

UNITED NATIONS

**Office of Internal Oversight Services
UNHCR Audit Service**

Assignment AR2004/111/05
Audit Report R04/R035

19 November 2004

OIOS AUDIT OF UNHCR OPERATIONS IN SIERRA LEONE

Auditors:

T. Ludviksson
C. Lakshmi Varahan

UNITED NATIONS



NATIONS UNIES

Office of Internal Oversight Services
UNHCR Audit Service

OIOS AUDIT OF UNHCR OPERATIONS IN SIERRA LEONE (AR2004/111/05)

EXECUTIVE SUMMARY

In June and July 2004, OIOS conducted an audit of UNHCR Operations in Sierra Leone. The audit covered activities with a total expenditure of some US\$ 50 million in 2002 and 2003. Audit Observations were shared with the Representative in July and August 2004, on which comments were received in September and October 2004. *The Representative has accepted most of the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Sierra Leone as below average. The weaknesses identified, 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.

Programme Management

- The key function of project control was not effective. The designated Project Control Officer, for the most part acted as an Administrative Officer under vacant posts. Considering the significant activities and funds delegated to implementing partners, the absence of this key function had a detrimental effect on the internal controls. Serious weaknesses were identified both in the programme activities managed by UNHCR and those delegated to partners.
- For only four of the eight partners reviewed could reasonable assurance be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. For other partners, reliance could not be placed on the information received and OIOS had serious concerns of the effectiveness of their accounting and internal control systems and procedures.

Supply Management

- The systems and procedures in supply management were partially established and in cases found ineffective and/or deficient. Reasonable assurance could not be taken that all goods and assets procured were received, appropriately safeguarded and properly distributed.
- Local purchases of standard relief items were not cost effective with prices exceeding by far the allowable limit of 15 per cent above prices for comparable products purchased internationally. OIOS calculated that expenditure of about US\$ 500,000 could have been avoided if such items had been procured internationally through SMS. Inadequate procurement planning contributed to these additional costs. *The Representation agreed to minimize local procurement.*

- In an 18-month period, GTZ purchased locally spare parts costing US\$ 750,000 due to delayed funding. The spare parts were of an inferior quality, but with prices between 30 to 50 per cent higher than international prices. OIOS calculated that with proper procurement planning and timely conclusion of Sub-agreements international procurement could have resulted in saving of about US\$ 330,000. *Procurement for 2005 activities would be placed in the last quarter of 2004.*
- For 2002-2003, over US\$ 800,000 was spent for repatriating refugees by boat from Liberia. The supporting payment documents were incomplete, and standard information such as number of voyages and passengers was absent. A review of the transactions with this company was warranted.
- AssetTrak data maintained at the Representation was incomplete, and the method of recording the status of assets was not satisfactory. Due to this, items procured by SMS, including almost half (valued about US\$ 1 million) of the 77 vehicles purchased in 2002 and 2003 could not be traced in AssetTrak nor could their existence be confirmed. *Measures have been instituted to address the weaknesses.*

Security and Safety

- After the end of the long civil war in Sierra Leone, UNAMSIL took the lead for UN agencies with regard to security and safety matters. A newly posted UNHCR Field Safety Adviser, based in Kenema had already identified enhancements required for MOSS compliance.

Administration

- In the areas of administration and finance, the level of compliance with UNHCR's regulations, rules, policies and procedures had improved during 2004. However, further improvements were needed.
- The UN operational exchange rate was always lower than the bank rate, and as a result, substantial (US\$ 1.4 million) but artificial gains on exchange were recorded in UNHCR's accounting records. As these gains are treated as global income, they were lost to the Sierra Leone operation. OIOS recommended that the exchange rate fluctuations be closely monitored, and in case of a serious shortfall of funds, some of the gains should revert to the Sierra Leone operation.
- A number of payment and adjustment vouchers processed between December 2003 and May 2004 at the Kenema Sub-Office were neither authorized nor approved, but still recorded in FMIS. Due to this very serious weakness in internal controls, OIOS recommended that an in-depth review be conducted to assess the validity of the transactions. A report should be submitted to DFSM.
- After the 2003 investigation into fraudulent medical claims, staff members have not been reimbursed claims even though they continued to contribute to MIP. The Representation explained that they lacked the necessary expertise to survey the local market to ensure the amounts reimbursed were reasonable and customary. OIOS encouraged the Representation to expedite this process, and seek assistance from DHRM, as necessary.
- Staff received SOLAR payments of US\$ 3,450 per month, but for those residing in UNHCR guesthouses, no deduction for accommodation was made. *Action was being taken to rectify the situation.*

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1 - 4
II. AUDIT OBJECTIVES	5
III. AUDIT SCOPE AND METHODOLOGY	6 - 9
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. General Programme Matters	10 - 15
B. Review of Implementing Partners	16 - 23
C. Supply Management	24 - 42
D. Security and Safety	43
E. Administration	44 - 51
V. ACKNOWLEDGEMENT	52

I. INTRODUCTION

1. From 14 June to 5 July 2004, OIOS conducted an audit of UNHCR's Operations in Sierra Leone. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations. OIOS reviewed the activities of the UNHCR Representation in Sierra Leone and its Sub-Office (SO) in Kenema and eight of its implementing partners.

2. OIOS' previous audit of UNHCR in Sierra Leone was conducted in June 2002 and it focused on 2000 and 2001 projects covering expenditure of US\$ 9.8 million. The 2002 audit found that for some of the partners reviewed, reasonable assurance could not be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS recommended strengthening of the project financial monitoring and improvement of internal controls over procurement and asset management. The Representation had agreed to implement.

3. UNHCR estimated that of the 320,000 Sierra Leoneans living abroad, some 200,000 returned in 2001 and 2002. UNHCR's principal objective within the region in 2003 was to repatriate 42,000 Sierra Leonean refugees and provide basic services in the returnee areas. Further, UNHCR provided care and maintenance to 60,000 refugees in eight camps, most of them from Liberia, as well as 7,000 Liberians under a local settlement programme.

4. The findings and recommendations contained in this report have been discussed with the officials responsible for the audited activities during the exit conference held on 5 July 2004. Audit Observations detailing the audit findings and recommendations were shared with the Representative in July and August 2004. The comments, which were received in September and October 2004, are reflected in this report. *The Representative in Sierra Leone accepted most of the audit recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to evaluate the adequacy and effectiveness of controls to ensure:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and,
- Compliance with regulations and rules, Letters of Instruction and Sub-agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit focused on 2002 and 2003 programme activities under projects 02 and 03AB/SLE/RP/350, 02/SB/SLE/EM/130, 02 and 03/AB/SLE/LS/401 and 03/AB/SLE/CM/200 with expenditure of US\$ 43 million. Our review concentrated on the activities implemented by Gesellschaft fur Technische Zusammenarbeit (GTZ) – expenditure of US\$ 12 million, International Rescue Committee – expenditure of US\$ 2.5 million, Peace Winds Japan – expenditure of US\$ 2 million, American Rescue Committee – expenditure of US\$ 1 million, Africa Concern – expenditure of US\$ 0.9 million, National Commission for Social Action (NACSA) – expenditure of US\$ 1.2 million, Caritas Kenema – expenditure of

US\$ 0.5 million, and Bo/Pujehun Development Associates – expenditure of US\$ 1.3. We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 5 million and US\$ 5 million in assets and relief items procured and shipped by the Supply Management Service (SMS) to Sierra Leone in 2002 and 2003.

7. The audit reviewed the administration of the Representation in Freetown and the Sub-office in Kenema with administrative budgets totalling US\$ 6.2 million for the years 2002 and 2003. The value of assets covered under the audit could not be reliably established, as some of them were grossly overvalued, for example some of the vehicles were listed as over US\$ 2 million in value, while other assets had not been recorded at all. At the time of the audit, the number of staff working for the UNHCR Operation in Sierra Leone was about 130. This included staff on regular posts, United Nations Volunteers and staff on mission.

8. The audit followed up on findings and recommendations made in the 2002 OIOS audit regarding supply management and project financial monitoring. There was little evidence that the Representation had addressed these concerns.

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

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. General Programme Matters

10. Systems and procedures to monitor the effectiveness of programme implementation were deficient, in particular activities implemented by partners.

(a) Project control

11. The function of the Project Control Officer was ineffective during 2003 and 2004. For extended periods, to cover vacant positions, the incumbent acted as the Administrative Officer in the Representation Office and at SO Kenema. Consequently, very few visits to implementing partners were made. Considering the significant activities and funds delegated to partners, the absence of this key function had a detrimental effect on the internal controls over programme activities. The serious weaknesses identified by the audit could have been corrected earlier if this key function had been working effectively.

12. Many of the issues and weaknesses found had already been highlighted by OIOS after the 2002 audit. The Representation had responded positively to OIOS' recommendations and indicated that improvements were being instigated. However, this was found not to be the case, and not much progress or improvement had been made. OIOS appreciates the staffing constraints, but would reiterate the requirement to strengthen the project control function and to provide more hands-on training and capacity building to local and government partners. *The Representation stated that a calendar for project monitoring until the end of 2004 had been established and that the normal SPMR reviews would be performed.* Given the importance of this function and the serious concerns raised, OIOS needs assurance that positive action has been taken. A copy of the monitoring schedule of partners should be

submitted as well as a sample of the monitoring tools and reports prepared by the designated staff now responsible for this function.

Recommendation:

- The UNHCR Representation in Sierra Leone should ensure that proper and systematic project financial monitoring procedures are introduced and the necessary guidance is provided to partners to enable them to enhance their systems and procedures. Evidence that effective procedures have been adopted should be forwarded to OIOS for review (Rec. 01).

(b) Audit Certificates

13. A number of local implementing partners, namely NACSA, BPDA and Caritas Kenema did not submit audit certificates as required by the Sub-agreements. OIOS recommended that the Representation arrange for an independent audit of these NGOs and also of those national NGOs, which had been contracted by GTZ to manage UNHCR community empowerment projects (CEP). These projects exceeded the threshold of US\$ 100,000 and therefore required an audit certificate. OIOS also recommended that an independent audit be conducted of the UNHCR sub-projects with Africa Concern. Although it is an international NGO, OIOS was concerned with the management of the sub-project and was unable to place any reliance on the information received from them. *The Representation stated that steps were being taken to select an audit firm to perform local audits, including audits of international partners when needed.* OIOS is pleased to note the initial action taken by the Representation, but urges the Representation to speed up the selection and engagement of an audit firm to ensure audit certificates for the 2002 and 2003 are forthcoming.

Recommendation:

- The UNHCR Representation in Sierra Leone should engage an audit firm to carry out audits at the relevant implementing partners (Rec. 02).

(c) Community Empowerment Projects

14. In 2003, UNHCR provided US\$ 1.1 million to implement over 300 small CEP projects, with an average expenditure of US\$ 4,000 per project. GTZ implemented almost half of them by contracting two national NGOs. Many of the CEPs were only funded in late 2003 and therefore, not completed by the end of the year. It was therefore too early to assess the overall impact of the projects and consequently, a comprehensive review of them was not conducted.

15. OIOS noted, however, that consolidated data was not kept on individual CEPs implemented by partners nor did the Representation maintain an adequate central database. OIOS recommended that a standardised reporting format be introduced to facilitate the

compilation of data and improve the monitoring process. *The Representation stated that it was in the process of improving and expanding its data collection on CEPs.*

B. Review of Implementing Partners

16. For four of the eight partners reviewed, namely IRC, ARC, Caritas Kenema and Peace Winds Japan, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. For the other partners, reliance could not always be placed on the information received, and OIOS raised concerns as to the effectiveness of their accounting and internal control systems and procedures.

(a) Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

17. Although the accounting and internal control systems established by GTZ were assessed as satisfactory, OIOS was unable to fully verify the US Dollar sub-projects due to the absence of supporting documents. As this was a material amount of US\$ 6 million, OIOS recommended that GTZ Sierra Leone obtain copies of the relevant documents. These should be reviewed by the Representation to determine if UNHCR was appropriately charged for the activities reported as implemented. *GTZ has agreed to implement this effective from the current year.*

(b) Bo/Pujehun Development Associates (BPDA)

18. The audit confirmed recent improvements in accounting and financial reporting, however, it also identified weaknesses in procurement and project management, particularly in keeping relevant data on the implementation of Community Empowerment Projects (CEP). *The Representation has requested BPDA to follow established procurement and project management procedures.*

(c) National Commission for Social Actions (NACSA)

19. NACSA had no proper accounting system. OIOS attempted to collate and summarize the vouchers supporting the expenditures reported, however, it was impossible to obtain any reliance as to the completeness and accuracy of the SPMRs submitted to UNHCR. Internal controls were absent or weak; no banking transactions were recorded or reconciliations made, and expenditure was not properly authorised or approved. OIOS recommended that significant improvements be made, and requested that proper accounts be prepared for the 2002 and 2003 sub-projects. The sub-projects should be independently audited. OIOS also recommended that the SPMRs not be accepted until the Representation is satisfied that the expenditure reported in the SPMRs is bona fide UNHCR sub-project costs. *The Representation has worked with NACSA to resolve the issues raised by OIOS. Independent audits of 2002 and 2003 SPMRs will be made before final acceptance.* OIOS appreciates the efforts being made and would like to be kept informed of the result of the external audit.

20. Due to the serious shortcomings identified by the audit, but at the same time recognising the need to work with this governmental partner, OIOS recommended that the Representation scale down the activities and responsibilities delegated to them. *The*

Representation responded that it was obliged to assist and support NACSA as part of their capacity building strategy. A qualified finance officer has been employed and is assisting in the installation of a proper accounting system as well as ensuring internal controls are strengthened. If this fails to be effective, the Representation will curtail the activities delegated to them. OIOS understands the Representations role in capacity building, but would re-emphasize that NACSA activities should be closely monitored.

Recommendation:

- The UNHCR Representation in Sierra Leone, considering the serious weakness identified during the audit, should monitor closely the activities of NACSA. This should include visits to their premises to review their books of account, assess whether internal controls and procedures have improved and obtain assurance that UNHCR funds are appropriately disbursed (Rec. 03).

(d) Africa Concern

21. OIOS was unable to audit the UNHCR sub-projects implemented by Africa Concern. No meaningful information was forthcoming to the queries made or the details requested. It was assessed that the management of the partner was weak. OIOS recommended, therefore, that the partner be closely monitored to ensure the programme was not adversely affected. OIOS also recommended that the books of account be independently audited to obtain assurance that the expenditures reported can be relied on. *The Representation noted OIOS' observation and recommendations, but did not indicate which action would be taken to address the shortcomings.* OIOS considers it necessary to reiterate this recommendation, as not only the general well being of refugees may have been at risk but also the proper use and correct reporting on UNHCR resources. Further, the future partnership with this International NGO may depend on how they dealt with this matter.

Recommendation:

- The UNHCR Representation in Sierra Leone should monitor closely the management situation at Africa Concern, and arrange for an audit of their 2002 and 2003 sub-projects. If significant improvements are not forthcoming, the partnership with Africa Concern should be discontinued (Rec. 04).

(e) Other issues with the implementing partners

22. The quality of the narrative SPMRs needed to be improved. They did not clearly outline the project achievements of planned activities, reasons for delays, or non-achievement of project objectives. It was difficult to assess the overall impact of the sub-project. For example, staff housing was still under construction in July 2004 (costing US\$ 250,000), however, it was not reported as 'in progress' by GTZ in 2003. Moreover narrative reports

were not consistently submitted to UNHCR, nor were they systematically requested by the Representation. *The Representation informed OIOS that action had been taken.*

23. The contributions from the partners were not documented in the Sub-agreements. OIOS recommended that this be done, and highlighted that the contribution should be at least comparable to the 5 per cent Headquarter support cost. This is a prerequisite for UNHCR to contribute to such cost. Also, without disclosure of the contribution, there is a risk that the provision of assistance is not properly harmonized and could result in some duplication of activities. *The Representation informed OIOS that action had been taken and they had requested partners to the required information.*

C. Supply Management

24. The systems and procedures in supply management were only partially established and in many instances found to be ineffective and/or deficient. Reasonable assurance could not be taken that all goods and assets procured were received, appropriately safeguarded and properly distributed. Moreover, a limited trail existed of the procurement transactions and therefore, it was difficult to assess the effectiveness of the internal controls due to the poor and/or absent documentation. Some improvements were noted at the end of 2003. Nevertheless, deficiencies still remained at the time of the audit.

25. The workload of the Logistics Unit was significant, as in addition to the regular supply functions they managed a small aircraft (until 30 June 2004) and the transportation of Sierra Leonean returnees by boat from Monrovia to Freetown. Considering this, in OIOS' opinion, the activities could have been more effectively managed if the Representation had sought assistance from the Regional Supply Officer or from SMS.

(a) Systems and procedures

26. From January 2002 to March 2004, the Representation and SO Kenema spent over US\$ 4.4 million on local procurement. Adequate internal controls were not in place to track these transactions from the approval of the purchase to the payment of the invoice. A register for local procurement was available, and some basic data was recorded, but this was not found to be fully effective. References to purchase orders and payment vouchers were absent and therefore assurance could not be provided as to the completeness and accuracy of the procurement data. Similarly for international procurement there was no mechanism in place to track procurement requests submitted to SMS. Consequently, the Logistics Unit was not equipped to detect possible discrepancies and follow-up on delays in the receipt of goods. OIOS recommended that a proper tracking system be introduced to enable the monitoring of procurement activities and to ensure the completeness and accuracy of data. *The Representation informed OIOS that action had been taken as recommended.* OIOS is pleased to note the positive action taken, but would like to obtain more information on the new systems and procedures developed.

Recommendation:

- The UNHCR Representation in Sierra Leone should develop an adequate tracking system to ensure the completeness and accuracy

of procurement data and to allow effective monitoring of these activities. The system should include details of procurement requests, the bidding process and approval from the relevant authority. The system should enable proper follow-up on delivery of goods and the matching of quantities ordered and received against the amounts paid (Rec. 05).

27. OIOS found that goods were not always procured competitively. The roster of local vendors was incomplete and it was not clear how prospective suppliers were identified or contacted. The Local Committee on Contracts (LCC) meeting minutes were not always sufficiently comprehensive. OIOS recommended that all goods be purchased competitively unless properly justified in writing, the vendors' roster be properly established and LCC minutes be complete and comprehensive. *The Representation informed OIOS that action had been taken; suppliers' lists were regularly updated and proper market surveys were being conducted.*

(a) Local procurement

28. The Representation purchased large quantities of standard relief items locally. Such local procurement was not cost effective, as prices paid locally were considerably higher than those available for international procurement through SMS. UNHCR's policy for the promotion of local economies allows local purchases, if a local item costs up to 15 per cent more of the landed cost of a comparable imported item. However, prices paid by UNHCR Sierra Leone by far exceeded this 15 per cent limit. OIOS estimated that if standard relief items procured for the Sierra Leone programme (kitchen sets, lamps, sanitary kits and plastic mats) had been purchased under UNHCR frame agreements or other international procurement, savings of some US\$ 500,000 could have been achieved, the bulk of them from sanitary kits (US\$ 300,000) and plastic mats (US\$ 140,000).

29. Since the programme was no longer operating under an emergency situation, OIOS considers that inadequate procurement planning contributed to such additional cost. The Representation explained that forward planning was difficult due to piece-meal increases in obligation levels. While, OIOS appreciates that this can sometimes be a problem, the preparatory work for international procurement could have been conducted in the intervening period while waiting for adequate funds. Also, under SMS' frame agreements, the volumes could have been gradually increased with the availability of funds. OIOS recommended that local procurement be severely curtailed and the Representation make more use of SMS when purchasing major relief items. *The Representation explained that they would endeavour to avoid local purchases if not cost-effective.*

30. Similarly, GTZ was delegated significant procurement responsibilities for the logistics operation. Local procurement of vehicle spare parts between January 2003 and June 2004 amounted to some US\$ 750,000. GTZ explained that it was necessary to procure locally due to the delay in finalising Sub-agreements. Orders could not be timely placed on the international market meaning economies of scale were lost.

31. The local spare parts were frequently of an inferior quality, but at the same time considerably more costly. OIOS estimated that the local prices were between 30 to 50 per cent

higher than international prices. OIOS calculated that with proper procurement planning and timely conclusion of the Sub-agreements, international procurement could have resulted in saving of about US\$ 330,000. *The Representation stated that orders for international procurement for 2005 activities would be placed in the last quarter of 2004. Appropriate budgetary provisions would be sought to implement this measure.* OIOS would like to be informed of the present implementation status of this issue.

Recommendation:

- The UNHCR Representation in Sierra Leone should limit the local procurement of standard relief items and of vehicle spare parts to cases where the price of local goods does not exceed the price of comparable imported goods by more than 15 per cent. OIOS estimates that international procurement of the aforementioned items could save over US\$ 600,000 in 2005 alone (Rec. 06).

32. The Representation spent some US\$ 2.3 million on fuel, which was procured from a local vendor, the Sierra Leone National Petroleum Co. Ltd. The contract for fuel was approved by the Committee on Contracts (CoC) in 2000 and was valid only up to 2001. No further submissions to CoC were made, albeit, the contract continued. Considering that UNHCR in Sierra Leone procured over 3 million litres of fuel in 2003, OIOS was of the opinion that if a new procurement exercise had been conducted possible savings could have resulted. *Subsequent to the audit, the Representation requested and obtained from the CoC a bid waiver for 2004 to avoid any disruption in the fuel supply.*

33. For fuel management, OIOS assessed that GTZ had established adequate procedures and had put in place the necessary infrastructure for its storage and distribution. This was not the case, however, for SO Kenema and FO Bo, which together procured about 600,000 litres of fuel for administrative vehicles costing US\$ 269,000. The systems and procedures both over the procurement of fuel and management of its consumption needed to be strengthened. OIOS review noted that the consumption of about 120,000 litres costing US\$ 53,000 did not appear to be properly justified or supported. An inquiry was made whether some staff members were involved in unethical practices in the use of fuel and a staff member was separated. Although OIOS reviewed this activity, due to lax controls and poor documentation, OIOS was unable to quantify the loss or assign responsibility. OIOS recommended that the management of fuel be handed over to GTZ. *The Representation agreed.*

34. SO Kenema spent US\$ 42,000 in 2003 on the procurement of vehicle spare parts. The rationale for the procurement was not evident considering that GTZ was already operating a workshop for UNHCR in Kenema. The supporting documentation was poor and UNHCR's procurement procedures were not adhered to. OIOS recommended that SO Kenema discontinue buying its own spare parts since this responsibility was delegated to GTZ. *The Representation agreed.*

(b) Vessel Charter

35. On behalf of UNHCR Liberia, the Representation entered into contracts with Kamtech

Ltd. for the transportation of Sierra Leoneans by sea from Monrovia to Freetown. For 2002-2003, some US\$ 1.3 million was paid to Kamtech. The payments for the vessel alone were US\$ 646,000 in 2003 and US\$ 178,000 in 2002. Given the nature of the services, the complexities and the financial volume it was OIOS' opinion that SMS should have been consulted on the contracting process. This was not done, and despite its value, it was not submitted to the CoC for approval. The cost of this activity was charged to the Liberia programme by Sierra Leone.

36. Our review disclosed that about US\$ 373,000 related to the payment of advances, albeit, it was charged directly as expenditure. There were no details on how the advances were controlled against the actual costs incurred. The documents supporting the transactions were incomplete and standard information such as number of voyages and the dates and the number of passengers was absent. The Representation did not always have on file proper invoices to support the payments made, one payment of US\$ 41,000, made on 18 August 2003 appeared to be excessive.

37. Due to these shortcomings and the lack of supporting documents, OIOS could not provide any assurance that all the payments made to Kamtech were justified. OIOS recommended that the Representation obtain all the relevant documents to substantiate the total payments made. *The Representation explained that it was in the process of compiling the documents needed to reconcile and substantiate the relevant payments to Kamtech.* OIOS is pleased to note that work has started and would like to be kept informed of the results of the exercise.

Recommendation:

- The UNHCR Representation in Sierra Leone, in order to obtain reasonable assurance that the services contracted from Kamtech Ltd were delivered and correctly paid, should collect all relevant documents to substantiate the total payments made amounting to some US\$ 824,000 and to exclude any double payments or excess payment of advances (Rec. 07).

(c) Receiving, Warehousing and Distribution

38. OIOS was generally satisfied with stock and warehouse management, which was carried out by GTZ. OIOS recommended, however, that consolidated distribution data be maintained to have an overview on the receipt, stockholding and distribution of inventory countrywide. *Action will be taken including the requirement to obtain distribution reports from partners.*

(d) Asset Management

39. AssetTrak data maintained at the Representation was incomplete, and the method of recording the status of the assets was not satisfactory. Procurement requests from SMS for vehicles and other assets were not tracked. For example, in 2002 and 2003, SMS shipped 77 vehicles valued at US\$ 2 million. Of these, only 40 vehicles valued at US\$ 1 million were recorded in AssetTrak. The whereabouts of the other 37 vehicles could not be traced. On this

asset category alone about US\$ 1 million was not properly recorded. The Logistics Unit did not detect this discrepancy and cited the absence of staff with AssetTrak experience as the cause of the backlog.

40. There was no evidence that in recent years, a proper physical verification of assets had been done. A Local Asset Management Board (LAMB) was said to exist, but it had not met since 2002. *OIOS was informed that it was being revived.*

41. The Representation spent about US\$ 47,000 in 2003 for vehicle insurance premiums; in addition, funded by UNHCR a further US\$ 15,000 was paid by GTZ to insure UNHCR's light vehicles. Double coverage and double charges cannot be excluded, as there was no comprehensive list of vehicles, including their barcode numbers, registration plates and insurance details. Also, there was no regular verification or documented relationship between AssetTrak and vehicle management.

42. Due to the various system weaknesses and lack of compliance with standard procedures, significant improvement was warranted. *The Representation replied that a number of measures had been instituted to address the weaknesses raised by OIOS.* OIOS is pleased to note that action has been taken, but would like to be kept informed of the progress made, i.e. whether a complete physical verification of assets has been conducted and the status of the up-dating of AssetTrak and any other administrative procedures that are required (completion of GS-45s and submissions to the Headquarters Asset Management Board).

Recommendation:

- The UNHCR Representation in Sierra Leone should ensure proper controls are implemented over the safeguarding of assets. A complete physical verification should be conducted before the end of 2005 to confirm the existence of assets. On the basis of the results, appropriate administrative procedures should be taken and AssetTrak should be updated accordingly (Rec. 08).

D. Security and Safety

43. After the end of the long civil war in Sierra Leone, UNAMSIL took the lead for UN agencies with regard to security and safety matters and UNHCR followed their suggestions. Also, the newly posted UNHCR Field Safety Adviser based in Kenema had already identified some additional enhancements required for MOSS compliance. OIOS considers that the Representation was complying with the MOSS requirements and that general security and safety precautions had been put in place.

E. Administration

44. In the areas of administration and finance, the UNHCR offices in Sierra Leone complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review. However, some improvement was warranted. The post of Senior Administrative Officer in Freetown was vacant for most of 2003 and the first quarter of 2004. Also, there was no Administrative Officer at SO Kenema

between September 2003 and July 2004. Although staff members on mission and temporary replacements were used to fill these gaps, certain concrete procedures and controls had not been put in place.

(a) Exchange fluctuations

45. The banks offered low exchange rates, which in January 2003 was Leones 2,100 to one US Dollar. The Leone gradually weakened against the US Dollar to about Leones 2,700 to the US Dollar in May 2004, depreciating by 30 per cent. UNHCR had successfully negotiated a favourable rate of exchange. Since the UN operational exchange rate did not always coincide with the bank rate, substantial but artificial gains on exchange were recorded in UNHCR's accounting records. For example, UNHCR converted over US\$ 16 million to Leones between January 2003 and May 2004, which resulted in exchange gains of US\$ 1.4 million, representing the difference between the UN operational exchange rate and the bank rate.

46. According to UNHCR's accounting policy, such gains are treated as global income, which means they are lost to the Sierra Leone operation resulting in reduced funds for programme implementation. OIOS recommended that the Representation closely monitor the exchange rate fluctuation and ensure, in case of a serious shortfall of funds, access some of the gains generated by the Sierra Leone programme due to this unusual situation. *The Representation agreed and has started to compile related information, and would expect to be in a favourable position if additional funds are required due to this exceptional situation.*

(b) Accounting

47. A number of payment and adjustment vouchers processed at SO Kenema between December 2003 and May 2004 were neither authorized nor approved, but was nevertheless recorded in FMIS/Field. The Finance Assistant explained that temporary supervisors/staff had departed before signing the related vouchers. Their successors did not want to be held accountable for the transactions, as they were not involved in the decision-making process. Due to the volume, OIOS was unable to determine the overall impact of this very serious weakness in internal controls. OIOS recommended that the Representation conduct an in-depth review to assess the validity of the transactions, which were never approved. *The Representation confirmed that a new Administrative/Finance Officer had been posted to Kenema and the matter would be investigated and appropriately dealt with.* OIOS appreciates the commitment made to do this work, but would request that a summary of the review be documented and forwarded to the Finance Section, DFSM for review. They need to be satisfied as to the appropriateness of the expenditure processed in FMIS/Field. A copy of the report should be submitted to OIOS.

Recommendation:

- The UNHCR Representation in Sierra Leone should as a priority, conduct an in-depth review of the payment and adjustment vouchers processed between December 2003 and May 2004 that were neither authorized nor approved. A summary report of the review should be submitted to the Division of Financial and Supply

Management with a copy to OIOS (Rec. 09).

(c) Medical Insurance Plan

48. After the 2003 investigation into fraudulent medical claims, the Representation suspended the reimbursement of medical claims. At the time of the audit, claims processing was still suspended even though staff continued to contribute to MIP without interruption. The Representation explained that it lacked the necessary expertise to survey the local market to ensure the amounts reimbursed were on the basis of the reasonable and customary charges applicable at the duty station. OIOS encouraged the Representation to expedite this process. It is important that appropriate control mechanisms are established and staff members are reimbursed their medical expenses. *The Representation reiterated that outside expertise was needed to assist them in this work. They indicated that suggestions and support were expected from DHRM, but this matter was still unresolved.* In the view of OIOS, it is not acceptable that staff contributing to the MIP, are not reimbursed for their medical claims for an extended period of time.

(d) Guesthouses and Special Operational Living Allowance Rate (SOLAR)

49. Due to a lack of suitable accommodation in the areas where UNHCR was working, the Representation operated in 2003 and early 2004 as many as eight guesthouses in which staff were residing. Sufficient information on the guesthouses' income and expenditure was not available and it was not properly accounted in FMIS. OIOS recommended that the Representation keep detailed accounts of the activities of the guesthouses, which should include a list of guests, income received and amounts disbursed. *Action is being taken to rectify the situation.*

50. Staff received SOLAR payments of US\$ 3,450 per month from the Representation in Freetown. For staff provided guesthouse accommodation there should have been a deduction of 25 per cent (US\$ 862) of the SOLAR amount. This was not being complied with, as cash collections were made at each guesthouse, however, proper accounting was not kept. OIOS pointed out that SOLAR is to contribute towards meeting living expenses and when accommodation is provided by UNHCR the necessary deduction should be made. *The Representation stated that action was being taken to rectify the situation.*

51. On both the above issues, OIOS was not satisfied with the initial reaction from the Representation in Sierra Leone, as it did not explain what actions were taken. Therefore, OIOS would appreciate to receive further information on the actions taken to determine whether the recommendations can be considered as fully implemented.

Recommendation:

- The UNHCR Representation in Sierra Leone should keep detailed accounts of each guesthouse activities as well as reduce the monthly SOLAR payments to staff when accommodation is provided, instead of paying centrally in Freetown the allowances in full and then collecting cash at the various guesthouses (Rec. 10).

V. ACKNOWLEDGEMENT

52. 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 Sierra Leone.

Egbert C. Kaltenbach, Chief
UNHCR Audit Service
Office of Internal Oversight Services