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AUDIT OF UNHCR OPERATIONS IN ECUADOR

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Office of Internal Oversight Services
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EXECUTIVE SUMMARY

In June 2005, OIOS conducted an audit of UNHCR Operations in Ecuador. The audit covered activities with a total expenditure of US\$ 2.5 million in 2003 and 2004. A Summary of Preliminary Findings and Recommendations was shared with the Representative in July 2005, on which comments were received by August 2005. *The Representative has accepted the recommendations made and the Office is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Ecuador 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 four partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. However, for the Comité Pro-Refugiados in Ecuador, the oldest UNHCR partner in Ecuador, significant internal control improvements were required. *Actions are being taken.*
- Project financial and performance monitoring was adequately performed. Regular monitoring exercises have been carried out regularly since mid-2003 and mission reports were issued for all of them. OIOS however recommended to better document the description of the accounting and internal control systems and ensure a systematic follow-up of recommendations made.
- For the selection of a new implementing partner dealing with QIP activities, the Representation developed a set of procedures that could serve as a best practice to be followed by other UNHCR operations. Invitations to submit a proposal were sent to NGOs having experience in this particular sector of activities. The proposals were analysed by using pre-determined criteria such as experience, level and qualification of the staff, proposed budget for administrative support costs, etc.

Supply Management

- For local procurement, improvements were required to ensure that the goods were purchased competitively and approval was obtained at the appropriate level.

- The implementation of a previous OIOS recommendation regarding the VAT recoveries was successful. The Representation was allowed to retroactively recover the VAT paid by both UNHCR and its implementing partners. VAT already recovered totalled some US\$ 102,000 with an additional US\$ 23,000 being processed.
- Since the previous audit, controls over assets have improved significantly mainly in terms of physical verification and maintenance of records.
- The partner *Cruz Roja Ecuatoriana* needed to improve controls over the stock of non-food items. The maintenance of stock records and documentation of verification were weak: physical count records were not reconciled to the electronic records; the electronic records had not been updated since the end of 2004; no stock cards were being used, etc.

Security and Safety

- The Representation has taken several measures to comply with the UN security requirements such as: providing various security briefings; participating in a monthly Security Management Team; providing security training and emergency drills, etc. Security was found adequate for the main building while improvements were still needed for the Resettlement Office and the Field Office, Lago Agrio. Additional measures are expected to be completed in 2005. A security mission from Geneva was carried out in July covering all security components in Quito and all field locations.

Administration

- In the areas of administration and finance, the UNHCR Offices in Ecuador generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.
- The internal controls in place on MIP were found adequate except for the fact that the list of recommended doctors, pharmacies and hospitals had not been updated since 2001.

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I. INTRODUCTION

1. From 17 to 27 June 2005, OIOS conducted an audit of UNHCR's Operations in Ecuador. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Ecuador and its Field Office in Lago Agrio and of four of its implementing partners.

2. OIOS' previous audit of UNHCR in Ecuador was conducted in May 2002. The review focused on 2001 projects covering expenditure of US\$ 1.1 million. OIOS assessed the operations in Ecuador as average. Findings related to inadequate controls over personnel matters, ineffective project management and monitoring, weak internal controls over the assets.

3. In July 2005, there were more than 9,000 recognized refugees living in Ecuador, mainly from Colombia. Ecuador receives the highest number of Colombian asylum-seekers in the sub-region of Northern South America. Most asylum-seekers are registered in cities such as Quito, Ibarra, Cuenca, Guayaquil and are considered urban refugees. UNHCR's overall objective is to provide protection and assistance to asylum-seekers through: registration; humanitarian assistance; capacity building for state authorities, etc.

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 27 June 2005. A summary of Preliminary Findings and Recommendations was shared with the Representative in July 2005. The comments, which were received in August 2005, are reflected in this final report. *The Representative has accepted the audit recommendations made and the Office 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 2004 and 2005 programme activities under projects 04 and 05/AB/ECU/LS/401 with expenditure of US\$ 1.8 million for 2004. Our review concentrated on the activities implemented by *Comité Pro-Refugiados in Ecuador* (CPR) implementing legal protection activities in Quito and providing community service and assistance to refugees and asylum seekers with expenditure of US\$

318,000; *Fundación Ambiente y Sociedad* (FAS) implementing QIPs and micro finance projects since 2004 with expenditure of US\$ 366,000; Iglesia de San Miguel de Sucumbíos (ISAMIS) handling protection activities in the Province of Sucumbíos since early 2000 with expenditure of US\$ 66,000 and *Fundación Fabian Ponce* (FFP) in charge of legal protection in Lago Agrio and Ibarra, community services with expenditure of US\$ 346,000 and the warehousing activities implemented by the *Cruz Roja Ecuatoriana* (CRE) in Lago Agrio. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 277,000.

7. The audit reviewed the administration of Quito with an administrative budget totalling US\$ 733,000 for the years 2004 and 2005 and assets with an acquisition value of US\$537,000 and a current value of US\$ 254,000. The number of staff working for the UNHCR Operation in Ecuador was 33. This included staff on regular posts, international and national United Nations Volunteers.

8. The audit also followed up on findings and recommendations made in the 2002 OIOS audit regarding the IP Comité Pro-Refugiados in Ecuador. Since 2002, actions had been taken to improve the management of the sub-project by CPR though some recommendations were not been properly addressed and some weaknesses observed in 2002 still existed.

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 four partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS assessed that internal controls of most partners were generally in place and operating effectively. Audit certificates for all partners were received for which an unqualified audit opinion was given.

(a) Comité Pro-Refugiados in Ecuador

11. The CPR's computerized accounting system did not provide a comparison of budget and expenditures. To compensate this weakness, CPR recorded the budget within the individual GL accounts. As a result, the balance of each GL account was the difference between the budget and the expenditures. These amounts were reported on an Excel Spreadsheet for reporting purposes. Given that such a complex approach represented significant risk of error, OIOS recommended that the Representation assist CPR in finding other means to incorporate the sub-project budget in its accounting system. *The Representation informed us that as of January 2006, CPR would use an accounting system, which clearly identifies the expenses, and another software for budgetary purposes.*

12. CPR's internal controls were found weak in several aspects. There was no verification of financial information on payment vouchers; a lack of documentary evidence of authorization of transactions and of reception of goods and services; a lack of reliability of control on payment of assistance; and inappropriate segregation of duties in relation with procurement, payment and distribution of assistance. There was no appropriate procedure for dealing with long outstanding cheques. OIOS considered that the control environment is not favourable to the implementation and maintenance of adequate controls since, in 2004, CPR did not take any disciplinary action against a staff member who improperly cashed cheques issued to refugees.

13. *CPR acknowledged that an inappropriate procedure was carried out and indicated that within the next months the staff member responsible for this action would be replaced. The accountant of CPR resigned and departed at the end of September 2005. The Representation indicated that CPR has implemented a new distribution of responsibilities without increasing administration costs. The appointment of an Accounting Assistant performing the bookkeeping tasks would allow a revision by the accountant and authorization by the Director. The use of purchase orders and of a delivery-receipt form has been implemented. Responsibility for authorizing humanitarian assistance was transferred to the Social Work Coordinator, who has the knowledge of the technical criteria for recommending assistance. CPR also indicated being in a process of elaboration of the Procedure Manual for all Units, which will integrate the changes mentioned above. It should be fully implemented in December 2005.*

14. CPR did not have any written procurement procedures. The procedures differed according to the nature of goods procured. A comparison of three offers was usually done for office supplies. To procure goods for assistance (beds, stoves, etc.) a formal comparison of the costs was made for the first transaction of the year and this quotation used for the rest of the year. This process was however not strictly followed. OIOS recommended that the Representation request CPR to establish formal procurement procedures or to follow the UNHCR implementing partner procurement procedures. *The CPR Procedure Manual, to be fully implemented in December 2005, will include a formal procurement procedure. If by the end of December 2005 CPR has still not elaborated a written guide for procurement, UNHCR Quito will request CPR to implement UNHCR procurement procedures for the project.*

15. Contrary to UNHCR guidance, the cheques for rental assistance were not made in the name of the landlord but directly to the refugees. CPR highlighted the difficulties to directly pay the landlords and indicated that in order to ensure that the funds were used for the intended purposes, the social workers carry out family visits. CPR did not provide any documentary evidence of such controls. OIOS recommended that the Representation request from CPR information on the frequency of field visits and the conclusions made by the social workers. *The Representation indicated that CPR has elaborated a form to control the rental assistance through visits to the beneficiaries. UNHCR will reinforce the control for rental assistance through SPMR verifications.*

Recommendation:

- The UNHCR Representation in Ecuador should follow-up on the improvements made by its implementing partner Comité Pro-Refugiados in Ecuador (CPR) of the procurement procedures and on the adequacy of its reporting on the monitoring of rental assistance. (Rec. 01)

(b) Fundación Ambiente y Sociedad

16. FAS used a computerized accounting system providing the necessary financial information to report to UNHCR and a regular comparison of budget and expenditures. The financial controls on authorization of expenditures and approval of payments and documentation of transactions were found satisfactory. Bank reconciliation was made on a monthly basis by the accountant but was not verified by her supervisor. OIOS recommended that the Representation request FAS to modify its financial procedures to ensure that the bank reconciliation is revised and approved by the Director, which FAS agreed to do in the future.

17. The major activities were related to the QIPs and Income Generation projects. The assistance to the refugee population consisted of rehabilitation or construction of infrastructure, furniture of equipment to schools, hospitals, etc. The procedures for identifying and selecting the projects, via the local institutions and with the participation of refugees, were found adequate. The proposed projects were submitted to a committee composed of FAS, UNHCR and Ministry of Foreign Affairs. The committee selected the project on the basis of quality, impact and level of refugee population living in this area.

18. In 2004, FAS took over the micro-credit activities from another partner. A total of 59 micro-projects were approved. In order to ensure the success of this activity, training on micro-project management was a pre-requisite to obtain a micro-credit loan and regular monitoring visits were carried out. Various QIPs implemented have an asset procurement component. In such cases, FAS signed a Right of Use agreement with the beneficiaries. Though we appreciate the reasoning for not transferring immediately the ownership of these assets, planning for transferring the ownership should be established. *In 2006, FAS plans to transfer the ownership of the assets given to different beneficiaries in 2004. The depreciation time criteria of 3 years will be observed.*

(c) Iglesia de San Miguel de Sucumbios

19. Some concerns had been expressed by UNHCR on this partner's poor reporting. UNHCR reduced its activities with ISAMIS, which is no longer involved in the distribution of food and non-food items.

20. The controls for payment of medicines, the main ISAMIS programme activity, were found unsatisfactory. The system does not allow a comparison of the items procured with the authorization given or provide evidence of reception of goods by the beneficiary. The invoices issued by the pharmacy and used as supporting documents for payment were a compilation of the medicines per products (items) procured during

the previous 30 to 45 days for all beneficiaries. OIOS recommended that BO Quito request ISAMIS to modify its procurement system by: requesting the pharmacy to issue an invoice per transaction and a monthly statement showing the individual invoices; and, obtaining the signature of the refugee as evidence of reception. *Although ISAMIS agreed that an invoice per patient should be issued and paid weekly, there was no evidence of action taken to implement this recommendation.*

Recommendation:

- The UNHCR Representation in Ecuador should request its implementing partner Iglesia de San Miguel de Sucumbios (ISAMIS) to modify its procurement procedures for medicines to ensure verification of quantities authorized and invoiced and evidence of reception. (Rec. 02).

21. *The Representation indicated that for 2006, the assistance related to the health sector would be transferred to the Ecuadorian Red Cross. With this new implementing partner UNHCR will establish a better procurement procedure for medicines and ensure adequate financial control.*

22. Cheques issued by ISAMIS for payments for food for security guards were cashed by the security guards but the money was given back to ISAMIS. The reason given was that the food used to prepare these meals was paid by ISAMIS, which could not be evidenced. OIOS pointed out that any project expenditure paid to an implementing partner or to related organizations should be shown as such and not as payment to a third party.

(d) Fundación Fabian Ponce

23. The accounting system and internal controls in place in FFP were found satisfactory. Some improvements are still required on cash management. In Quito, payments were made by cheque for which only one signatory was required. Bank reconciliation was prepared on a monthly basis but not reviewed. For the field offices operating a petty cash only, cash controls were weak: no surprise cash counts were conducted and there was no supervision. OIOS recommended that the Representation request FFP to set a ceiling for cheque payments beyond which two signatories are required, to ensure that bank reconciliation is reviewed by an independent official and that there is regular supervision of petty cash operations in Ibarra and Lago Agrio. *The Representation notified FFP in writing to set a ceiling of US\$ 1,000 for single signatory cheque and to supervise petty cash operations in Lago Agrio on a monthly basis. This will be no longer needed in Ibarra due to a change in the staffing. FFP replied that these issues are directly related to the structure of the Foundation, the staff, the project needs and the resources available. FFP indicated that these recommendations would be implemented provided that the project resources allow for this.*

B. Other Programme Issues

24. OIOS assessed that project financial monitoring was competently performed. Financial monitoring exercises have been carried out regularly since mid-2003. A

mission report detailing findings and recommendations was issued for each mission. The observations and recommendations were shared with the partner concerned. However, there was no documentary evidence of the reply provided by the partner, nor of the action taken. We also noted that the financial monitoring records maintained by the Representation did not include a general description of the accounting and internal controls. OIOS recommended that the Representation obtain from the partners a written reply on actions taken to implement the recommendations of the monitoring missions; include in the next verification exercise a follow-up of previous recommendations and maintain records of the description of the partners' accounting and internal controls system. *The Representation agreed to modify its monitoring procedure and records. Letters containing the recommendations and findings during monitoring visits have been sent to partners in order to obtain written replies on actions taken by the partners. A descriptive chart on partner's accounting and internal controls is being elaborated and will be finished after completing monitoring visits.*

25. In 2003, the Representation selected a new implementing partner for the implementation of QIPs following the comparison of proposals from three NGOs having experience in this sector of activities. For the selection of partners the Representation developed procedures similar to the UNHCR procurement procedures. NGOs were invited to submit proposals, which were analysed. The pre-determined criteria used included experience of the NGO in this sector, level and qualification of the staff, administrative support costs, etc. In the view of OIOS, such practice should be encouraged in other UNHCR operations for the selection of implementing partners.

C. Supply Management

Procurement

26. For local procurement, which exceeded US\$ 270,000 for 2003 and 2004, the UNHCR procurement procedures were not strictly adhered to. A purchase of computers and computer equipment exceeding US\$ 100,000 was not submitted at Headquarters Committee on Contracts. For a large procurement contract for the supply of ID Cards, only two offers were compared. Though the procurement with this supplier already exceeded US\$ 100,000, no new tender was issued nor was approval sought from the CoC not been repeated and the decision was not documented. *In order to inform all participants of the LCC meetings about the procedures, the Representation prepared a summary of procurement procedures in Spanish, which is being used since July 2005.*

Warehousing and distribution

27. The warehousing and distribution of non-food items (NFI) was recently transferred from ISAMIS to CRE. Though adequate controls existed on reception and distribution, the maintenance of stock records and documentation of verification were weak. Physical checks were conducted monthly, but physical count records were not reconciled to the electronic records for tracking the movement of goods. These records had not been updated since the end of 2004. No stock cards were being used. CRE had

no written warehousing procedures. OIOS recommended that CRE improve the documentation of the physical verification and the maintenance of stock records. *The Representation indicated that the use of cards has been implemented; an issue-reception form was used for all the items procured since August 2005; the monthly verifications have a document containing the corresponding signatures and will be reconciled with the implemented electronic and physical filing systems; and the excel worksheet will be printed every time a physical verification is conducted. In view of the audit comments, as well as the diversity of the non-food items, UNHCR has decided to transfer the procurement of these items to WFP.*

28. The stock records maintained for the stocks purchased under the Contingency Plan initiated in 2000 were found satisfactory. Stock cards were used and physical verification of stock was performed regularly. However, to avoid deterioration of some items, OIOS recommends that the Representation take action to ensure the rotation of stock. *The Representation indicated that a physical verification of the items kept in the warehouse in Quito was carried out in July 2004 and a mission to identify items that may need to be disposed of and/or replaced would be carried out as soon as the security situation in Lago Agrio returns to normal, which was planned for the last week of October 2005.*

Value Added Tax

29. Following a recommendation made by OIOS in 2002 (AR2002/501/03, Rec. # 117), the Representation took measures to recover the VAT paid, which was reimbursed retroactively as of 2002. Since then, UNHCR has recovered VAT reaching a total amount of US\$81,000. The partners were authorized to claim VAT retroactively as well. Three partners reviewed in the course of this audit have already done or are currently processing VAT claims. Following OIOS' recommendation, the other partner, ISAMIS, has initiated its first VAT claim. For more efficiency, all partners contracted the same firm that UNHCR hired for preparing VAT claims. Close to US\$ 21,000 has already been received and claims amounting to more than US\$ 23,000 were being processed. OIOS also recommended that the Representation ensure that all partners report on their SPMR the amount of VAT recovered. *The Representation indicated that partners have been informed about the procedures for VAT recovery in order to report reimbursements in the SPMR.* OIOS was pleased to see that the implementation of a recommendation issued in 2002 generated a recovery of some US\$ 125,000.

D. Security and Safety

30. The Representation has taken several measures to comply with the UN security requirements: the staff in Quito received security briefings at least once a week; new staff members were briefed upon arrival and comprehensive briefings were provided yearly; Security Management Team (SMT) meetings were held monthly and were attended by the UNHCR Representative; the UNHCR staff in Ecuador have successfully completed the security training for staff in the field; the drivers had received training in emergencies; emergency drills were done every two or three months, etc.

31. The Resettlement Office for UNHCR in Quito was situated close to the main UN building. Because other occupants of the building used the same main entrance, the sharing of the building was considered a weakness. Additional security measures were expected to be introduced in 2005. *The Representation informed us that in mid July 2005, the Resettlement Office has moved to a house just behind the UN Building, which provides more working space, as well as better security conditions.*

32. At the time of the OIOS mission, FO Lago Agrio was under Security Phase 1. The office is shared by UNHCR with its implementing partners. Security measures included: guard at the main entrance; blast protective film; a silent panic alarm system; a camera, etc. It did not have fire or emergency exit other than the roof of the building. A security mission from Geneva was carried out in July covering all security components in Quito and all field locations.

E. Administration

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

Cash Management

34. FO, Lago Agrio operated a petty cash of which the official custodian is the Head of Office. Due to the lack of UNHCR staff, the petty cash and disbursement records were maintained by a UNV working under the supervision of the Head of Office. The Head of Office conducted regular cash counts, which were documented and duly signed. *The Representation indicated that the approval of two new GL posts for the two FOs would contribute to regularize the procedures and the control of cash management. Revised terms of reference would be issued upon appointment of these two staff members.*

Human Resources Management

35. International staff members posted in Lago Agrio were eligible to VARI every three months as stated by DHRM in February 2005. Given that Lago Agrio is a category D duty station, the entitlement to VARI should be at two-month intervals. It is known that other duty stations in the region with the D classification have VARI every two months. FO Lago Agrio has sought clarification on this matter on a number of occasions, but no response has been forthcoming. The Representation should take up this matter with DHRM. *The security mission from HQs assured the follow-up on the revision of the VARI in Lago Agrio.*

Rental and Common Services

36. UNHCR together with other UN agencies in the UN building shared the cost of rent and other common services amounting to some US\$ 40,000 for 2004. UNHCR activities grew in 2004 with staff occupying more space. UNDP signed a contract with the landlord, which ends in January 2007. At the time of the audit, UNHCR had yet to sign a Memorandum of Understanding (MoU) with UNDP. *The Representation indicated that the MOU was signed on 30 September 2005.*

Communications

37. Due to strengthening of the controls, total expenditure for communication decreased by 20 per cent in 2004. Improvements were still required to recover the cost of private use. Many private calls remained unallocated, some of them dated back a year or more. The Representation also suspended charging staff members for private use of mobile phone due to problems with its service provider for late billing and discrepancies between the invoiced amount and the detailed call listings. OIOS recommended that the Representation take action to resolve the discrepancies with its mobile phone provider. *The Representation indicated that meetings with the service provider were unproductive: a tendering would be launched. Measures were however taken to continue with recoveries for personal calls. So far, an amount of US\$ 4,000, out of a total expense of US\$ 6,000, corresponding to personal phone calls from UNHCR mobiles, has been recovered. The staff members assigned a mobile phone were requested to control their personal calls or consider acquiring their own mobile for personal use. Two staff members have already followed the advice. In order to ensure better control, calls from the regular telephone lines to mobile phones have been restricted.*

Medical Insurance Plan (MIP)

38. The processing of the MIP claims was transferred from RO Venezuela to BO, Quito as of 1 January 2004 to avoid delays in settling them. The internal controls in place were found adequate except for the fact that the list of recommended doctors, pharmacies and hospitals had been last updated in 2001. OIOS recommended that the Representation ensure that the list of recommended medical service providers be updated. *The Representation indicated that a request was made through the Organizational Management Team to update the list of recommended doctors, hospitals and pharmacies for the entire UN system.*

V. ACKNOWLEDGEMENT

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

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UNHCR Audit Service
Office of Internal Oversight Services