



INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Alan Doss
A: Special Representative of Secretary-General,
UNMIL

DATE: 13 December 2005

THROUGH:
S/C DE:

REFERENCE: AUD- 7-5:16
05- 00303

FROM: Patricia Azarias, Director
DE: Internal Audit Division-I, OIOS

P. Azarias

SUBJECT: **OIOS Audit No. AP2005/626/15: UNMIL DDRR Trust Fund -- UNDP**
OBJET: **Claim for reimbursement of expenditures**

1. I am pleased to present the final report on the audit of the above subject, which was conducted from September to October 2005.
2. We note from your response to the draft report that UNMIL has accepted all the recommendations. In order for us to close out the recommendations in OIOS' recommendations database, we request that you provide us with additional information as indicated in the text of the report and a time schedule for implementing the recommendation. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

4. In a memorandum dated 24 March 2005, the Department of Peacekeeping Operations (DPKO) requested the Controller's approval for reimbursement to the United Nations Development Programme (UNDP) an amount of \$6,369,099.52 from the UNMIL assessed budget in respect of expenditures incurred for food, transport and medical screening pertaining to ex-combatants in Liberia under the disarmament and demobilization activities. In a communication dated 4 May 2005, the Controller referred this matter to the Office of Internal Oversight Services (OIOS) requesting a review of the claim and its supporting documentation.

II. AUDIT OBJECTIVES

5. The objectives of the review were:

- (i) To determine whether UNMIL made prior financial arrangements with UNDP with regard to responsibility for expenditures on disarmament and demobilization component of the Disarmament, Demobilization, Reintegration and Rehabilitation (DDRR) Programme; and
- (ii) To determine whether the claim made by UNDP is valid, accurate and the expenditures were incurred for the disarmament and demobilization component of the DDRR Programme.

III. AUDIT SCOPE AND METHODOLOGY

6. This review was confined to the claim made by UNDP for its services and expenditures incurred for food, transportation and medical screening for ex-combatants during the disarmament and demobilization phase of the DDRR Programme. Financial records provided by UNDP, which included the financial statements of the project partners engaged by UNDP, duly audited and certified by a registered public accounting firm were scrutinized. Key personnel from UNDP and UNMIL involved in the implementation of the DDRR Programme were interviewed.

IV. OVERALL ASSESSMENT

7. In accordance with the "DDRR Programme, Strategy and Implementation Framework" document of 31 October 2003 jointly prepared by UNMIL, UNDP and other UN agencies involved in the DDRR Programme, and the "UNMIL DDRR Programme – Financial Arrangements" document of 16 January 2004 signed by UNMIL and UNDP, expenditures relating to disarmament and demobilization are to be borne by UNMIL from its assessed budget. Placing reliance on the audit work and certification done by a registered public accounting firm in accordance with International Standards for Auditing, OIOS is of the opinion that the claim for reimbursement made by UNDP for expenditures incurred on activities related to disarmament and demobilization of the DDRR Programme is valid.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Financial responsibility for disarmament and demobilization activities

8. In accordance with the "DDRR Programme, Strategy and Implementation Framework" document of 31 October 2003 which was prepared jointly by UNMIL, UNDP and other UN agencies involved in the programme, disarmament and demobilization was deemed to be military-related activity, and therefore related costs will be covered from the assessed budget of UNMIL. UNMIL's assessed budget for 2003-2004 provided \$35.5 million for certain specified DDRR activities, primarily in the Disarmament and Demobilization (DD) phase of the Programme. Out of this, the Controller allotted \$32.4 million to the Field Cost Centre and \$3.1 million to the HQ Transport Section Cost Centre for DDRR related air transportation costs. The budget document and the Controller's allotment advice did not provide a separate budget line (object class) for the DDRR Programme. The total amount of \$32.4 million allotted to UNMIL was divided under twelve different object classes. The amounts allotted and expenditures directly incurred by UNMIL for food rations, transport and medical services are as shown in Table 1 below:

Table 1: Expenditures incurred by UNMIL

Expenditure Item	Amount allotted in the assessed budget (\$)	Amount disbursed by UNMIL (\$)
Food rations	15,650,000	1,291,270
Ground transport costs	1,050,000	Nil
Medical services	630,040	Nil
TOTAL:	17,330,040	1,291,270

The amount of \$1,291,270 disbursed by UNMIL for food rations includes an amount of \$904,500 paid to WFP and UNDP for the procurement of rice.

Explanation given by UNMIL Administration

9. OIOS raised the question as to why the expenditure was charged to the DDRR trust fund instead of the Mission's assessed budget, and also whether there was an agreement between UNDP and UNMIL to have the disbursements for disarmament and demobilization to be made from the DDRR Trust Fund pending reimbursement at a later stage from the assessed budget. UNMIL Administration explained that several documents, including the DDRR Plan of Action highlighted the responsibilities of UNMIL, UNDP and UN agencies in broad terms, but did not attribute costs or identify the sources of funding. UNDP was responsible for the management of the DDRR trust fund and all financial activities for the implementation of DDRR projects. The Administration further stated that it was UNMIL's understanding until December 2004 that the expenditures incurred by non-government organizations (NGOs) would be financed from the DDRR Trust Fund. It only became an issue on 16 December 2004 when UNDP wrote to DPKO stating that the assessed budget should have covered the demobilization costs as it has done for disarmament. There was no prior agreement to have payments made by UNDP from the DDRR trust fund and later reimbursed by UNMIL from the assessed budget. However, according to a document titled "UNMIL DDRR Programme -Financial Arrangements" dated 16 January 2004 signed by the UNMIL CAO, UNDP Country Director, UNMIL Planning and Budget Officer, Programme Manager DDRR Programme and the Manager UNDP Trust Fund Liberia, it has been clearly documented that UNMIL shall provide \$3,157,200 for acquisition of equipment and \$32,368,900 for services and materials from the UNMIL assessed budget for 2003-2004. The annex to the document showed breakdown for services and materials which included rations (\$15,650,000), ground transport (\$1,050,000) and medical services (\$630,400). Thus, it is clear that the expenditures on disarmament and demobilization component under the DDRR programme were intended to be met from the Mission's assessed budget.

B. Validity of the claims made by UNDP

10. On 7 and 8 of September 2005, OIOS reviewed related financial documents at the UNDP office in Liberia. However, OIOS could not do a complete verification because the documentation at UNDP only showed transfers of funds to the respective NGOs engaged as project partners to execute the disarmament and demobilization activities. Invoices and other supporting documents relating to the expenditures were kept by the respective NGOs. UNDP informed OIOS that a

registered public accounting firm was engaged to audit and certify the accounts of the NGOs involved. On 27 October 2005, UNDP forwarded to OIOS copies of the audited and certified financial statements and the auditor's reports pertaining to funds allotted to the respective NGOs involved in the DDDR programme. The auditors' reports indicated that the audit, which was conducted in accordance with international auditing standards, found that the accounts were in conformity with international accounting standards and that the financial statements fairly present, in all material respects, the financial activities of the respective NGOs. The actual expenditures incurred as at 31 December 2004 by all the project partners are shown in Table 2:

Table 2: Expenditures incurred by project partners of the DDDR programme

Project partner	Object	Total expenditure (\$)
Norwegian Refugee Council	Food	565,813
Premier Urgence	Food	1,655,800
International Organization for Migration	Transport	2,723,152
Centre for the Rehabilitation for the Injured and Disabled	Medical	271,485
Medical Emergency Relief and Cooperative International	Medical	486,192
Human Development Foundation	Medical	187,994
International Rescue Committee	Health	118,455
Pentecostal Mission Unlimited – Inter-life Liberia	Health	111,540
World Food Programme	Supervision	74,893
World Health Organization	Supervision	275,000
United Nations Fund for Population Activities	Supervision	128,438
United Nations Development Programme	Drugs & Ambulances	763,174
Total claim:		7,361,936

Reliance on the work of the accounting firm

11. The financial statements of all the NGOs have been audited and certified by a registered public accounting firm in Liberia affiliated to Deloitte Touche Tohmatsu which is an international accounting firm. Placing reliance on their work, OIOS is of the opinion that the total expenditures incurred and certified by the accounting firm appear reasonable.

12. In accordance with the “DDRR Programme, Strategy and Implementation Framework” document of 31 October 2003 jointly prepared by UNMIL, UNDP and other UN agencies involved in the DDDR Programme, and the “UNMIL DDDR Programme – Financial Arrangements” of 16 January 2004 signed between UNMIL and UNDP, expenditures relating to disarmament and demobilization shall be borne by UNMIL from its assessed budget. The expenditure of \$7,361,936 claimed by UNDP (as shown in Table 2 above) is thus chargeable to the UNMIL budget towards activities related to disarmament and demobilization under the DDDR Programme.

Recommendation 1

OIOS recommends that UNMIL Administration process the claim in the amount of \$7,361,936 submitted by UNDP for

expenditures incurred on food, transportation and medical services provided to ex-combatants under the disarmament and demobilization activities of the DDR Programme (AP2005/626/15/01).

13. *UNMIL accepted recommendation 1, which endorses the position taken by the Mission in January 2005 and subsequent recommendations made by FMSS. Implementation will take place as soon as possible after consultation with Headquarters, New York on funding to be used and determination of whether the payment should be made by Mission or Headquarters. Recommendation 1 remains open pending confirmation by UNMIL that the claim has been settled.*

C. Due regard for economy and efficiency by the project partners

14. UNDP signed a project cooperation agreement with each project partner, stipulating that prior approval of UNDP must be sought for any increase in expenditures beyond 20% of the budget line item. This is a good mechanism for cost control. However, according to the reports of the public accounting firm, most of the project partners violated this condition. The increase in expenditures compared to the budget line item limit ranged from 100% to over 1,000%. One of the project partners replied that they regret that deviations occurred and apologized for not seeking prior UNDP permission. In another case, the accounting firm reported that expenditures totaling \$45,561 did not have adequate supporting documentation. The response from the concerned project partner was that it strongly regretted the poor and missing documentation because it had been a victim of economic crime within the organization. However, it asserted that the costs were actually incurred.

15. In April 2004, the World Food Programme (WFP) purchased the first consignment of 1,500 metric tons of rice (specification: butter rice – 15% broken Chinese rice) from a local vendor for \$447,000 while in July 2004, UNDP procured the second consignment of 1,500 metric tons of rice of same specification from a different local vendor for \$478,350, resulting in an increased cost of \$31,350. Scrutiny of documents forwarded by WFP and UNDP to UNMIL's Finance Section revealed that WFP called for quotations and selected the lowest quotation and signed an agreement with the vendor, while such documentation was not available for the rice procured by UNDP. OIOS sought explanation from UNMIL Administration for not procuring the rice through its own Procurement Section. The explanation given was that, since WFP had no funding, it asked UNMIL for financial assistance UNMIL Administration decided not to purchase rice through its Procurement Section because the Mission lacked experience in the purchase of bulk food in general and in the dietary requirements of the local population in particular.

16. The manner in which payment arrangements were made for the disarmament and demobilization activities did not allow OIOS to undertake an operational audit to determine whether funds expended from the assessed budget were spent prudently with due regard for economy and efficiency, in compliance with United Nations Financial Regulations and Rules. OIOS also enquired as to whether the Chief Finance Officer (CFO) of UNMIL was consulted to devise a payment mechanism with regard to payment for services and material related to disarmament and demobilization activities for which budget was allotted. The Mission replied that the CFO at that time was not involved, especially since no reimbursement was foreseen.

Procurement of non-expendable assets

17. Included in the reimbursement to UNDP is an amount of \$153,838 for the procurement of four ambulances used in the implementation of DDDR Programme. There are no guidelines as to the ownership or the manner in which these non-expendable assets are to be disposed.

Recommendations 2 and 3

OIOS recommends that UNMIL Administration in consultation with DPKO:

- (i) Develop a mechanism to ensure that expenditures relating to the DDDR programme charged to the assessed budget are subjected to operational audit by UN auditors and are in compliance with UN Financial Regulations and Rules (AP2005/626/15/02); and
- (ii) Provide guidelines on the ownership and disposal of non-expendable assets procured by implementing partners for the DDDR programme (AP2005/626/15/03).

18. *UNMIL accepted recommendations 2 and 3 and indicated that since the Mission's DDDR activities have concluded, the Mission will draw lessons for the future so that assessed budgets are used for DDDR or for similar programmes in other Missions. Mechanisms to be used in future should be individual, separate and clearly formulated MOUs with each of the implementing partners. The MOUs should include a provision that all expenditures would be subjected to operational audit by UN Auditors. Non-expendable assets procured by implementing partners should be recovered and become part of UNMIL's inventory at the time of reimbursing the implementing partner, and should be disposed of in accordance with established policies. If the implementing partner is a UN Agency, the partner could purchase the assets from UNMIL at the depreciated value at the end of the activities governed by the MOU. Recommendations 2 and 3 remain open pending receipt of a copy of the lessons learned report transmitted by UNMIL to DPKO.*

VI. ACKNOWLEDGEMENT

19. We wish to express our appreciation to the management and staff of UNMIL for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Jean-Marie Guehenno, Under-Secretary-General for Peacekeeping Operations
Mr. Philip Cooper, OIC, ASD/DPKO
Mr. Ronnie Stokes, Director of Administration, UNMIL
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