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AUDIT OF UNHCR OPERATIONS IN COSTA RICA

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AUDIT OF UNHCR OPERATIONS IN COSTA RICA (AR2004/151/02)

EXECUTIVE SUMMARY

In November 2004, OIOS conducted an audit of UNHCR Operations in Costa Rica. The audit covered activities with a total expenditure of US\$ 2 million for the years 2003 and 2004. Audit Observations were shared with the Representative in January 2005, on which comments were received by February 2005. *The Representative has accepted the recommendations made and is in the process of implementing them.*

Overall Assessment

- OIOS assessed the UNHCR Operation in Costa Rica as average, it was adequately run but although the majority of key controls were being applied, the application of certain important controls lacked consistency or effectiveness. In order not to compromise the overall system of internal control, timely corrective action by management is required.

Programme Management

- For the partner reviewed, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements.
- Project financial and performance monitoring was not effectively performed or adequately documented. Financial monitoring was not made in conjunction with the performance monitoring.

Supply Management

- Improvements were required to the procurement procedures for the maintenance contract for the UNHCR Spanish Web Site (costing more than US\$ 80,000 a year). Three offers were not always compared nor were sealed bids received and opened in the presence of witnesses.

Security and Safety

- A security inspection of UNHCR premises was conducted in September 2004 and the recommendations made, aimed at the reinforcement of the security of the premises in general and in particular due to the fact that refugees were interviewed in UNHCR premises, were implemented. At the time of the audit the UNHCR premises were about 70 per cent MOSS compliant. *The Representation informed that on the basis of a recent security inspection the*

Bureau decided to relocate the office as soon as possible to a more suitable location.

Administration

- In the areas of administration and finance, the UNHCR Office in Costa Rica generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

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I. INTRODUCTION

1. From 22 to 29 November 2004, OIOS conducted an audit of UNHCR's Operations in Costa Rica. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. OIOS reviewed the activities of the UNHCR Representation in Costa Rica and its implementing partner Asociación de Consultores y Asesores Internacionales (ACAI) as well as the activities of the UNHCR Regional Legal Unit (RLU).
2. OIOS' previous audit of UNHCR in Costa Rica was conducted in June 2002. The review focused on the 2001 programme activities covering expenditure of US\$ 670,000. OIOS found that staff were not sufficiently experienced in project monitoring, were not fully conversant with UNHCR's procurement procedures and improvement to internal controls were required over administrative activities.
3. UNHCR Operations in Costa Rica mainly consist of monitoring the final decisions on asylum, training staff of the Ministry of Public Security on refugee law, and promoting the local integration mainly through micro-credit projects. The Regional Legal Unit also contributes to the implementation of a regional project aimed at providing technical services for the promotion of refugee law in the Americas.
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 29 November 2004. Audit Observations detailing the audit findings and recommendations and a draft report were shared with the Representative in January 2005 and March 2005 respectively. The comments, which were received in February and April 2005, are reflected in this report. *The Representative has accepted 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 2003 and 2004 programme activities under projects 03 and 04/AB/COS/LS/400 and 03 and 04/AB/NLA/LS/405 with expenditure of US\$ 1.4 million. Our review concentrated on the activities implemented by ACAI – expenditures of COL 419 million (US\$ 942,300). We also reviewed activities directly implemented by UNHCR with expenditure of US\$ 325,000.

7. The audit reviewed the administration of the Representation with administrative budgets totalling US\$ 600,000 for 2003 and 2004 and assets with an acquisition value of US\$ 295,000 and a current value of US\$ 73,000. The number of persons working for the UNHCR Operation in Costa Rica was 19. This included staff on regular posts, on temporary assistance, a consultant, an intern, a cleaner and employees of the Web Site service provider.

8. The audit also followed up on findings and recommendations made in the 2002 OIOS audit regarding the monitoring of programme activities, procurement procedures and staffing arrangements.

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. Review of Implementing Partner

10. For the partner reviewed, ACAI, reasonable assurance could be taken that UNHCR funds were properly accounted for and disbursed in accordance with the Sub-agreements. OIOS assessed that internal controls of the partner were generally in place and operating effectively.

11. ACAI submitted to UNHCR an audit certificate for the sub-project implemented in 2002 for which an unqualified opinion was expressed. The recommendations made by the auditors in their management letter were implemented. An audit certificate has, however, not yet been received for 2003. Given the fact that the OIOS audit took place almost at the end of 2004, OIOS recommended that the Representation contract an audit firm to obtain audit certificates for the 2003 and 2004 sub-projects.

Recommendation:

- The UNHCR Representation in Costa Rica should obtain and submit audit certificates for the 2003 and 2004 sub-projects implemented by Asociación de Consultores y Asesores Internacionales (Rec. 01).

12. *The Representation has contracted an external audit firm and expects that the audit certificates for the 2003 and 2004 sub-projects would be submitted by latest end of July 2005.* OIOS is pleased with the action taken and will close the recommendation upon confirmation that the audit certificates have been received.

13. ACAI operated a computerized accounting system, which meets UNHCR's requirements with the exception that it does not generate an adequate cashbook. To compensate, ACAI maintain a separate cashbook on Excel. OIOS recommended that the Representation request ACAI to modify its accounting system to generate a cashbook. *The Representation indicated that they have requested ACAI to reform its accounting system by end-July 2005.*

14. ACAI operated an interest bearing bank account and reported to UNHCR the interest earned. A panel of bank signatories had been established and two signatories were required to operate the account. ACAI performed monthly bank reconciliation. The bank reconciliation of October 2004 showed some long outstanding cheques, which had been made payable to refugees. They, however, were still in the ACAI office since they have not been claimed. Such a situation may be the result of weaknesses in the needs assessments conducted. OIOS recommended that the Representation ensure ACAI performs a monthly review of outstanding cheques to determine the reasons for non-encashment of cheques or the unnecessary delays in cashing them. *The Representation indicated that ACAI performs a monthly review of cheques that remain outstanding and voids those that remain outstanding after three months.*

15. For several years ACAI has used a logo, which included the UNHCR logo. This was explained by the close relationship and association ACAI had with UNHCR. As such a practice is contrary to the UN rules, OIOS recommended that the Representation notify ACAI that they should discontinue using the UNHCR symbol in its logo. *The Representation stated that ACAI had eliminated the inappropriate logo from documents generated by the computer and was in the process of redesigning a new logo.*

16. ACAI is in charge of the promotion and monitoring of micro-credit projects. OIOS obtained evidence that promotional activities were carried out on a regular basis. The ACAI social workers are involved in the assessment of project proposals and they participate in feasibility study visits prior to financing a project. However, post-financing visits were not performed and ACAI has not yet established the necessary tools to measure the achievement of programme objectives. In response to OIOS' recommendations, *the Representation informed us that ACAI initiated post-financing visits of all projects with at least six months of activities to gauge their advance and to better assess the socio-economic impact of project activities. A consolidated report of the project was planned for end of April. As from May 2005, these visits will be carried out jointly by UNHCR and ACAI. To better measure their socio-economic impact, ACAI is working on a format to easily report on income generation obtained from the micro-credit projects.*

17. Various categories of assistance have been established, with criteria revised regularly. They covered several situations including new arrivals, elderly and vulnerable persons, supplementary assistance after the first three months if considered needed, installation grants, and education. Given that the budgeting and reporting of expenditure is consolidated for all types of financial assistance, OIOS was of the view that the effectiveness of the budgetary control and financial monitoring could be compromised. *The Representation created more detailed budget lines for 2005 to better differentiate between funds allocated for different forms of assistance. As of March 2005, ACAI modified its reporting format to further strengthen statistical reporting on beneficiaries of assistance.*

18. There was insufficient information on exceptional cases, for instance, the number of refugees who have received more than the three months assistance. This represented about 30 to 40 per cent of the beneficiaries. Although ACAI maintains monthly needs assessment sheets, the justification for supplementary assistance was not always sufficient due to the fact that a formal needs assessment was done only when the assistance is required for more than six months. *The Representation stated that ACAI would improve its differentiation of specialized need as well as additional justification for assistance beyond the basic three-month package.*

B. Other Programme Issues

Monitoring of ACAI's activities

19. The project monitoring of ACAI activities was not performed effectively or adequately documented. Improvements were required to align financial and operational monitoring. The responsibility to monitor ACAI's activities (other than financial and administrative) was delegated to the Protection Officer who is the focal point for all protection related activities. Though the Protection Officer has regular contact with ACAI, there were no records or notes for the file supporting the monitoring activities done. Therefore, no assurance could be taken that this work was being done effectively.

20. Following an OIOS recommendation made in 2002, the UNHCR Finance Assistant discontinued performing financial monitoring in order to avoid a potential conflict of interest. UNHCR then contracted KPMG for this task. KPMG regularly reviewed ACAI's accounting records and reported its results to UNHCR. Although these reports are useful, the fact that the financial monitoring is done without comparing the operations with the financial records raise doubt about the effectiveness of the process. OIOS recommended that the Representation revised its strategy for monitoring ACAI activities. *The Representation stated that the Admin/Finance Assistant initiated a monthly financial review exercise at ACAI premises. The Representation also indicated that because of the heavy protection-related workload of the Legal Officer, there continues to be insufficient staffing to ensure adequate monitoring of programme aspects.*

Recommendation:

- The UNHCR Representation in Costa Rica should take appropriate action to ensure comprehensive monitoring of programme activities (Rec. 02).

21. *The Representation accepted the recommendation and stated that efforts would be made to improve staff resources for operational and financial monitoring of programme activities.* OIOS will close the recommendation upon receipt of information, how financial and operational monitoring has been aligned.

22. The action taken by ACAI to solve a potential conflict of interest identified in 2002 by OIOS resulted in ACAI replacing its Director. However, the new Director of ACAI is a close relative of the Director of the organization managing the micro-credit funds, the *Asociación de Profesionales en Desarrollo (APRODE)*. Such a relationship is not conducive to ensuring sound internal controls over micro-credit activities, given that the provision of funds is decided upon by these two organizations, ACAI and APRODE, without UNHCR's involvement or close supervision. The financial risks associated with this relationship need to be assessed by UNHCR and measures taken to mitigate the risks. *The Representation stated that ACAI has been requested to detail and document formal mechanisms for the approval of credits and the disbursements of funds from ACAI to APRODE.*

RSD activities and statistics on beneficiaries

23. The Government of Costa Rica, which is responsible for performing the RSD process, has not submitted any data to UNHCR on the number of asylum seekers and recognized refugees since June 2004. Since UNHCR is not involved in the RSD process and in the absence

of data provided by the Government, the Representation relied on ACAI estimates, which provided an indication of the trends related to new arrivals or current needs of refugees. However, ACAI has no information on asylum seekers or refugees who are not in need of financial assistance. In addition, ACAI maintains its statistics on the basis of information provided to them by the asylum seekers who are not systematically and not immediately informed by the Migration Service of any RSD decision taken. OIOS believes that reliable figures on the number of asylum seekers and recognized refugees are essential for planning and managing the programme.

C. Supply Management

24. Most of the procurement transactions are related to expenditures of the project AB/NLA/LS/405 implemented by the Regional Legal Unit (RLU), which exceeded US\$ 300,000 for 2003 and 2004. The expenditures related mainly to costs associated with the maintenance of the Spanish Website, printing and translation services. OIOS reviewed the procurement records; in particular the documents supporting the selection of the supplier which was awarded the contract.

25. In March 2002, RLU entered into a contract with the Fundación Galileo (FG) for the maintenance of the UNHCR Spanish Website. The contract was awarded without competitive bidding. According to the Representation, a bid waiver had been obtained. For the contract extensions in 2003 and 2004, OIOS observed some deficiencies in the procurement process. The requests for quotation did not mention any deadline (time) for the submission of offers, or the requirement for sealed bids; tenders were received by e-mail. In 2004, the decision to award the contract to FG, which did not submit the lowest offer and amounted to US\$ 87,000, was not documented. Also, only two offers were compared. The Representation also entered into frequent agreements for printing and translation services. There was no evidence that they had been submitted to the Local Committee on Contract in 2003 and 2004, or that price comparisons had been made.

26. OIOS recommended that the Representation strengthen their procurement procedures, in particular the bidding procedures and the documentation to support the decisions made. The Representation agreed and stated that the improvements consisted of written requests for offers, deadline for submission of sealed bids, opening of sealed bids in the presence of witnesses, development and use of criteria for the assessment of technical expertise of the potential suppliers.

Asset Management

27. The recommendations made by OIOS in 2002 were gradually implemented despite the fact that some asset management related problems were experienced until the end of 2003. They concerned, in particular, some decisions to be made by the Representative to transfer the ownership of assets to implementing partners without the approval of the Local Asset Management Board. The current Representative has made significant improvements and corrective actions on these issues.

D. Security and Safety

28. In September 2004, the UN Local Field Security Assistant conducted an inspection of the UNHCR premises. Recommendations aimed at the reinforcement of the security of the premises in general and in particular due to the fact that refugees were interviewed in UNHCR premises, were made and duly implemented. Measures taken recently consisted of the installation of cameras, the placement of security guards and the installation of an information desk at the main entrance of the building. The security of the resettlement area still required strengthening. Also, some measures still have to be implemented including the reinforcement of walls, installation of panic buttons and emergency exit signs. At the time of the audit the UNHCR premises were about 70 per cent MOSS compliant. *The Representation informed that additional steps had been taken to enhance security including another inspection of all of the commercial premises where UNHCR office is located. Based on this study, the Bureau has agreed to relocate the office premises to a more suitable locale, and to do as soon as possible this year. Other measures taken consisted in the installation of panic buttons for the resettlement interview spaces and the main entrance, purchase of a satellite phone and mobile phones distributed to the staff involved in security related issues.*

E. Administration

29. In the areas of administration and finance, the UNHCR Representation, Costa Rica generally complied with UNHCR's regulations, rules, policies and procedures and controls were operating effectively during the period under review.

Delegation of Financial Signing Authority

30. In 2004, the Representative and the Head of the Regional Legal Unit reported to the Regional Representative, Mexico. As from January 2005, the Representative reports to the Director of the Bureau for the Americas and it is foreseen that the Head of the RLU will be reporting to the Bureau's Deputy Director, a post recently approved. The ABOD and LOI of the project AB/COS/LS/400 are addressed to the Representative and the LOI of the project AB/NLA/LS/405, sub-project (u) and (u\$ are addressed to the Head of the RLU.

31. Both the current and the previous division of responsibilities between two Heads do not contribute in establishing an appropriate internal control system nor allows for proper segregation of duties and supervision. This emphasizes the need for quality controls to be made by a monitoring office. Although the OIOS audit in 2000 had recommended that Regional Office, Mexico perform supervisory and monitoring missions to Costa Rica, no such missions have been undertaken.

Communications

32. After strengthening the controls, the communication costs were reduced by more than 50 per cent in 2004 compared to the previous year. In 2003, they amounted to almost US\$ 25,000 compared to US\$ 14,000 as at November 2004. International calls are made from the reception. A record is maintained and the costs of private calls are deducted from the staff member's salaries on a monthly basis.

Office Premises

33. With annual charges exceeding US\$ 100,000, the office rent represents the most significant administrative expenditure. The Representation has proposed to negotiate a reduction per square meter. OIOS believes that a combination of both price negotiation and space reduction are required. *The Representation indicated that the annual rent for office space has been negotiated down to US\$ 70,000 without sacrificing any space.*

Human Resources Management

34. At the time of the audit, there were 19 persons working in the UNHCR Office premises compared to the nine regular staff posts authorized on the staffing table. As of January 2005, four new posts have been authorized and added to the staffing table for the temporary assistance staff working on resettlement. The other personnel in the office were three employees of FG working on the maintenance of the Spanish Web Site, an intern, a consultant and a cleaner.

35. Since January 2003, the Representation recruited 32 interns, who have signed an internship agreement with a confidentiality component. Contrary to the rules, which state that interns need to leave the organization for a minimum period prior to being considered for recruitment, two interns were recruited by UNHCR during and immediately after the end of their contract. One on a temporary assistance contract and the second as a consultant. The latter was recruited through UNDP for a three-month period.

36. The FG employees (maintaining the Spanish Web Site) were working in UNHCR office premises and using UNHCR equipment. They perform their duties under the supervision of the Head of RLU. The necessity for them to work in UNHCR premises could not be evidenced given that one of them works in UNHCR's office in Mexico City. In addition to the financial implications, there were confidentiality and security issues. *The Representation stated that because the Web Site is the main tool for the dissemination of internal refugee law in the Americas, it was recommended that the employees of the service provider work in close coordination and consultation with the responsible officers of the RLU in Costa Rica. Regarding confidentiality issues, according to the Head of RLU all Spanish Web Site employees have signed the UNHCR Code of Conduct and have proven to act with discretion and perform their functions in a professional and satisfactory way.*

37. OIOS still believes that the Representation should take the necessary action to ensure that the Web Site service provider employees are not perceived by a third party as being UNHCR staff. OIOS noted that an FG employee was using the UNHCR logo on her business card. Such practice is unacceptable and should be discontinued. These employees should sign a waiver absolving UNHCR of any responsibility for cost arising from accidents and/or illness/death incurred in UNHCR office. *The Representation will ask the Head of Regional Legal Unit to ensure that all employees for the web page project are aware of the need to avoid any perception of being UNHCR staff and obtain the appropriate waivers of responsibility not otherwise covered in the commercial contract for services.*

38. In addition to these 19 persons, there were four persons working with the Ministry of Labour (1), the Immigration Services (2) and the University of Costa Rica (1). Given that the Government cannot receive UNHCR contributions and make use of the funds in the manner specified by UNHCR, an agreement was concluded in 2003 with the *Fundación para la*

Cooperación Estatal giving them responsibility of managing project staff. As UNHCR could not renew this agreement for 2004, the project staff members are back under the legal responsibility of ACAI without the administrative and supervisory authority. An improvement observed in September 2004, is that ACAI signed employment contracts containing clauses related to the responsibilities of the staff, job descriptions and working hours.

V. ACKNOWLEDGEMENT

39. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff of UNHCR and implementing partners in Costa Rica.

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