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AUDIT OF UNHCR OPERATIONS IN KOSOVO

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UNHCR Audit Service

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EXECUTIVE SUMMARY

In December 2005, OIOS conducted an audit of UNHCR Operations in Kosovo. The audit covered activities with a total expenditure of US\$ 7.6 million in 2003 and 2004. A summary of preliminary findings and recommendations was shared with the Chief of Mission in December 2005, on which comments were received by January 2006. A draft of this report was sent to the Chief of Mission and the Director of the Bureau for Europe in February 2006, from whom comments were received in April 2006 and are reflected as appropriate in the final report. *The Chief of Mission has accepted all of the audit recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Kosovo 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

- Of the five partners reviewed, reasonable assurance could be taken for four of them that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements.
- For the American Refugee Committee (ARC), OIOS experienced difficulties in reconciling the 2004 SPMR to ARC's accounting data. Irregular adjustment entries were made between 2004 and 2005 leading to a potential recovery of at least US\$ 20,300. Concern was also raised with regard to ARC's procurement practices, which were non-compliant with UNHCR's IP Procurement Guidelines. *Positive action has already been taken by the Office of the Chief of Mission (OCM) to improve ARC's compliance with UNHCR's Sub-Project Agreement requirements, as well as to strengthen its internal controls over financial management and procurement.*
- For Developing Together, a local NGO delegated the responsibility of procuring materials; OIOS suggested that consideration be given to UNHCR carrying out procurement directly. If this is implemented, OIOS estimated that savings of about US\$ 64,000 could be achieved over a two-year period due to UNHCR's VAT exemption status. *OCM is providing guidance on cost-effective procurement practices and reviewing the possibility of taking over these activities.*
- In the Sub-Project Agreements, further efforts were required to properly define standards and indicators. Without proper performance and impact indicators, the success of projects cannot be

effectively measured. *OCM is making an effort to review and adjust project documents with the aim of enhancing their overall quality.*

- OIOS assessed that project financial monitoring could be more effective with more in-depth reviews and more detailed monitoring procedures. *OCM has already started to re-focus and strengthen its monitoring of operational activities.*

Supply Management

- Limited procurement activities were carried-out; nonetheless it was found that there was no clear division of responsibilities between the supply function and administration. *In December 2005, OCM had centralised its supply function.* OIOS was of the opinion that consideration be given to centrally procuring fuel for implementing partners in order to achieve economies estimated at US\$ 60,000 over a two-year period. *Implementation of the centralized UNHCR and implementing partners' fuel supply would start as of 1 July 2006.*
- There were a number of slow and possible obsolete items stored in the warehouse. For example, OIOS found that there were over 35,000 blankets (valued at about US\$ 100,000) procured in 1999 and 2001 still in storage. With contingency planning levels at 10,000, OIOS recommended that efforts be made to re-deploy some 25,000 of them (value US\$ 75,000) before their quality deteriorates. *Up until now, OCM has dispatched some 10,000 blankets with an estimated value of US\$ 30,000 to UNHCR Serbia and Montenegro to strengthen its contingency preparedness.*
- Further efforts were required to strengthen internal controls over asset management; discrepancies identified in the 2005 physical verification need to be reviewed and adjustment entries made, forms assigning personal responsibility up-dated and decisions of the Local Asset Management Board implemented more expeditiously.

Security and Safety

- UNHCR Kosovo was generally MOSS compliant, however the Security Plan was still in draft pending input from field offices, and its final review and approval. Checking security at staff residencies for MORSS compliance was not performed systematically. *Corrective actions have been taken promptly by OCM.*

Administration

- In the areas of administration and finance, OCM, Pristina generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. Improvement and strengthening of internal controls were required over accuracy and completeness of supporting documents, as well as finalizing the results of the medical facilities survey.

MSRP Implementation

- MSRP went live in UNHCR Pristina in April 2005. A number of issues with regard to MSRP implementation were identified, which need to be addressed centrally at Headquarters.

May 2006

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1-5
II. AUDIT OBJECTIVES	6
III. AUDIT SCOPE AND METHODOLOGY	7-9
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Review of Implementing Partners	10-15
B. Other Programme Issues	16-17
C. Supply Management	18-22
D. Security and Safety	23
E. Administration	24-26
V. ACKNOWLEDGEMENT	27

I. INTRODUCTION

1. From 21 November to 6 December 2005, OIOS conducted an audit of UNHCR's Operations in Kosovo. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Office of the Chief of Mission in Pristina, its field offices in Gjilan and Mitrovice and the offices of five of its implementing partners.
2. OIOS conducted the last internal audit of UNHCR Kosovo in August 2002. The audit assessed the UNHCR operation in Kosovo as average. Critical recommendations dealt with implementing partners NRC (car pool scheme), ARC (procurement of construction materials and VAT payments), project financial and performance monitoring and supply management. OIOS' recommendations were adequately dealt with.
3. UNHCR's main objectives in Kosovo are to contribute towards the creation of conditions preventing further displacement of minorities and to facilitate the voluntary return and sustainable reintegration of minority IDPs and refugees in their place of origin, as well as to identify and facilitate durable solutions for refugees from Croatia and Bosnia & Herzegovina.
4. The beneficiary populations of concern to UNHCR in 2003 and 2004 in Kosovo were as follows:

Population	2003	2004
Minority returnees	5,000-10,000	5,000
Croatian Serb refugees displaced from Croatia in 1995 and stranded in Kosovo at the end of 1999 war	450	389
FYR of Macedonia refugees	1,500	860
IDPs from Southern Serbia	1,000	5,000
Local Residents at risk	85,000	85,000
IDPs within Kosovo	32,500	22,000
March 2004 IDPs	-	4,000
TOTAL	Some 130,000	122,000

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 6 December 2005. A summary of preliminary findings and recommendations was shared with the Chief of Mission in December 2005, on which comments were received in January 2006. A draft of this report was sent to the Chief of Mission and the Director of the Bureau for Europe in February 2006, on which comments were received in April 2006 and reflected as appropriate in the final report. *The Chief of Mission has accepted all 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
- Compliance with regulations and rules, Letters of Instruction and Sub-Project Agreements

III. AUDIT SCOPE AND METHODOLOGY

7. The audit focused on 2003 and 2004 programme activities under projects 03/AB/YUG/CM/271 and 04/AB/SCG/CM/271 with a combined expenditure of US\$ 9.6 million. Our review concentrated on the activities implemented by International Catholic Migration Commission (ICMC) – expenditure of US\$ 1.6 million; GOAL Ireland/Developing Together – expenditure of US\$ 1.1 million; American Refugee Committee (ARC) – expenditure of US\$ 0.7 million, Norwegian Church Aid (NCA) – expenditure of US\$ 0.6 million; and Civil Rights Project, SCG – expenditure of US\$ 0.2 million. OIOS also reviewed activities directly implemented by UNHCR with expenditure of US\$ 1.1 million.

8. The audit reviewed the administration of the Office of the Chief of Mission in Pristina and field offices in Gjilan and Mitrovice with administrative budgets totalling US\$ 2.3 million for 2003 and 2004 and assets with an acquisition value of US\$ 7.8 million and a current value of US\$ 0.9 million. As of December 2005, the number of personnel working for the UNHCR Operation in Kosovo was 92. This included staff on regular posts and United Nations Volunteers.

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. OIOS also included a review of MSRP field roll-out implementation to assess the level of success of the project as well as to identify any problems encountered.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of Implementing Partners

10. Of the five partners reviewed, reasonable assurance could be taken for four of them that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements. For ARC, OIOS experienced difficulties in reconciling the SPMR to the accounting data and found that procurement practices were neither satisfactory nor in compliance with UNHCR's IP Procurement Guidelines. Of the other partners reviewed, OIOS assessed that internal controls were generally in place and operating effectively during the period under

review. OIOS however identified certain areas where further improvements are required.

11. Audit certificates for 2003 and 2004 sub-projects were available for all partners and unqualified opinions were expressed.

(a) American Refugee Committee

12. The summary expenditure statement generated from ARC's accounting system did not agree with the final SPMR submitted to UNHCR. OIOS identified that ARC incorrectly charged non-UNHCR expenses of at least €12,157 (US\$ 15,100) to the 2004 sub-project inflating the overall 2004 expenditure. This was subsequently corrected in 2005, but the resulting unspent balance for 2004 was not refunded to UNHCR. Moreover, ARC provided reports, which included double counting of project expenditure, which differed from the reports of the Gjilan field office. This resulted in an overcharge to UNHCR of € 4,182 (US\$ 5,200). OIOS recommended that the adjusting entries be reviewed and analysed, as well as the double counting of expenditure to determine the true amount involved, and if appropriate initiate a recovery of US\$ 20,300 (US\$ 15,100 and US\$ 5,200). *OCM is in the process of reviewing the reconciliation of amounts erroneously charged. OCM has also requested ARC to provide the appropriate supporting documentation. The Chief of Mission and Senior Programme Officer met with ARC Management in March 2006, to discuss ARC's compliance with financial and accountability clauses as stipulated in the Sub-Project Agreements. This meeting was held as a result of recent sudden significant management changes in ARC: particularly the departure/resignation of the Director and Programme Manager for the Lead Agency program. ARC agreed to seriously look into internal financial management issues and to reimburse any amount wrongly charged to UNHCR.* OIOS is pleased to note that positive action has been taken and will maintain the recommendation until the review is completed, for which OCM has a target date of 31 July 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should ensure that the new management of ARC finalize the reconciliation of the 2004 expenditures recorded in the SPMR with ARC's accounting system. Supporting documents should be provided to UNHCR OCM Pristina. If appropriate, UNHCR should recover any erroneous amounts charged estimated at US\$ 20,300 (Rec. 01).

13. OIOS reviewed a sample of procurement cases totalling €13,358 (some US\$ 16,600) in 2004 involving the same supplier Toni Impex. OIOS was concerned as the bids accepted from Toni Impex matched the budgeted amounts exactly. Of the 14 cases reviewed, the same three companies participated in the bidding process, and in all cases Tony Impex won the bid. The competing companies did not appear on the list of suppliers (roster) provided to OIOS by ARC. *OCM took note of OIOS' concerns with regard to the weaknesses in ARC's procurement procedures. A procurement workshop, initially planned for March, would be held in May 2006. As part of the 2005 external auditing exercise, UNHCR had envisaged a comprehensive and in-depth audit of ARC's accounts to be undertaken by an external audit firm. Furthermore, OCM would undertake ad-hoc verification visits to ARC.* OIOS is pleased to note the action taken by OCM to both improve procurement activities conducted by partners on behalf of UNHCR as well as to improve the monitoring and oversight of these delegated activities. OIOS will

continue to monitor the recommendation for which OCM has set the target date for implementation is 31 July 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should ensure the procurement workshop goes ahead as planned and sufficient guidance and support is provided to partners delegated responsibility to conduct procurement on behalf of UNHCR (Rec.02).

(b) Norwegian Church Aid

14. A number of provisions of the Sub-Project Agreement entered into with NCA in 2004 were not followed. OIOS reviewed a Community Development project “Multiethnic playground in Dy Korriku” and found that procurement was not undertaken in accordance with the UNHCR IP Procurement Guidelines. *OCM stated they would remind NCA that any action, which is not part of the standard procedure be documented and prior approval for such actions obtained from UNHCR.* Monthly and quarterly reports on Access to Public Services produced in 2004 were superficial and in many cases did not offer practical solutions to address the problems of the affected population. *OCM replied that during 2005 it had proposed corrective measures including the mandatory incorporation of beneficiary data analysed by gender and age, the increasing use of baseline data and the adoption of a more analytical approach. As the number of reports required by UNHCR had been reduced by late 2005, quality was expected to improve.*

(c) GOAL Ireland/Developing Together

15. In 2005 GOAL Ireland has handed over the implementation of this project to a local NGO “Developing Together (DT)”. DT has a budgeted amount of €169,605 (US\$ 212,000) under Individual and Family support, which is largely for the procurement of construction material under fixed price agreements. OIOS suggested that consideration be given to UNHCR to carry out procurement directly. UNHCR is exempt from VAT, which is imposed at 15 per cent on the purchases handled by DT. OIOS estimates that savings of some € 25,400 (US\$ 31,700) could have been achieved on an annual basis. *OCM indicated that in early 2006 UNHCR Pristina participated in the joint UNHCR/DT Committee of bids’ opening session. Following DT’s pre-selection process, UNHCR Pristina had actively participated in field visits to short-listed companies to check suppliers’ liability and accuracy of provided offers. Concerning the VAT exemption procedure, UNHCR Pristina was in the process of assessing DT’s claim that it had been exempted from paying VAT.* OIOS takes note of the positive action taken to assist DT in its procurement procedures and practices. OIOS will monitor this recommendation for which OCM has set the target date for implementation is 30 June 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should provide guidance to Developing Together to better ensure they adopt cost-effective procurement practices. OCM should obtain assurance of the possibility for DT, a local NGO, to apply for tax-exempt status. If this is not possible, consideration should be given to taking over the purchasing of construction materials to secure potential savings of US\$ 64,000 over a two year period through VAT exemptions (Rec. 03).

B. Other Programme Issues

16. In the Sub-Project Agreements with partners, standards and indicators were not properly defined. Without proper performance and impact indicators, the success of projects cannot be effectively measured. OIOS noted that although the “Number of Beneficiaries” and “Percentage Increase” indicators were included in the document, no actual numbers or percentages were given to allow planned outputs against the actual results to be measured. OIOS reviewed the changes introduced in 2005 with OCM and implementing partners and suggested that when exact figures cannot be projected, maximum and minimum figures be stated. *OCM stated that during 2005-2006, it had made an enormous effort to review and adjust project documents with the view to enhancing their overall quality. When possible, actual numbers, percentages and benchmarks had been incorporated.*

17. OIOS assessed that project financial monitoring could be more effective with more in-depth reviews conducted and more detailed monitoring procedures established. For example, in 2003 and 2004 financial monitoring visits to Implementing Partners were performed only once a year. In OIOS’ opinion, they were not sufficiently in-depth, and resulted in only insignificant errors being highlighted. There was a lack of exchange of information between Field Offices and OCM, which should have taken place before the financial monitoring visit. *OCM has started to re-focus and strengthen its monitoring of operational activities. UNHCR finalized and attached to all 2006 Sub-Project Agreements a “Joint UNHCR-Implementing Partner 2006 Work-Plan for Enhanced Financial Monitoring and Control.” OCM would reinforce the staff involved in financial monitoring on-site reviews by including personnel from Administration and Logistics.*

C. Supply Management

18. Procurement of the OCM totalled €1.1 million (US\$ 1.4 million) in 2003-2004. OIOS found that there were no clear division of responsibilities between the supply function and administration. Procurement plans were not prepared and items such as stationery were purchased on a case-by-case basis rather than entering into a frame agreement. While OIOS appreciates the staffing constraints, as a UNV in the Supply Section left the office in 2005 increasing the workload of the Supply Officer and a national Logistics Assistant, efforts are required to initiate proper systems and procedures to ensure cost-effective purchasing. *OCM has completely centralized procurement activities within the Supply Unit, with only Administration and Programme Units now only responsible for the requisition process. Also in February 2006, OCM signed a frame agreement for the supply of stationery.*

19. In Kosovo, OCM procured fuel for its requirements; however, implementing partners had entered into separate contracts. The budgeted figure for these separate arrangements, which included VAT, amounted to €84,300 (US\$ 104,300) in 2005. In OIOS' opinion, by combining the two procurements, economies of scale could be achieved, as it would enable partners to obtain fuel net of VAT, which is 15 per cent of the purchase price. OIOS estimated potential savings of €25,000 (US\$ 31,000) over a two-year period. *OCM stated that the possibility of centralizing fuel procurement is being reviewed in order to identify the best solution. Upon finalization of this phase, OCM would consider the actual implementation in line with similar practices currently in place in Serbia and Montenegro: issuing fuel vouchers to all implementing partners for fuel supply at the central UNHCR-contracted fuelling station(s).* OIOS is again pleased at the positive action taken and will monitor this recommendation for which OCM has set the target date for implementation is 1 July 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should centralize fuel purchases of the OCM and implementing partners and determine a feasible and cost-effective solution with current or potential suppliers in order to achieve cost savings amounting to some US\$ 31,000 over a two-year period (Rec.04).

20. OIOS' review of warehousing and stock management procedures found that systems were in place and operating effectively during the period under review. OIOS noted, however, that there were a number of slow moving items. For example there were over 35,000 blankets (valued at US\$ 108,000) procured between 1999 and 2001 still in stock, as well as nearly 200,000 sanitary napkins (valued at US\$ 35,000) procured in 1999. Action was required to review the stock in the warehouse for possible obsolescence and excessive levels. Moreover with these types of goods there is a risk that they could deteriorate in storage. According to OCM, contingency planning arrangements in case of crisis should cover 10,000 persons. *On the basis of OIOS' recommendation, OCM immediately dispatched 9,900 blankets with an estimated value of US\$ 30,000 to UNHCR Serbia and Montenegro to strengthen its contingency preparedness. Following discussions with Headquarters as well as the offices in the region, with particular consideration to contingency planning, it has been concluded that the number of blankets available in stock in Kosovo can not be decreased any further at this stage. A significant amount of various other non-food items, such as coats, garbage bags, sanitary napkins and other items, have already been distributed to UNHCR field offices for onward distribution to persons of concern.* OIOS appreciates the efforts made to re-deploy and distribute excess stock. OIOS would caution OCM against the continued storage of blankets (already between five to seven years old). Continued storage of these items in the medium to long term should not be an option as there is a risk that they will slowly deteriorate. An action plan should be developed on how they could be used effectively.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should, in consultation with the Supply Management Service, proceed with the implementation of the Plan of Action to reduce stocks. A definite decision should be made on the contingency planning numbers (Rec. 05).

21. OIOS appreciates that a physical inventory of assets (in the custody of implementing partners) was done in 2005, but in the years prior to this, limited work had been carried out with no physical inventories performed in 2003 and 2004. The lack of systematic procedures to account for assets resulted in discrepancies between Right-of-Use (RoU) agreements and the actual situation. For example, 23 buses, which were sold to UNMIK in 2004, were still listed as in the custody of UNHCR's partner DRC as of September 2005. On the other hand, 72 items had to be added to the 195 items, which were in the custody of DRC in accordance with the RoU agreement. The forms assigning personal responsibility for attractive items were not up-to-date. *OCM indicated that discrepancies identified during the 2005 inventory would be investigated and cleared following the 2005 SPMR verification exercise and closure of the sub-projects.* OIOS is pleased to note the action taken and will monitor this recommendation for which OCM has set the target date for implementation is 30 June 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should finalize the physical inventory of assets and follow-up and investigate where appropriate any differences between the physical count and the asset management records with the records subsequently updated (Rec. 06).

22. The Local Asset Management Board (LAMB) met four times in 2004. The procedures adopted were reviewed and found to be reasonable. OIOS noted several delays in resolving and settling cases dating as far back as 2003. The Programme Section could not confirm whether there had been a year-end deduction from two partners ARC and MCI for stolen vehicles amounting to US\$ 11,142. Several delays were also noted in obtaining HAMB decisions. For example, because of the delay experienced from September 2003 to April 2004, UNDP, which agreed to procure some equipment, could afford only part of it and paid only US\$ 25,001 out of the previously agreed amount of US\$ 64,945. *OCM was aware of the outstanding reimbursements by implementing partners. The Supply Chain Unit had already contacted the HAMB Secretary for updates on pending LAMB cases. As no reply had been received, OCM stated they would send a memorandum to HAMB on the subject. OCM was confident that the pending reimbursements from the Implementing Partners would take place at the latest by the end of September 2006.* OIOS notes the action taken and will monitor the recommendation for which OCM has set the target date for implementation is 30 September 2006.

Recommendation:

- The UNHCR Office of the Chief of Mission, Pristina should ensure outstanding cases of non-reimbursement from the implementing partners amounting to some US\$ 11,000 are settled. OCM should also update the file of pending cases to be submitted to the Headquarters Asset Management Board (Rec. 07).

D. Security and Safety

23. In OIOS' discussions with OCM, it was determined that UNHCR Kosovo was generally MOSS compliant. The latest Mission-Wide Security Plan for Kosovo was finalized and approved in May 2005. However, the UNHCR Kosovo Security Plan was in draft form pending

input from field offices, review and approval. Some items, like one GPS unit per field office and trauma kits were requested through the Administration Section in 2004 but had not been procured. The checking of security at staff residencies for MORSS compliance was not performed systematically. Moreover, the visit to the warehouse revealed that none of the 16 rub-halls were equipped with fire extinguishers. *OCM stated that Security Plans had been finalized for each field office and they had been issued to staff in those locations. Also, an assessment had been conducted for staff residences, and all field offices have a GPS handset, but trauma kits would not be procured until the appropriate training had been provided.*

E. Administration

24. In the areas of administration and finance, the Office of the Chief of Mission generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, from our review of a sample of vouchers, payments were not always properly supported by the relevant documents to assure the accuracy of the payments made. *OCM stated it would fully comply with OIOS' recommendation to reinforce controls over the accuracy and completeness of supporting documents.*

25. MSRP went live in Pristina in April 2005. A number of issues with regard to MSRP implementation were identified, which needed to be addressed centrally at Headquarters.

26. In the area of MIP, in 2003 and 2004, a list of hospitals, physicians and pharmacies, as well as the list of typical services and prices did not exist. In 2005, a survey was performed but its results were not finalized and approved. The list of medical institutions, as well as the price list were not signed and dated. *OCM indicated that action had been taken on the recommendation and the survey results had been approved and duly signed.*

V. ACKNOWLEDGEMENT

27. 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 Kosovo.

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