



INTERNAL AUDIT DIVISION

REPORT 2015/013

Audit of the operations in Eritrea for
the Office of the United Nations High
Commissioner for Refugees

Overall results relating to management of the
operations in Eritrea were initially assessed
as partially satisfactory. Implementation of
four important recommendations remains in
progress.

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

24 February 2015
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AUDIT REPORT

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNHCR Representation in Eritrea (hereinafter referred to as ‘the Representation’) supports the Government of Eritrea in providing humanitarian assistance to refugees from Somalia, Sudan, South Sudan and Ethiopia. As at June 2014, Somali refugees, totaling 3,727, were accommodated in the Umkulu refugee camp, near the city of Massawa, while the other refugees were mainly located in urban areas of the Gash Barka region and Asmara. The main activities of the Representation were the provision of food, medical care, water, education and shelter to refugees based in the Umkulu camp. These programmes were implemented through a government partner.
4. The Representation had total expenditure of \$4.4 million in 2012 and \$4.1 million in 2013. The budget for 2014 was \$4.1 million. As at 30 June 2014, the Representation had 15 authorised posts.
5. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNHCR governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the operations in Eritrea**.
7. The audit was included in the 2014 risk based internal audit work plan for UNHCR due to the programme and protection risks associated with the operations in Eritrea.
8. The key controls tested for the audit were: (a) project management; and (b) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:
 - (a) **Project management** – controls that provide reasonable assurance that there is accurate and complete monitoring and reporting of the Representation’s project activities.
 - (b) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures exist and are adequate and effective.
9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit from July to September 2014. The audit covered the period from 1 January 2012 to 30 June 2014. During the audit, OIOS visited the Representation’s branch office in Asmara, the Umkulu camp, and two UNHCR warehouses in Asmara and Massawa.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The UNHCR governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective management of the operations in Eritrea**. OIOS made six recommendations to address issues identified in the audit.

13. There was a need for the Representation to: a) strengthen monitoring of the food distributions in the Umkulu camp; b) review the health operations at the Umkulu health station; c) review the medical referral system; d) strengthen cash flow planning and forecasting; e) strengthen warehouse management; and [REDACTED]

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as the implementation of four important recommendations remains in progress.

Table 1
Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNHCR operations in Eritrea	(a) Project management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

¹ A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

A. Project management

Need to strengthen monitoring of the food distributions in the Umkulu camp

15. In accordance with the UNHCR Handbook for Emergencies, the Representation should monitor the food distribution programme implemented by the government partner in the Umkulu camp. This requires the Representation to undertake regular spot checks of the distribution process and to review distribution reports obtained from the partner to confirm the quantity and quality of food received by the beneficiaries.

16. Food rations comprising of wheat flour, sugar, vegetable oil, salt and corn soya blend were distributed by the partner to refugees in the Umkulu camp in the first week of each month. The total expenditure on food rations was \$1.6 million in 2012 and \$0.8 million in 2013, the reduction being the result of the introduction of a monthly cash allowance for purchase of rice and beans. Although the Representation indicated to OIOS that it had conducted visits to the camp to observe food distributions, there were no records in this regard. There was also no evidence that the camp-based nutrition consultant hired by the Representation had carried out monitoring of the food distribution programme.

17. OIOS observed the distribution process and noted that the total food rations for the families in each of the ten zones in the camp was issued in bulk to the refugee zonal representatives, who were elected by the refugees. The refugee zonal representatives in return were supposed to distribute the food according to the quantities indicated on each distribution form which was already pre-signed by the refugee head of each household. The refugee head of household therefore did not sign the distribution form on the day the food ration was issued to him or her. The camp management working for the government partner did not have a system in place to check that the refugee zonal representatives divided the food ration as indicated on the distribution form. Further, the refugee zonal representatives did not have weighing scales to ensure that the correct quantities were delivered to each household and instead used tins and plastic bottles to measure the rations.

18. The above shortcomings happened because the Representation had not implemented adequate monitoring mechanisms over the food distribution programme. As a result, there was a risk that the minimum daily nutritional requirement was not received by each beneficiary, thereby increasing the risk of malnutrition in the Umkulu camp.

(1) The UNHCR Representation in Eritrea should establish appropriate monitoring mechanisms over the food distribution programme implemented by the government partner in the Umkulu camp, including undertaking regular spot checks of the distribution process and reviewing distribution reports obtained from the partner to verify that the food rations are distributed in correct quantity and quality to each refugee household.

UNHCR accepted recommendation 1 and stated that monitoring mechanisms that were being developed would include verification of quantities and quality of food received by each refugee household. UNHCR also noted that more effective monitoring mechanisms over food distribution would be in place upon completion of the construction of a warehouse in the camp by the end of April 2015. Recommendation 1 remains open pending receipt of documentary evidence of the monitoring mechanisms put in place and systematically implemented by the Representation over the food distribution programme in the Umkulu camp.

Need to review the health operations at the Umkulu health station against established standards

19. The UNHCR Health Information System contains set standards and indicators which need to be reviewed annually to measure the success of the health programmes. Further, the Representation should ensure implementation of the essential drugs policy in all health programmes where drugs and supplies are selected, procured, distributed or used. It should also ensure that proper drug storage facilities are available and that expired and unwanted drugs are disposed of timely.

20. Refugees in the Umkulu camp were treated for minor ailments at the Umkulu health station which was fully funded by the Representation and operated by the government partner. OIOS visited the health station and noted the following weaknesses:

- a) The Representation had not conducted a review of the health station against the standards and indicators set out in the UNHCR Health Information System.
- b) The Representation and the partner had not developed an essential drugs list.
- c) Expired drugs and injections had not been disposed of and were kept together with other unexpired medicines, thereby increasing the risk of issuing or using expired medicines.

21. The above weaknesses happened because the Representation did not adequately monitor the implementation of the health activities carried out by the partner in the camp. As a result, the level of primary health care provided to the refugees had not been reviewed against the minimum expected standards, which could have led to not achieving the goal of a healthy refugee population in the camp.

(2) The UNHCR Representation in Eritrea should conduct a comprehensive review of the operations at the Umkulu Health Station against established standards and implement monitoring mechanisms to ensure that the government partner maintains: i) an essential drugs list; ii) appropriate drug storage facilities; and iii) appropriate drug disposal procedures.

UNHCR accepted recommendation 2 and stated that following the comprehensive review of the Umkulu Health Station carried out through a questionnaire based balanced score card, written recommendations would be sent to the partner to address areas which required improvements at the health station including development of an essential drug list, appropriate drug storage facilities and drug disposal procedures. Recommendation 2 remains open pending receipt of the results of the review of the health operations and evidence of implementation of the recommendations made to the partner. This should include evidence of the development of an essential drugs list and appropriate drug storage facilities and drug disposal procedures at the Umkulu health station.

Action was taken to review the medical referral system

22. In accordance with the UNHCR Handbook for Emergencies, the Representation should monitor the medical referral system implemented by the government partner. This requires the Representation to review that the partner has put in place arrangements to ensure that only those patients specifically referred from the health centers are attended to, with no refugees presenting themselves directly to the hospital. In addition, the UNHCR Guidelines for Referral Health Care require that agreements should be signed between the hospitals and the partner, in order to clarify the services to be covered, to ensure quality of the care, and to define the types and guarantees of payments. The Representation should also ensure that the partner has a system to record the medical referrals and subsequent treatment and follow-up of patients.

23. OIOS noted that the Representation had not reviewed the medical referral system put in place by the government partner and had not monitored that it complies with the UNHCR requirements. Consequently, the following weaknesses were identified:

- a) The partner had not entered into agreements with the two government hospitals used for medical referral cases in Massawa and Asmara that would have set the medical costs to be incurred per patient referred to the hospital.
- b) Refugees were not always issued with medical referral sick reports for treatment at the Massawa government hospital due to the working hours of the Umkulu health station which operated from 7am to 3pm. Consequently, the hospital treated refugees without a referral after 3pm as there was no staff available in Umkulu to issue the referrals. Such reports should have acted as the authorisation for the hospital to treat the refugee and remit the bill to the partner for settlement.
- c) Invoices from the government hospital in Massawa for treatment of refugees were not supported by the approved medical referral sick reports.

24. Therefore, the invoices settled by the partner relating to medical referrals were not properly supported and could not be verified against the medical referral sick reports. This was because the partner and the Representation had not put in place standard operating procedures for medical referrals and related billings at the Umkulu health station, in accordance with the UNHCR requirements.

(3) The UNHCR Representation in Eritrea should develop, in coordination with the government partner responsible for the health operations at the Umkulu Health Station, standard operating procedures for the medical referral system, which should include procedures to ensure that: i) service contracts are in place with the government hospitals; ii) only patients with ailments that cannot be treated in Umkulu are referred to the hospitals; and iii) all invoiced amounts are properly supported.

UNHCR accepted recommendation 3 and stated that the partner had signed a standard service contract and letter of agreement with the government hospitals and maternal child health centres both in Massawa and Asmara. The Representation also reported that the partner had improved its internal control systems, put in place a system where all the bills were verified and checked before they were paid to the respective hospitals, and prepared operating procedures for the referral system. Based on the action taken and documentation provided by UNHCR, recommendation 3 has been closed.

C. Regulatory framework

Action was taken to strengthen cash flow planning and forecasting

25. According to the UNHCR Manual, in order to correctly forecast office cash flows and to conduct timely replenishments, the Representation is required to use the Cash Flow View function in the treasury management system module of Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system. The cash required for immediate disbursement should be requested as close as possible to the date of the envisaged disbursement to avoid the accumulation of unnecessarily high bank balances.

26. The Representation did not use the cash flow view function in MSRP in its planning and forecasting. This led to the Representation holding excess idle cash in non-interest earning bank accounts in Asmara. For example, in June 2014, the Representation had a total equivalent of \$1,154,607 in its bank accounts. In September 2013, the total cash in the bank had been as high as \$2,164,386.

27. The high level of cash balances held by the Representation resulted in UNHCR not earning interest income from the concerned funds. This weakness was due to lack of training to finance staff at the Representation on cash flow planning and forecasting and the use of the Cash Flow View function in MSRP, as well as inadequate review by the Representation of the monthly financial package submitted to headquarters which included monthly bank reconciliations and bank statements. The high level of bank balances had also been noted by the UNHCR Treasury, Division of Financial and Administrative Management, who had communicated the issue to the Representation in July 2014.

(4) The UNHCR Representation in Eritrea should provide training to staff on cash flow planning and forecasting and put in place appropriate monitoring mechanisms to ensure that cash held in bank is kept at a minimum.

UNHCR accepted recommendation 4 and stated that regular review of bank balances had commenced from June 2014 and resulted in the reduction of cash held in the bank. Based on the action taken and documentation provided by UNHCR, recommendation 4 has been closed.

Need to strengthen warehouse management

28. According to the bipartite agreement signed between the Representation and the government partner, the partner is required to: maintain inventory of stocks, both food and non-food; periodically provide the latest information on stock balances, as well as a summary statement of the stock balance with the final partner monitoring report; and monitor expiry dates of food to avoid wastage. The agreement also requires the Representation to periodically obtain information on stock balances and conduct physical inspections of the stocks.

29. Food ration for distribution to refugees in the Umkulu camp comprising wheat flour, sugar, vegetable oil and corn soya blend and other non-food items were stored in the warehouses in Asmara and Massawa under the custodianship of the partner. Although the Representation indicated that it had carried out inspections of the warehouses, any weaknesses noted during such visits were not documented or shared with the partner. Consequently, OIOS noted the following shortcomings during its visits to the warehouses:

- a) Stock counts were not carried out regularly in either of the warehouses.
- b) The listing of inventories did not contain the quantities of stock in hand, so the value of stocks held in both warehouses could not be ascertained.
- c) In the Asmara warehouse, the stock balance of corn soya blend was 1,562 bags with an expiry date of January 2015. On average, 200 bags of it were distributed per month which translated to almost eight months of coverage of the stock. Given that there had been no new arrivals of refugees for the past three years, the available stock was likely to reach its expiry date before being fully distributed.
- d) In the Massawa warehouse, the food items were stacked together with non-food items like cement, soap, and motor vehicle spare parts.

30. The above weaknesses happened because the Representation did not ensure that the partner's staff manning the warehouses had obtained appropriate training and instructions on warehouse management and because the Representation had not developed a plan and procedures for periodic inspections of the warehouses. As a result, there was a risk of the food not being distributed before the expiry dates and stock losses caused by pilferages going undetected due to lack of regular stock counts.

(5) The UNHCR Representation in Eritrea should provide training to the partner managing the warehouses and develop and implement a plan and procedures for inspecting the warehouses

to ensure that stock counts are regularly carried out, food expiry dates are monitored and food items are kept separately from non-food items.

UNHCR accepted recommendation 5 and stated that the standard operating procedures on inventory management were being drafted. The partner staff would be trained on warehouse management. Periodic inspections of the warehouse that were started in December 2014 would continue every quarter. Recommendation 5 remains open pending finalisation of the standard operating procedures and evidence of periodic inspections of the warehouses by the Representation, as well as evidence of training provided to the partner's staff in charge of warehouse management.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

IV. ACKNOWLEDGEMENT

34. OIOS wishes to express its appreciation to the Management and staff of the UNHCR Representation in Eritrea for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The UNHCR Representation in Eritrea should establish appropriate monitoring mechanisms over the food distribution programme implemented by the government partner in the Umkulu camp, including undertaking regular spot checks of the distribution process and reviewing distribution reports obtained from the partner to verify that the food rations are distributed in correct quantity and quality to each refugee household.	Important	O	Submission to OIOS of documentary evidence of the monitoring mechanisms put in place and systematically implemented by the Representation over the food distribution programme in the Umkulu camp.	30 April 2015
2	The UNHCR Representation in Eritrea should conduct a comprehensive review of the operations at the Umkulu Health Station against established standards and implement monitoring mechanisms to ensure that the government partner maintains: i) an essential drugs list; ii) appropriate drug storage facilities; and iii) appropriate drug disposal procedures.	Important	O	Submission to OIOS of the results of the review of the health operations and evidence of implementation of the recommendations made to the partner. This should include evidence of the development of an essential drugs list and appropriate drug storage facilities and drug disposal procedures at the Umkulu health station.	28 February 2015
3	The UNHCR Representation in Eritrea should develop, in coordination with the government partner responsible for the health operations at the Umkulu Health Station, standard operating procedures for the medical referral system, which should include procedures to ensure that: i) service contracts are in place with the government hospitals; ii) only patients with ailments that cannot be treated in Umkulu are referred to the hospitals; and iii) all invoiced amounts are properly	Important	C	Action completed	Implemented

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
	supported.				
4	The UNHCR Representation in Eritrea should provide training to staff on cash flow planning and forecasting and put in place appropriate monitoring mechanisms to ensure that cash held in bank is kept at a minimum	Important	C	Action completed	Implemented
5	The UNHCR Representation in Eritrea should provide training to the partner managing the warehouses and develop and implement a plan and procedures for inspecting the warehouses to ensure that stock counts are regularly carried out, food expiry dates are monitored and food items are kept separately from non-food items.	Important	O	Submission to OIOS of evidence of periodic inspections of the warehouses by the Representation, as well as evidence of training provided to the partner's staff in charge of warehouse management.	31 March 2015

APPENDIX I

Management Response

Management Response

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ^{2/} / Important ^{3/}	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	The UNHCR Representation in Eritrea should establish appropriate monitoring mechanisms over the food distribution programme implemented by the government partner in the Umkulu camp, including undertaking regular spot checks of the distribution process and reviewing distribution reports obtained from the partner to verify that the food rations are distributed in correct quantity and quality to each refugee household.	Important	Yes	Asst. Programme Officer	31 Apr 2015	<p>The monitoring mechanisms that are currently being developed will include the verification of quantities and quality of food received by each refugee household. Spontaneous food distribution checks take place and periodic post-distribution monitoring reports are prepared.</p> <p>More effective monitoring mechanisms over food distribution will be in place upon completion of the construction of a warehouse in the camp by the end of April 2015.</p>
2	The UNHCR Representation in Eritrea should conduct a comprehensive review of the operations at the Umkulu Health Station against established standards and implement monitoring mechanisms to ensure that the government partner maintains: i) an essential drugs list; ii) appropriate drug storage facilities; and iii) appropriate drug disposal procedures.	Important	Yes	Asst. Programme Officer	28 Feb 2015	<p>Following the comprehensive review of the Umkulu Health Station carried out through a questionnaire based balanced score card, written recommendations will be made to the partner to address areas which require improvements at the health station. This will include evidence of the development of an essential drugs list and appropriate drug storage facilities and drug disposal procedures.</p>

Management Response

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ^{2/} / Important ^{3/}	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
3	The UNHCR Representation in Eritrea should develop, in coordination with the government partner responsible for the health operations at the Umkulu Health Station, standard operating procedures for the medical referral system, which should include procedures to ensure that: i) service contracts are in place with the government hospitals; ii) only patients with ailments that cannot be treated in Umkulu are referred to the hospitals; and iii) all invoiced amounts are properly supported.	Important	Yes		Done	This recommendation has been closed.
4	The UNHCR Representation in Eritrea should provide training to staff on cash flow planning and forecasting and put in place appropriate monitoring mechanisms to ensure that cash held in bank is kept at a minimum.	Important	Yes		Done	This recommendation has been closed.
5	The UNHCR Representation in Eritrea should provide training to the partner managing the warehouses and develop and implement a plan and procedures for	Important	Yes	Assoc. Admin/ Programme Officer and Snr. Supply Assistant	31 Mar 2015	The standard operating procedures on inventory management are currently being drafted. Thereafter, partner staff will be trained on warehouse management. Periodic inspections of warehouse take place since December 2014 and will now take place every quarter.

Management Response

Audit of the operations in Eritrea for the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ^{2/} / Important ^{3/}	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
	inspecting the warehouses to ensure that stock counts are regularly carried out, food expiry dates are monitored and food items are kept separately from non-food items.					In January 2015, The Regional Support Hub (RSH) in Kenya undertook a mission to assist the Representation reinforce inventory management procedures. A further mission will be conducted by the Senior Project Control Officer from the RSH in February 2015 to provide training.