INTERNAL AUDIT DIVISION

AUDIT REPORT

UNHCR Iraq Situation in Syria

Challenges in recruiting and retaining qualified staff posed significant risks to the operation

22 April 2009
Assignment No. AR2008/131/02

United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. António Guterres, High Comissioner
A: United Nation High Commissioner for Refugees

DATE: 22 April 2009

REFERENCE: IAD: 09- 02380

FROM: Fatoumata Ndiaye, Acting Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AR2008/131/02 - Audit of the UNHCR Iraq Situation in Syria**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.

2. Based on your comments, we are pleased to inform you that we will close recommendations 4, 5, 7, 8, 10, 11 and 13 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.

3. Your response indicated that you did not accept recommendations 3 and 12. No comments were received with regard to recommendation 1. In OIOS' opinion however, these recommendations seek to address significant risk areas. We are therefore reiterating them and requesting that you reconsider your initial response based on the additional information provided in the report.

4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 and 5) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. L. Craig Johnstone, Deputy High Commissioner
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INTERNAL AUDIT DIVISION

FUNCTION

"The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization" (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the UNHCR Iraq Situation in Syria

OIOS conducted an audit of the Office of the United Nations High Commissioner for Refugees (UNHCR) Iraq Situation in Syria. The overall objective of the audit was to assess the adequacy and effectiveness of internal controls in cash assistance, procurement and distribution of food and relief items, human resources management, medical assistance, and supply chain management. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Challenges in human resources management posed the highest risk to this operation, since it was necessary to recruit and train a large number of staff in a short period of time, most of them with no working experience with the UN or other humanitarian organizations. More than 18 months after the beginning of this operation, some units such as Programme, Resettlement and Procurement were still significantly understaffed.

The intensive use of information technology (IT) resources allowed UNHCR to register a large number of beneficiaries and provide assistance in a timely manner. Without the use of and the development of IT tools by the UNHCR team in Syria, the Representation would not have been able to achieve its mandate in providing assistance to a large urban caseload in a timely manner. However, excessive dependence on one key staff member increased the risk of disruption if the staff member's services are not available even for a short period.

The Representation did not comply with UNHCR Delegation of Authority Policy with regard to the payment of cash assistance amounting to $4 million. Instructions for payment were given to the bank and the payments were made to the beneficiaries before being recorded in MSRP and without the required control mechanisms. The recording in the Management Systems Renewal Project (MSRP) database was made *post facto* on the basis of bank statements, which was also not in accordance with generally accepted accounting principles. This resulted in an unexplained variance of $69,000, which needs to be reconciled.

The Representation did not have the necessary information to monitor the cost and the performance of the partners involved in medical assistance, mainly with regard to hospital referrals. In 2007, financial assistance totalling $530,000 was provided by UNHCR to two hospitals without any report being received to confirm delivery of services.

The audit certification of implementation partners performed in 2007 did not provide sufficient coverage of the project expenditures, since only 8 per cent of the 2007 programme budget was covered.

The number of registered refugees may be overestimated due to a lack of follow-up on "no show" cases, which occurred throughout the process from registration, distribution and resettlement.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office of the United Nations High Commissioner for Refugees (UNHCR) Iraq Situation in Syria. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The security, political, social and economic impact of the ongoing violence in Iraq is significant. The Syrian Arab Republic hosts some 1.2 million Iraqi refugees. These refugees have access to educational, health and other social services subsidized by the Government of the Syrian Arab Republic. The massive influx of Iraqis into urban centres has taken a toll on the economic and social infrastructure, particularly the health and education sectors. The pressure on the infrastructure and rising living costs has forced the Government of the Syrian Arab Republic to impose entry restrictions for Iraqis. UNHCR is advocating support by the international community for Syria in its humanitarian relief efforts. UNHCR's assistance programme in Syria focuses on education, health, shelter, food and protection.

3. UNHCR reviewed its programme for Iraqi refugees during 2007 in order to respond to the swelling number of Iraqi asylum seekers in the neighbouring countries. The exodus shifted the emphasis from reintegration and rehabilitation programmes inside Iraq to assistance, among other things, to Iraqi refugees particularly in Syria and Jordan. Consequently, the programme expenditure, which amounted to $3 million in 2006, increased to $47 million (budget $52 million) in 2007 and the revised programme budget for 2008 was $96 million. In July 2008 a total of 374 persons were employed of which only 141 were UNHCR regular staff.

4. Comments made by UNHCR are shown in *italics*.

II. AUDIT OBJECTIVES

5. The main objective of the audit was to assess the adequacy and effectiveness of internal control in ensuring the:

(a) Reliability and integrity of financial and operational information;

(b) Efficiency and effectiveness of programme management;

(c) Adequacy and effectiveness of controls in safeguarding assets; and

(d) Compliance with regulations and rules, Letters of Instruction and Sub-Project Agreements.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit comprised a risk assessment of the Iraq Situation programme in Syria followed by a review of activities which represented the highest risks.

This audit covered cash assistance payments for subsistence; procurement and distribution of food and relief items; human resources management, medical assistance to the Iraqi beneficiaries and supply chain management.

7. The audit methodology comprised: (a) review of policies and procedures, administrative guidelines, data available in the Management System Renewal Project (MSRP) and other subsidiary systems; (b) interviews with responsible personnel; (c) analysis of relevant data; (d) physical verification and assessment of the effectiveness of controls; and (e) observations and verification of processes, as appropriate.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Human resources management

Difficulties in finding regular staff

8. Human resources management was one of the highest risk areas for the Iraq Situation in Syria given the necessity of finding the required staff to adequately assist the large refugee caseload in a very short period of time. With a significant number of staff members recruited externally, most of them with no prior UN/UNHCR experience, training them in UNHCR's functions and maintaining institutional capacity was a challenge for UNHCR in Syria. More than 120 regular staff had been recruited for Syria since January 2007.

9. There was a significant reliance on non-UNHCR staff, sometimes in key areas. As of 30 June 2008, UNHCR had 374 personnel of which 233 (62 per cent) were not regular staff members. The UNHCR additional workforce was composed of 74 United Nations Volunteers (UNV: 68 national and 6 international) dealing mainly with Registration; 14 Surge Capacity staff and staff deployed from other NGOs and 129 individual contractors (12 internationals and 117 nationals).

10. In addition to the risk related to the absence of a formal recruitment process for individual contractors, OIOS noted that at least 90 personnel had been given a service contract although the services they provided to UNHCR did not correspond to the definition of service as set in the UNHCR Policy on Individual Contractors. They were locally recruited for services such as security/reception etc. The Representation explained that UNHCR had to take over the private security company at short notice and that this arrangement was an interim measure pending the setting up of a UN-wide guard service by the United Nations Development Programme (UNDP).

11. In 2008, a total of 16 interns worked with UNHCR on various activities, mainly Protection and Resettlement. There were cases where an intern was appointed as a consultant immediately after the end of his/her six-month internship agreement. The agreement with an intern working on Resettlement

had been extended for an additional six months, also in contravention of the rules.

12. More than 18 months after the beginning of the emergency, staffing remained one of the main issues of concern for management in Syria. Since this operation is no longer on a fast-track arrangement, the established international posts take a long time to be filled. For instance, there were two Programme Officer posts and only one had been filled. It had also taken too long to appoint the Project Control Officer although this post was requested in 2007. Some units, such as Programme and Finance, were understaffed. In the Programme Unit, an Associate Field Officer was assisting with maintaining the records of various reports, tracking information and maintaining a control table of expenditures. The Procurement Unit was headed by a non-UNHCR staff member deployed by the Danish Refugee Council.

13. There were difficulties in attracting high quality candidates locally due to competition with other employers. Several humanitarian organizations were recruiting at the same time as UNHCR.

14. Training of newly recruited staff was found to be weak, especially in the use of MSRP and proGres. Training in the Code of Conduct did not keep up with the pace of recruitment. Due to lack of training, the MSRP inventory module was not used and some units were unable to properly use proGres.

Recommendation 1

(1) UNHCR Senior Management should develop a strategy to ensure that there is a proper staffing structure for an operation as large and visible as the Iraq Situation in Syria, particularly during the period needed to create the necessary infrastructure to deliver assistance. All key functions should be filled by UNHCR experienced staff to compensate for the lack of local capacity. Adequate training should be provided to newly recruited or appointed staff.

15. No response was received from UNHCR Headquarters. *The UNHCR Representation in Syria stated that rapidly gearing up for a new operation with sufficient UNHCR staff and staff with the right profile is a systemic problem in UNHCR.* Recommendation 1 remains open pending receipt of evidence from UNHCR showing that changes have been made to the staffing structure of the Iraq Situation in Syria to deliver assistance more effectively.

B. Information technology

Additional strengthening of information technology functions required

16. In order to provide assistance to a large group of refugees (over 215,000 at the time of audit) living in urban areas, UNHCR Syria adapted the UNHCR refugee registration data from proGres, and developed a new set of computerized tools for the management and distribution of food and material assistance,

including cash assistance using Automatic Teller Machine (ATM) cards. The IT infrastructure included the establishment of a Local Area Network in the registration centre, creation of dedicated databases for assistance, creation of additional reports from the proGres database, and easy to use bar code readers to verify refugee data at various assistance points.

17. Other innovative measures used consisted of the development of a website and the use of messaging to reach the refugees. UNHCR Syria launched a Refugee Hotline which allowed it to receive information on the problems and issues facing refugees and made use of data obtained from surveys by market researchers Ipsos for programming purposes.

18. Without the intensive and creative use of IT facilities, UNHCR Syria would probably not have been able to achieve its mandate in providing assistance to such a large urban caseload in a timely manner. The food and cash distribution systems and the use of ATM cards, which have significantly reduced the security risk for both beneficiaries and staff, could be further developed by UNHCR and used for other operations.

19. Most of these tasks were accomplished by a national staff member with little or no direct supervision. Due to the volume of activity, the amount of cash and the value of the goods distributed to refugees, the current setup does not allow for the proper segregation of duties. The risk arising from the IT Assistant's performance of programming functions and operating the production databases/system had not been properly assessed.

20. The IT Assistant performed more than IT functions. He prepared special reports needed for programme implementation (extracting data to identify the beneficiaries). However, there is no assurance that the Programme and Protection Units have in place the necessary controls to establish the accuracy and reliability of this data.

21. With no back-up for this staff member and with little documentation available on the work done with extensively stretched resources, OIOS is of the view that UNHCR's programme delivery could be at risk should this staff member's services not be available for even a short duration. The UNHCR Representation in Syria indicated that to strengthen the IT function in Syria, a Regional IT Officer would be appointed and additional IT posts requested: a in the form of a National Officer (Category A) post and a consultant for data analysis.

C. Registration

Waiting times for the registration of beneficiaries were excessive

22. In April 2007, UNHCR Syria started recording detailed information on beneficiaries in the proGres database. A total of 207,000 refugees have been registered since the end of 2006. Iraqis in Syria are recognized on a prima facie basis. Consequently a person holding an Iraqi passport approaching UNHCR is registered as a refugee. UNHCR also maintains records to estimate the number

of Iraqis who have not approached UNHCR or wish not to be registered. Assistance is given only to registered refugees.

23. The Registration Unit is the largest unit within UNHCR Syria. Approximately 60 staff were involved in this activity. At the time of OIOS' visit to the Dahbar Registration Centre, refugee information was being collected by 47 national UNVs who were supervised by 5 international UNVs.

24. In July 2008, the waiting time for the registration interview was about two months while for renewal of refugee certificate it was six months. The objective of the Representation was to reduce the waiting time to process registration cases to two weeks. OIOS was not provided with UNHCR's strategy to achieve this target but, with the existing workforce, it is doubtful if UNHCR would succeed.

Absence of follow-up on no-show cases

25. OIOS noted that there were no-show cases at all steps of the process: prospective beneficiaries did not keep appointments for the first registration and for the renewal of registration; and did not appear for distribution of food, non-food items and cash assistance. OIOS was told that it is the same for resettlement where families had been selected for resettlement in a third country. UNHCR also explained that those beneficiaries who did not show up for two consecutive assistance distribution cycles were de-activated in the system and inducted again when they showed up. However, at the time of the audit mission, there were no reliable details on the refugees that had left Syria.

26. In order to analyze the movement of refugees, UNHCR should compare data from various sources such as resettlement cases, cash and food assistance, renewal registration and data on the beneficiaries of medical services to identify potential discrepancies and irregularities. Such an exercise would also strengthen programme monitoring.

Recommendation 2

(2) The UNHCR Representation in Syria should improve its system to identify the no-show cases, deactivate the corresponding beneficiary records and reactivate them only when evidence is provided that the beneficiary is still living in Syria. Data on the no-show cases should be included in the reports addressed to UNHCR management and to the donors.

27. *The UNHCR Representation in Syria accepted recommendation 2 and stated that 'no-show' has been consistently high since the start of the operation in March 2007 at 40-60% for new registration. As for renewal registration, the no-show rate (previously 10 percent) increased to 40 percent after the relocation of the Registration Centre in July 2008. A survey was conducted in July and August 2008 to follow up on the reasons for no-show. It was noted that of those holding appointments for January 2008, no more than 60 per cent were*

reachable by the given telephone numbers (out of coverage, wrong numbers), casting doubt to the physical presence of the applicants in Syria. The Representation indicated that the area to be strengthened is in the cross database collation. The standard procedure is that those Iraqi refugees who do not appear for two consecutive distributions are considered in-active cases and are excluded from the following distribution unless they reappear again. The Representation also indicated that the no-show rates of all UNHCR programmes are consistently reported in its monthly situation reports and quarterly updates which have a wide external circulation. Recommendation 2 remains open pending evidence being provided that the statistics on Iraqi refugees in Syria have been modified to take into consideration the no-show cases observed by UNHCR.

D. Cash assistance

Controls over ATM cards need to be strengthened

28. The UNHCR Representation in Syria provided subsistence cash assistance of SYP 5,000 (about $100) per person and an additional SYP 500 (about $10) per dependant to registered Iraqi families who met the established vulnerability criteria. The cash assistance initiative was launched at the end of 2007 and was estimated to benefit 7,000 families (19,500 individuals).

29. Subsequently, and based on the ongoing registration of new cases, the number of beneficiaries had increased constantly. According to the current estimates provided by the Representation, about 15,800 families (44,000 individuals) would expect to benefit from cash assistance in 2008. The Representation had paid about SYP 177 million (about $3.6 million) up to the end of June 2008 in cash assistance.

30. To distribute the cash assistance, the Representation had concluded an agreement with a bank to provide the necessary ATM cards along with the PIN codes to the Representation for the beneficiaries identified. The Representation distributed the ATM cards and the PIN codes to the heads of the families. Subsequently, the Representation gave the bank the details of the ATM cards distributed and requested the bank to activate them. The Representation then transferred the amount of assistance to the bank account of the beneficiaries every month and they withdrew cash from an ATM at their convenience.

31. OIOS noted that out of the 15,800 ATM cards ordered by the Representation since December 2007, only about 5,300 were distributed at the time of audit. The balance of over 10,000 ATM cards were said to be in the custody of the UNHCR officials at the Dahbar Registration Centre. About 2,500 of the undistributed cards (over 33 per cent) belonged to the first batch. The Representation was unable to confirm if these families remained in Syria but explained that there was an interruption in the assistance distribution for about two months because the food distribution site had to be relocated. This has slowed down the distribution of the ATM cards.

32. OIOS observed that the Programme Unit transmitted three lists to the bank requesting the preparation of ATM cards. When the bank delivered the

cards, the Programme Unit did not match them with the request (master list) to confirm that no discrepancies existed and that all the cards were delivered as expected. Furthermore, there was no process to reconcile the undistributed cards with the master list or to physically verify them.

Recommendations 3 and 4

The UNHCR Representation in Syria should:

(3) Establish a register or spreadsheet of Automatic Teller Machine cards to show the details of the cards requested, received and distributed. The register should have as a minimum the personal details of the head of the family, the UNHCR registration number and the date of the request; and

(4) Physically verify the undistributed Automatic Teller Machine cards periodically, preferably every quarter. The cards uncollected by the beneficiaries for six months or more should be cancelled.

33. *The UNHCR Representation in Syria did not accept recommendation 3, stating that the programme has a database of all ATM cards issued and that the register was fully operational and in place at the time of the audit.* The Representation has explained the process starting from the distribution of ATM cards to beneficiaries, whereas OIOS was referring to the previous stage, i.e., the requisition sent to the bank. There was no process to ensure that all the ATM cards requested were in fact delivered by the bank. This gap might be addressed by making appropriate changes to the existing databases without the need for a separate register. Recommendation 3 remains open pending confirmation that a process is in place to reconcile the requests for ATM cards made with the ATM cards delivered.

34. *The UNHCR Representation in Syria accepted recommendation 4 and stated that after a comprehensive verification exercise which comprised of blocking the active ATM cards temporarily and physically verifying the undistributed ATM cards, over 4,000 undistributed ATM cards were destroyed following a recommendation made by a committee of international staff from different functions.* Based on the action taken by the Representation, recommendation 4 has been closed.

Non-compliance with UNHCR procedures for processing payments

35. Record keeping of the cash assistance payments needed significant improvement. OIOS noted that the Programme Unit processed the payment instructions to the bank without following the approved procedures for processing payments. OIOS' review noted that the Senior Programme Officer or the Programme Officer sent an email to the bank with an Excel file containing beneficiary details and the amounts to be paid as an attachment. This procedure was flawed as the payment was effected without vouchers being prepared and

formally approved and no bank payment letter was prepared with the requisite two UNHCR signatories from the panel of signatories approved by the UNHCR Treasury. Furthermore the Excel file was vulnerable to unauthorized modifications.

36. Contrary to established procedures, the payments made by the bank were recorded in MSRP on a post facto basis. OIOS found that the vouchers and the corresponding accounting entries were actually based on the bank statements. This is not only contrary to Generally Accepted Accounting Principles, but bears considerable risks due to unrecorded transactions, bank errors, understatement of expenditure during quarterly reporting, etc. Consequently, the bank reconciliation exercise was meaningless.

Recommendation 5

(5) The UNHCR Representation in Syria should follow the approved workflow for processing payments. This requires that the payment vouchers are prepared and approved according to the Delegation of Financial Authority Policy and the payment letters to the bank are signed by officials authorized by the UNHCR Treasury before the list of beneficiaries is submitted to the bank. The secured beneficiary lists should be written to a compact disk and provided to the bank along with the official authorizations to debit UNHCR's bank account.

37. *The UNHCR Representation in Syria accepted recommendation 5 and stated that an official letter with dual authorized signature is prepared for each uploading together with an encrypted disk as well as hard copies of the list of beneficiaries.* Based on the action taken by UNHCR, recommendation 5 has been closed.

38. In order to reconcile the approved payments by the Programme Unit with the actual payments made by the bank, OIOS requested the Programme Unit to provide all the payment lists for review. OIOS noted an aggregate difference of SYP 3 million ($69,000) between the total payment approved by the Programme Unit (SYP 174 million) and total paid by the bank (SYP 177 million), which needs to be reconciled.

Recommendation 6

(6) The UNHCR Representation in Syria should identify the reasons for an un-reconciled amount of $69,000, representing the variance between the amount paid by the bank and the amount authorized by the Programme Unit and initiate steps to rectify the discrepancy.

39. *The UNHCR Representation in Syria accepted recommendation 6 and stated that the difference existed between the downloaded bank data and the hard copy of the bank statements. This variance was resolved at the end of 2008 and a*

part of the costs charged to the 2009 project. OIOS takes note of the explanations provided by the Representation and acknowledges the effort made to reconcile the payments made. Recommendation 6 remains open pending receipt of documentation showing the reconciliation made.

40. The Programme Unit did not save the Excel electronic files for cash assistance payments systematically. These data files containing payments to beneficiaries constituted the prime supporting information for the vouchers and should have been named logically and secured in a read-only folder accessible only to the Programme and Administration.

41. Furthermore, OIOS also noted errors in the payments authorized. For example, there were instances where beneficiaries were included more than once in the monthly payment list. Though the impact of such errors was not significant, the Representation should have spotted them.

42. The Representation attributed the deficiencies to the lack of sufficient time to plan the operations, identify the significant risks and their impact and establish controls to mitigate them. OIOS noted that some of the controls demanded staffing resources with the ability to analyze a large volume of data which the Representation lacked.

Recommendation 7

(7) The UNHCR Representation in Syria should secure the beneficiary lists to prevent unauthorized modifications and store them in a distinct folder.

43. *The UNHCR Representation in Syria accepted recommendation 7 and stated that separate physical as well as electronic folders have been prepared, which serve as supporting documents for the payment vouchers as well as reconciliation.* Based on the action taken by UNHCR, recommendation 7 has been closed.

E. Medical assistance

44. With a budget of $9.3 million in 2008, the health sector was among the most significant of the Iraq refugee programme. Medical assistance was provided mainly through the Syrian Arab Red Crescent Society (SARC) and five other implementing partners (non-governmental organizations and hospitals). UNHCR direct implementation involving a budget of $2.8 million was also significant. Medical referrals and examination costs budgeted at $6.5 million for 2008 represented 70 per cent of the total budget of the health sector.

Inadequate financial control over the cost of medical referrals

45. The Representation provided over $6 million to SARC towards medical referral costs for 2007 and 2008. This included the cost of consultations in SARC-run clinics and to cover expenses for patients referred by them to other hospitals and specialists.

46. OIOS visited two of the five health clinics run by SARC and was pleased to note that SARC had established a database to record the medical history of the patients, mostly Iraqis, assisted by UNHCR. SARC explained that this database, which is still being test-run, was operational in four of the five clinics and would gradually be implemented in all clinics. The clinics provided an identity card to each patient that contained their name, registration number, date of birth and blood group.

47. SARC charged a patient SYP 20 for each general consultation, which represents 20 per cent of the standard consultation fees. The balance of SYP 80 was charged to the UNHCR sub-project. For patients who required specialist treatment including hospitalization, the SARC clinics referred them as appropriate. Although some details of referrals made in 2008 were available, the SARC clinics were unable to provide the cost of such referrals. The SARC clinics explained that the medical invoices, received at the end of each month, were passed on to their finance unit for payment processing, without having been matched with the corresponding referral. In other words, SARC clinics did not have a mechanism in place to compare the list of patients referred to other hospitals against the invoices received for the services rendered and to establish the cases where invoices were pending.

48. The SARC clinics assumed that hospitals always raised invoices on the services rendered although they acknowledged that there was a time lag between the services rendered and the invoice date. The absence of a mechanism to estimate the total amount of pending invoices would prevent SARC clinics from properly establishing their liabilities or to confirm whether patients referred to hospitals received the treatment for which they were referred.

49. *The UNHCR Representation in Syria clarified that in December 2008, new policy directions and major revisions to the existing standard procedures were undertaken. Services provided to refugees through SARC are now limited to medical interventions available within the polyclinics of SARC and referrals to hospitals are no longer the responsibility of SARC. Agreements were concluded either directly or through the respective ministries with key public hospitals and UNHCR is responsible for the coordination of the referrals between SARC and the public hospitals.* In view of the action taken by UNHCR, no recommendation is being made in this regard.

50. OIOS also noted that in the SARC accounting records, the cost of the referrals to outside hospitals and doctors was merged with the cost of services provided at the SARC clinics. It was not possible to isolate the expenditure on outside referrals from the cost of services provided by SARC health clinics. Nor was it possible to benchmark external costs, establish the per capita cost and the number of external consultations per patient or analyze their appropriateness. In the absence of a breakdown per category of expenditure, the Medical Unit at the Representation could not monitor this significant item of programme expenditure, whose budget amounted to $3.6 million for 2008.

Recommendation 8

(8) The UNHCR Representation in Syria should improve financial control over the medical referral costs by using a different budget line to record the costs of services provided by the Syrian Arab Red Crescent Society's clinics and the referral hospitals.

51. *The UNHCR Representation in Syria accepted recommendation 8 and stated that the new health referral system improved financial control. The agreement with the hospitals also required a dedicated liaison officer as well as an accountant to provide UNHCR with weekly updates on the referrals made by SARC as well as the corresponding cost per treatment. This new arrangement allows UNHCR to segregate the cost of outside referrals with those provided within the SARC clinics. This policy not only applied to SARC but also to all medical referrals undertaken by local and international NGOs implementing health projects for UNHCR. New financial thresholds were established within the revised health section SOPs. Cases that fall outside the threshold will be reviewed by a newly created committee of independent local doctors to provide professional opinions on each case and recommend the appropriate medical intervention.* Based on the action taken by UNHCR, recommendation 8 has been closed.

Unclear arrangements with Al Bassel and Beiruni hospitals

52. In 2007, the Representation had sub-agreements with two hospitals specializing in the treatment of heart disease and cancer and paid over $530,000 in instalments (total budget for 2008 was $238,000). Since the narrative Sub-Project Monitoring Reports from these hospitals for 2007 were not available, OIOS was unable to evaluate their performance against the funds provided to them. Although UNHCR is generally satisfied with the technical issues relating to medical interventions, there was no assurance that the amounts paid to these hospitals were fully used for the intended purposes.

53. Furthermore, it is likely that SARC's Headquarters paid these hospitals directly from UNHCR funds, which may potentially result in double charges for UNHCR. The Health Unit in the Representation was unable to provide details of the number of cases referred by SARC broken down by hospital, patient and costs. In OIOS' opinion, no payment should have been made to these hospitals by SARC until the funds provided to them by UNHCR under the sub-agreements had been fully used. However, there was no assurance that this had happened.

Recommendations 9 and 10

The UNHCR Representation in Syria should:

(9) Ensure that the funds provided to Al Bassel and Beiruni hospitals for 2007 and 2008 were justified and that these hospitals used them for the purposes specified in the sub-agreements; and

(10) Remind Al Bassel and Beiruni hospitals of their obligation to provide timely project progress and monitoring reports to the UNHCR Administration and also remind the Syrian Arab Red Crescent Society about the existence of the sub-agreements and advise them not to pay to these hospitals directly for the services rendered.

54. *The UNHCR Representation in Syria accepted recommendation 9 and stated that partners have become more familiar with UNHCR procedures. As a result, reports for 2007 were received and 2008 reports were to be submitted in early 2009.* Recommendation 9 remains open pending evidence being provided that the reports for 2008 have been submitted by Al Bassel and Beiruni hospitals.

55. *The UNHCR Representation in Syria accepted recommendation 10 and stated that the hospitals have been reminded their responsibility but that the recommendation has been overtaken by the new Health referral policy with the separation between SARC and hospital referrals.* Based on this response, recommendation 10 has been closed.

F. Project monitoring

Terms of reference of the Project Control Officer

56. OIOS noted that the Project Control Officer (PCO) had just arrived in Damascus at the time of audit. The staff member had worked in UNHCR Headquarters in the past but had limited exposure to field operations and implementing partners. It is imperative for UNHCR to use his expertise effectively in programme monitoring, of both direct implementation and through implementing partners, and his reporting line, which had not yet been determined at the time of the audit, should be to the Deputy Representative.

Recommendation 11

(11) The UNHCR Representation in Syria should ensure that the terms of reference of the Project Control Officer (PCO) include the review of activities directly implemented by the Representation and through implementing partners, and that the PCO reports to the Deputy Representative.

57. *The UNHCR Representation in Syria accepted recommendation 11 and stated that the PCO appointed in July 2008 has since then made himself acquainted with the operation and has provided excellent monitoring of implementing partners (IPs) which has already led to an improvement in the quality of project narrative and financial reports as well as the establishment of more efficient internal financial procedures. The OIOS suggestion of an additional function to be to be included in the Project Control Officer's TORs has been done. The PCO reports to the Deputy Representative.* Based on the action taken by UNHCR, recommendation 11 has been closed.

Financial monitoring of the implementing partners needed strengthening

58. Due to the fact that a limited number of international NGOs are authorized to work in Syria, many of the partners of UNHCR are small local NGOs or religious institutions with no previous working experience with UNHCR or other UN agencies. Some of them do not have the adequate organizational structure to satisfy UNHCR's requirements, particularly in terms of accounting systems, bank accounts, supporting documents for payments or procurement procedures.

59. In order to establish a satisfactory strategy for the monitoring of the IPs and adapt monitoring procedures to each partner, UNHCR will have to perform a risk assessment of each IP. However, OIOS is aware that at this point in time, UNHCR may not have the necessary resources to do so.

60. Financial monitoring of sub-projects implemented by partners remained a weak area in 2008. As required, UNHCR Programme staff performed financial monitoring visits before releasing further instalments. The verification process consisted of verifying a selection of payments and their supporting documents. A note for the file was prepared after each visit and sometimes recommendations were made, although there was no evidence that they were followed-up.

61. Such exercises lacked the necessary depth to obtain assurance that the expenditures incurred were for the intended purposes; nor were they capable of identifying major operational deficiencies or internal control weaknesses. The significant functions performed by IPs, such as procurement management, financial management, asset and inventory management and performance management, were not included in the monitoring exercise. More needed to be done to ensure that major areas were regularly covered. The use of a planning and verification tool would have greatly improved the process.

Recommendation 12

(12) The UNHCR Representation in Syria should strengthen its financial monitoring of implementing partners by establishing an annual plan of the activities to be performed and by developing verification tools.

62. *The UNHCR Representation in Syria did not accept recommendation 12, stating that this was extensively discussed during the audit mission and evidence was provided that a follow-up of the recommendations was made.* OIOS reiterates that more needs to be done by UNHCR to ensure that major areas such as procurement, financial, asset and inventory management were regularly covered. Recommendation 12 remains open pending receipt of evidence showing that the monitoring process has been strengthened by establishing an annual plan of the activities to be performed and by developing verification tools.

Limited scope of audit certification

63. The Representation complied with UNHCR rules in contracting an external auditor, who submitted timely audit reports and management letters. At the time of the audit, UNHCR Syria was following up on the recommendations made. However, the external auditor covered expenditures amounting to $3.9 million representing only 8.4 per cent of the 2007 programme budget because the external auditor's mandate was limited to non-government partners. The audit of Ministries, Governorates and Hospitals will be carried out by an auditor mandated by the government, since a private local audit firm would not be given access to their project records. The audit done by the Government auditing body will correspond more or less to an inspection, which could be a time consuming process. As a result, the audit reports are not expected soon and will be submitted to the Government, not to UNHCR.

64. At the specific request of a donor, UNHCR was planning to contract an international external audit firm to audit the project SB/135 implemented by the Ministry of Education with a budget of $6.3 million for 2008. The Ministry of Education agreed to work with an external auditor contracted by UNHCR on the condition that UNHCR cover the fees, which were summarily estimated at about $50,000. Terms of Reference for this audit had yet to be established.

G. Supply chain management

UNHCR procurement procedures not fully complied with

65. The total value of all purchase orders locally processed by UNHCR Syria between January 2007 and June 2008 amounted to about $20 million. However, the UNHCR Representation did not have proper supply staff or staff conversant with the UNHCR procurement and supply management procedures to meet the challenging situation. For example, at the time of the audit, the Supply Officer in place was deployed from a UNHCR implementing partner and was not a regular staff member. The Representation explained that UNHCR was unable to identify the appropriate candidate in the professional category and none of the General Service staff members who applied for the critical job were found suitable.

66. OIOS found that UNHCR procurement procedures were not followed. The Committee on Contracts at UNHCR Headquarters approved procurement of food and certain relief items for approximately $10.5 million. However, no assurance could be taken that the balance of $9 million went through established approval processes. Although a Local Committee on Contracts (LCC) was functioning, there was no assurance that all procurement transactions above the threshold of $20,000 were systematically approved by it. The minutes of the three LCC meetings in the first half of 2008 were not detailed enough and the decisions could not be linked to the procurement undertaken.

67. Furthermore, discussions with the Supply Team disclosed that some of the functional units in the UNHCR Administration took their own procurement decisions. For instance, all the decisions over the procurement of food and non-food items for the Al Tanf camp were said to be made by the Field Officer.

There was no evidence of competitive bidding or compliance with the workflow relating the procurement.

Recommendations 13 and 14

The UNHCR Representation in Syria should:

(13) Revise its procurement procedures to ensure that the functional units do not undertake their own procurement; and

(14) Strengthen the staffing in the Supply Unit to ensure that all procurement transactions go through the approved workflow process including the approval by the Local or Headquarters Committee on Contracts.

68. *The UNHCR Representation in Syria accepted recommendation 13 and stated that the Supply Unit is now fully functional and procurement is centralized within that unit. The LCC has endorsed the fixed contract for the supply of fuel for the Al Tanf refugee camp. Fuel was procured from a single state-owned company with a fixed price and competitive bidding was not possible. For the procurement of food for the camp, the activity is handled by SARC due to the restricted access to the camp, the security situation prevailing there, and its remote location beyond the borders of Syria. Nevertheless, a formal waiver would be requested from the Local Committee on Contracts.* Based on the action taken by UNHCR, recommendation 13 has been closed.

69. *The UNHCR Representation in Syria accepted recommendation 14 and stated that there is now a competent seconded Supply Officer. Due to a systemic shortage of suitable supply officers within UNHCR, it has not yet been possible to identify a suitable UNHCR candidate.* Recommendation 14 remains open pending receipt of documentation showing that the staffing of the Supply Unit has been strengthened.

Absence of an effective supply chain and inventory management system

70. Despite the full roll-out of MSRP, the Inventory Module in the Finance and Supply Chain System was not yet in use. As a result, there was no effective supply chain system in place on which management could rely and obtain assurance that goods and services were properly procured and distributed. For instance, the Supply Unit was unable to confirm the current status of purchase orders.

71. Warehousing and inventory management of relief items in Syria was entrusted to a private entity. The Representation received monthly stock holding reports from this entity. There was no effective system in place to provide all the details relating to inventory management, like the quantities and value of the stock received (locally procured and received from Amman) in the warehouses, stock distributed, the balance quantity and value or stock in transit.

72. The Representation did not have its own stock accounting system for the complementary food and non-food items. Due to the reliance on the external entity for stock reports, the Representation was unable to establish in advance what should be the stock balance and compare that with the actual physical stocks.

73. The Supply Unit in the Representation explained that they were unable to use the Inventory Module in MSRP due to lack of training. Also, the Supply Unit staff did not have sufficient knowledge and exposure to UNHCR Supply Chain Management practices.

Recommendation 15

(15) The UNHCR Representation in Syria, with the assistance of the Regional Senior Supply Officer, should introduce the Inventory Module of the Finance and Supply Chain System for stock accounting.

74. *The UNHCR Representation in Syria accepted recommendation 15 and stated that the MSRP inventory module had been introduced and that the Supply Officer is still in the process of including the backlog of assets.* Recommendation 15 remains open pending receipt of documentation showing that the Inventory Module is being utilized.

V. ACKNOWLEDGEMENT

75. We wish to express our appreciation to the Management and staff of the UNHCR Representation in Syria for the assistance and cooperation extended to the auditors during this assignment.

ANNEX 1

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/ O[1]	Actions needed to close recommendation	Implementation date[2]
1	UNHCR Senior Management should develop a strategy to ensure that there is a proper staffing structure for an operation as large and visible as the Iraq Situation in Syria, particularly during the period needed to create the necessary infrastructure to deliver assistance. All key functions should be filled by UNHCR experienced staff to compensate for the lack of local capacity. Adequate training should be provided to newly recruited or appointed staff.	Strategic	High	O	Evidence showing that changes have been made to the staffing structure to deliver assistance more effectively.	Not provided
2	The UNHCR Representation in Syria should improve its system to identify the no-show cases, deactivate the corresponding beneficiary records and reactivate them only when evidence is provided that the beneficiary is still living in Syria. Data on the no-show cases should be included in the reports addressed to UNHCR management and to the donors.	Operational	Medium	O	Evidence showing that the statistics on Iraqi refugees in Syria have been modified to take into consideration the no-show cases observed by UNHCR.	31 March 2009
3	The UNHCR Representation in Syria should establish a register or spreadsheet of Automatic Teller Machine cards to show the details of the cards requested, received and distributed. The register should have as a minimum the personal details of the head of the family, the UNHCR registration number and the date of the request.	Financial	Medium	O	Confirmation that a process is in place to reconcile the requests for ATM cards made with the ATM cards delivered.	Not provided
4	The UNHCR Representation in Syria should physically verify the undistributed Automatic Teller Machine cards periodically, preferably every quarter. The	Financial	Medium	C	Action completed.	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/ O[1]	Actions needed to close recommendation	Implementation date[2]
	cards uncollected by the beneficiaries for six months or more should be cancelled.					
5	The UNHCR Representation in Syria should follow the approved workflow for processing payments. This requires that the payment vouchers are prepared and approved according to the Delegation of Financial Authority Policy and the payment letters to the bank are signed by officials authorized by the UNHCR Treasury before the list of beneficiaries is submitted to the bank. The secured beneficiary lists should be written to a compact disk and provided to the bank along with the official authorizations to debit UNHCR's bank account.	Compliance	High	C	Action completed.	Implemented
6	The UNHCR Representation in Syria should identify the reasons for an un-reconciled amount of $69,000, representing the variance between the amount paid by the bank and the amount authorized by the Programme Unit and initiate steps to rectify the discrepancy.	Financial	Medium	O	Documentary evidence showing that the discrepancy has been reconciled.	Not provided
7	The UNHCR Representation in Syria should secure the beneficiary lists to prevent unauthorized modifications and store them in a distinct folder.	Financial	Medium	C	Action completed.	Implemented
8	The UNHCR Representation in Syria should improve the financial control over the medical referral costs by using a different budget line to record the costs of services provided by the Syrian Arab Red Crescent Society's clinic and the referral hospitals.	Financial	Medium	C	Action completed.	Implemented
9	The UNHCR Representation in Syria should ensure that the funds provided to Al Bassel and Beiruni hospitals for 2007 and 2008 were justified and that these hospitals used	Financial	Medium	O	Evidence showing that the reports for 2008 have been submitted by Al Bassel and Beiruni hospitals.	March 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/ O[1]	Actions needed to close recommendation	Implementation date[2]
	them for the purposes specified in the sub-agreements.					
10	The UNHCR Representation in Syria should remind Al Bassel and Beiruni hospitals of their obligation to provide timely project progress and monitoring reports to the UNHCR Administration and also remind the Syrian Arab Red Crescent Society about the existence of the sub-agreements and advise them not to pay to these hospitals directly for the services rendered.	Operational	Medium	C	Action completed.	Implemented
11	The UNHCR Representation in Syria should ensure that the terms of reference of the Project Control Officer (PCO) include the review of activities directly implemented by the Representation and through implementing partners, and that the PCO reports to the Deputy Representative.	Financial	Low	C	Action completed.	Implemented
12	The UNHCR Representation in Syria should strengthen its financial monitoring of implementing partners by establishing an annual plan of the activities to be performed and by developing verification tools.	Human Resources	Medium	O	Evidence showing that the monitoring process has been strengthened by establishing an annual plan of the activities to be performed and by developing verification tools.	Not provided
13	The UNHCR Representation in Syria should revise its procurement procedures to ensure that the functional units do not undertake their own procurement.	Compliance	Medium	C	Action completed.	Implemented
14	The UNHCR Representation in Syria should strengthen the staffing in the Supply Unit to ensure that all procurement transactions go through the approved workflow process including the approval by the Local or Headquarters Committee on Contracts.	Operational	Medium	O	Evidence is provided that the staffing position of the Supply Unit has been strengthened.	January 2009
15	The UNHCR Representation in Syria, with the assistance of the Regional Senior Supply Officer, should introduce the Inventory Module of the Finance and Supply Chain	Information Resources	Medium	C	Action completed.	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/ O[1]	Actions needed to close recommendation	Implementation date[2]
	System for stock accounting.					

1. C = closed, O = open
2. Date provided by UNHCR in response to recommendations.