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OIOS AUDIT OF UNHCR OPERATIONS IN YEMEN

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Office of Internal Oversight Services
UNHCR Audit Service

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EXECUTIVE SUMMARY

In September 2004, OIOS conducted an audit of UNHCR Operations in Yemen. The audit covered activities with a total expenditure of US\$ 3.2 million in 2002, 2003 and 2004. A memorandum containing Exit Conference Notes and Recommendations was shared with the Representative in October 2004, on which comments were received in November 2004. A draft of the report was sent to the Representative on 20 January 2005, whose comments were received in February 2005 and reflected in the final report. *The Representative has accepted all of the recommendations contained in the final report and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Yemen as average, it was adequately run but although the majority of key controls were being 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.

Programme Management

- For the three partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. However, CSSW's accounting system needed further improvement, as bank and petty cash books were not maintained.
- In 2003, the project financial monitoring performed by the Sub-Office Aden was inadequate. UNHCR did not verify the 2003 final SPMRs and did not sign them for acceptance. Also, a more structured approach with regard to financial verification was required. In 2004, the Sub-Office made considerable improvements in this area.

Supply Management

- The procedures in place at Sub-Office Aden needed improvement, as formal bidding process was not followed for purchases of US\$ 5,000 and above.
- Further efforts are required at Sub-Office Aden to correct and update AssetTrak to ensure data are reliable. In the local AssetTrak database, the total net value was overstated by at

least US\$ 2.6 million due to inaccuracies in recording.

- Non-food items and drugs, covering the needs of more than 20,000 refugees, at an estimated value of US\$ 60,000, were stored in UNHCR warehouse in Aden without insurance, which represents a risk.

Security and Safety

- OIOS assessed the security and safety measures in place in Yemen as generally satisfactory. However, some additional measures are required, such as installation of blast mitigation barriers, CCTV system and bulletproof windows at the reception at Representation in Yemen. Further tightening of security and safety is required at Sub-Office Aden with the installation of CCTV cameras, smoke detectors and fire extinguishers.

Administration

- In the areas of administration and finance, the UNHCR Offices in Yemen generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, improvement and strengthening of internal controls were required in the following areas:
- Delegation of financial authority at Sub-Office Aden was not properly established.
- Medical Insurance claims were generally processed in accordance with the MIP guidelines. Nonetheless, UNHCR was not in a position to query unreasonable or excessive charges, as a list of doctors and pharmacies, where MIP participants are recommended to seek medical treatment, was not maintained.
- For Medical Evacuation cases hotel bills were not always available and essential control documentation required under MEDEVAC rules was not maintained. OIOS identified overpayments and payments not substantiated by a claim totalling more than US\$ 4,000. *The Representation has initiated recoveries.*
- At Sub-Office Aden, salary advances were granted as a matter of routine, disregarding applicable rules.

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I. INTRODUCTION

1. From 18 September to 1 October 2004, OIOS conducted an audit of UNHCR's Operations in Yemen. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of three of its implementing partners and the activities of the UNHCR Representation in Yemen and its Sub-Office (SO) in Aden.
2. OIOS' previous audit of UNHCR in Yemen, which was conducted in January 2000, covered 1998 and 1999 programme activities and 1998 administrative expenditure. Internal control weaknesses were noted over the cash grant payments, which were charged directly to the budget code and cheques were made payable to UNHCR on behalf of refugees.
3. UNHCR operations in Yemen focus on protection and providing basic material assistance to some 21,000 Somali refugees in Kharaz camp and Basateen, as well as community assistance to urban refugees. UNHCR also provides protection to refugees from Ethiopia, Iraq, Palestine and Sudan. Special emphasis is put on self-sufficiency projects, income generation and vocational training for both camp and urban refugees.
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 1 October 2004. A note containing our preliminary findings and recommendations were shared with the Representative in October 2004. A draft of the report was sent to the Representative on 20 January 2005. The comments, which were received in February and March 2005, are reflected in the final report. *The Representation has accepted all of the audit recommendations made in the final report 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 2002 and 2003 programme activities under projects 02,03/AB/YEM/CM/201 with expenditure of US\$ 2.1 million. Our review concentrated on the activities implemented by Triangle Generation Humanitaire (TGH) - expenditure of US\$ 368,000 (the figure pertains to 2002 only; there was a scope limitation for TGH since the supporting documents for 2003 expenditures amounting to some US\$ 202,000 were not available for review, see also para. 11); Society for Humanitarian Solidarity (SHS) - expenditure of US\$ 765,000; and Charitable Society for Social Welfare (CSSW) –

expenditure US\$ 329,000. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 648,000.

7. The audit reviewed the administration of the office of the Representation in Sana'a and of Sub-Office in Aden with administrative budgets totalling US\$ 1.1 million for the years 2002, 2003 and 2004 (up to August) and assets (as recorded on Headquarters AssetTrak) with an acquisition value of US\$ 1.3 million and a current value of US\$ 343,000. The number of staff working for the UNHCR Operation in Yemen was 35. This included 9 Professional staff and 26 General Service staff.

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

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

9. For the three 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. However, OIOS identified certain areas where further improvements were required, especially for CSSW.

10. Audit certificates for 2002 sub-projects were available for all partners with unqualified opinions. For 2003 sub-projects, unqualified opinions were given for TGH and CSSW while the audit certificate for the sub-project implemented by SHS, a local NGO, which was due six months after the liquidation period, was still pending as of 30 September 2004. *UNHCR Representation confirmed that the audit certificate with an unqualified opinion was subsequently received.*

(a) Triangle Generation Humanitaire (TGH)

11. The supporting documentation pertaining to the 2003 sub-project, with a total expenditure of US\$ 202,000, was not available for review. The documents had been sent to TGH Headquarters in France for external audit purpose and no copies had been made and kept in Aden. OIOS recommended that in future TGH should consult UNHCR prior to sending the original supporting documents to Headquarters and ensure that at least copies of the documents are available at the field office. *TGH agreed with the recommendation.*

12. OIOS assessed as generally satisfactory the manual accounting system operated by TGH to report on UNHCR funds. Trial balance and detailed general ledger were maintained on Excel spreadsheets per UNHCR coding structure. Internal controls were also in place and working effectively. However, TGH needed to strengthen its cash management function. OIOS found that significant cash in hand (reaching US\$ 20,000) was regularly kept during extended periods of time (exceeding ten days). The auditors also carried out a surprise cash count during the visit to TGH, which disclosed a discrepancy of US\$ 562 in the cash in hand.

TGH explained that salary advances to staff were not reported in the cashbook and were maintained in a separate spreadsheet. OIOS recommended that all transactions should be properly supported by debit and credit entries in the cashbook. TGH agreed to improve the cash management by reducing the cash in hand and record debit and credit entries in the petty cash book.

(b) Charitable Society for Social Welfare (CSSW)

13. CSSW operated a basic manual accounting system, which required further improvement as bank and petty cash books were not kept. A general ledger was, however, maintained as per UNHCR budget lines, which allowed OIOS to reconcile it to the SPMRs submitted to UNHCR for 2002 and 2003 sub-projects.

14. Further, CSSW did not open a separate bank account for UNHCR funds and was using a pool account. The account was operated on joint signatory basis and, in the absence of a bankbook, bank reconciliation was not performed. In view of the weaknesses and limited capacity of CSSW in financial reporting, OIOS recommended that the UNHCR Representation in Yemen request CSSW to implement a sound accounting system and to open a separate bank account for the UNHCR project.

15. *The Representation stated that, as of January 2005, CSSW opened a separate bank account for UNHCR funds. Sub-Office Aden has provided CSSW with a computer and requested another national Implementing Partner, SHS, to help them in implementing a sound accounting system.*

16. Also, OIOS noted instances where ineligible expenditures were charged to the SPMRs. This was the case for lunches of the Director and two accountants (three cases in March 2002 and February 2003), which were charged to the budget line for “Supplementary Food”. OIOS cautioned CSSW to refrain from making ineligible expenditure under UNHCR funds. *UNHCR Yemen fully supported this approach.*

(c) Society for Humanitarian Solidarity (SHS)

17. OIOS found the manual accounting system operated by SHS satisfactory and noted that internal controls were operating effectively. SPMRs could be reconciled with the detailed general ledger maintained according to UNHCR coding structure and expenditures were properly authorised and adequately supported.

18. SHS did not adopt a clear and consistent policy on per diem and the rate paid to staff was determined at the Project Director’s discretion. In some instances, the per diem rate corresponded to 4 per cent of the staff salary. This was the case for the Project Director who was paid ten times more than project staff per night in Kharaz in May 2003. *SHS agreed to adopt a consistent policy on per diem and harmonise the amount paid to staff.*

B. Other Programme Issues

19. Project financial monitoring was the task of Sub-Office Aden. OIOS found the financial monitoring performed in 2003 inadequate since the final SPMRs for that year were not verified and not signed for acceptance. OIOS recommended that UNHCR Sub-Office, Aden with the support of Representation in Sana'a increase the scope and periodicity of financial verification and always sign final SPMRs before they are processed in FMIS. Also, OIOS suggested that at least one in-depth review should be undertaken each year. OIOS noted that in 2004 the Sub-Office Aden made considerable improvements in financial monitoring and, in August of that year, Sub-Office Aden carried out a comprehensive review of the procedures and systems in SHS and CSSW, which enabled to identify weaknesses and deficiencies. *The Representation stated that final SPMRs would be subject to verification periodically to ensure that an appropriate financial control system is in place.*

20. Also, in order to strengthen and improve their programme implementation capacity Sub-Office Aden organised for the implementing partners a workshop on Programme implementation and Related Issues in Aden in October 2003. Another training session was also scheduled for December 2004. However, implementing partners also expressed the need to have more support from the Sub-Office in terms of financial reporting and preparation of budget proposals, and UNHCR should consider to organise a training session on accounting and financial reporting. *The Representation stated that two training sessions were conducted in January 2005.*

C. Supply Management

Procurement

21. Implementing partners were only entrusted with limited procurement. The procedures in place needed further improvement, as bidding process was not always followed. The UNHCR Representation carried out little procurement during the period under review. Nonetheless, Sub-Office Aden did not always comply with UNHCR rules and procedures. Formal competitive bidding exercises were not undertaken for purchases valued at US\$ 5,000 and above. OIOS recommended that competitive bidding procedures be strengthened. *The UNHCR Representation commented that it was taking action to improve procurement procedures. A Local Committee on Contracts had been established.*

22. Sub-Office Aden has been using the services of a local contractor for the maintenance of computers. The agreement signed with the contractor did not contain relevant clauses such as the nature of services, the periodicity of the service or number of computers to be maintained. In order to avoid any misunderstanding, which may lead to disputes, the nature and the extent of the services to be provided should be clearly spelled out in the contract. OIOS recommended that Sub-Office Aden use the UNHCR contract format as outlined in Annex 8.6, Chapter 4 of UNHCR Manual. *UNHCR Representation in Yemen responded that action had already been taken on this matter. Three bids had been received and a new contract was being prepared with the qualified bidder. The contract would contain all the recommended elements, such as the details and the number of equipment to be maintained.*

Asset Management

23. AssetTrak system was operational in both UNHCR offices in Yemen. While AssetTrak was working effectively at Sana'a, OIOS found AssetTrak data inaccurate and not up-to-date in Aden. For instance, for the assets under CSSW custody, the local AssetTrak database showed a total acquisition value of US\$ 125,832, while the total current value amounted to US\$ 2.7 million. This was due to the input error, which occurred while updating the entries and which resulted in the overstatement of the net asset value by almost US\$ 2.6 million. Also, the results of the physical checks had to be better documented. Further efforts are therefore required to correct and update AssetTrak to ensure data on assets are reliable. OIOS suggested that training on AssetTrak might be necessary to make staff familiar with it. *UNHCR indicated that a Regional Information System Officer undertook a mission to the Sub-Office Aden, had updated the AssetTrak system, and all necessary corrections had been made accordingly.*

Warehousing

24. UNHCR's warehouse in Aden contained non-food items and drugs for some 20,000 refugees with an estimated value of US\$ 60,000. Our review found that the procedures for receipt and issue of goods were satisfactory, with adequate controls in place. However, the stock was not insured, which presents a risk. OIOS recommended that the Representation assess the value of stock of non-food items and drugs in the warehouse and, in consultation with SMS, consider insuring these stocks. *Sub-Office Aden is in the process of identifying a qualified insurance company.*

D. Security and Safety

25. Security and safety arrangements at the UNHCR offices in Yemen were generally satisfactory. However, OIOS noted that some staff had not yet completed the Basic Security in the Field training, periodic drills to test emergency and evacuation procedures were not conducted at Sub-Office Aden. Further tightening of security and safety is required at the Sub-Office with the installation of CCTV cameras, smoke detectors and fire extinguishers. Also, UNHCR, Sana'a has to finalize projects on installation of blast mitigation barriers, CCTV system and bulletproof glass for the reception premises in Sana'a. *The Representation stated that Sub-Office Aden still needed to install CCTV cameras in order to fully comply with the recommendations. UNHCR Sana'a had installed all of the equipment as per the OIOS recommendation.*

E. Administration

26. In the areas of administration and finance, the UNHCR offices in Yemen generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, OIOS identified some areas where further improvements were required.

Medical Insurance Plan (MIP)

27. MIP claims were generally processed with accuracy and in accordance with the guidelines. We noted however that UNHCR Representation did not maintain a list of hospitals, pharmacies and doctors, where MIP participants are recommended to seek medical treatment. In the absence of lists and rates for medical treatment, UNHCR was not in a position to query unreasonable or excessive charges.

28. As a temporary measure and while establishing a list of recommended hospitals and pharmacies in conjunction with other UN organisations, OIOS recommended to refer medical bills exceeding a certain value or specialised cases to the UN Doctor in order to determine the reasonableness of the charges.

Medical Evacuation (MEDEVAC)

29. The UNHCR Representation in Yemen did not maintain documentation required under IOM 85/2001 & FOM 83/2001 for monitoring of MEDEVAC cases. Further, in several instances, OIOS could not obtain assurance that the correct DSA rate was applied, since hotel bills were not always available. For MEDEVAC within country of recruitment, UNHCR did not apply the correct DSA rate for two national staff in Aden, resulting in overpayment of US\$ 400. *The Representation recovered the overpayments and agreed to apply, henceforth, the correct rates.*

30. OIOS noted an instance where a staff member (index number 125196) on medical evacuation to Geneva in September/October 2003 was paid DSA totalling US\$ 2,766. However, the office could not provide a travel claim or other documents supporting the payment. OIOS recommended that UNHCR Sana'a request the staff member to submit his travel claim or refund the amount of US\$ 2,766. In 2003, two staff members (index numbers: 125196 and 243036) were medically evacuated to their Place of choice, in lieu of the recognised place. As per UNHCR rules on MEDEVAC, the cost to be borne should not exceed the amount that would have been paid on the basis of evacuation to the recognised place. OIOS noted that the extra travel costs, amounting to US\$ 436 and US\$ 556 respectively, which had resulted from the route deviation, had not been recovered.

Recommendation:

- The UNHCR Representation in Yemen should request staff member (index 125196) to submit his travel claim for DSA totalling US\$ 2,766 received for MEDEVAC to Geneva in 2003 and recover any overpayments (Rec. 01).

The Representation is in the process of collecting documents in order to take a decision concerning other recoveries. Pending the outcome of this matter, OIOS keeps this recommendation open in its database.

Delegation of financial authority

31. With the exception of the Head of Office, the delegation of financial authority had not been established for the other professional staff at Sub-Office Aden as set forth in IOM 67/2000 FOM 69/2000. *The Sub-Office agreed to prepare the delegation of authority chart, as well as signature cards for pertinent staff.*

Salary advances

32. Sub-Office Aden granted salary advances (emergency and special advances) to staff members as a matter of routine. Staff members were seeking and were granted salary advances as soon as the previous one had expired. Since in most cases reasons for granting emergency advances were not properly documented, we could not ascertain whether these payments qualified for emergency advance. *UNHCR Yemen agreed to keep the salary advances to a minimum and in accordance with relevant rules.*

Tax exemption status

33. It was unclear to UNHCR whether the goods and services purchased locally were inclusive of VAT and/or other related taxes. OIOS requested UNHCR to enquire about any tax levied and, accordingly, apply for tax exemption. *In their replies, UNHCR stated that no tax is paid on the purchases.* In the view of OIOS, the fact that tax is not explicitly mentioned on the invoice does not necessarily mean that UNHCR is not charged for taxes. According to the information received by OIOS, the VAT law has been approved by Parliament, but currently implementation of the law is delayed. The country is applying “Production, Consumption and Services tax” levied on all commodities imported, local products and services, which ranges from 5 to 15 per cent.

Recommendation:

- The UNHCR Representation in Yemen should fully assess together with the host country authorities its tax exemption status (Rec. 02).

In its reply to the draft report the Representation stated that this matter would be further investigated to find out whether any tax was levied on goods and services purchased locally by UNHCR and action would be initiated accordingly. Pending the action taken, OIOS keeps this recommendation open in its database.

Locally recruited consultant

34. We reviewed the case of a locally recruited consultant, who served as health coordinator to supervise the health activities of the implementing partner CSSW at the Basateen clinic. She was recruited for a period of nine months at a monthly fee of US\$ 2,000 without the approval of DHRM. Also, one per cent contribution towards Appendix ‘D’ of the Rules Governing Compensation in the event of Death, Injury or Illness attributable to the performance of duties, as per UNHCR IOM/66/2000 and FOM/68/2000, was not applied. OIOS pointed out that according to Chapter 6, Section 1.2 of the UNHCR Manual no consultancy contracts shall be issued in the field, irrespective of the contract being charged to an approved administrative budget or to a project, and irrespective of the consultant being internationally or locally recruited. A request for consultancy services has to be initiated in the field and sent to the respective Regional Bureau/Desk, which then makes an official request to DHRM. *The Representation agreed to comply with UNHCR procedures and informed OIOS that the contract of the health coordinator had been terminated.*

V. ACKNOWLEDGEMENT

35. 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 Yemen.

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