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AUDIT OF UNHCR OPERATIONS IN HUNGARY

Auditors:

Rachel Roy
Lakshmi Varahan

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Office of Internal Oversight Services
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EXECUTIVE SUMMARY

In November and December 2005, OIOS conducted an audit of UNHCR Operations in Hungary including brief visits to Poland, the Slovak Republic and Slovenia. The audit covered activities with a total budget of US\$ 1.9 million in 2005. In March 2006, a draft of this report was shared with the Director for the Bureau for Europe and the Regional Representative. The comments, which were received at the end of May 2006, are reflected where appropriate in the report. *OIOS was pleased to note action was taken in the first quarter of 2006 to implement many of the recommendations made.*

Overall Assessment

- One of the main objectives of the audit was to review the effectiveness and efficiency of the new regional structure including the activities of the Regional Representation and the offices under its responsibility. At the time of the audit the new arrangement was not fully functional and consequently OIOS was unable to provide an overall assessment on its effectiveness. Additionally, difficulties were encountered in the implementation of MSRP (Hungary was the initial pilot); staff members had not been sufficiently trained on the system and were not able to generate the reports required in order to conduct a detailed audit and assess compliance with UNHCR's rules and procedures.

Regionalization

- The Regional Representation was created as of 1 January 2005, and the terms of reference (ToR) of the Regional Representation and national offices under its responsibility were drafted throughout 2005. The first phase of regionalization was a revision to the structure (including staffing levels), and the new organigramme was developed mainly from converting posts already available in the existing regional unit in Budapest. The ORB approved the new structure in August 2004, and the newly appointed regional officers were assigned by mid 2005.
- The second phase of regionalization aimed at the progressive transfer of administrative, financial and other support functions from the national offices to the Regional Representation. At the time of the review the process was not finalized and a transitional strategy had not been developed. *The Regional Representation stated that the transfer of functions was to begin in 2006, and this was contingent on systems and procedures being in place to support it, namely MSRP.*
- The framework established by the Bureau for administrative and financial procedures had not

been initiated locally, and the delegation of authority and reporting requirements had not been revised. *On account of the implementation of MSRP, the Regional Representation was of the opinion that it was not its responsibility to introduce interim measures locally. Guidelines and procedures should have been developed centrally.* OIOS agreed that procedures (on account of MSRP) should have been developed centrally. This does not negate however the Regional Representative's responsibility for ensuring that proper internal control mechanisms were established and were working effectively during the transitional period. OIOS found that adequate internal controls had not been established.

Administration

- MSRP was rolled-out to Budapest on 1 January 2005 and to Ljubljana, Warsaw and Bratislava from March to June 2005. It was hoped that MSRP would facilitate the regionalization process by enabling remote access by the Regional Representation to financial and administrative data of the countries under its responsibility. At the time of the audit this had not been achieved. Moreover, mainly as a result of the implementation of MSRP (and the lack of expertise and confidence in using the system) internal controls were lax. For example, reports to monitor expenditures could not be generated, basic financial controls (certifying and approving functions) were weak, bank accounts were not reconciled and month and year-end procedures were either not done or completed after a significant delay.

Programme Management

- For the eight partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements, except for two partners where internal controls were deficient.
- For most implementing partners, internal controls should be strengthened. In many cases there was a lack segregation of duties, in others, authorizing and approving functions were not in place. The apportionment of costs between various donors, in some instances, was not transparent, and there was evidence of double-charging expenditure. *Training courses on UNHCR project management will be organized during the second half of 2006 for all implementing partners.*
- Project financial and performance monitoring was performed, but it was not always properly documented and should be enhanced. OIOS recommended that there was a need to rethink project monitoring in the context of the responsibilities of the Regional Representation. *OIOS was informed that this responsibility would be maintained at the country level.*

Security and Safety

- A revised policy on security procedures, taking into account the reality of regionalization, had not yet been established. A redistribution of responsibilities between the country offices and the Regional Representation was required. *The level of responsibility for security in other country offices to be assumed by the Regional Representation needed to be discussed and clarified at Headquarter between the Bureau and FSS.*

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I. INTRODUCTION

1. From 21 to 25 November 2005 and from 6 to 20 December 2005, OIOS carried out an audit of UNHCR's activities in Hungary, Slovenia, Poland and the Slovak Republic. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Regional Representation in Hungary and of the Representations in Slovenia, Poland and the Slovak Republic and of eight of their implementing partners.

2. OIOS' previous audit of UNHCR in Hungary was conducted in March 2001. That review focused on the 1999 and 2000 projects covering expenditure of US\$ 1.2 million. Programme planning and monitoring needed to be improved, and considerable work was required to ensure the validity of AssetTrak data.

3. The UNHCR Office in Budapest was selected to pilot UNHCR's regionalization in Europe. The Regional Representation was established in Budapest covering Hungary, Slovenia, the Slovak Republic and Poland. This process was designed to ensure harmonized and coordinated strategies by grouping countries around common themes, and creating sub-regional structures.

4. The findings and recommendations contained in the report have been discussed with the officials responsible for the audited activities during the exit conference held on 20 December 2005. A draft of the report was shared with the Director of the Bureau for Europe and the Regional Representative in March 2006. The comments, which were received at the end of May 2006, are reflected where appropriate in the report. *The Regional Representation have accepted most of the audit recommendations made, and a number of them have been addressed in the first quarter of 2006. The Bureau for Europe and the Regional Representation however, did not fully agreed with OIOS on several comments on the ongoing Regionalization process.*

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, provided by MSRP which was implemented in the course of 2005
- 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

6. The audit focused on 2005 programme activities under projects 05/AB/HUN/LS/400 & 401, 05/AB/POL/LS/400, 05/AB/SVK/LS/400 and 05/AB/SVN/LS/400 with budgets of US\$ 1.5 million. Our review concentrated on the activities implemented by Slovene Philanthropy (SL) - budget of US\$ 106,000, Pravno-Informacijski Center (PIC) - budget of US\$ 66,000, Polish Helsinki Foundation for Human Rights (PHFHR) - budget of US\$ 31,500, Polish

Humanitarian Action (PHA) – budget of US\$ 93,000, Slovak Humanitarian Council (SHC) - budget of US\$ 20,000, Human Rights League (HLR) - budget of US\$ 32,000; Hungarian Helsinki Committee (HHC) - budget of US\$ 287,000, and Austrian Red Cross (ACCORD) - budget of US\$ 128,000.

7. Due to time constraints the review of these partners focused on an assessment of the maintenance of financial and project records, as well as the adequacy of internal controls over financial, cash and bank procedures. OIOS reviewed the level and adequacy of UNHCR monitoring of activities of partners both by the country offices and those supervised by the Regional Representation.

8. The audit reviewed the administration of the Regional Representation in Budapest and of the Representations in Warsaw, Bratislava and Ljubljana with administrative budgets totalling US\$ 398,000 for 2005 and assets with an acquisition value of US\$ 116,000 and a current value of US\$ 52,000. Thirty-three members of staff worked for the UNHCR Regional Representation in Hungary and the offices under the Regional Representation.

9. Our review focused on general programme management and financial management with due consideration to the implications of MSRP roll-out and the on-going regionalization process. 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. Regionalization

10. In January 2005, UNHCR established a Regional Representation in Budapest covering Hungary, Slovenia, the Slovak Republic and Poland. Following EU accession, it is planned that the same Regional Representation will also cover Bulgaria and Romania. UNHCR's review of its presence in Europe was initiated by a request from donors aiming to reduce the number of fully-fledged national offices in Europe. Regionalization intended to facilitate strategy formulation and generate better synergies in developing responses to common challenges.

11. The process was initiated in 2002, and a study by the Evaluation and Policy Analysis Unit of the configuration of UNHCR's presence in industrialized countries was conducted. In March 2002, the Bureau created an internal working group (IWG) to develop and analyse various models, which could be adopted by UNHCR. The IWG worked actively until the end of 2004, but was gradually dismantled due to the reassignment or retirement of its key members. OIOS was informed that the Bureau intends to re-establish a working group.

12. The UNHCR office in Budapest was selected to pilot the project for strategic reasons. Hungary and the other countries making up the regional structure share common problems, and in 2004, as members of the EU they became the eastern border of the Union. It was also recognised that regionalization could solve the structural problem where the previous national office for Hungary coexisted with the Regional Support Unit (RSUB).

13. The first phase of regionalization included a revision to the structure (including staffing levels). The new organigramme was developed on the basis of converting posts already available in the existing regional unit in Budapest. The ORB approved the new structure in August 2004. The Regional Representative's post was created and he was formally appointed as of 1 January 2005. The incumbent was temporarily assigned to Budapest in May 2004. The assignment of further regional staff, including the Deputy Regional Representative was carried out in the course of 2005. The staffing levels of the reporting country offices were also reviewed, with the aim in 2006 to gradually reduce numbers.

14. The second phase of regionalization was the transfer of administrative, financial and other support functions from the country offices to the Regional Representation. A policy was developed at Headquarters, which envisaged a progressive transition of its supervisory role over functions and processes. At the time of the audit a strategy at the local level on how to implement this had not been developed. *According to the Regional Representation the delays were outside its control, as it was dependent on the central development of systems and procedures (on account of MSRP).* Given the short period of time from the establishment of the Regional Representation to that of the audit, OIOS agrees that significant change may not have been possible, but OIOS would have expected some evidence that a plan had been initiated at least in the last quarter of 2005 on how to transfer the major functions (protection, programme design, administration and human resources) for implementation by 1 January 2006.

15. The draft framework of change included a definition of accounting procedures at the country level, procedures for submission of monthly accounts to the Regional Representation and modification of cash replenishment. There was no evidence that the Regional Representation had consulted the various Services/Division at Headquarters such as Finance, Treasury and MSRP on how to initiate these changes. *The Regional Representation considered that it was the Bureau on behalf of the Regional Representation that was responsibility for systemic change to support regionalization.* OIOS recognised that the Bureau made considerable efforts to identify the generic changes to be made, but it had required more effort and development by the Regional Representation, which was not evident at the time of the audit.

16. During OIOS' review of the country offices, no changes in the working methods were observed. All country offices operated as before, and there was no evidence of any synergy between the offices and the Regional Representation. *The Regional Representation stated that they did not expect any change in the day-to-day working methods of offices in 2005 in terms of administration and finance. The sole expected change in 2005 was that of planning for 2006.*

17. Since 1 January 2006, the LOIs and ABODs for Poland, Slovenia and the Slovak Republic were addressed to the Regional Representative. As a consequence, a revision of financial management and delegation of authority specific to that particular context was required. At the time of the audit, no written instructions had been issued to ensure these changes were properly communicated and that staff were aware of their responsibilities. This was of particular importance as Slovenia was already, and the Slovak Republic would soon be headed by a national officer. *The Regional Representation stated that in January 2006, a memorandum was addressed to the Head of Financial Services requesting authority for the Regional Representative to approve and budget check vouchers for Slovenia, and the same*

will be requested for the Slovak Republic. More formal instructions and procedures will be issued later in 2006.

18. To facilitate the analysis of financial information and reporting, a regional configuration of MSRP would be required. A request for this had not been made, although the IWG had raised this issue with the MSRP team as early as June 2004.

19. There were no systematic revision of job descriptions and reporting lines, and none of the job descriptions for local posts had been revised since their establishment many years ago. This was needed as regionalization will have an impact on staff responsibilities, such as the merging of functions, redefinition of the reporting lines and designation of authority. *The Regional Representation agreed that job descriptions needed to be revised, and this has been completed. Also, in order to manage human resources in the region a post of Human Resources Assistant (GL6) was approved as of 1 March 2006.* OIOS noted however this post has been discontinued due to budgetary constraints. It is expected that the Administrative Unit in Budapest will reorganise its work to cover the issue of human resource function in the region.

20. Moreover, the Regional Representation had not addressed the objective of economies of scale by reducing the staffing levels as initially envisaged. In the submission to the ORB in August 2004, savings of US\$ 57,380 were expected for 2005. Although this was achieved, the new staffing structure (as seen by the auditor) constituted a cost increase for the following years. *The regional Representation indicated that by 2006 significant savings would be realized due to the discontinuation of the Representative's post in Slovakia and the closure of the office in Slovenia. The impact will be in 2007 when regional staff costs are expected to decrease by nearly US\$200,000 as compared to 2006.*

21. Regarding programme management, according to the policy developed at Headquarters, most of it would be delegated to the field with the bulk of the activities handed over to partners. The Regional Representation had not yet defined the respective responsibilities for monitoring partners in the region. *The Regional Representation stated the monitoring responsibility of implementing partners will remain with the national offices. The responsibilities for monitoring has been further defined and elaborated in the Key Activities and Distribution of Responsibility Matrix covering programme management.*

22. Moreover, there was no evidence that the partners working with UNHCR at the time of the audit have the expertise and capacity to implement public information (PI) activities on behalf of UNHCR. *A series of NGO media workshops is currently taking place to increase public information expertise and capacity.*

23. OIOS was of the opinion that the decision to abolish the national officer PI posts in the Slovak Republic and Poland was not consistent with the need to improve public information in the region. Media coverage would be difficult with only one PI officer based in Hungary. In OIOS' view, revised working procedures should have been established. *The policy decision to discontinue the two national officer PI posts in Poland and the Slovak Republic was taken to replace them with two protection assistants to strengthen the protection capacity. It was agreed that developing an effective regional PI strategy with fewer PI staff would be a challenge. The Senior Regional PI Officer has reviewed and analyzed the PI work previously done and established an action plan, which is currently being implemented.*

24. In OIOS' opinion, the activities carried out by the three country offices (administration, finance, programme, protection, safety and security, supply chain and PI) including reporting and monitoring procedures should have been more closely defined. It was recommended that a progression chart describing the key actions to be taken be developed. *This was completed in January 2006.*

B. Administration and Finance

1. MSRP Roll-out

25. MSRP was rolled-out to Budapest, Ljubljana, Warsaw and Bratislava from January to June 2005. It was hoped that MSRP would facilitate the regionalization process enabling the Regional Representation to have remote access to data for the countries under its responsibility.

26. OIOS' appreciates that this was a pilot project, and therefore certain 'teething' problems would be expected. This was the case, and the implementation process was difficult and not fully successful despite efforts by the staff members involved in the field and the MSRP support team in Geneva. In hindsight, there was insufficient preparedness; its training was not fully focused on operations and the level and depth of training necessary was underestimated. As a result of this, the internal control systems and procedures in the countries reviewed were not fully functioning in 2005. *OIOS was informed that the piloting of MSRP was highly beneficial to the project team, and many lessons were learned. This resulted in substantially modifying the training programme.*

27. Nonetheless, throughout the period under review, OIOS noted that significant progress had been made in recording transactions, and further training in November 2005 was found to be very useful. Some MSRP users needed complementary training on Excel to become more efficient in transferring data to enable proper analysis to be done and its subsequent reporting. Moreover, there had not been a complete migration to MSRP, with FMIS still used to prepare the quarterly SPMR forms. Some of the reports provided by FMIS were not always available in MSRP resulting in countries using different reporting tools for similar functions. OIOS appreciates that generating reports is a major concern for MSRP users, and that this has to be addressed centrally.

2. Financial Management

28. The implementation of MSRP has changed how financial controls are implemented and documented. The Regional Representation had not adequately taken this into consideration and this resulted in serious weaknesses in internal controls throughout the period under review.

(a) Certifying and authorizing functions

29. In MSRP, the certifying and authorizing functions are combined and performed by the same person reducing the segregation of duties. In addition, the certification/authorization control is not performed within the system but on the hard copy of the payment voucher. This means that the same person could perform all the financial functions in the system without this weakness being highlighted.

30. OIOS noted that the names of the certifying, authorizing and approving officers are not visible on the electronic version of payment vouchers, and therefore it is necessary to refer to the hard copy, which should be signed manually. This was not always done, thus, there was no proper audit trail showing individual responsibility, nor evidence of the segregation of duties for a given transaction. For example, a national officer, who initiated most of the project expenditure transactions, was at the same time the approving officer. Since the introduction of MSRP, the payment voucher was not always completed properly to provide evidence of proper certification and authorization of expenditures. There was insufficient documentation to determine whether services had been provided in accordance with the contract and items were received in good order.

31. *The Regional Representation stated that UNHCR's rules were not adapted to the MSRP environment, and this had been brought to the attention of the Head of Financial Services. In 2005, the Regional Representation was assured that the new delegation of authority instructions would be issued "soon". This was not the case. OIOS appreciates this, and is pleased to note that there has now been a Financial Internal Control Framework issued to field offices to provide the necessary guidance. Nonetheless, OIOS is still of the opinion, that when these weaknesses in internal controls were noted by the Heads of Office, they had a responsibility to ensure even on an ad hoc basis, that UNHCR assets were properly safeguarded and controlled. Assurance could not be provided that this was the case.*

Recommendation:

- The UNHCR Regional Representation in Hungary, in accordance with the UNHCR rules on Delegation of Signing Authority and in order to ensure adequate segregation of duties, should ensure that the Representative approves expenditures and that the payment voucher and supporting documents provide evidence that the certifying and authorizing function has been carried out (Rec. 01).

32. *The Director of the MSRP Project considered that the Financial Internal Control Framework, supported by automated workflow which the MSRP team has developed under the instruction of DFSM, will assist with clarifying the internal responsibility within the region, and also realign the roles with the structural changes that have taken place since the introduction of MSRP.*

(b) Transactions made by another cost centre

33. In MSRP, the Representative (including persons to whom a representative has delegated functions) is able to charge a cost centre by recording an encumbrance or a payment outside his/her area of responsibility without systematically informing the cost centre charged. For most of the offices reviewed, transactions by other offices (mainly Headquarters) had charged their cost centre. This had been done without notifying the offices concerned, and resulted in the double counting of expenditure (as an encumbrance and as a payment), costs being allocated to the wrong cost centre, and delays in recording payments.

34. The procedure for authorizing a cost centre to incur expenditures on behalf of another cost centre has not changed with MSRP, and is usually done by email. The authorization process however is not integrated in MSRP, and when a charge is made, the Representative concerned is not systematically notified. OIOS noted that notification by email is an option in

MSRP and not mandatory. In OIOS' view, it would be preferable for this to be a mandatory step as a Representative should be informed *a priori* of any commitment/charges made to a his/her cost centre by another UNHCR country office or unit at Headquarters. OIOS appreciates that the required reports are available in MSRP, and field offices on their own initiative should periodically generate these reports to manage and control expenditures. However, OIOS' found that staff responsible for this did not know how to run the relevant reports. OIOS recommended that measures be taken to ensure that an approving officer is duly informed of any transactions that will be charged by another cost centre, and proper mechanisms established to ensure only a duly authorized officer can charge expenditure to a given cost centre. *OIOS understands that the revised Delegation of Authority will address the above issues.*

(c) No use of payment requests

35. In MSRP, payment requests are no longer required since a payment can be initiated directly by the requesting unit. This significantly increases the risk of errors and inaccuracies, particularly when staff members involved in the process do not fully understand UNHCR financial rules. For example, OIOS noted that the Programme Unit in Budapest initiated a payment of HUF 765,104 (US\$ 3,600) for a review conducted of the transposition of EU directives in Hungary. There was no invoice detailing the services provided. Nonetheless, the Regional Protection Officer signed the payment voucher as authorizing and certifying officer (electronically) without signing the manual payment voucher. Also, there was no evidence that UNHCR was satisfied with the level of services rendered to UNHCR, that the services were in accordance with the terms of the contract and that the final report had been received. *The Regional Representation agreed that greater care will be taken to ensure all forms are correctly completed, supporting documents are properly attached to vouchers and that satisfactory completion of services rendered is certified.* OIOS is pleased to note the action to be taken. It is an important control that full payment is not made before all the services are rendered.

(d) No recording of encumbrance

36. All offices in the region had recorded payment vouchers directly without a requisition and purchase order since most of the transactions were less than US\$ 1,000. This practice represented a risk in the context of regional activities when the approving function is carried out in Budapest. In most of the cases, the Regional Representation would be placed in a "fait accompli" situation. Action is required to address this.

(e) Payments to the Representatives

37. OIOS noted that representatives approved and certified payments for their own entitlements. No alternative control measures had been implemented to compensate for the absence of the segregation of duties meaning that errors went undetected. For example, payments relating to travel for the Representative in Slovenia were incorrectly settled. While the overpayments have been recovered, if adequate internal controls had been established, this should have been detected. *The present enhancements of MSRP should prevent certifying and approving functions being carried out by the same person.*

Recommendation:

- The UNHCR Regional Representation in Hungary, pending the implementation of the enhancement of MSRP, should in accordance with UNHCR rules on Delegation of Signing Authority establish compensatory controls to ensure adequate segregation of duties (Rec. 02).

(f) Monthly and year-end procedures

38. In 2005, none of the countries reviewed had submitted bank reconciliations to Headquarters. The bank reconciliation function in MSRP was not yet operational, meaning that offices were simply establishing a list of non-reconciled items. The problem was compounded as some finance assistants did not know how to manually do bank reconciliations. Financial Resources Services (FRS) took no action on the absence of this important control until mid-November 2005.

39. The offices reviewed had not conducted the end-of-month procedures recommended by FRS. This was understandable as FRS issued the instructions on this procedure only six months after the implementation of MSRP in Budapest, and after the MSRP training on financial issues.

40. MSRP has simplified year-end procedures as commitments are directly recorded at the country level. For 2005, however, the reconciliation of open items could not be fully completed on time. For instance, at the time of the audit, Budapest had to clear 33 pages of open items, and Slovenia, Poland and the Slovak Republic did not expect to settle all open items before the closure of the 2005 accounts. In Poland, due to a significant backlog in posting accounts payable, OIOS was informed that it would be unlikely that the bank reconciliation would be done on time.

41. Since 1 January 2005, the Regional Representation and country offices did not reconcile any open items mainly due to the lack of data on the balance in the corresponding general ledger accounts. In addition, the clearing of receivable accounts between FMIS and MSRP/Headquarters was not properly done. As a result, many items already considered as reconciled in FMIS are still listed as “open items” in MSRP. Some open items date back to 1997, which presents considerable work. *Guidance from the Finance Section at Headquarters has been requested on how to clear all the outstanding VAT and other open items. Action will be taken as soon as a reply is received.*

Recommendation:

- The UNHCR Division of Finance and Supply Management should provide guidance and, if required, assistance to the Regional Representation and the offices under its responsibility to clear all open items (Rec. 03).

3. Cash Management

42. OIOS noted that the panel of bank signatories for the Regional Representative assures segregation of duties. However, in the three countries reviewed, there was only one bank

signatory. OIOS recommended that the Regional Representation take this into account when it establishes procedures for monitoring the countries under its authority. The Regional Representation also has to consider the procedures for replenishment of bank accounts and how this will be done in the context of regionalization and that the LOIs will be addressed to the Regional Representative. The making of payments in a number of foreign currencies also needs to be discussed and clarified. *The Regional Representation has taken action; they have sought guidance from Headquarters on bank signatories and requested authorization from Treasury to move to Citibank enabling payments to be made electronically in foreign currencies.*

43. One of the expected improvements introduced by MSRP was the necessity to settle a payment voucher before issuing the bank transfer. Bank letter/transfer forms currently used by the Regional Representation and the country offices were not the form generated by MSRP and were not integrated into the system. Payments were frequently made before the payment voucher was recorded in MSRP by all countries visited. *The customisation of a bank letter format to local requirements was addressed by the DHC in her memorandum following her visits to Hungary and Bosnia in November 2005. The necessary actions are expected on this issue.*

44. Several payments including MIP claims, hospitality, translation fees and cleaning services were made in cash instead of by bank transfer. The name of the payee on the bank letter is often “cash withdrawal” instead of the beneficiary. In addition to weakening the controls over payments, such a practice obliges a staff member to take the unnecessary risk of cashing the money at the bank on behalf of the actual beneficiary. In the context of activities in Europe, there was no justification for this. *The Regional Representation indicated that the practice of issuing bank letters in the name of another staff member in order to cash them has now stopped. All payments, including DSA advances, are made directly into the beneficiaries’ bank accounts.*

4. MIP expenditures

45. MIP management should be improved for all countries reviewed (with the exception of the Slovak Republic that had a different medical insurance policy). OIOS observed that the supporting documents were often attached to the payment voucher, which does not ensure confidentiality. A claim submitted by a MIP administrator was not properly documented and was wrongly reimbursed at 100 per cent. OIOS recommended that MIP management (including the maintenance of records) be reviewed in the context of regionalization. Given that the country offices are downsizing, transferring the management of MIP to the regional level might be suitable. *With the creation of a Human Resource Assistant post, the Regional Representation expected to centralize the administration of MIP in Budapest, which should improve its management.*

C. General Programme Management

46. The implementation of MSRP Programme module was progressing very slowly. None of the country offices used the Sub-Project Agreement format, as the EPM module was introduced late and was not properly customized, and it was only budgets that were recorded in MSRP. In all the offices visited, Implementing Partners Recording (IPRs) had not yet been entered in MSRP, and not completed for the closure of the 2005 accounts. The programme

staff members were using Excel to monitor the 2005 programme budget and expenditures. *The Regional Representation indicated Slovenia and Poland have completed the entry of the 2005 IPRs and the entry in Hungary and Slovakia were nearly completed. In 2006, it is expected that the MSRP generated reports will facilitate the monitoring of budget, expenditure, spending authority, etc. and there will be no further requirement to establish a spreadsheet for financial monitoring purposes.*

47. Closer supervision by the Regional Representation was required due to the complexity of the exchange rate calculation and the policy changes introduced by MSRP. In FMIS, the exchange rate used for reporting purposes was the rate of the last month of the reporting period and conversion was automatic. With MSRP, the conversion has to be done manually and is a combination of the rate at the time of the last instalment and the previous instalment in cases where there is an unspent balance.

(a) Sub-project Financial Monitoring

48. For all countries visited, financial monitoring of implementing partners activities was carried out. However, with the exception of Hungary, the financial monitoring performed was not always properly documented and should be enhanced. OIOS suggested that in the context of regionalization, where the Regional Representation will approve the SPMRs, there is a properly documented monitoring regime. *The Regional Representation indicated that good practices in the monitoring of and reporting on project activities have been shared with offices in the region and an integrated planning and monitoring strategy established.*

49. For the partners audited in the Slovak Republic, OIOS could not obtain assurance as to the reliability of expenditure reported to UNHCR in the SPMRs submitted. Financial monitoring was carried out regularly for most partners, however, it was OIOS' opinion that the office did not have the required capacity to do this effectively. OIOS recommended that partners be more closely monitored. *The Representative in Bratislava indicated that the high turnover of partner staff created an additional workload for UNHCR and was a major management constraint and challenge.*

50. For Slovakia, with the resources available, the office was not able to monitor all its partners. For example, the financial records of Goodwill Society, operating in the east of the country, had not been reviewed for the last two years. Also, for SHC and HRL OIOS' review highlighted weaknesses; explanations given by SHC were vague and even inconsistent in regard to the implementation of activities, and the report submitted by HRL on its legal counselling activities was insufficient to assess its output. *There was a major change in UNHCR's partners in 2005 meaning they required extensive training and coaching affecting the resources and staff members' ability to monitor all the partners.*

51. OIOS raised the concern that with the reduction of the staffing levels expected in the new regional structure, UNHCR's capacity to monitor its partners would be low. For example, Ljubljana will close in May 2006, and in Poland, although the present PI Officer will have the responsibility to monitor sub-projects related to education and integration, this post will not be extended beyond the 30 June 2006. *The Regional Representation shared OIOS' concerns and has taken a number of steps to address them to ensure OIOS observations and recommendations are implemented.*

Recommendation:

- The UNHCR Regional Representation, Hungary should ensure full coverage of the monitoring of implementing partners. All project monitoring activities should be documented in order to facilitate the supervision of partner activities at the regional level (Rec. 04).

52. OIOS is pleased to note that action has been taken. However to be able to close the above recommendation, OIOS requires a copy of the 2006 detailed work plan for monitoring implementing partners and directly implemented activities, as well as sample reports of the monitoring activities undertaken.

D. Review of implementing partners

53. For the eight partners reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-Project Agreements, with the exceptions of SHC and HRL. OIOS assessed and recommended that internal controls of most partners should be strengthened. Where required, audit certificates with unqualified opinions were received.

54. Given that a detailed summary of findings and recommendations has already been shared with the Regional Representation and the national offices, OIOS' comments on the partners are summarized per theme corresponding to the most frequent weaknesses observed and in order of priority in the context of regionalization.

(a) Maintenance of accounting and project records

55. Most of the UNHCR's partners maintained separate records for UNHCR sub-projects. They used computerized accounting systems providing the necessary information for reporting to UNHCR.

56. ARC maintained ACCORD's accounting records, and they were found adequate for general reporting, however some enhancements were required to meet UNHCR's standards. The expenditures charged to UNHCR were downloaded from the accounting system to Excel, and since Excel is not fully reliable for accounting purposes, a further reconciliation exercise was required to provide assurance that the figures reported were complete and accurate.

57. In Slovenia, the partners maintained two sets of records; one for reporting to local authorities, the other in Excel for monthly expenditure reporting to UNHCR. The latter report did not provide a direct link to bank transactions and therefore, it was difficult to verify the reliability of the financial data reported. OIOS recommended that the partners in Slovenia submit with their financial report a bank reconciliation to enable UNHCR to compare the charges to the project with the payments made. *ACCORD and the partners in Slovenia have agreed to provide bank reconciliations with its SPMR and/or monthly expenditure reporting for monitoring purposes.*

(b) Internal control and financial management

58. In general partners needed to strengthen internal controls. In particular there was a lack of segregation of duties. For example, OIOS observed that the same person was acting as

accountant, authorizing officer for cash payments (namely for assistance) and petty cash custodian. OIOS emphasized that when staffing levels do not allow segregation of duties, measures to compensate this weakness should be established such as closer supervision and the regular review of records by management to detect any error or irregular transaction.

59. Weaknesses with regard to authorizing and approval procedures were also found. The delegation of authority was not clearly assigned, controls were not always properly documented, and often only one person signed the payment vouchers. In the future, at least two persons at an appropriate level should be assigned authorizing and approving functions to ensure adequate financial controls are in place. In the context of regionalization, to be able to rely on financial information from partners, assurance needs to be obtained that sound financial controls have been established. *The Regional Representation stated that the staffing structure of the partners had limited flexibility due to the small number of staff. Efforts however would be made to address OIOS' concerns.*

(c) Sharing of common costs

60. UNHCR partners' implemented projects for various donors, all of them having different budgeting and reporting requirements. The partners often faced difficulties in sharing common costs between projects. The cost sharing methodology adopted by partners varied significantly; in some cases it was transparent and clear, in others it was not. For example, SHC's salary charges to the UNHCR sub-project could not be substantiated as the time sheets maintained did not provide sufficient details on the activities performed by the employee. OIOS recommended that UNHCR in Slovakia closely monitor cost sharing among SHC projects. *The Regional Representation indicated that this is being followed-up.*

(d) Slovakia Humanitarian Council

61. Due to weaknesses in the control environment and internal control procedures, no assurance could be obtained that financial reports submitted to UNHCR by SHC could be relied upon. The project did not appear to be well managed. The Project Coordinator left in September 2005, and the Director took over the additional tasks, and performed both functions. The salary cost of two persons was charged to UNHCR. SHC claimed that these charges were justified given that both functions were performed. OIOS recommended that UNHCR in Slovakia follow up on this issue of double charging. *The office in Bratislava has been following the matter closely and it is expected that it will be settled by the end of the third quarter of 2006.*

62. Expenditures for rental of office premises were not made in accordance with the sub-project budget. In October 2005, without informing UNHCR, SHC moved to new premises for which the rent was significantly higher, increasing the monthly charges by 300 per cent. The current cost sharing methodology did not appear fair, and the apportionment of costs was not approved by UNHCR. SHC proposed a reallocation of the budget from operational sectors to administrative support costs, which should not have been accepted given that administrative costs represented almost 30 per cent of sub-project expenditures. *SHC has reimbursed the amounts exceeded in the budget, and ultimately there has been no overexpenditure.*

(e) Human Rights League

63. HRL is an organization that was created in April 2005 by an ex-employee of a former UNHCR partner providing legal assistance to individuals in refugee/accommodation centres in the Slovak Republic. UNHCR decided to work with this organization to maintain continuity of activities. HRL signed its first Sub-Project Agreement on 24 June 2005.

64. An attorney employed part-time under the UNHCR sub-project was also conducting private business from the partner's premises. The UNHCR office in Slovakia did not have the necessary information to monitor the work conducted by the attorney and his assistant on UNHCR beneficiaries to ensure they fulfilled their obligations. Although he had an employment contract with HRL (signed by himself as employer and employee), the Board of Directors had not confirmed his working conditions. The attorney used a significant part of the office premises (30 per cent) funded by UNHCR for his private business, and no reimbursement for these facilities was made, or was there an agreement with UNHCR on this issue. *Owing to the abrupt discontinuation of the previous partner, HRL had been initially established on an ad hoc basis to ensure no disruption of legal services to beneficiaries. The staffing, in particular the lawyers, were rapidly identified and engaged. The arrangements were initially made based on the immediate availability of competent lawyers.*

Recommendation:

- The UNHCR Representation in the Slovak Republic should request Human Rights League to confirm the attorney's working conditions and to obtain a financial contribution for the private use of the office premises funded by UNHCR (Rec. 05).

(f) ACCORD

65. In mid-2005, ACCORD bought new software for the Country of Origin Information (COI) database for an amount of €35,000. This was funded jointly by UNHCR (€10,500), the European Refugee Fund and the Ministry of the Interior of Austria. For this purchase, ACCORD did not strictly follow procurement procedures. The criteria for the selection was determined by the best offer among the nine received without establishing the respective weight of each criteria or preparing a matrix. Given that the selected offer amounted to €33,890, which was much higher than the lowest offer (€16,500), the selection should have been properly documented. *Based on OIOS' recommendation, ACCORD submitted a written justification to UNHCR for the selection made.*

66. UNHCR Vienna bought the software used for COI and all users signed a right of use agreement in early 2004. It was not clear however where this asset was recorded. The software would have to be replaced in early 2006, with the data transferred to a new system and a back-up kept on DVD. Without the support of the current server, the system will no longer be used. As for any other asset, the request for write-off should be submitted to the appropriate asset management board. *The Regional Representation indicated that once the regional LAMB in Budapest is established, it is intended to submit the issue of the COI software for a decision and advice on the course of action to be taken for both the new and old software.*

E. Human Resource Management

67. In 2005, most of the human resources activities concentrated on the implementation of MSRP and the preparation for regionalization.

(a) Training on MSRP and supervision

68. Training on MSRP was provided and consisted of a pre-implementation programme in Geneva, on-the-job training, and supplementary training in Geneva (as some staff members were initially mistakenly excluded from a regional training session on month-end procedures). Staff members assessed that the training provided was not adequate or sufficiently focused. Staff members were of the opinion that the training did not suitably prepare them for the major changes and new concepts introduced by MSRP in terms of recording transactions and running reports. The training was too technical and theoretical, and no practical examples or case studies were given. The manual did not supplement or aid the learning process. Consequently, staff members continued to have a number of questions and queries that had to be answered and resolved over the telephone with the support team at Headquarters. *The Director of the MSRP Project stressed that this was a pilot, and agreed that important lessons were learned through the initial training. The training approach was substantially modified in light of the Budapest learning experience, and it was recognized that it was difficult for the offices to “digest” MSRP given that its implementation took place in the middle of structural changes.*

69. There was no mechanism to ensure continuity in the training process for replacement staff due to staff members’ departure or long absences. For example, in Budapest, due to the maternity and extended sick leave of one staff member, the recording of programme data was not done, as there were no other trained person to do this function. *OIOS understands that more extensive training will be given in the future. Also manuals are being up-dated to ensure that they are user-friendly and address the concerns of staff at the field level. The Regional Representation was of the opinion that this would not provide solutions needed for new training, as it is centralized in Geneva and there are no funds for travel expenses.*

(b) Up-dating of job description

70. Given the gradual phasing down of activities in Poland and in the Slovak Republic and the transfer of activities to Budapest, a revision of the current tasks should have been carried out. At the time of the audit, job descriptions had not been updated since the posts were created. For instance, in Bratislava, with the exception of the newly created posts, job descriptions have not been updated since 1997. Similar observations were made for Poland and for Hungary. *The Regional Representative indicated that the revision of job descriptions has been completed in Budapest, and for Poland and the Slovak republic these will be reviewed and revised in the second half of 2006.* OIOS believes that the revision of the job descriptions should have been done earlier in the process, at the time of the revision of the staffing.

F. Supply Chain Management

(a) Asset Management

71. OIOS noted that for the offices reviewed, they have succeeded in transferring assets from AssetTrak to MSRP. Two of the offices (Bratislava and Warsaw) however still have to verify that all the data has been correctly transferred. *As recommended by OIOS, the Regional Representation agrees and will ensure that countries under its responsibility conduct a physical check of all assets with a view to identifying any discrepancies between AssetTrak records and the MSRP records.*

72. In the context of regionalization, OIOS recommended that the Regional Representation provide its offices with instructions on asset management procedures including the future functioning of the LAMB/RAMB. *The Regional Representation informed OIOS that they have received the authorization to establish an Asset Management Board with regional competence.*

73. Given that the UNHCR Representation in Slovenia was to be closed by May 2006, there were no detailed procedures established and communicated to the person concerned. OIOS recommended that this be done as soon as possible. This should include how to deal with decisions on the disposal of assets and the storage of storage/transfer of files.

H. Security and Safety

74. OIOS' review aimed to determine the adequacy of the current security and safety procedures in place. It would found that for all the countries visited, improvements were required, and no revised policy on regional security procedures has been established. OIOS suggested that with the assistance of Headquarters, the Regional Representation determine whether the security and safety related activities and responsibilities should remain at the country or regional level, and once established, the distribution of responsibilities be documented and disseminated. *The Regional Representation indicated that any security issues that may be assumed by the Regional Representation, if any, have not yet been determined. This issue needs to be discussed and clarified in Geneva between the Bureau and FSS.*

V. **ACKNOWLEDGEMENT**

75. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff of UNHCR and implementing partners in Hungary, Poland, the Slovak Republic and Slovenia.

Eleanor T. Burns, Acting Chief
 UNHCR Audit Service
 Office of Internal Oversight Services