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INTEROFFICE MEMORANDUM

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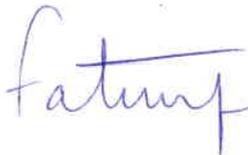
OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Ms. Kyung-wha Kang, Deputy High Commissioner
A: Office of the High Commissioner for Human Rights

DATE: 30 April 2010

REFERENCE: IAD: 10- 00327

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



SUBJECT: **Assignment No. AE2010/336/02 - Audit of one non-governmental organization in Mexico that was granted funding from the United Nations Voluntary Fund for Victims of Torture**

One non-governmental organization that received grants from the United Nations Voluntary Fund for Victims of Torture did not have reliable financial reports and adequate supporting documents

1. I am pleased to present the report on the above-mentioned audit, which was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. Based on your comments, we are pleased to inform you that we will close recommendation 3 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. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 to 3), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

EXECUTIVE SUMMARY

Audit of one non-governmental organization in Mexico that was granted funding from the United Nations Voluntary Fund for Victims of Torture

The Office of Internal Oversight Services (OIOS) conducted an audit of one non-governmental organization (NGO) in Mexico that was granted funding from the United Nations Voluntary Fund for Victims of Torture (UNVFVT) of the Office of the High Commissioner for Human Rights (OHCHR). The overall objective of the audit was to assess the reliability of financial reports of the NGOs, the authenticity of the documents supporting the use of grants and the NGOs' compliance with the Fund's Guidelines and the Letter of Notification (agreement between VFVT and the grantee) on the use of funds. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

There were indications of mismanagement and misuse of funds in the NGO in Mexico, Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos (CEFPRODHAC), which received grants from UNVFVT. It did not provide reliable financial reports and information and could not fully substantiate their financial transactions. The 2006-2008 accounts were not auditable as the 2008 accounting records were kept only from January to April, and the 2007 and 2006 accounting documents on the use of UNVFVT grant were missing. CEFPRODHAC did not fully comply with the requirements of the UNVFVT Guidelines and did not provide replies to the UNVFVT Finance Questionnaire. There were no controls in place to ensure the integrity of transactions affecting the movement of funds, cash withdrawals, purchases and staff salaries. Deficiencies in the current UNVFVT Guidelines and in the oversight of NGOs contributed to the weaknesses identified by OIOS.

UNVFVT should cease its grants to CEFPRODHAC. The NGO should be required to provide a formal explanation on the unreliable financial reports and unsatisfactory supporting documents. UNVFVT should also engage an independent local auditor to examine the accuracy and legitimacy of all submitted financial reports and documents. If the NGOs cannot present a justifiable explanation and properly supported documentation, UNVFVT should require them to reimburse any undocumented expenditures.

I. INTRODUCTION

4. The Office of Internal Oversight Services (OIOS) conducted an audit of one non-governmental organization in Mexico that was granted funding from the United Nations Voluntary Fund for Victims of Torture (UNVFVT) of the Office of the High Commissioner for Human Rights (OHCHR). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

5. The UNVFVT was established by General Assembly Resolution 36/151 (16 December 1981) to assist torture victims and their families. The Fund receives voluntary contributions from governments, non-governmental organizations (NGOs) and individuals. The Fund then grants funding to NGOs, which in turn, provide medical, psychological, social, economic, legal and other types of humanitarian services to the torture victims. The Secretary-General administers the Fund through the OHCHR on the advice of a Board of Trustees (the Board) appointed by the Secretary-General.

6. From 19 to 23 October 2009, the Board held its 31st session in Geneva. During this session, it considered applications for grants of approximately \$18 million. The Board endorsed a total of \$11,936,450 for 223 projects in over 70 countries submitted by NGOs for the year 2010. The High Commissioner for Human Rights adopted the Board's recommendations from the 31st session on behalf of the Secretary-General.

7. In 2004, OIOS conducted an evaluation of the UNVFVT to further enhance its effectiveness. Following this evaluation, UNVFVT implemented all of OIOS' recommendations and the financial monitoring tools established by the Fund thereafter were considered by OIOS to be adequate. In performing its established monitoring function of the Fund's grantees, the UNVFVT Secretariat subsequently identified serious concerns regarding possible misuse and/or mismanagement of grants by four organizations based in Bangladesh (two organizations), Lebanon and Mexico. During its 31st session, the Board asked the Secretariat to request OIOS' assistance to further review the financial situations and accounting records of these organizations. OHCHR and OIOS decided to carry out joint monitoring visits, which consisted of UNVFVT Secretariat staff and OIOS auditors. Prior to the visits, the UNVFVT Secretariat met with OIOS auditors to inform them of key issues and specific problems to be examined during the audit of each grantee organization. During the same Board meeting, it also recommended that OIOS be invited to share its findings at its 32nd session. This meeting, where OIOS shared its findings and recommendations, took place on 3 February 2010.

8. In Mexico, the Secretariat of the Fund requested OIOS, in conjunction with the substantive evaluation by UNVFVT staff, to conduct a financial audit of grants awarded to Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos (CEFPROD HAC) in Reynosa, Mexico, which received a total grant of \$180,000 from UNVFVT from 2006 to 2008.

II. AUDIT OBJECTIVES

9. The main objectives of the audit as requested by, and agreed with, the Secretariat of the Fund were to:

(a) Assess the reliability of financial reports of the NGOs and the authenticity of the documents supporting the use of grants; and,

(b) Assess compliance by the NGOs with the Fund's Guidelines and the Letter of Notification (agreement between UNVFVT and the grantee) on the use of funds.

III. AUDIT SCOPE AND METHODOLOGY

10. The audit was conducted from December 2009 to January 2010 and covered the financial reports and records of the two NGOs from 2006 to 2008. The audit focus was restricted to addressing the specific concerns of the UNVFVT Secretariat. The audit verified payment vouchers and supporting papers, examined and analyzed financial documents, information, records and reports, interviewed staff members of the NGOs, reviewed board minutes, correspondences and all other relevant operational documents.

11. The criteria used were the UNVFVT Guidelines, which are mandatory for all grant-receiving NGOs, and financial and/or administrative manual/instructions, if any, used by the NGO to manage its financial resources. In the absence of these requirements, the best financial management practices of other similar NGOs were taken as a benchmark. The audit also referred to other United Nations agencies' guidelines for grants to NGOs.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos

12. The project "Programa de Atención Médica, Psicológica y Legal a Sobrevivientes de la Tortura y sus Familiares" is based in the northeast of the Mexican Republic, in the municipality of Reynosa, state of Tamaulipas, bordering the state of Texas, USA. The organization provides medical, psychological, social, legal and financial assistance. According to information provided by Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos (CEFPRODHAC), the alleged torturers are the Mexican army, agents of the Preventive Federal Police, Preventive State Police, metropolitan police, Ministerial Police of the state of Tamaulipas, and agents of the municipal preventive police.

13. CEFPRODHAC has been funded by UNVFVT since 1994. This NGO reported receiving and spending \$60,000 each year from 2006 to 2008.

Unauditable financial reports and lack of documentation to support their authenticity

14. Paragraph 44 of the UNVFVT Guidelines given to NGOs states that "The narrative and financial reports should provide answers to all the items stated in the

Secretariat's reporting form and must show precisely how the grant of the Fund was used to assist victims of torture. Incomplete reports will be considered inadmissible." Further, paragraph 59 the Guidelines states that "grantees are required to maintain records of expenses including all receipts and invoices for a period of five years for inspection by the UNVFVT."

15. Accounts of CEFPRODHAC were not auditable due to unavailable accounting records. For 2008, accounting records were kept only from January to April. The 2007 and 2006 accounting documents for the use of UNVFVT grant were missing. At the time of the audit, the financial report for 2009 was not available, but OIOS observed that records existed only for the first seven months from January to July. Responsible staff explained that by that time, the whole amount of UNVFVT grant had been used.

16. CEFPRODHAC reported actual expenditures for the years 2006 to 2008 in the same amount as the budget figures up to the last dollar for every single budget line and its staff was unable to reconcile the accounting entries to the final figures reported to UNVFVT. Moreover, transfers of funds between UNVFVT fund and other sources of funds were not clearly documented. Supporting documents were not reliable, e.g., there were cases where expenditures were supported by hand-written internally prepared documents or photocopies of original documents or had no supporting documents at all. Hence, in OIOS' opinion, the 2006 to 2008 financial reports submitted by CEFPRODHAC to UNVFVT were not reliable. UNVFVT should engage an independent local auditor to review the accounting records and supporting documents from 2006 to 2009, to establish the amount of actual expenditures and any amount that should be reimbursed to the UNVFVT fund.

Recommendation 1

(1) The United Nations Voluntary Fund for Victims of Torture (UNVFVT) should require Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos (CEFPRODHAC) to provide a formal explanation on the partial availability of accounting records and supporting documents, and should engage an independent local auditor to examine the correctness of submitted financial reports and documents. If no justifiable explanation and no properly supported documentation are presented, UNVFVT should require CEFPRODHAC to reimburse any undocumented expenditures.

17. *OHCHR accepted recommendation 1 and stated that it will be worth estimating the cost of hiring a local auditor. Thereafter, it will be the Board of Trustees that will decide whether it might be cost-effective or whether the amount to be reimbursed should be estimated from the present audit findings.* Recommendation 1 remains open pending the outcome of the examination of financial reports and supporting documents, as well as the decision on the reimbursement of any undocumented expenditures.

Lack of evidence to support audit opinion by local audit firm

18. Paragraph 56 of the UNVFVT Guidelines required an audit certificate and management letter. CEFPRODHAC provided an audit letter with an unqualified opinion on the full use of grants, including UNVFVT grant, but had no financial statements or

reports and no management letter. Hence, controls over validating the authenticity of documents need to be strengthened.

19. As mentioned in recommendation 1 of the OIOS report on a similar audit conducted in Bangladesh (AE2009/336/03), the UNVFVT Secretariat should submit to the Board revised Guidelines to clarify the financial documents that should be covered by an audit certificate, which should include an opinion on compliance with the terms of the UNVFVT grants, strengthen its oversight on the submission and review of financial reports and management letters. *OHCHR accepted this recommendation and stated that the Secretariat will bring it to the attention of the Board Trustees for revision and adoption at its next session in October 2010.* OIOS is therefore not making another recommendation but will follow up the implementation of the recommendation made in its audit report on the Bangladesh project.

No NGO response to the UNVFVT Finance Questionnaire

20. Paragraph 52 of the UNVFVT Guidelines provides that “A questionnaire on the grantees’ financial organization should be completed at the time of award of the first grant and updated as necessary. The information gathered will be used to assess the internal control system of the organization”. However, CEFPRODHAC did not provide the Finance Questionnaire and UNVFVT did not remind the NGO to provide responses to the questionnaire regarding the accounting, administrative and supply systems, which constitute the basis of the NGO’s internal controls. This non-compliance with a major requirement for receiving and processing grants raised the risk that CEFPRODHAC may not be in a position to handle properly its use of the grant according to the agreement with UNVFVT.

21. The Financial Questionnaire includes questions on the NGO’s written accounting policies and procedures. Per OIOS’ review, key elements of CEFPRODHAC accounts were missing such as established accounting policies and procedures, chart of accounts and monthly internal reporting. In OIOS’ opinion, the Finance Questionnaire is a cornerstone of the monitoring system established by the UNVFVT. The phrase in paragraph 52 that the questionnaire is to be updated as necessary is unclear, and, would therefore need to be amended to require NGOs to submit the Finance Questionnaire on an annual basis, so that that UNVFVT obtains adequate information on the NGO’s key financial controls to ensure proper use of the funds for the intended purpose.

22. As mentioned in recommendation 5 of the OIOS report on a similar audit conducted in Bangladesh (AE2009/336/03), the UNVFVT Secretariat should submit to the Board revised Guidelines to require NGOs to provide Finance Questionnaire on an annual basis. *OHCHR accepted this recommendation and stated that the questionnaire enables UNVFVT to assess the internal control system of NGOs along with monitoring visits.* OIOS is therefore not making another recommendation but will follow up the implementation of the recommendation made in its audit report on the Bangladesh project.

Questionable control over the bank account set up for UNVFVT funds

23. CEFPRODHAC set up an account first with Capital One Bank, Hidalgo, TX and then with the First National Bank, Hidalgo, TX. However, there were no controls in place to demonstrate that the movement of funds in the bank account was done in

accordance with the terms of the grant agreement. Bank statements were missing and no bank reconciliation was performed. The account was used for such high risk transactions as withdrawing cash from the cash machines and paying by a bank card for purchases.

24. As mentioned in recommendation 6 of the OIOS report on a similar audit conducted in Bangladesh (AE2009/336/03), the UNVFVT Secretariat should submit to the Board revised Guidelines to request NGOs to establish sound internal controls for the proper handling of cash and cheques to address the risks of loss of cash, inappropriate payments and improper recording and documentation of transactions related to cash and bank accounts. *OHCHR accepted this recommendation and stated that during monitoring visits, the Secretariat will check that these controls are respected.* OIOS is therefore not making another recommendation but will follow up the implementation of the recommendation made in its audit report on the Bangladesh project.

Absence of evidence to support the use of major budget lines to assist beneficiaries and payments in excess of budget

25. OIOS did not find evidence in the CEFPRODHAC files for the two most important budget lines in 2008, after the expenditures for salaries: (a) for operational material resources (\$17,000), which included medications (\$3,500), medical analysis and examinations (\$ 6,500), materials for group therapy (\$4,000) and legal fees (\$3,000); and (b) for travel of victims and members of their families (\$10,000). This practice persisted in 2009 with the exception of an internally prepared receipt for the hospital for \$150 for the person, whose file did not exist. The lack of evidence of this type of expenses in the financial information reviewed indicated that services to victims were not provided or, alternatively, victims paid to get medicines and medical examinations whereas according to the project description, victims were supposed to be provided with medicines by the NGO.

26. Moreover, CEFPRODHAC paid salaries in excess of the budgeted amount, but changes of the basis of payment were not transparent. Paragraph 30 of the Guidelines of the UNVFVT states that “any subsequent changes to budget items of expenditure already approved by the Fund must be submitted to, and authorized by, the Secretariat of the Fund prior to engaging the expenditure”. In 2009, CEFPRODHAC paid salaries to seven extra staff, including the Director, aside from the six under the UNVFVT budget. According to OIOS calculations, for 2009, CEFPRODHAC paid \$14,000 more staff salaries than forecast in the budget.

27. Further, in the review of available documents, OIOS noted that CEFPRODHAC paid rent for \$570 per month (or almost \$4,000 for seven months in 2009), which was not provided for in the UNVFVT budget. In addition, three personal loans to staff of the NGO for an overall amount of \$900 were given in 2009 without proof of repayment. The use of funds for purposes not provided for in the budget of the UNVFVT grant increased the risk that the beneficiaries did not receive adequate assistance from the grant. In accordance with paragraph 71 of the UNVFVT Guidelines, the Secretariat of the Fund or the Board may request organizations to totally or partially refund the grant when the grant was spent for expenditures other than those mentioned in the budget proposal submitted to and approved by the Board.

Recommendation 2

(2) The United Nations Voluntary Fund for Victims of Torture should require Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos, in the absence of justifiable reason, to reimburse the funds used in excess of the budget or for purposes not provided for in the budget.

28. *OHCHR accepted recommendation 2 and stated that taking into account paragraph 71 of the Guidelines, UNVFVT does not require explanations from CEFPRODHAC to seek reimbursement.* Recommendation 2 remains open pending receipt of documentation on reimbursement by the NGO of the funds used in excess of the budget or for purposes not provided for in the budget.

B. Lessons learned on financial oversight by UNVFVT of NGOs receiving grants

29. OIOS notes that during the recent years, OHCHR, in cooperation with OIOS, took important steps to improve internal controls in the area of financial monitoring of NGOs receiving grants. In 2004, OIOS performed an evaluation of the UNVFVT (E/CN.4/2005/55) and in 2008 issued the related OIOS follow-up report. This report concluded *inter alia* that the finance questionnaire used to obtain financial information necessary for assessment of the adequacy of grantees' financial and accounting systems and to ensure accountability for the grant developed by the Fund, as reviewed by OIOS, was adequately addressing issues of management, internal control, accounting system, fund control, and assistance to victims. All other OIOS recommendations in 2004 have been implemented, including the establishment of detailed monitoring and evaluation mechanisms that comprise pre-screening visits by its staff and UN offices at country level, systematic external audits on the use of the grants, annual reporting and *ad hoc* inspection visits in collaboration with OIOS, when required.

30. However, the weak financial reporting and internal controls of CEFPRODHAC indicate that UNVFVT needs to further strengthen its oversight of NGOs receiving grant money and improve its Guidelines. UNVFVT staff may need to strengthen its oversight tools, receive training on reviewing and processing financial reports, interpreting and analyzing financial data and information on grant applications and related documents. In view of unreliable financial reports and unsatisfactory supporting documents, UNVFVT should consider the cost-effectiveness of engaging an independent local auditor to review the accounting records and supporting documents from 2006 to 2008, as well as 2009, to establish the amount of actual expenditures and any amount that should be reimbursed to the UNVFVT.

31. OIOS notes that the UNVFVT Secretariat used the services of the OHCHR country office in Mexico in order to get assistance to clarify its serious concerns about CEFPRODHAC. As mentioned by the UNVFVT Secretariat, the information provided by the country office on the NGO and its work was rather positive, and after the joint visit, it turned out that the information obtained by the office was insufficient and not useful. OIOS believes that cooperation between the UNVFVT Secretariat and the country office needs improvement. As mentioned in recommendation 6 of the OIOS audit report on the Lebanon project (AE2009/336/03), UNVFVT should seek assistance of the OHCHR regional/country offices, as and when necessary, to obtain correct information regarding the NGOs, their performance and the local conditions in which they work. *OHCHR*

accepted this recommendation and stated that it would be feasible to implement it on an ad hoc basis. OIOS is therefore not making another recommendation but will follow up the implementation of the recommendation made in its audit report on the Bangladesh project.

32. As also mentioned in recommendation 8 of the OIOS report on a similar audit conducted in Bangladesh (AE2009/336/03), UNVFVT should develop tools and organize training for UNVFVT Secretariat staff to review of financial reports, financial information on grant applications and related documents. *OHCHR accepted this recommendation and stated that staff training will be organized in December 2010 in collaboration with OIOS on the review of financial reports and audits.* OIOS is therefore not making another recommendation but will follow up the implementation of the recommendation made in its audit report on the Bangladesh project.

Recommendation 3

(3) The United Nations Voluntary Fund for Victims of Torture should cease its financial support to Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos.

33. *OHCHR accepted recommendation 3 and stated that it was already implemented by the BOT decision at its 32nd session in February 2010.* In view of the explanation provided, recommendation 3 has been closed in the OIOS recommendations database.

V. ACKNOWLEDGEMENT

34. We wish to express our appreciation to the Management and staff of UNVFVT for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Paulo David, Secretary, UNVFVT, OHCHR
Mr. Kyle Ward, Chief, Programme Support and Management Services, OHCHR
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management
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STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The United Nations Voluntary Fund for Victims of Torture (UNVFVT) should require CEFPRODHAC to provide a formal explanation on the partial availability of accounting records and supporting documents, and should engage an independent local auditor to examine the correctness of submitted financial reports and documents.. If no justifiable explanation and no properly supported documentation is presented, UNVFVT should require CEFPRODHAC to reimburse any undocumented expenditure.	Financial	High	O	Outcome of the examination of financial reports and supporting documents, as well as decision on the reimbursement of any undocumented expenditure.Revision of the Guidelines to be effective for the 2012 grant cycle.	August 2010
2	The United Nations Voluntary Fund for Victims of Torture require CEFPRODHAC, in the absence of justifiable reason, to reimburse the funds used in excess of the budget or for purposes not provided for in the budget.	Financial	High	O	Documentation on reimbursement by the NGO of the funds used in excess of the budget or for purposes not provided for in the budget.	Not provided
3	The United Nations Voluntary Fund for Victims of Torture should cease its financial support to Centro de Estudios Fronterizos y de Promoción de los Derechos Humanos.	Financial	High	C	Action completed	Implemented

¹ C = closed, O = open

² Date provided by OHCHR in response to recommendations