the Government of the Russian Federation.

The Representation accepted most of the OIOS recommendations, has taken prompt action to implement a number of them, and is in the process of implementing the rest.

TABLE OF CONTENTS

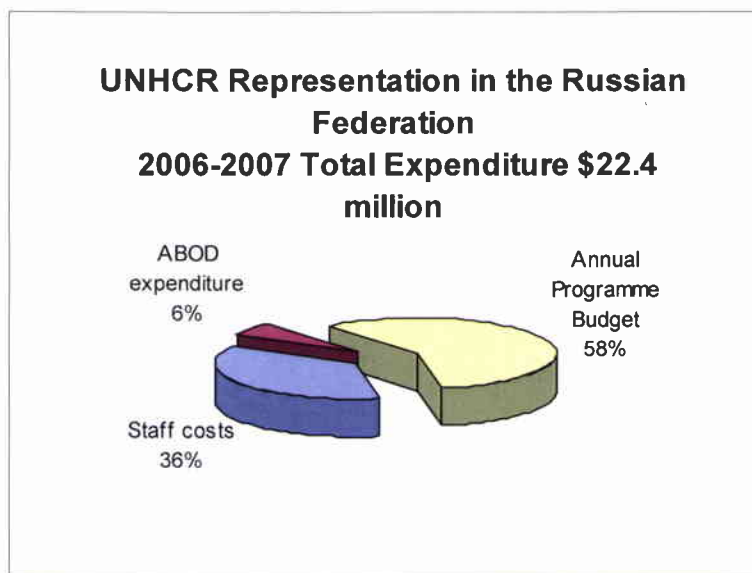
Chapter	Paragraphs
I. INTRODUCTION	1-4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6 - 7
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Programme management	8 - 23
B. Implementing partners	24 - 39
C. Supply chain management	40 - 54
D. Security and safety	55 - 59
E. Administration	60 - 72
V. ACKNOWLEDGEMENT	73
ANNEX 1 – Status of Audit Recommendations	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office of the United High Commissioner for Refugees (UNHCR) Operations in the Russian Federation. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. UNHCR's operations in the Russian Federation are administered through its Representation in Moscow and a Sub-office in Vladikavkaz, North Ossetia. A Field Office in Nazran, Ingushetia was closed in 2007 for security reasons. A new office is expected to be opened in Grozny, Chechnya to better manage the thousands of returnees and displaced persons in Chechnya. The main objectives of the operation are supporting the development of an asylum system that meets international standards; promoting accession to Conventions on statelessness; identifying and pursuing appropriate durable solutions for refugees; helping to meet the need for assistance and protection for internally displaced persons (IDPs) in the North Caucasus; and strengthening public information and public awareness and developing local fundraising capacities.

3. In 2006 and 2007, a budget of \$29 million was allocated including staffing costs administered by Headquarters, against which expenditure of \$22.4 million was reported. UNHCR Russia had a total of 69 staff and 17 United Nations Volunteers (UNVs).



4. Comments made by UNHCR are shown in *italics*.

II. AUDIT OBJECTIVES

5. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls in programme management, supply chain

management, safety and security, and administration. The main objectives of the audit were to assess:

- (a) Effectiveness and efficiency of arrangements for programme management including the monitoring of implementing partners;
- (b) Reliability and integrity of financial and operational reporting as well as information available in the Management Systems Renewal Project (MSRP);
- (c) Safeguarding of UNHCR resources against loss, misuse and damage due to waste, mismanagement, errors, fraud and irregularities;
- (d) Compliance with UNHCR regulations and rules, Letters of Instruction and Sub-Project Agreements; and
- (e) Adequacy of the safety and security management practices and arrangements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit reviewed programme activities under projects 06&07/AB/RUS/LS/401 and 06&07/AB/RUS/LS/402 with a total expenditure of \$13 million. OIOS reviewed the 2006 and 2007 activities implemented by NIZAM with expenditure of \$211,000 in Chechnya, VESTA with expenditure of \$1.3 million and Danish Refugee Council (DRC) with expenditure of \$1 million in Ingushetia, Magee Womancare International with expenditure of \$1.2 million and Memorial with expenditure of \$1.3 million in Moscow, as well as the Russian Red Cross and the Centre for International Cooperation of the Red Cross with combined expenditures of \$513,000 in St. Petersburg. OIOS reviewed certain administrative functions of the UNHCR offices in Moscow and Vladikavkaz. The administrative budgets totaled \$1.6 million for 2006 and 2007. UNHCR Russia has the responsibility for managing assets with an acquisition value of \$3.6 million and a current value of \$1 million. Although the auditors were granted security clearance for Chechnya and Ingushetia, the security regulations in place for security phase four limited to a certain extent the choice of project sites to be visited.

7. The audit methodology comprised: (a) assessment of risks and effectiveness of internal controls; (b) review of policies and procedures, administrative guidelines and analysis of data in MSRP and other sources; (c) interviews with responsible personnel; (d) physical verification; and (e) observations and verification of processes, as appropriate.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Programme management

UNHCR strategy in the Russian Federation

8. The Representation in the Russian Federation deals with urban refugees and asylum seekers in Moscow and St. Petersburg, as well as with IDPs in the North Caucasus. Until the summer of 2007, two UNHCR offices were functioning in the North Caucasus: Vladikavkaz and Nazran. However, after the UN compound was shelled, the Nazran Office was closed and staff operated from Vladikavkaz. OIOS was informed that UNHCR is pursuing with the Russian authorities the possibility of opening an office in Grozny. This would enhance working relations with the partners, improve access to the beneficiaries and considerably reduce convoy movements.

9. While supporting these efforts, OIOS believes that this issue, as well as the accession of the Russian Federation to the two UN Conventions on Statelessness, has to be raised at a higher level of both UNHCR Headquarters and the Government of the Russian Federation. This can be part of a negotiated process in light of the Russian Federation's considerable progress in economic development, as well as its determination to play a more active role in UNHCR.

Recommendation 1

(1) The UNHCR Representation in the Russian Federation should realign its strategy for the North Caucasus and the rest of the Russian Federation. The issue of UNHCR offices in the North Caucasus, as well as the accession of the Russian Federation to the relevant UN conventions on Statelessness should be raised at a higher level of both UNHCR and the Government of the Russian Federation.

10. *The Representation partially accepted recommendation 1 and stated that action has been taken and that the activities in the North Caucasus are currently discussed between government departments in the context of a potential \$30 million contribution. Approval of the project by the government will strengthen UNHCR's case for an office in Grozny. However, a high level intervention during the current internal coordination process will most likely be counterproductive. Access to the Statelessness Conventions was raised during a visit of the High Commissioner in 2006, with no positive outcome. The Representation believes that it can start a new initiative once there is clarity on the new project in the North Caucasus. OIOS will keep recommendation 1 open pending the outcome of the discussions concerning the \$30 million contribution and the start of the new initiative on Statelessness Conventions.*

Programme monitoring

11. The Representation conducted project financial and performance monitoring. However, financial monitoring visits did not review financial and administrative issues deep enough and reports of the visits should have included concrete recommendations to the implementing partners (IPs) on improvements in the prescribed areas. We were informed that at times programme staff do not have enough experience in accounting and administrative matters. Participation of the administrative staff of both the Moscow and Vladikavkaz offices could make monitoring visits more effective.

12. Since there is no permanent presence of UNHCR staff in many areas of the North Caucasus where, for security reasons, only NGO staff can operate, the Moscow and Vladikavkaz offices monitored the activities remotely. Although offices in both Moscow and Vladikavkaz stressed the importance of remote monitoring, OIOS was not provided with adequate instructions on this issue such as the frequency of monitoring missions, reporting requirements and quality control mechanisms. There is a need for additional guidance on remote management. UNHCR also needs to identify solutions to existing challenges in the area of communication and coordination.

13. OIOS' review of the UNHCR monitoring records for one of the IPs, Peace to the Caucasus, working in Dagestan indicated that the Programme Unit in charge of the IPs did not visit it in 2007. Verification of the mid-year Sub-Project Monitoring Report (SPMR) was done remotely by the Programme Unit in Vladikavkaz producing quite positive results. Although OIOS acknowledges the constraints (five and a half hour trip from Vladikavkaz and no permission to stay overnight), it was noted that other UNHCR staff such as Protection staff managed to carry out regular monitoring visits.

14. Thus, reports from missions to Dagestan done by the Protection Unit revealed severe shortcomings of the partner, such as: frequent absence of the director and the lawyer; key personnel's inability to respond to queries of UNHCR staff; full time salary being charged for the Director although he also worked elsewhere; and vehicle rental charged although UNHCR provided a vehicle. In addition, due to weaknesses identified in the IP's reporting system, there was no assurance that UNHCR funds were used efficiently and effectively.

Recommendation 2

(2) The UNHCR Representation in the Russian Federation should improve financial monitoring in the North Caucasus by programme staff, with the participation of the administrative/finance staff of the Representation and Sub-office in Vladikavkaz.

15. *The Representation partially accepted recommendation 2 and indicated that it took action to implement the recommendation. Programme staff from Moscow now go to the North Caucasus twice per year. The Administrative/Finance Officer will follow the same schedule as of 2008. The verification*

process goes beyond the requirements of Chapter 4, which suggests random verification while the Representation does thorough checking of the supporting documents and contracts. OIOS is pleased to note that the Representation took further steps to improve the financial monitoring of projects in the North Caucasus. Recommendation 2 remains open pending receipt of documentary evidence of steps taken in this direction, such as instructions on reporting requirements and quality control mechanisms.

Recommendation 3

(3) The UNHCR Representation in the Russian Federation should provide additional guidelines on remote management and identify solutions to existing challenges in the area of communication and coordination.

16. *The Representation accepted recommendation 3 and stated that effective January 2008, it phased out the projects in Stavropol Krai, Kabardino-Balkaria and Karachaevo-Cherkessia as well as cooperation with Peace to the Caucasus in Dagestan. Therefore, the issue of remote monitoring remains only for Chechnya. As of January 2008, international staff travel to Chechnya weekly and national staff is there on a daily basis so that we can more regularly monitor partners and programmes.* Recommendation 3 remains open pending receipt of reports indicating the frequency of trips and results of remote monitoring visits.

Number of IPs

17. The Representation had a total of 24 implementing partners in 2005, 20 in 2006 and 19 in 2007. OIOS supports the trend to bring the number down but more needs to be done. In order to select the best performing IPs, an exercise should be carried out to analyze and compare the outputs and the reliability of the partners.

Recommendation 4

(4) The UNHCR Representation in the Russian Federation should analyze and compare the outputs of the implementing partners to ensure balance between the number of implementing partners and the achievement of objectives of the UNHCR programme in the Russian Federation.

18. *The Representation accepted recommendation 4 and indicated that in 2008, the number of IPs further decreased from 19 to 17. At this point, there do not seem to be possibilities for further decrease. Each IP has a specific area of responsibility and expertise. In the North Caucasus in the protection sector, besides having clear areas of expertise and geographical coverage assigned to each IP, the Representation needs to keep a balance between NGOs of various nationalities – Chechen, Ingush and Russian.* OIOS welcomes the steps taken and keeps recommendation 4 open pending receipt of the results of the IPs' review and analysis of their added value.

Private sector fundraising

19. A new goal on public information and fundraising was added to the operational goals in 2007. OIOS noted that several notable public information events were held by UNHCR Moscow in 2007. However, the Representation did not come up with a plan outlining potential areas for fundraising related activities. A focal point for fundraising was not nominated in the Representation.

Recommendation 5

(5) The UNHCR Representation in the Russian Federation should prepare a plan for fundraising related activities. The implementation of fundraising activities should be reviewed with the Bureau and the Donor Relations and Resource Mobilization Service at Headquarters to ensure that proper support and clear guidance are provided.

20. *The Representation accepted recommendation 5 and stressed that fundraising in the Russian Federation has been successful since the operation in the North Caucasus is fully funded, mainly through local efforts. The Representation will seek support from the Bureau and Donor Relations and Resource Mobilization Service to implement activities targeting the government as well as local private donors. In this context, tax deductibility for donations to UNHCR will be a critical issue. Recommendation 5 remains open pending receipt of documentation on the outcome of the review of fundraising by the Representation, the Bureau and the Donor Relations and Resource Mobilization Service at Headquarters.*

Headquarters overhead costs

21. In accordance with UNHCR rules, the total value of local procurement is excluded from the computation of overhead costs for international NGOs, if the procurement component is in excess of 30 per cent of the total budget. For the Danish Refugee Council sub-project 06/AB/RUS/LS/402 the local procurement was 48 per cent of the total expenditure of \$845,000. Consequently over \$20,000 (405,000 x 5%) could have been saved by UNHCR in 2006, had this rule been observed. OIOS noted that in 2007, this rule was considered when budgeting for overhead costs.

Individual assistance programme

22. The individual assistance programme currently includes five categories of cash assistance benefiting asylum seekers and refugees in Moscow: emergency assistance; vulnerability assistance; winter shelter; medical; and education assistance. In 2006 and 2007, \$1 million was disbursed as cash assistance. While the individual assistance programme has been an important part of assistance to asylum seekers, the contents and amount of assistance have not been reviewed on a regular basis by UNHCR to assess its relevance. The last review was conducted in July 2005.

Recommendation 6

(6) The UNHCR Representation in the Russian Federation should review the individual assistance programme on a regular basis and assess its continued relevance taking into account the categories of assistance and the amounts.

23. *The Representation accepted recommendation 6 and indicated that the review of the assistance programme will be finalized by end June 2008, the new criteria will be incorporated in the mid-year review. Another review of the programme will be undertaken by end October 2008 to adjust it if necessary and include the final parameters in the 2009 programme budget. Recommendation 6 remains open pending receipt of documentation on the outcome of the review in October 2008.*

B. Implementing partners

24. For six out of the seven partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the sub-project budgets, even though their accounting and internal control systems needed further improvement. However, overall reliance on the use of UNHCR funds could be taken based on audit certification by a local audit firm.

25. For 2005 and 2006, unqualified audit opinions were obtained for all sub-projects, except for the sub-project implemented by NIZAM in 2005, whose accounting system was rated as unsatisfactory. Detailed management letters were issued identifying accounting and internal control weaknesses as well as non-compliance with sub-project agreements. The most significant weaknesses dealt with heavy reliance on cash operations and inadequate procurement procedures. Further follow-up on the implementation of external audit recommendations was required based on a survey of common problems encountered by the local auditing company in 2005 and 2006.

Accounting systems

26. Most implementing partners operated a General Ledger accounting system with software "1C" widely used in Russia. Due to lack of adequate training, NIZAM was not using the accounting software that had been procured. In spite of the introduction of the accounting software, many implementing partners were still using Excel sheets as a basis for preparing the SPMRs. For the implementing partner Magee, for example, there was no evidence that a reconciliation of Excel sheets to the cash and bank books of "1C" was done. Reconciliation of the final SPMRs with general ledgers was possible for all the partners, except NIZAM. It was however time consuming for the IPs VESTA, the Russian Red Cross and Memorial because of multiple adjusting entries and a lack of a proper audit trail.

27. In view of the weaknesses found in NIZAM, UNHCR should consider reducing its cooperation with NIZAM. However, given that it is the only Chechen implementing partner, the Representation needs first to assess the feasibility of providing more meaningful support to this IP and training its employees so that it complies with UNHCR reporting requirements.

Recommendation 7

(7) The UNHCR Representation in the Russian Federation should ensure that a proper audit trail is kept for tracing reported expenditure in the Sub-Project Monitoring Report to the Implementing Partners' accounting records. The Representation should also provide more support to NIZAM and train its staff so that it can comply with the UNHCR reporting requirements.

28. *The Representation accepted recommendation 7 and stated that the UNHCR reporting format and Russian accounting systems are different, hence the reported expenditure can be properly traced, but that it is a time-consuming exercise. The local audit firm verifies the accuracy of entries and compliance with UNHCR requirements. It is planned to organize meetings with each IP on audit follow-up starting in July 2008. For NIZAM, the local audit exercise of 2008 indicated a visible improvement of controls and use of the Russian accounting software. OIOS is well aware of the differences in accounting systems, however, according to UNHCR regulations the reconciliation of final SPMRs with general ledgers has to be performed. Recommendation 7 remains open pending receipt of confirmation that this reconciliation has been performed for all the partners.*

Cash payments

29. The verification of cash operations of the IPs revealed that VESTA was using cash excessively (an average of the equivalent of \$24,000 per day). In NIZAM an equivalent of \$6,000 to \$8,000 was held personally by either the Accountant or the Chairperson. These significant amounts in cash were not kept in a safe as expected and adequate records of cash transactions were not maintained, which made their reconciliation to accounting records complicated. Magee and NIZAM did not correctly record cash expenses in the cashbook. OIOS found that recorded cash outflows represented cumulative expenses for several months made from advances, the unused portions of which were added to new advances instead of being refunded and properly recorded in the accounts on a monthly basis. Contrary to existing UNHCR rules, regular cash counts were not performed. Considering the magnitude of the internal control weaknesses, more needs to be done to reduce as much as possible the number of cash transactions by the IPs.

Recommendation 8

(8) The UNHCR Representation in the Russian Federation should take the necessary measures to limit the

use of cash transactions by implementing partners. The Representation should also ensure that: (a) cash is kept safely in the office safe; (b) proper cashbooks are maintained to correctly trace the movement of cash; and (c) cash counts and reconciliations with accounting records are carried out regularly.

30. *The Representation accepted recommendation 8 and stated that cash transactions will be more strictly followed-up to reduce the level of regular cash payments by the IPs. The maintenance of cash books of the IPs will be checked during the SPMR verification exercises. NIZAM and VESTA were urgently informed to make staff payments through the bank. Recommendation 8 remains open pending receipt of documentation from UNHCR showing that it has been fully implemented.*

Procurement procedures

31. OIOS' review of procurement by IPs revealed that improvements were needed, especially for partners who handled large procurement components like the Danish Refugee Council (DRC) and Magee. Tenders should be issued to a larger number of vendors to reasonably ensure the receipt of at least three competitive offers. OIOS also observed that not enough time was given to bidders to submit their offers: sometimes only one week. When only one offer was received for Ingushetia and Chechnya, no efforts were made to extend the invitation or look for more potential suppliers.

32. In some cases the lack of options arising from having just one offer resulted in suppliers increasing their prices even after the selection process was complete. DRC had no fallback option. For example, for the purchase of cement amounting to \$22,000 the price was increased by five per cent after selection of the supplier a day prior to signing the contract.

33. In another case an advance payment of \$96,000 was made for a contract of \$137,000 for timber. The procurement was flawed in a number of ways: the lowest bidder for eight items was only awarded four. According to DRC the supplier had verbally informed them that he would not be able to supply the full requirement under the contract. Also, after the contract was awarded in July 2006, a second contract had to be signed in September 2006 because the 'new' supplier for the other items unilaterally raised the price with an impact on the contract of \$3,600. Finally, the delivery that was supposed to have been made on 20 September 2006 was completed on 17 January 2007. There was no evidence that the penalties (one per cent per day up to 10% of the contract amount - equivalent to \$14,000) as stipulated in the contract had been levied by DRC for late delivery.

Recommendation 9

(9) The UNHCR Representation in the Russian Federation should ensure that implementing partners comply with UNHCR procurement rules with regard to the

number of offers received in order to ensure the selection of the most suitable offer and avoid unilateral changes by suppliers once the selection is completed. Action should be taken when contracts are not respected and penalties for late delivery should be enforced.

34. *The Representation accepted recommendation 9 indicating that action was taken to improve the monitoring of procurement process by IPs, especially by DRC which carries out major procurement of construction materials. DRC now submits along with regular financial reporting the detailed procurement tables. This ensures proper monitoring of the procurement process, and in particular, tracing of the delivery dates. Procurement training was also organized. Recommendation 9 remains open pending receipt of documentary evidence showing improvements in procurement procedures.*

Personnel

35. Staff of the implementing partner Memorial were being employed full time under a UNHCR Sub-Project and receiving a salary calculated on the basis of 100 per cent occupancy of the post. At the same time, the staff were working for a European Union funded project receiving a salary corresponding to one half of the salary paid out of UNHCR funds. For NIZAM, the Accountant was working for the UNHCR project on a part-time basis, although it was not possible to establish the exact percentage due to the lack of documentation.

Recommendation 10

(10) The UNHCR Representation in the Russian Federation should ensure that implementing partners provide information in case their staff is employed full time by UNHCR and at the same time perform work for other donors and receive additional salary from these donors.

36. *The Representation did not accept recommendation 10, stating that in accordance with Russian legislation, an employee can work up to 56 hours per week, 40 hours at the main employment point and 16 hours additionally. OIOS takes note of this reasoning but is of the opinion that in the absence of exact information from the partners and, at times, unclear performance indicators, UNHCR is exposed to the risk of inefficient use of resources spent on IP's salaries. Recommendation 10 has been re-phrased for clarity and will remain open pending receipt of documentation showing that it has been implemented.*

Achievement of sub-project goals

37. OIOS' review of the narrative reports for 2006 revealed that statistics on IDPs in the same area of Dagestan were collected by three different entities (Red Cross, DRC, VESTA) and they showed a difference of 60 per cent (152 against 381 persons). It was explained that these IPs did not use the same criteria to determine who was an IDP.

38. We also reviewed the monitoring of box tents installation and found that out of 345 box tents delivered to the Chechen Republic during 2006, 21 were not found at the installation addresses and 14 had been sold by the beneficiaries. According to the officials of the Sub-office in Vladikavkaz, the selection of beneficiaries might not have been done properly, in particular there may have been bias due to ethnic origin or other factors.

Recommendation 11

(11) The UNHCR Representation in the Russian Federation should ensure that implementing partners use a unified source of statistics for internally displaced persons so that the amount of assistance can be determined more accurately. Common criteria should also be established for the selection of beneficiaries and measures taken to strictly comply with the established criteria.

39. *The Representation accepted recommendation 11 and indicated that since the end of 2007 all data from different sources are gathered and compiled by UNHCR. In February 2008, the existing beneficiary criteria for the shelter projects in the North Caucasus were updated. The subsequent beneficiary selection process was conducted in full compliance with the established criteria. Recommendation 11 remains open pending receipt of documentation showing the updated selection criteria.*

C. Supply chain management

Value Added Tax

40. The issue of Value Added Tax (VAT) not being reimbursed by the Government is a long standing one for UNHCR and other UN Agencies in the Russian Federation. In July 2006, the Russian Government adopted a Resolution exempting international organizations and their representations performing activities on the territory of the Russian Federation from VAT.

41. In 2007, the UNHCR Representation in the Russian Federation sent letters to the suppliers informing them about the application of this policy. However, the same procedure was not done by Sub-office in Vladikavkaz since it did not receive instructions from Moscow. As a result, the Sub-office will have to claim the reimbursement of VAT.

42. From 2003 to 2007, VAT amounts were paid to the suppliers and recorded as receivable for recovery in the future. The overall amount for 2003 to 2007 to be reimbursed came to \$859,000 (\$513,000 for the Representation in Moscow and \$346,000 for the Sub-office in Vladikavkaz). For 2001 and 2002, UNHCR estimated the amount due to be reimbursed at \$200,000 upon presentation of supporting documents.

43. OIOS was not provided with documents establishing the deadlines for submission of the claim. The Representation did not have copies of the

legislation setting the different VAT rates ranging from 10 to 20 per cent, which could be applicable in particular cases, as well as those explaining the simplified method of taxation, which are necessary for correct calculations.

Recommendations 12 to 14

The UNHCR Representation in the Russian Federation should:

(12) Submit the claim to obtain the reimbursement of VAT paid since 2001, which could amount to over \$1 million;

(13) Inform all suppliers, particularly in the North Caucasus, of the VAT exemption policy; and

(14) Obtain copies of the legislation setting the different VAT rates, as well as documentation on the application of the simplified method of taxation.

44. *The Representation accepted recommendation 12 and stated that there is no deadline for submissions. All submissions made before the 10th day of the first month of a quarter (i.e. 10 April) should receive a reply within 30 days. Only a few UN agencies have started the process and the results are still unknown. Recommendation 12 remains open pending receipt of documentation showing that it has been fully implemented.*

45. *The Representation accepted recommendation 13 and stated that all companies/suppliers were informed in October 2007 about VAT exemption policy. All necessary documentation proving our VAT exemption was also provided. Based on the response, recommendation 13 has been closed.*

46. *The Representation accepted recommendation 14 and stated that the requested information is available to UNHCR, Russian Federation. Based on the response, recommendation 14 has been closed.*

Procurement

47. The Representation held Local Committee on Contracts (LCC) meetings on a regular basis. OIOS' review of procurement files indicated, however, that the application of procurement rules was not always consistent. In February 2006, for the supply of food kits the lowest bidder was selected for an amount equivalent to \$16,000. The contract was extended in the subsequent quarters on the basis that the supplier would maintain prices at the same level. The LCC did not approve the extensions despite the cumulative contract amount to this supplier passing the LCC threshold in the second quarter. In March 2007 this supplier was again selected although it was the highest bidder. The difference between the highest and the lowest bidder was \$4,000. The justification given to OIOS was that this supplier agreed to maintain prices for six months compared to only three months for other bidders. It was also mentioned that this supplier was

selected for his experience in working with UNHCR. There were also cases when contracts were awarded to higher bidders without justification.

Recommendation 15

(15) The UNHCR Representation in the Russian Federation should strengthen its controls over procurement ensuring that LCC meetings are held once the cumulative procurement amounts by any single supplier pass the \$20,000 threshold. Contracts should be awarded to the lowest bidder unless adequate justification for not doing so can be provided in the LCC minutes.

48. *The Representation accepted recommendation 15 and stated that it will be implemented for future purchases. The Representation explained that according to the rules, a waiver is acceptable "when offers for identical products and services have been obtained competitively within a reasonable period and the prices and conditions remain competitive". OIOS has reviewed the explanation and is of the opinion that this kind of waiver is valid only in case the LCC has already reviewed cumulative procurement cases exceeding the \$20,000 threshold. In view of the assurances given, recommendation 15 has been closed.*

Asset management

49. The Representation did not establish proper central monitoring and reporting on assets, especially in the Sub-office in Vladikavkaz. While the updating of assets in MSRP was done regularly in Moscow, it was only done once a year in Vladikavkaz. Tracking was actually done on MS Access for Administration and on MS Excel for Programme.

50. A Local Asset Management Board (LAMB) was constituted in Moscow and met 10 times in 2006-2007. However, only one meeting dealt with the North Caucasus cases. It was held in May 2006 and the minutes were only received by the Sub-office in Vladikavkaz in March 2007, hence respective actions were delayed.

51. Certain cases of theft and loss were not referred to the Headquarters Asset Management Board (HAMB) for review. For example no reimbursement of \$8,600 has been obtained at the time of the audit from NIZAM for the theft of a vehicle and laptop in 2004. The matter was only reviewed by the LAMB on 29 May 2006 nearly two years after the incident. This should have been forwarded to the HAMB in accordance with UNHCR rules since no agreement to reimburse was obtained from NIZAM.

52. After the physical verification carried out in December 2006, no narrative report was prepared to consolidate the findings, summarising all accident cases, theft cases, assets not found, etc. This would facilitate the submission of cases for review by LAMB.

Recommendation 16

(16) The UNHCR Representation in the Russian Federation should enhance asset monitoring and reporting. Cases involving the North Caucasus should be dealt with expeditiously, and outstanding cases should be submitted to Headquarters Asset Management Board (HAMB) without delay.

53. *The Representation accepted recommendation 16 and stated that by end July 2008, the Moscow and Vladikavkaz offices will review the records in MSRP and submit cases to the LAMB for depreciated assets and updating MSRP records with implementation of decisions of previous LAMB meetings. By end August 2008, a submission to HAMB will be prepared. By the end of 2008, all decisions of the previous LAMB meetings should have been implemented and reflected in MSRP. Recommendation 16 remains open pending receipt of documentation on the review of outstanding cases by LAMB and HAMB.*

Recommendation 17

(17) The UNHCR Representation in the Russian Federation should request from NIZAM the reimbursement of \$8,600 for the theft of a vehicle and laptop in 2004 and report the case to the Headquarters Asset Management Board.

54. *The Representation accepted recommendation 17 and indicated that the case was submitted to HAMB in June 2008. Nizam stated that it has no funds to reimburse the lost equipment. Recommendation 17 remains open pending receipt of documentation on the outcome of HAMB's review of this case.*

D. Security and safety

55. Security for all UN agencies and programmes in the North Caucasus region is handled jointly through a special Donors Fund created by the Department of Safety and Security (DSS), New York. Private security companies are hired to establish a 24 hour individual protection of international staff. The annual cost of these services amounts to \$1.6 million. However, in recent years there have been indications that contributions to the Donors Fund might not cover the costs and that the UN Agencies and Programmes might have to foot the bill on their own. UNHCR until now has not prepared a contingency plan should it have to fund a portion of its security requirements. OIOS was informed that some proposals for moving from close protection security guards to electronic means of protection were discussed, but no documentary evidence was provided.

Recommendation 18

(18) The UNHCR Representation in the Russian Federation should document its proposals for security arrangements and prepare a contingency plan covering the

worst case and best case scenarios for funding the UNHCR security requirements on its own.

56. *The Representation accepted recommendation 18 and stated that security is funded by DSS in agreement with the Designated Official and the UN Country Team. Full funding for 2008 is secured. Commitments made by donors and additional cost saving measures ensure funding well into 2009. UNHCR will review the situation in light of the information available at the end of 2008. Recommendation 18 remains open pending receipt of documentation from UNHCR on the review of security arrangements by the end of 2008.*

57. In 2000, the Security Management Team (SMT) introduced security rotation for all international staff in the North Caucasus. As the security situation improved, SMT lifted the requirement of mandatory travel from the North Caucasus in 2004. Until October 2007, when UNHCR decided to discontinue this system, UNHCR was the only UN Programme in the Russian Federation practicing this entitlement. From 2004 to 2007, the amount spent on security rotation was \$17,000. In addition to the security rotation entitlement, the Representation was applying the Rest and Recuperation (R&R) policy. Due to the application of the security rotation, the Representation did not comply with the UNHCR policy on R&R and did not get approval of UNHCR Headquarters.

58. After a Security Risk Assessment performed in 2006, Minimum Operating Security Standards (MOSS) for the North Caucasus were prepared. However, there was no documentary evidence that these standards were duly approved. Minimum Operating Residential Security Standards (MORSS) for the North Caucasus were approved in 2004. OIOS did not get the results of the annual review of MORSS by DSS. The Representation requested adjustments to the Standards for local conditions, namely to have grills on the windows instead of the shutter resistant film and a metal door instead of a “safe room” in the apartments/houses. There was no evidence that the request was accepted by DSS.

Recommendation 19

(19) The UNHCR Representation in the Russian Federation should continue to enhance security procedures and controls, make sure that the Minimum Operating Security Standards are endorsed, enhance Minimum Operating Residential Security Standards compliance and get a proper approval for the proposed amendments to Minimum Operating Residential Security Standards.

59. *The Representation accepted recommendation 19 and stated that it had received the highest rating for compliance as indicated by a DSS compliance team from New York at a debriefing after its mission to the Russian Federation in May 2008. The final report is expected to be available in July 2008. OIOS takes note of this assessment. Recommendation 19 remains open pending receipt of the final report of the DSS compliance team.*

E. Administration

60. OIOS was satisfied that UNHCR policies, rules and procedures were generally complied with. The delegation of financial signing authority had been established and found to be operational.

61. In the Sub-office in Vladikavkaz, the post of the Administration/Finance Officer at the P-3 level was abolished some time ago and replaced by a National Officer. In order to improve the supervision of the administration/finance activities, the Administrative Officer in the Representation in Moscow went on mission in 2007 to review the administration of the Sub-office in Vladikavkaz. Such visits need to be performed on a regular basis and their results be properly documented. Another possibility to enhance the supervision of the administration/finance functions would be to revise the responsibilities of the Programme Officer (P-3) to combine the programme and administration/finance functions.

Recommendation 20

(20) The UNHCR Representation in the Russian Federation should improve the supervision of the Administrative and Finance functions in Sub-Office Vladikavkaz by performing regular monitoring visits by the Administrative Officer of the Representation in Moscow or by combining the Programme and the Administration and Finance functions in the Sub-office in Vladikavkaz.

62. *The Representation accepted recommendation 20 and indicated that the administrative and finance function was being monitored, and necessary advice and support was being provided. The interaction between the Moscow and Vladikavkaz offices has improved to a great extent. Regular monitoring missions planned by the Administration/Finance officer will further strengthen the management of administration/finance in the North Caucasus.* Recommendation 20 remains open pending receipt of the results of the monitoring missions.

63. OIOS noted that mainly in Vladikavkaz but to some extent also in Moscow, suspense accounts were used in lieu of bank accounts since international staff did not open bank accounts even though adequate banking facilities existed in both locations. The use of suspense accounts in this manner cannot be justified given the considerable time spent by finance staff in tracking, monitoring and reconciling these permanent accounts of individual staff members.

64. OIOS also noted that the Vladikavkaz Finance Unit needed to close open items, particularly travel advances. DSA advances of \$1,200 and \$1,900 paid in May and June 2005 respectively had not been settled. Examples were found where different travel advances had been lumped together from previous years. This makes it difficult to keep track of which advances remained open. Furthermore, it leads to unnecessary storage of closed items in the system. The

intention of suspense accounts is to track only open items either payable or receivable which have not yet been settled.

Recommendation 21

(21) The UNHCR Representation in the Russian Federation should ensure that suspense accounts are not used as permanent payable accounts for staff in lieu of commercial bank accounts.

65. *The Representation accepted recommendation 21.* Recommendation 21 remains open pending receipt of documentation from UNHCR on the closure of suspense accounts used instead of bank accounts.

66. In Chechnya, OIOS reviewed a case where the driver was using his private car for official purposes without written authorization from the Vladikavkaz office. The office did not analyze the expenditures for fuel, and OIOS review showed that this office was making double payments by first reimbursing travel by private motor vehicle (which includes the cost of fuel) using the standard UN rate of 17.5 cents per kilometre and then reimbursing the fuel again upon presentation of the bills from petrol stations. OIOS estimates showed that \$2,000 was overpaid in 2007. Proper monitoring by the Administration Unit in the Representation in Moscow, as well as training in the application of staff allowances were lacking. Also, in order to prevent such overpayments in the future, an analysis should be performed to compare actual and standard expenditures per vehicle.

Recommendation 22

(22) The UNHCR Representation in the Russian Federation should ensure that proper documents for the use of private car for official purposes in Chechnya are prepared, double payments for the use of private vehicle for official purposes are prevented in the future, and overpayments of \$2,000 are recovered.

67. *The Representation accepted recommendation 22 and indicated that due to security restrictions the use of a private car for official purposes in Chechnya was unavoidable. The applicable entitlements in this case have been reviewed and recalculated. The overpayment of \$829 will be fully recovered by the end of July.* Recommendation 22 remains open pending receipt of documentation showing the calculation and recovery of the overpayment, and the controls put in place to prevent recurrence.

68. UNHCR staff were eligible for Hazard pay in North Ossetia, Ingushetia, Chechnya and Dagestan while the Special Operational Living Allowance Rate (SOLAR) is only applicable in North Ossetia and Ingushetia. OIOS assessed that SOLAR and Hazard payments were adequately monitored. However, the Sub-office Vladikavkaz did not maintain a file with travel authorizations for control purposes. SOLAR payments were not being disbursed at the end of each month

as required. Payments to staff were deferred, although recorded as payable, and lump sums were paid after several months.

Recommendation 23

(23) The UNHCR Representation in the Russian Federation should strengthen controls over the regularity of SOLAR payments. These payments to staff should be done at the end of each month. A travel authorization file should also be maintained for control purposes.

69. *The Representation accepted recommendation 23 indicating that SOLAR payments will be effected immediately as of June 2008. Regarding the file with travel authorizations, it was created immediately following the comments of the auditors. Based on the response, recommendation 23 has been closed.*

70. The Representation in Russia currently has a total of 13 National United Nations Volunteers (UNVs). It appears though, that contrary to the rules, UNVs are deployed in the North Caucasus as substitutes for regular staff like drivers, IT staff and administrative clerks on a long-term basis. For the individual assistance programme in Moscow, cash was distributed by two UNVs, who were entrusted with up to \$20,000 on any given day, this being equal to several times their monthly salaries.

71. The Representation in Russia currently experiences numerous challenges in dealing with UNVs. To a large extent, problems arose because of the low quality of services provided by the United Nations Development Programme (UNDP) in Russia. These included payment delays to volunteers, time delays in responding to queries and weak administrative support. In addition the UNHCR Representation took over the responsibility of the recruitment process of national UNVs, which should normally be the responsibility of UNDP. UNHCR continues to pay a 10 per cent overhead cost to UNDP, which amounted to \$70,000 for 2006-2007.

Recommendation 24

(24) The UNHCR Representation in the Russian Federation, in consultation with UNHCR Headquarters, should ensure that United Nations Volunteers are not deployed as substitutes for regular staff on a long-term basis and are not entrusted with cash operations. The Representation should also liaise with the United Nations Development Programme and review the responsibilities of both parties with regard to administrative support and processing living allowances. A decision should be made whether the rate of overhead compensation of \$70,000 is appropriate given the current arrangements.

72. *The Representation generally accepted recommendation 24 and stated that UNHCR manages UNVs through UNDP globally. The recommendation*

relating to overhead costs should be resolved globally. Concerning employment of UNVs for financial positions, the Representation consulted UNHCR HQ. It seems that the tasks of UNVs in this area are within the rules on UNVs. Recommendation 24 remains open pending receipt of documentation containing the response provided by UNHCR Headquarters to the Representation concerning the use of UNVs.

V. ACKNOWLEDGEMENT

73. We wish to express our appreciation to the Management and staff of the UNHCR Representation in the Russian Federation for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Documents on the outcome of the discussions concerning the \$30 million contribution to the NC operation and the start of the new initiative on Statelessness Conventions.	Not provided
2	O	Documentary evidence of further steps to improve the financial monitoring of projects in the North Caucasus, such as instructions on reporting requirements and quality control mechanisms.	Not provided
3	O	Reports indicating the frequency of trips to Chechnya and results of remote monitoring visits.	January 2008
4	O	Results of the partners' regular review and analysis of their added value.	November 2008
5	O	Documents on the outcome of the review of fundraising by the Representation, the Bureau and the Donor Relations and Resource Mobilization Service at Headquarters.	December 2008
6	O	Documents showing the outcome of the review of the assistance programme in October 2008.	October 2008
7	O	Confirmation that the reconciliation of final SPMRs with general ledgers has been performed for all the partners.	Not provided
8	O	Documentation showing that the recommendation has been fully implemented.	December 2008
9	O	Documentary evidence showing improvements in procurement procedures.	Not provided
10	O	Documentation showing that the recommendation has been fully implemented.	Not provided
11	O	Documents showing the updated selection criteria	Not provided
12	O	Documentation showing that the recommendation has been fully implemented.	December 2008
13	C	Action completed	Implemented
14	C	Action completed	Implemented
15	C	Action completed	Implemented
16	O	Documentation on the review of outstanding cases by LAMB and HAMB.	December 2008
17	O	Documentation on the outcome of HAMB's review of this case.	June 2008
18	O	Documentation on the review of security arrangements by the end of 2008.	December 2008
19	O	Documentation on the final report of the DSS compliance team.	Not provided
20	O	Results of the monitoring missions to NC.	Not provided
21	O	Documentation from UNHCR on the closure of suspense accounts used instead of bank accounts.	Not provided
22	O	Documentation showing the calculation and recovery of the overpayment, and the controls put in place to prevent recurrence.	July 2008
23	C	Action completed	Implemented
24	O	Documentation containing the response provided by UNHCR Headquarters to the Representation concerning the use of UNVs.	August 2008

1. C = closed, O = open

2. Date provided by UNHCR in response to recommendations.