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AUDIT OF UNHCR OPERATIONS IN BURUNDI

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EXECUTIVE SUMMARY

In April and May 2005, OIOS conducted an audit of UNHCR Operations in Burundi. The audit covered activities with a total expenditure of US\$ 32.3 million in 2003 and 2004. A summary of preliminary findings and recommendations was shared with Representative in May 2005, on which comments were received by June 2005. *The Representative has accepted most of the recommendations made and has taken swift action to implement them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Burundi as below average. The weaknesses identified, particularly in financial management, taken together or individually, significantly impaired the overall system of internal control. Prompt corrective action is required by management to significantly improve the application of key controls. The problems identified to an extent pre-existed the current management and could be attributed to the rapid increase in the scale of the programme, without the timely provision of adequate financial and human resources being placed at the disposal of the Representation.

Programme Management

- For four of the six partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. In respect of FEPADE and ARP, OIOS could not obtain such assurance. *The partnership with FEPADE has been terminated and for ARP the initial suspension of partnership was lifted following the partner's commitment to improve its management practices.*
- Project financial and performance monitoring was adequately performed, however, given the nature of OIOS' findings on the partners audited, the frequency of monitoring visits should be increased. *The Representation will take requisite action.*
- GTZ failed to disclose and reimburse to UNHCR an insurance payment received from the insurance company in July 2003, for an accident that took place in June 2002. When OIOS pointed out the omission, GTZ promptly reimbursed some US\$ 66,000 to UNHCR.
- There were serious management and accounting problems within ARP. OIOS observed numerous double charges totalling some US\$ 15,000 of which some US\$ 10,000 has been recovered. Procurement procedures followed were inadequate and there was little evidence of competitive tendering. Procurement documentation was wanting for most purchases. The Representation needs to monitor the activities of this partner closely, to verify that management and accounting practices actually improve as promised by the partner.

- OIOS' review of FEPADE, a government partner, was limited, as the Director had absconded with the accounting records, chequebooks and other documents. Based on the review of the SPMR and bank statements, OIOS recommended recovery of expenditure of some US\$ 16,400 that could not be substantiated. Though partnership with FEPADE has been terminated, OIOS further recommended that the Representation verify whether cash totalling some US\$ 90,000 withdrawn in June 2004 for purchase of agricultural equipment was actually used for that purpose.
- For the Voluntary Repatriation Project funded by the EU, OIOS was concerned about stock loaned for Congolese refugees, unrelated expenditures being charged to the EU project and about a lack of transparency in allocating common costs. *The Bureau has confirmed that all stock loaned has been returned to the project.* Further, some US\$ 0.6 million provided for evaluations and independent audits under EU funding for voluntary repatriation, have lapsed, as UNHCR did not take timely action. As a result, the EU has now initiated their own "financial evaluation".

Supply Management

- UNHCR procurement procedures were not always adhered to and various instances of non-compliance with the established threshold for local procurement (US\$ 100,000) came to our attention. Asset management required attention as asset data had not been updated and there was a large backlog of cases to be submitted to the LAMB/HAMB. The LAMB meetings were very infrequent. *The Supply Unit has been reinforced with the arrival of the Logistics Officer and LAMB meetings are now held twice a month.*
- Fuel management required improvement and OIOS observed weaknesses in receiving procedures, non-availability of waybills/delivery notes and discrepancies in quantities of fuel despatched to the field and what was received in the field. *The Representation has established new control measures.*

Security and Safety

- A recent memo from the UN Security and Communications Cell highlighted some weaknesses in security matters. Action to increase the level of MOSS compliance for the Representation and Field Offices is underway.

Administration

- OIOS regretted that important weaknesses in financial controls highlighted in its 1999 and 2002 audit reports, had not been addressed. Marked shortcomings in financial management persisted at the Representation in 2005. Basic procedures were neglected leading to failure of critical internal controls rendering the Representation vulnerable to financial loss, overpayments and fraud.
- OIOS detected apparent overpayments of SOLAR/Hazard allowance amounting to some US\$ 76,000, which upon subsequent examination by the Representation turned out to have been embezzled by the Finance Assistant. The Finance Assistant, who had not been properly supervised by the Finance Officer, had systematically forged and manipulated the accounts. The matter has been referred to the IGO.
- Key international managerial positions were yet to be filled. Even though Fast Track procedures were being used, there were delays in staff members assuming posts to which

they were appointed. *Since then, the staffing situation has substantially improved with most posts filled.*

August 2005

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I. INTRODUCTION

1. From 18 April to 5 May 2005, OIOS conducted an audit of UNHCR's Operations in Burundi. 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 Burundi and its Sub-Office (SO) in Ruyigi and of six of its implementing partners.
2. OIOS' previous audit of UNHCR in Burundi was conducted in June 2002. The review focused on 2001 projects covering expenditure of US\$ 4.5 million. The audit assessed the operations as 'average' with significant shortcomings in financial management and procurement. OIOS regrets that its 2005 audit, conducted some three years later, showed little improvement in financial management at the Representation.
3. In 2004 there was a significant increase in the volume of UNHCR operations in Burundi. In addition to the two old caseloads of refugees, there was a mass influx of refugees from the Democratic Republic of Congo (DRC). Two new projects were set up to deal with this latest unforeseen influx of up some 35,000 Congolese refugees from the DRC in July 2004. An additional project in 2004 involved the anticipated return of up to 90,000 Burundian refugees back to Burundi. In view of the magnitude of the returnee population, a supplementary programme for the return and reintegration of Burundian refugees was set up. This followed the November 2003 peace negotiations between the Government and rebels, though the security situation still remains tense and uneasy.
4. *OIOS assessed the UNHCR operations in Burundi as below average in 2003 and 2004. While generally agreeing that shortfalls and weaknesses existed in the operations, the Representation indicated that performance should be viewed in the context of the substantial upsurge in operations and also the financial and human resources placed at its disposal. The Representation pointed out that despite repeated requests to the Headquarters, duly supported by the Desk and the Bureau, the staffing for UNHCR Burundi was not strengthened until October 2004.*
5. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 5 May 2005. A summary of preliminary findings and recommendations was shared with the Representative in May 2005. The comments, which were received in June 2005, are reflected in this draft report. *The Representation has accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

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

7. The audit focused on 2003 and 2004 programme activities under projects 03/AB/BDI/RP/370, 04/AB/BDI/RP/370, 04/SB/BDI/RP/332 and 04/AB/BDI/EM/141 with expenditure of US\$ 25 million. Our review concentrated on the activities implemented by Gesellschaft für Technische Zusammenarbeit (GTZ) - expenditure of US\$ 5.9 million; Austrian Relief Programme (ARP) - expenditure of US\$ 1.37 million; Commission National Reinsert. Sinistres (CNRS - Government partner) expenditure of US\$ 1.3 million; Min. de l'Action Sociale/Promot (FEPADE) - expenditure of US\$ 0.3 million; Centre pour l'Autosuffisance (CADI) - expenditure of US\$ 0.94 million and African Humanitarian Action (AHA) - expenditure of US\$ 1.08 million. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 6.3 million.

8. The audit reviewed the administration of the Representation at Bujumbura with administrative budgets totalling US\$ 7.33 million for 2003 and 2004 and assets with an acquisition value of US\$ 11.2 million and a current value of US\$ 2.07 million. The number of staff working for the UNHCR Operation in Burundi was 145. This included staff on regular posts, United Nations Volunteers and staff on mission.

9. The audit also followed up on findings and recommendations made in the 2002 OIOS audit regarding financial management.

10. 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, in particular for SOLAR and Hazard payments and other relevant records.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

11. For the six partners reviewed, reasonable assurance could be taken in respect of GTZ, CADI, AHA and CNRS that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. In respect of the remaining two partners, namely ARP, and FEPADE OIOS could not obtain assurance that funds were properly accounted for and disbursed in accordance with Sub-agreements. OIOS assessed that internal controls of most partners were generally weak and not operating effectively and as a consequence, attention was required on these aspects during project verification.

12. Audit certificates for all partners were received in respect of the 2003 sub-projects. TORs for the selection of an audit firm for verification of 2004 IPs accounts have been issued and the exercise will take approximately a month to complete.

(a) GTZ

(i) Accounting and Financial Management

13. OIOS observed during its review that GTZ did not use their usual standard accounting software (WinPaccs) to record and monitor UNHCR project expenditure, and instead made use of Excel tables for accounting requirements. OIOS requested for WinPaccs and AMS

printouts, but was provided only with Excel outputs. *GTZ responded that they had indeed been using WinPaccs and AMS in Burundi. The accounting in Excel was a temporary measure pending verification of SPMRs by UNHCR. Upon acceptance of the SPMR, the expenditures were recorded in the AMS with no further possibility to make changes. OIOS cautioned against using Excel alone for accounting, in view of the potential for manipulation and unauthorized changes. The Representation stated that they would be vigilant in ensuring that no authorized changes would be made between the interim EXCEL accounting results and the final recording in WinPaccs.*

14. Observing transfers between budget lines and sectors in excess of the permissible limits, OIOS recommended that transfers between budget lines are carried out within the level of authority delegated to the partner and that the permission from UNHCR should be obtained for any transfers that exceed the stipulated 15 per cent limit. *GTZ took note of the recommendation and assured that they would avoid transfers in excess of permissible thresholds. The Representation would monitor compliance.*

(ii) Insurance payment

15. The GTZ truck fleet operates under insurance cover obtained internationally and the insurance premiums are paid by UNHCR under the sub-project. Accordingly, in the event of a mishap involving an insured vehicle, the partner is expected to immediately inform UNHCR and also to credit funds received from insurance claims to the corresponding sub-project. In June 2002, a UNHCR truck was involved in an accident that claimed the lives of several Burundian refugees being repatriated to their homeland. Following protracted negotiations, an agreement was reached to compensate the families of the victims to the extent of some US\$ 120,000. The compensation amount was apportioned equally between UNHCR and GTZ, with UNHCR's contribution being charged to the repatriation sub-project in 2002, 2003 and 2004.

16. OIOS, however, found that GTZ had received some US\$ 130,000 from the insurance company in July 2003, but had not disclosed this to UNHCR and in the meantime continued to charge UNHCR sub-projects in 2003 and 2004. OIOS accordingly recommended that GTZ should immediately reimburse to UNHCR an amount of US\$ 66,351, representing the amount charged to the repatriation sub-project and appropriately credit the EU project (original source of funds). Further, when the insurance company pays for the repair of the damaged vehicle, estimated at some US\$ 12,000, this amount too should be reimbursed to UNHCR. *Acting promptly, GTZ reported that an amount of US\$ 66,351 had been transferred to UNHCR Headquarters in May 2005. OIOS confirmed that the amount had been received and further recommends that the EU project be credited accordingly and that the costs of the repair of the accident vehicle estimated at some US\$ 12,000 should also be pursued with the insurance company. The Representation later informed that an amount of Euro 8,580 had been received by GTZ from the insurance company for repair charges and would be refunded to UNHCR.*

(iii) Procurement

17. Supporting documentation was lacking for GTZ' international procurement of spare parts. Purchases of some US\$ 0.9 million made in 2003/2004, were supported only by a spreadsheet (Order Status Report) summarizing the estimated costs of the various orders and the expected delivery dates. In the absence of copies of the payment vouchers and/or invoices, OIOS was not in a position to assess whether the amounts charged to the SPMRs

were substantiated and free of material errors. OIOS assessed that in 2004 some US\$ 327,000 was charged to the SPMRs even though the spare parts had not been received. *GTZ stated that the last consignment of spare parts ordered in 2004 had reached Bujumbura and reconciliation would be done between spares ordered and spares received. In order to improve the tracking and management of spare parts, GTZ will also install the new version of the PMS software.*

18. Procurement procedures used for purchases were not compliant with GTZ' own manual on procurement. OIOS noted frequent procurements in excess of the threshold of € 12,500 that should have been approved by GTZ headquarters. This was the case for the procurement of several consignments of gas oil and of construction materials. For procurement below the threshold, proper procedures were not always followed. Procurement activities were not fully and transparently documented and we observed cases where proper competition was not evidenced. *GTZ responded that corrective measures had been introduced and that all procurement above the ceiling of € 12,500 would be approved by GTZ Headquarters and below this ceiling by the local office. UNHCR would also be invited to participate in the bidding process.*

(iv) Fuel management

19. Fuel management required improvement and OIOS observed weaknesses in receiving procedures, non-availability of waybills/delivery notes and discrepancies in quantities of fuel despatched to the field and what was received in the field. Controls over receipt of fuel by GTZ were particularly weak, with none of the fuel tanks (gas oil and petrol) equipped with functioning dipsticks or fuel flow meters. Receipt of fuel is acknowledged only on the basis of the supplier's documents and no independent measurement was done. Accordingly GTZ had no means of assessing their daily stock levels or if the vendor had supplied the contracted quantity. However, the consumption of fuel could be measured at the point of dispensing the fuel from the pump. *Following reports of discrepancies in fuel records between the UNHCR Logistics Unit and GTZ, the Representative set up a team to review these differences. The team has presented its report that is under consideration, though in the meantime some new control measures to monitor fuel management have been introduced by GTZ. GTZ added that three fuel tanks of 17,500 litres equipped with flow meters were now operational in field locations.*

(v) Vehicle utilization

20. OIOS reviewed the utilization of trucks from January till March 2005 and noted that the utilization levels were rather low ranging from 14 per cent in January 2005, rising slightly to 17 per cent in February and peaking at 27 per cent in March 2005. The low levels of utilization also meant that the 23 drivers on the payroll were also underutilized. This was indicative of lack of proper planning, as at the same time, other implementing partners, including CNRS and CADI spent substantial amounts for the rental of trucks. Records evidencing vehicle utilization in 2004 were not available. UNHCR and GTZ should keep the utilization levels under regular review and if the present trend continues, consider reassessing the overall fleet requirements at Ruyigi. *The Representation informed that fleet utilization rates had improved due to increase in the number of returnees from Tanzania and deployment of the fleet to assist Rwandan asylum seekers and transfers of refugees from Bujumbura to Gasorwe and Gihinga. The Representation further indicated that the weekly meeting between the Logistics Sections of UNHCR and GTZ would continue to monitor the fleet utilization rates.*

(b) Austrian Relief Programme

21. The Austrian Relief Programme (ARP) has been working with UNHCR in Burundi for some years. In 2004 and in the first quarter of 2005, the partnership with the NGO was under strain and encountered numerous difficulties arising mainly out of accounting, reporting and management problems within the NGO. In early 2005, UNHCR decided to suspend the partnership due to several adverse reports. The Representation later informed that the suspension of partnership was lifted following ARP's commitment to improve its management's practices. In view of the gravity of OIOS' findings as detailed below, however, it is emphasized that the reinstatement is contingent upon the partner demonstrating concretely its pledge to improve.

(i) Double charge of sub-project expenditures

22. OIOS was not satisfied with the Excel based accounting system operated by ARP as this does not provide the necessary security and data can easily be altered or manipulated. OIOS noted that a considerable number of transactions with significant amounts had been duplicated resulting in an overcharge to the 2004 SPMR of at least some US\$ 15,000. The double charges were too numerous to be considered as mere errors occurring during accounting on Excel. In some cases, the double posting was intentional and there was an attempt to inflate expenditures as the original supporting documents were photocopied, and used to support the same amount elsewhere. *To reduce the incidence of such problems and in the interests of harmonization and standardization, UNHCR proposes to purchase the 'Sage Saari' software for its implementing partners. ARP also stated that an amount of FBU 11.22 million (US\$ 10,300) was refunded to UNHCR. Since the double posting identified by OIOS amounted to US\$ 15,000, the balance amount of some US\$ 4,700 was pending recovery. Following OIOS recommendations, an additional amount of FBU 7.63 million (US\$ 7,000) has been identified for recovery and will be recovered shortly.*

23. The filing system adopted was less than satisfactory, with Purchase Order, invoice, payment voucher, and delivery notes all filed separately in various folders though pertaining to the same expenditure. OIOS did not see any particular justification for such filing methods, and could not exclude that some of the documents may be used to justify the same expenditure under different funding, given that ARP was also co-funded by the European Union, Austrian Cooperation, the American Embassy and various other donors. *The Representation stated that ARP is under regular close scrutiny by the Project Control Officer and all project documents funded by UNHCR would be stamped with the UNHCR logo.*

(ii) Expenditures incurred beyond liquidation dates

24. Observing commitments for large amounts and expenditures beyond liquidation dates in 04/SB/BDI/RP/332, 04/AB/BDI/EM/141 and also for 04/AB/BDI/RP/370, OIOS recommended that ARP should strictly adhere to the clauses of the sub-agreement and not incur expenditures beyond the liquidation date. Moreover the final 2005 SPMRs should be thoroughly scrutinized to ensure that no expenditures relating to 2004 commitments previously charged to the 2004 sub-projects are charged again. *ARP stated that they noted the recommendation and assured that they would work closely with UNHCR to avoid expenditures after the liquidation dates in the future. ARP also refunded UNHCR an amount of FBU 44.98 million (US\$ 41,300) being the unspent balance of 04/SB/BDI/RP/332. The Representation added that close scrutiny by UNHCR Project Control would prevent recurrence of the same problem in 2005.*

(iii) Procurement

25. ARP is not pre-qualified to make procurement and hence must abide by UNHCR IP Procurement Guidelines for purchases. Our review of procurement processes at ARP showed that the procedures followed were deficient and non-compliant with the guidelines. Procurement documentation was wanting for most purchases. Evidence of competitive bidding, Goods Received Notes, waybills and proper invoices were not available in some cases. Only handwritten invoices supported some vouchers, even though the amounts involved exceeded US\$ 10,000. Purchases of doors and windows etc. were made from several suppliers between August and December 2004 for some US\$ 83,400. Despite the large amounts involved, there was no evidence that competitive bidding procedures had been applied. Procurement documentation for the numerous construction projects implemented, in particular relating to the choice of contractors was deficient and there was no evidence that competitive procedures had been adopted. Several major construction projects were mostly awarded only to two contractors. *The Representation stated that ARP had started to follow bidding procedures and would invite UNHCR for the opening of bids and awarding of contracts and also that Project Control and Logistics Section would monitor compliance with procedures.*

(iv) Common costs

26. Since there are numerous donors, in the interests of transparency and fairness, ARP should reach an agreement with UNHCR on the methodology to be used for allocating common costs such as communications, utilities, office supplies, office rental, salaries etc. According to ARP, currently these costs are simply charged to UNHCR sub-projects up to the amount provided in the relevant budget lines, with any excess absorbed by ARP and other donors. *The Representation informed that discussions were underway with ARP to agree on modalities for allocation of common costs.*

Recommendations:

- The UNHCR Representation in Burundi should, given the management, accounting and other problems confronting the Austrian Relief Program, closely observe the activities of the partner by frequent monitoring visits. The level of procurement delegated to the partner should be restricted till the partner develops the capacity to follow the IP Procurement Guidelines (Rec. 01).
- The UNHCR Representation in Burundi should request the Austrian Relief Program to agree with UNHCR, a transparent methodology for allocating common costs among the various donors (Rec. 02).

(c) CNRS

27. For the 2004 repatriation sub-project, OIOS observed commitments of some FBU 5.9 million (US\$ 5,400) and recommended that they should not feature in final SPMRs. Controls over bank transactions also required strengthening as no reconciliations were being carried out and there were substantial differences between the bank balance and the amounts reported as unspent balance in the SPMR. *CNRS stated that commitments would not be included in the SPMRs and that monthly bank reconciliation would be carried out and independently*

reviewed. Payment vouchers and standard procedures were not used for authorization and approval of expenditures, also the UNHCR sub-project was not clearly indicated on the voucher and expenditures were not properly supported. CNRS took action to introduce the use of payment vouchers that are duly authorized and approved, with UNHCR project codes endorsed thereon. In view of common weaknesses among implementing partners, the Representation also proposes to conduct training for partners on accounting, financial reporting, internal controls, bank reconciliation and procurement procedures.

28. Procurement procedures were weak and substantial amounts were spent without proper competitive bidding and full documentation was also not available. For instance, some US\$ 100,000 was spent on the hiring of trucks and the IP Procurement Guidelines that the partner was obliged to follow were not observed. *The Representation advised that the Programme and Logistics Sections would conduct an internal review of procurement procedures adopted by implementing partners in order to recommend a course of action for the 2006 sub-agreements.*

29. In August 2004, a new UNHCR vehicle was stolen from a CNRS employee while parked at his house. According to CNRS, they had warned staff not to take any official vehicle to private residences, especially in certain specific areas (including the area where the vehicle was stolen from), and that the concerned employee had disregarded the warning. CNRS explained that the services of two staff members have been terminated. *Following LAMB's recommendation to request CNRS to refund the depreciated value of the stolen vehicle (US\$ 19,600), a letter was issued to CNRS. CNRS expressed their inability to reimburse the value of the stolen vehicle and advised that legal proceedings had been instituted against the former head of CNRS in Makamba and the driver, who were allegedly involved in the theft. In order to ensure that recovery is effected the Representation will recover the amount due (US\$19,600) by retaining the equivalent amount from the next instalment to be paid to CNRS under sub-project 05/SB/BDI/RP/332 (a).* In view of the large amount involved, OIOS requests for confirmation of recovery.

(d) FEPADE

30. UNHCR terminated the partnership with FEPADE in January 2005, following a series of unprecedented developments, such as the disappearance of the Director (Project Coordinator) with all the accounting records, chequebooks, computer on which the records were maintained and also the carjacking of the UNHCR vehicle and loss of cash amounting to some US\$ 4,600. Despite high-level discussions between the Ministry of Social Affairs and the Ministry of Justice, attempts to secure the return of accounting and other records from the former Director have proved unsuccessful. The carjacking case is pending with the Tribunal and a decision is awaited. The Ministry of Social Affairs has sought and obtained a freeze on the FEPADE bank account, that had a balance of some FBU 3.2 million (US\$ 2,950).

31. It was assessed after reviewing the interim SPMR and the bank statements that some FBU 17.8 million (US\$ 16,400) could not be substantiated and should be returned by FEPADE. *UNHCR has since formally requested FEPADE to refund this amount. The Representation confirmed that most of the UNHCR assets held by FEPADE had been returned to UNHCR and the recovery of the remaining assets would be pursued.* OIOS requests to be informed once the recovery is made.

(i) Potentially Fraudulent transactions

32. OIOS was informed that the former Project Coordinator (Director) was the only signatory of the bank account, and she kept the chequebook in her custody. It was understood that she alone made all accounting entries and prepared the financial reports, though there was an accountant for such work. OIOS' review of the bank statement for 2004 showed significant cash withdrawals for payment to suppliers in Bujumbura. For example, within one week (from 14 through 21 June 2004), she withdrew a total of FBU 98.65 million (US\$ 90,594) for the cash purchase of agricultural equipment from local suppliers. OIOS discussed the matter with the new Coordinator (who was previously the Field Coordinator) who explained that the supporting invoices were probably fake as these were pro forma invoices altered to appear as an invoice. He could not however substantiate that the transactions were fraudulent. OIOS questioned the justification for the huge cash payments as most suppliers accept cheques and given the significant sums of money involved, the matter needs to be probed further. It was brought to our notice that in 2003, the auditor gave a qualified opinion due to the lack of appropriate supporting documentation.

33. *The Representation stated that they were following up the transactions, but that they lacked access to the supporting documentation. Further, that on 1 June 2005 a letter was written to the 'Procureur General de la Republique' requesting his intervention to pursue with the former FEPADE Coordinator to account for the utilization of the funds.*

Recommendation:

- The UNHCR Representation in Burundi should in conjunction with FEPADE verify if the amount of FBU 98.6 million (US\$ 91,000) withdrawn in cash in June 2004 was actually spent for the purchase of agricultural equipment by examining relevant records. If the purchases cannot be substantiated, appropriate legal remedies for recovery should be pursued (Rec. 03).
- The UNHCR Representation in Burundi should recover from FEPADE an amount of US\$ 16,400, representing 2004 expenditures that could not be substantiated (Rec. 04)

(e) CADI

34. CADI incurred expenditure on sub-projects after the liquidation period, did not refund unspent balances promptly and spent money on items not authorized in the sub-agreement. Based upon OIOS' observation, the Representation requested CADI for a refund of some FBU 20.71 million (US\$ 19,000) that the partner agreed to refund the amount in installments. Internal controls over cash and bank transactions were weak and needed to be improved. No bank reconciliations were done in 2003 and the first bank reconciliation was dated February 2004 and was prepared by the accountant, though there was no evidence of review by an independent official. *The Representation agreed that bank reconciliations were not being done properly by most partners and will organize training sessions for the partners.*

35. OIOS' review of construction contracts showed that proper tendering procedures had not been consistently applied. Adequate supporting documents were also not available for construction expenditure totalling some FBU 119.23 million (US\$ 110,200). Similar inadequacies were noted for transport and furniture contracts. *CADI stated that supporting documentation has been sent to the Representation where these are being reviewed. The Representation also informed that in view the inadequacies of the partner, the advisability of*

continuing the partnership with CADI in the context of the 2006 programme, would be evaluated.

Recommendation:

- The UNHCR Representation in Burundi should ensure that CADI makes the refund of US\$ 19,000 in installments, as agreed (Rec. 05).

(f) African Humanitarian Action

36. Weaknesses in banking procedures were noted, as the partner did not carry out bank reconciliation properly. *The Representation will conduct training in this area.* AHA is not a pre-qualified partner for procurement, though it was entrusted with significant procurement of drugs totalling some US\$ 286,000. This procurement was mostly done from a single vendor at prices that were markedly more expensive than international/SMS prices for essential drugs. OIOS recommended that bulk drugs should be purchased under existing UNHCR frame agreements, thus allowing significant savings. Local procurement of drugs should be limited to urgent requirements. *Acting promptly, the Representation revised the 2005 sub-agreement and will undertake part of the purchase of drugs through SMS, under existing frame agreements.*

B. Other Programme Issues

37. OIOS assessed that project financial and performance monitoring was systematically done and verification notes were prepared enabling the identification of problem areas in advance and subsequent remedial action. However, given the nature of OIOS' findings on most partners, the frequency of monitoring visits should be increased in respect of those partners with weak systems and internal controls.

Five per cent Support costs to International NGOs

38. The eligibility to five per cent headquarters support costs for international NGOs has not been consistently determined in accordance with UNHCR guidelines. For instance, the support costs for AHA were not correctly calculated after excluding the local procurement component that was some 40 per cent of the budget, leading to overpayment of headquarters support costs. According to UNHCR Manual Chapter 4, Section 5.1 "Where the total budget for local procurement to be undertaken by the international partner exceeds 30 per cent of the total project value, then the whole amount budgeted for local procurement should be taken out of the calculation." The overhead costs proposed for other International NGOs should also be reviewed to ensure that the overhead costs have been correctly calculated. *The Representation stated that the Programme Section would conduct a comprehensive review of the five per cent overhead costs budgeted for international NGOs for the 2005 programme and inform OIOS of the cumulative financial impact of the review.*

European Union Project

39. OIOS reviewed certain aspects of the € 25 million Voluntary Repatriation Project funded by the EU and were concerned about expenditures unrelated to the repatriation of Burundian refugees being charged to the EU project and about a lack of transparency in allocating common costs. OIOS was of the view that this may affect the accuracy and

reliability of the financial reports to the EU as well as the reputation of UNHCR vis-à-vis the EU. As of April 2005, the stock loaned for Congolese refugees had still not been returned with corresponding credits to the EU project. OIOS recommended that any stock loaned from EU project valued at some US\$ 225,000 should be returned and that a methodology be established for allocating part of the costs of warehousing, workshop, vehicle fleet and other services to those projects and activities benefiting from these services. *The Desk for Burundi stated in May 2005 that all items borrowed from the EU project to meet the emergency requirements of the Congolese refugees, had been returned. The Representation stated that the final report on the EU funded Voluntary Repatriation Project has been submitted to the Chief, European Aid Cooperation Office, on 30 June 2005.*

40. The EU project included a budget of € 500,000 for “External evaluations and independent audits”. By the end of 2003, UNHCR had spent less than € 14,000 under this budget line, representing the cost of audit certificates for implementing partners. It was not until October 2004, less than three months before the end of the project period, that UNHCR Burundi approached the European Commission to seek their approval to transfer the amount budgeted for evaluation and audit into 2005. In November 2004 the EC Delegation in Burundi informed UNHCR that the funds for evaluation and audit had to be used within the operational period of the project, i.e. prior to 31 December 2004 and that it was therefore no longer feasible to arrange for the evaluation/audit foreseen under the project agreement. Instead, the EC itself intended to conduct a “financial verification/ex-post evaluation” in September 2005.

41. As a result, the funds, totaling more than US\$ 0.6 million, provided for evaluation and audit may have lapsed. It is unfortunate, that UNHCR did not discuss the modalities for the arrangement of an evaluation/audit and the funding conditions at an earlier stage, when it was not too late to take an alternative course of action.

C. Supply Management

(i) Procurement

42. An LCC was established and functioning during 2003, 2004, and 2005. However, OIOS noted that UNHCR procurement procedures were not always adhered to and various instances of non-compliance with the established threshold for local procurement (US\$ 100,000) came to notice. As assessed by OIOS, the cumulative value of contracts not submitted to the CoC (excluding the fuel contracts) was some US\$ 400,000. OIOS noted with concern that in some instances the Representation intentionally bypassed the UNHCR procurement rules and the lowest bidder was sometimes not selected simply because the total payment to that particular supplier had already reached the threshold of US\$ 100,000, and any further payments would necessitate submission to the CoC.

43. The Representation procured fuel valued at some US\$ 840,000 in 2003 and 2004 and fuel was purchased from several suppliers on the basis of short-term contracts for relatively limited quantities. OIOS questioned why the procurement could not be done through annual contracts, which would lead to savings in time and cost. *The Representation attributed the practice of small lot purchases to the absence of a Logistics Officer, hope of obtaining exemption from duties/taxes and lack of adequate storage capacity. The Representation subsequently informed that with the arrival of a Logistics Officer, greater control is exercised and longer-term orders are being placed for procurement of fuel.*

(ii) Asset Management

44. Asset Management at the Representation required attention. Though the LAMB has been constituted, there was a considerable gap between its meetings. For instance, following the LAMB meeting of August 2002 the next meeting was only in April 2004. Due to the infrequent meetings, the LAMB is inundated with cases relating to the early 1990's and this means that the LAMB cannot devote its time to more current work. The LAMB was not fully aware of its authority and jurisdiction and had to be reminded by the HAMB that fully depreciated assets should not be submitted to the HAMB and decisions affecting such assets should be settled at the field level.

45. The AssetTrak software is operational and able to produce various kinds of reports. The Logistics Assistant responsible for updating AssetTrak is, however, overwhelmed with the backlog of entries. There were other lapses, out of a list of 50 accident vehicles in 2003-2004, only one case had evidence of a police report, only one case had duly completed GS 45 and GS 46 forms. Repair estimates were also lacking and in the absence of such information, it was doubtful whether referrals to the HAMB could be made. *The Representation stated that they faced difficulties in organizing LAMB meetings due to the frequent movement of international staff members and the absence of a dedicated Logistics Officer. An exercise to update AssetTrak is currently underway and the Representation will also complete administrative formalities for submission of the accident vehicle cases to the LAMB. The Representation later also advised that a LAMB meeting was held on 30 June 2005 and that effective August 2005, the LAMB would hold a minimum of two sittings each month.*

(iii) Private use of vehicles and generators

46. International staff members currently pay US\$ 50 per month for private use of motor vehicles (US\$ 30 in 2004 and earlier) and UNVs still pay US\$ 20. Local staff was paying FBU 1,985 per month (less than US\$ 2 monthly) for group transportation to and from the office. OIOS considered such charges as being unreasonably low and recommended a revision. *Effective May 2005, the Representation has increased the monthly group transportation charges for local staff to US\$10.*

47. International staff members are required to pay US\$ 80 per month for the private use of UNHCR generators from 1 January 2003 as per IOM/FOM 02/2003. The Representation, however, delayed application of the higher rates for two years till December 2004, and until then made recoveries only at the old rate of US\$ 25 per month. OIOS recommended that appropriate recuperation totalling some US\$ 3,200 should be made from concerned staff to make up for the amounts short recovered. *The Representation stated that their Finance Officer was not aware of the revision of rates and that it would be unfair to request for retroactive recovery.* OIOS wishes to point out that the revised rates were properly disseminated to field offices. Lack of awareness of rules and policies cannot justify short recovery at lower rates. *On OIOS reiterating its recommendation for recovery, the Representation agreed that recoveries would be made by September 2005.*

D. Security and Safety

48. Bujumbura is under Phase III, while some areas adjoining DRC are under phase IV. The UN Security and Communications Cell in Burundi assessed in December 2004 that UNHCR is not fully MOSS compliant. The memo from the cell highlighted the need to introduce trauma kits, protective film for windows, anti-mine measures in field vehicles. In

addition the FSA based in Bujumbura has prepared a document to add additional items to this list. *The Representation agreed with OIOS that the location of the main office was in a relatively insecure location owing to the large volume of traffic and emergence of commercial enterprises in the vicinity. However, there was an acute shortage of office space with the arrival of the ONUB mission. Measures will nonetheless be taken to enhance security, both at Bujumbura and at the field offices.*

E. Administration

49. There were fundamental problems in some areas of administration and finance and UNHCR offices in Burundi did not fully and consistently comply with UNHCR's regulations, rules, policies and procedures. Basic principles in financial and cash management were ignored, exposing the organization to potential fraud, loss and overpayments. Internal controls over SOLAR and Hazard payments in particular, were assessed as very weak and in some cases even non-existent.

(i) Cash and Financial Management

50. UNHCR Bujumbura operated three bank accounts, a dollar account and two local currency accounts (one convertible and the other non-convertible account). Cashbooks 9, 10 and 11 corresponded to these bank accounts. A convertible account is normally an account expressed in local currency that can be used under local currency regulations for the purchase of other currencies. However at the Representation, the convertible currency account was being used for day-to-day transactions. The authorization from Treasury to operate these accounts was requested by OIOS, but was not provided. *The Representation stated that the convertible account would no longer be used for day-to-day transactions.*

(a) Unsystematic filing of vouchers

51. The filing of vouchers required immediate improvement. US dollar, local currency, adjustment, notional and receipt vouchers were not properly segregated. During review OIOS determined that many vouchers including receipt vouchers were not available in the monthly binders and could not be traced. *The missing vouchers were initially not satisfactorily explained to OIOS and it transpired later that the Finance Assistant, who had perpetrated fraudulent transactions, had deliberately removed the vouchers, to conceal fraud. The Representation has since put in place an appropriate filing system using file dividers for different types of vouchers. Additionally, the Representation is in the process of compiling a detailed list of all missing documents and will thereafter request the bank for copies of any payment documents to establish the names of payees for any missing document. This exercise is envisaged to be completed by the end of September 2005.*

(b) Non-compliance with cheque procedures

52. Chapter 6, Part 4, Section 4.3 of the UNHCR Manual requires that Field Offices using FOAS follow certain basic instructions with regard to handling of cheques and cheque payments. OIOS' review showed that contrary to instructions, (i) the Representation was using more than one chequebook simultaneously; (ii) a large number of cheques were not in the name of the payee; (iii) the payee approved many payments to himself/herself; (iv) there were discrepancies in the cheque numbers shown in the FOAS and those actually used to make payments in the bank; (iv) the person who approved the voucher was different from the person whose name appeared as the approving officer and (v) bank reconciliation was not

satisfactorily performed. *Reacting promptly to OIOS's observations, the Representation stated that measures have been instituted to ensure that all chequebooks received will be serially updated into FOAS immediately upon receipt from the bank. The Representation has also taken measures to ensure only one cheque book is used at a time, names of payee on the cheques are exactly as reflected on the payment vouchers, no payees approve payments to themselves, and that cheque details on the payment vouchers are correct, and all bank reconciliation's are routinely done and adequately reviewed.*

(c) Voided cheques used for payments

53. A cheque voided owing to an error in its preparation must be cancelled to prevent its fraudulent use. All cheques must be accounted for, whether cashed or voided. In some instances, the cheque numbers endorsed on the voucher did not correspond to the cheque number actually used to make the payment. In two cases observed by OIOS, the Finance Assistant did not correctly feed in the cheque numbers into FOAS when he received the chequebooks. Payment of some US\$ 10,400 was made in these two cases, even though the voucher description stated that the cheques had been voided. In two other payment vouchers, OIOS observed that though cheques had been voided, these had not been attached to the voucher, though this is a mandatory requirement. In one of these cases, payment of some FBU 4.8 million (US\$ 4,400) had been made and the cheque had actually not been voided. *The Representation clarified that the situation had been corrected and that all cancelled cheques would be dealt with in accordance with prescribed procedures and henceforth be attached to payment vouchers.*

54. Upon a subsequent detailed analysis of financial transactions, OIOS determined that from January 1999 to May 2005, there were more than 500 voided cheques (on average some 100 per year). This cannot be explained only by frequent errors, but points to manipulation. The single cheque limit of US\$ 4,000 set by Treasury was also constantly ignored and OIOS assessed that total cheque payments in excess of the authorized limit amounted to some US\$ 1.1 million during the period 1999-2005. OIOS considers the huge number of voided cheques and other deviations to be critical flaws that undermine the integrity and credibility of financial transactions at the Representation. OIOS recommends to establish procedures and controls in accordance with Chapter 6 of the UNHCR Manual and to conduct an in-depth review of all financial transactions from January 1999 onwards.

55. In the December 2002 Audit Report, OIOS had cautioned that the Finance Assistant should not be allowed to handle cash as among other things, he had lost petty cash amounting to US\$ 2,700. Prior to this, in its October 1999 Audit Report also, OIOS highlighted the fact that payment vouchers were missing and that finance staff should not receive payments on behalf of others. Although, OIOS was assured at that point in time that corrective measures were taken, regrettably during our 2005 audit, we observed the very same issues detected in both previous audits, denoting clearly that lessons were not learned. *The Representation will ensure closer supervision of Finance Staff to avoid recurrence of such incidents. Additionally, cash counts will be routinely performed to control loss or misuse of petty cash.*

56. *Training for 29 staff members was held in July 2005 on financial rules and regulations by a Headquarters team and attended by national and international staff from Administration, Finance, Logistics, Human Resources and Programme sections. Another team from Headquarters also conducted a financial systems review and their report is awaited. The recruitment of a new Finance Assistant and Finance Clerk has commenced and the Representation plans to have them in place by September 2005. Meanwhile, the*

Representation has sought and obtained the services of two Finance Assistants from UNHCR Conakry.

(ii) SOLAR and Hazard payments

57. OIOS' review of SOLAR and hazard payments initially revealed what appeared to be considerable overpayments to international staff members amounting to some US\$ 76,000 in 2003 and 2004. As many SOLAR/Hazard vouchers were missing and there was a significant failure of internal controls over financial management, OIOS considered that an in-depth review was warranted, including tracing cheques at the bank and accordingly requested an immediate follow-up review by the Finance Officer at the Representation. This review unearthed systematic embezzlement and forgery, perpetrated by the Finance Assistant in 2003 and 2004 and possibly earlier as well. In his report dated 16 June 2005, the Finance Officer estimated that the magnitude of the embezzlement could be some US\$ 120,000. In view of the gravity of the findings, the matter has been referred to the IGO *The Representation subsequently informed that besides fraudulent SOLAR payments, the Finance Assistant had also fraudulently withdrawn rental payments meant for the Muyinga office. Authority for lifting the diplomatic immunity of the Finance Assistant has been obtained, so as to expedite legal proceedings against the staff member.*

58. SOLAR and hazard payments were poorly handled, with OIOS repeatedly observing lack of basic record keeping and deficient supporting documentation for these payments. OIOS was concerned that the entire responsibility for regulating SOLAR payments was exclusively vested with the Finance Assistant, whose work was not adequately supervised. OIOS also noted that when the payment was made, the description on the voucher was not sufficiently detailed, names of staff members were often incorrectly written and on many occasions did not mention the month it pertained to. Also SOLAR payments for several staff were often made through the same voucher without sufficient detail in the voucher description making the tracing of payments difficult. Payments for several months were also lumped together in one payment voucher. Payments were also often made in advance every month and the VF 521 receivable account was used virtually as a bank account.

59. Important procedural requirements were not followed, resulting finally into significant loss for the organization. For instance, instructions further require that all payments of SOLAR, Hazard Allowance and other entitlements must be recorded on the reverse of the GTA. This important control was never complied with by the Representation. The accounting entries for SOLAR/Hazard payments were also not done properly. All these factors cumulatively facilitated the embezzlement and allowed it to remain undetected, until the 2005 audit.

60. *The Representation acted promptly and issued instructions that all staff members must immediately open bank accounts and that the payments of entitlements would be made into the account directly at the end of the month. The VF 521 account will no longer be used and the GTA will be attached to every SOLAR/Hazard payment, with all payments being recorded on the reverse of the GTA.*

SOLAR - Non-recovery of Rental Deductions

61. International staff members who live in houses provided by the organization are subject to rental deductions to maintain equity in the application of post adjustment among staff members. Staff members who have been provided staff housing and who are in receipt

of SOLAR are accordingly subject to deduction from SOLAR at prescribed rates. The rate of deductions depends on whether the accommodation has been categorized as substandard or standard, the deduction being 25 per cent for substandard accommodation rising to 50 per cent if it is standard. A substandard accommodation is defined as any type of housing or housing unit in a staff compound or housing that lacks basic amenities such as water and/or electricity supply.

62. The accommodation at Ruyigi is categorized as substandard even though it is not located within a compound and has running water, electricity and satellite TV. Although the accommodation could be considered as standard, OIOS is not questioning the categorization made by the Representation. OIOS does, however, take exception that deduction rates were even below those applicable for substandard accommodation. Since the SOLAR in Burundi is US\$ 3,900 per month, the correct rate of deduction for substandard accommodation would be US\$ 975 per month. However staff members were paying only some US\$ 300 per month, which implies a short deduction of US\$ 675 per month. OIOS estimated the cost implications for UNHCR on account of the short recovery at some US\$ 80,000 per year. OIOS recommended that deductions be made at the prescribed rates with immediate effect. *Acting quickly, the Representation enforced the correct deduction rates from 1 May 2005.*

(iii) Communications

63. Controls over the recording of official and private calls were assessed as weak. For landline calls, a number of telephone request forms for both official and private calls had not been authorized as required. Where calls were shown as official, the reason for the call was not indicated although there was provision for this on the form. Calls declared as official and private by staff members were neither adequately verified nor certified. *The Representation stated that the forms would be filled out as required and that a manual system is in place to track and recover the cost of private calls (landline and mobile) made by staff members. With the introduction of the new PAMA/Tetrak tracking system, additional controls will also be in place for identifying private calls. A new billing system would also be installed for faster and more accurate controls.*

(iv) Overpayments in travel claims

64. Mistakes were noted in the processing of travel claims for international staff members in receipt of SOLAR who were transiting through Nairobi on their way to other destinations. As Nairobi is the APA for international staff receiving SOLAR, no DSA is payable for the time spent in Nairobi. OIOS however noted that this was repeatedly done at the Representation and in the cases checked by OIOS, overpayments of some US\$ 1,636 were observed. *The Representation has since suspended the practice and will recover the amounts overpaid.* In one travel claim, overpayment of some US\$ 2,670 was observed due to incorrect calculation of SOLAR/Hazard and non-deduction of a travel advance. *The Representation will initiate recovery.*

(v) Medical Evacuation

65. Improvements were required in the documentation and recording of medical evacuation (MEDEVAC) cases. A file is maintained for MEDEVAC cases, but this is incomplete and in some instances did not contain relevant supporting documentation. The accounting for MEDEVAC was not done correctly as expenditure charges to account 171 were largely missing, suggesting that several cases were not coded properly. *The*

Representation will ensure that the MEDEVAC file is duly completed and kept updated. The MEDEVAC control sheet will be prepared and the accounting done correctly.

(vi) Staffing

66. Staffing constraints have had their impact on the management of operations. Between September 2003 and October 2004, the Representation managed the rapidly escalating scale of operations, with only five professional staff and limited local staff. During this period, the staffing situation was characterized by shortages, quick turnover of staff and reliance on short-term missions.

67. At the time of the audit, the Burundi Operation was still dependent on staff on mission, UNVs, consultants and deployed staff and there were numerous vacancies, particularly for professional staff. Six staff members were on mission of varying durations and 11 UNVs were posted at various locations, besides three consultants. The turnover of staff was rapid and key international positions such as Deputy Representative Operations, Senior Administration and Finance Officer and Senior Programme Officer were yet to be filled. *The Representation informed that the Senior Programme Officer had since joined and that the two other posts would be filled by October 2005.* As of August 2005, there has been a marked improvement and 35 out of 40 professional staff and 95 out of 99 of the GS staff had been appointed through APPB/APPC. In the past, even though Fast Track procedures were being used, there were delays in staff members assuming posts to which they were appointed. OIOS was told that in some cases staff members selected and appointed did not take up their functions, for personal or for operational reasons.

(vii) Medical Insurance Plan

68. Procedural weaknesses were observed for the Medical Insurance Plan (MIP). A number of cases were found where enrolment of staff members took far more than the benchmark of 30 days. Several payments were not properly processed, and we noticed cases where the claimant had not signed the form and it was also not certified. Also the Representation did not maintain a list of selected hospitals, pharmacies, doctors etc and the standard rates applicable. This means that there is no benchmark available that can be used to provide guidance while regulating MIP claims. In several cases where staff members obtained treatment abroad, there was no indication that the fundamental principle of reasonable and customary charges at the staff members' country of residence were applied for regulating MIP claims. *The Representation informed that the delay in enrolling staff on MIP had occurred due to pressure of work and that with the arrival of the new FS Human Resources Assistant, the situation would improve. The discrepancies noted by OIOS have been rectified and the Representation would apply the principle of reasonable and customary costs for regulating MIP claims.*

V. ACKNOWLEDGEMENT

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

Egbert C. Kaltenbach, Chief
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