



INTERNAL AUDIT DIVISION

REPORT 2015/098

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

Overall results relating to effective management of the operations in Lebanon were initially assessed as unsatisfactory. Implementation of two critical and three important recommendations remains in progress.

FINAL OVERALL RATING: UNSATISFACTORY

22 September 2015

Assignment No. AR2014/131/06

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AUDIT REPORT

Audit of the operations in Lebanon 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 Lebanon 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 Lebanon (hereinafter referred to as ‘the Representation’) is currently the largest UNHCR country operation. It was established in 1964 to provide refugees with international protection and humanitarian assistance. The number of refugees in Lebanon increased substantially (800 per cent) due to the Syrian situation from 127,000 refugees on 1 January 2013 to 1,137,729 refugees on 16 October 2014. A joint Syria Regional Response Plan has been developed by UNHCR, other United Nations agencies, funds and programmes, regional Governments, and over 100 Non-Governmental Organizations. This plan encompasses the humanitarian response to the Syrian situation in eight sectors. Due to the “no camp policy” of the Lebanese Government, refugees reside throughout the country and shelter options for the large influx of refugees are limited. For 2014, the Representation identified the following key areas of priority for its operations: health; education; shelter and infrastructure; supply of potable water; fair protection process and documentation; and community empowerment and self-reliance.
4. The Representation was headed by a Representative at the D-2 level. It had a Branch Office in Beirut and five field offices in Mount Lebanon, Qobayat, Tripoli, Tyre and Zahle. As at 31 October 2014, the Representation had 289 regular posts and 411 affiliate staff. It had total expenditure of \$246 million in 2013 and \$304 million in 2014. It worked with 35 partners in 2013 and 41 in 2014.
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 UNHCR operations in Lebanon**.
7. The audit was included in the OIOS 2014 risk based internal audit work plan for UNHCR due to risks related to the implementation of the largest UNHCR country programme in a challenging and volatile operational environment.
8. The key controls tested for the audit were: (a) strategic planning; (b) project management; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Strategic planning** - controls that provide reasonable assurance that the Representation's strategic plans for its programme and protection activities are developed in alignment with the UNHCR global strategic priorities.

(b) **Project management** - controls that provide reasonable assurance that there is proper planning and implementation as well as accurate and complete monitoring and reporting of the Representation's project activities.

(c) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the UNHCR operations in Lebanon; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

9. The key controls were assessed for the control objectives shown in Table 1.

10. OIOS conducted the audit from October to December 2014. The audit covered the period from 1 January 2013 to 30 September 2014. During the audit, OIOS visited the Representation's offices in Beirut, Zahle and Tripoli.

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 and analytical reviews, 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 **unsatisfactory**¹ in providing reasonable assurance regarding the **effective management of UNHCR operations in Lebanon**. OIOS made seven recommendations to address issues identified in this audit.

13. There was a critical need for the Representation to: i) strengthen procedures for monitoring the referral health care system and financial verification of the related costs; ii) strengthen procurement planning and oversight arrangements, as well as vendor management; and iii) minimise the use of post-facto notifications and waivers of competitive bidding and follow the recommendations of the Legal Affairs Service on contract management issues. In addition, there was a need to: i) improve controls over the cash assistance programmes; ii) enhance financial verification of projects implemented through partners; iii) take further concerted efforts to reduce financial losses from inability to obtain value added tax reimbursement for partner purchases; and iv) re-assess the risks involved in engaging a large number of affiliate staff.

14. The initial overall rating was based on the assessment of key controls presented in Table 1. The final overall rating is **unsatisfactory** as the implementation of two critical and three important recommendations remains in progress.

¹ A rating of "**unsatisfactory**" means that one or more critical and/or pervasive important deficiencies exist in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

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 Lebanon	(a) Strategic planning	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	(b) Project management	Unsatisfactory	Unsatisfactory	Partially satisfactory	Unsatisfactory
	(c) Regulatory framework	Unsatisfactory	Unsatisfactory	Unsatisfactory	Unsatisfactory
FINAL OVERALL RATING: UNSATISFACTORY					

A. Strategic planning

Arrangements for strategic planning were satisfactory

15. The Representation prepared a Country Operation Plan in alignment with the UNHCR global strategic priorities and based on an assessment of the needs of the population of concern, in accordance with UNHCR strategic planning procedures and guidelines. It also developed a protection strategy and a contingency plan for its operations. The Representation's results framework linked its priorities to project targets, resources and activities. Therefore, OIOS concluded that the Representation had adequate arrangements in place for strategic planning.

B. Project management

Procedures for monitoring the referral health care system and financial verification of the related costs required strengthening

16. In accordance with the UNHCR Principles and Guidance for Referral Health Care for Refugees and Other Persons of Concern, the Representation is required to monitor referrals to ensure proper follow-up of the referred patients' quality of care as well as efficient management of the resources. The same document requires the Representation to include appropriate monitoring and evaluation activities in standard operating procedures (SOPs) developed for the referral health care system. The Representation's agreement with a Third Party Administrator (TPA) for extending secondary and tertiary health services to refugees requires the TPA to audit hospital bills and to remit the payments to hospitals. The hospitals are required to treat the refugee patients at discounted rates over the rates of the Ministry of Health of the Government of Lebanon and the Representation is required to monitor the rates at which the refugees are charged. The Representation also needs to monitor the contractual requirement of the TPA to provide proof of its payment of the hospital bills after the Representation has authorized it to do so.

17. The Representation selected the TPA on the basis of a competitive bidding process. Between October 2013 and September 2014, it paid \$4,149,563 towards the TPA service charges, as per the relevant agreement. In addition, it reimbursed \$5,640,083 towards the hospitalization expenses for the services rendered and invoiced between October 2013 and June 2014. The Representation projected that total expenditure on hospitalization expenses alone could reach \$39 million in 2014. It had developed

standard operating procedures to regulate the referral care system. However, a review of the contract with the TPA and the referral system in place indicated the following control weaknesses:

- The Finance Unit of the Representation did not have a procedure to review the hospital bills submitted by the TPA from a financial control perspective (e.g. verification of the rates charged, discounts received by refugee patients) before releasing the payment to the TPA.
- Some hospitals were not extending the benefit of the discount to patients, which was not monitored and addressed by the Representation. Consequently, although this had no financial impact on UNHCR, the meagre resources of refugees were further strained, involving reputational risks to UNHCR.
- The computer system used by the TPA did not have the surgery rates of the Ministry of Health integrated into it for processing the hospital bills, as required, which posed a risk of incorrect data. Although the surgeries constituted only 2.4 per cent of the total hospitalization volume, given the projected annual hospitalization expenditure of \$39 million the Representation was exposed to a financial risk of up to \$936,000.
- A review of two of the four purchase orders raised by the Representation and pertaining to bills from several hospitals showed that out of \$2,076,005 paid (37 per cent of the total hospitalization expenses) there was no proof of payment for \$261,695 (12 per cent) of the expenses.

18. OIOS concluded that the cited shortcomings happened because the Representation, in its attempt to put in place a system to limit the coverage only to urgent life-saving cases, did not establish sufficiently robust procedures for verifying the adequacy of the hospital bills received from the TPA before releasing the payments, reviewing the rates at which the refugees were treated, and ensuring that the computerized billing system used by the TPA had appropriate validation controls. In addition, the Representation had not taken appropriate action to ensure that the system of receiving proof of payment of the hospital bills was working as intended. Consequently, the Representation was subject to potential financial losses due to erroneous overpayments.

(1) The UNHCR Representation in Lebanon should establish procedures for: (a) test checking hospital bills for accuracy before releasing payments; (b) monitoring that hospitals systematically extend the benefit of discounted rates to refugees; (c) ensuring that the Third Party Administrator has regular validation checks built into its computerized system used for billing; and d) monitoring and enforcing the requirement of the Third Party Administrator to provide proof of payment for all audited and paid bills in a timely manner.

UNHCR accepted recommendation 1 and stated that the Representation had implemented procedures for systematic verification of accuracy of the new Third Party Administrator's bills, including payments made. Proof of payments made by the previous TPA had been received until June 2014. The Representation had put in place a mechanism to closely follow up with the former TPA until proof of all payments was received. Recommendation 1 remains open pending receipt of confirmation that the Representation has received proof of all payments made by the former TPA and documentary evidence of a reconciliation performed to ensure that the proof of payments received matches the total hospitalization expenditure.

There was a need to improve controls over the cash assistance programmes

19. In accordance with UNHCR guidelines on "Introduction to cash-based interventions in UNHCR operations", the Representation should have clearly articulated criteria for selecting those persons of concern that should benefit from cash assistance. The Representation should also identify and address risks associated with cash assistance programmes. In particular, the Representation should implement

controls, such as segregation of duties and checks and balances, which mitigate risks associated with loss, theft and fraud.

20. The Representation had two main cash assistance programmes to support refugees. It implemented the winterization assistance programme initiated in November 2013 and totalling \$14.0 million to alleviate higher living costs during the winter months; and the unconditional cash programme to the most vulnerable refugees which started in August 2014 and amounted to \$3.8 million in the first three months of its implementation. OIOS identified the following deficiencies in the cash assistance process:

- The Representation's field offices added new beneficiaries every month to the unconditional cash programme, but for the new beneficiaries added the criteria were not clear and the processes followed differed from one field office to another. In addition, there was no evidence of review and approval by the Representation's programme sections in the field offices before the target beneficiary lists were sent to the Branch Office in Beirut for consolidation and processing.
- In the Sub Office Tripoli, the data management staff was in charge of maintaining the target beneficiary list of the cash assistance programmes and safekeeping the bank cards and pins for distribution to beneficiaries, which was a weakness in the segregation of duties.
- The Representation could not provide documentary evidence of checks that were carried out on the consolidated target beneficiary list at the Branch Office for the cash assistance programmes. For example, there was no documentation of whether the refugee registration numbers were all active or whether additions to and deletions from the beneficiary list were tracked.
- As all humanitarian actors in Lebanon had agreed not to pay double cash assistance to one beneficiary from different donors, the Representation had established that \$153,000 was double paid during the 2013 winterization assistance programme which it was still in the process of recovering. However, the risk of double payment in the unconditional cash programme remained, because the Representation had not established a complete list of partners with other donor funded cash assistance programmes to avoid future double payments to refugees.
- The Representation did not have adequate supporting documentation for the monthly payments to the bank for loading the individual beneficiary bank cards pertaining to the cash assistance programmes because it was only based on an email from data management staff and an approved payment request from programme staff.
- The Representation had identified that over 1,000 beneficiary bank accounts of the cash assistance programmes had no withdrawals for more than three months with a total amount left unused of \$564,000, but it had not yet taken action to recover these unused amounts.

21. The main reason for the above deficiencies was that, due to the need to implement the cash assistance programmes expeditiously at the height of the emergency, the Representation did not have sufficient time and resources to establish an adequate control framework by implementing local procedures for ensuring effective and efficient implementation of the cash assistance programmes. As a result, it was exposed to financial risks.

(2) The UNHCR Representation in Lebanon should develop and implement local procedures for strengthening controls over its cash assistance programmes which should include: clear and consistent selection criteria for all beneficiaries; appropriate segregation of duties; documentation of the checks and balances to prevent double payments; safe keeping of bank cards and pins; maintenance of supporting documentation for monthly payments; and timely reclaim of unused funds in bank accounts.

UNHCR accepted recommendation 2 and stated that a Cash Advisory Group was formed by the

Representation to provide oversight, direction and guidance for the Cash Assistance Programme, ensuring compliance with processes. Negotiations with the bank for the reversal/refund of unused funds were concluded in July 2015. Recommendation 2 remains open pending receipt of evidence of approval of write off and/or recovery of the double payments totalling \$153,000, as well as evidence that the unused funds totalling \$564,000 in bank accounts have been reclaimed.

Financial verification of projects implemented through partners needed to be enhanced

22. The UNHCR Manual requires the Representation to monitor and report on the programme activities performed through partners. The requirements include, *inter alia*, the following: (a) periodic performance monitoring of the partners with reference to the deliverables and milestones agreed in the partnership agreements; (b) verification of the expenditures reported by the partners in the quarterly financial monitoring reports before releasing further instalments of funds; and (c) monitoring of procurement activities undertaken by the partners to ensure UNHCR gets value for its money.

23. The Representation spent \$183.9 million in 2013 through its partners (83 per cent of the total of the expenditure for the year), and allocated \$139.3 million in the 2014 budget for spending through partners (61 per cent of the total budget). During both years, the Representation conducted at least one quarterly performance monitoring and a semi-annual financial verification visit to each of its partners. However, the Representation's financial verification teams did not identify and rectify the following control weaknesses in the procurement procedures of the partners:

- An international partner procured the services of a transport company for daily transportation of 4,250 students to schools in three different towns in 2014 at a higher cost than the one originally quoted by the vendor. Before the contract was signed, the selected vendor demanded an increase in the price of the contract, which was agreed by the partner instead of selecting another bidder. Due to the increase, the partner paid \$35,250 more for the services than the amount quoted by the highest bidder.
- In 2013, a local partner procured various items for \$1.3 million without open competition. It also hired bus drivers for transporting refugee children to schools at an annual cost of \$350,000 in 2014. The partner decided to pay the drivers on the basis of distance covered by each driver per child, but did not put in place a monitoring mechanism to verify the number of children availing the facility before paying the drivers.

24. The above shortcomings were associated with the Representation not establishing an adequate management supervision process to ensure the implementation of the required procedures over financial verification of partners. Consequently, there was a risk that UNHCR was not obtaining value for money for the projects implemented through partners.

(3) The UNHCR Representation in Lebanon should establish and document an appropriate management supervision process to ensure the implementation of the required procedures over financial verification of partners.

UNHCR accepted recommendation 3 and stated that the Representation had reviewed and amended procedures to strengthen financial verification of projects implemented through partners. Based on the action taken and documentation provided by UNHCR, recommendation 3 has been closed.

Further concerted efforts were required to reduce financial losses from inability to obtain value added tax reimbursement for partner purchases

25. According to the UNHCR value added tax (VAT) guidelines, the Representation should adopt all possible means for obtaining VAT exemption/reimbursement to reduce loss of funds intended solely for humanitarian purposes. It should ensure that international partners duly submit their VAT reimbursement applications to the Government of Lebanon. The Government rules on VAT require that the international institutes and non-governmental organizations make gross payment, including VAT, on all purchases and retroactively apply for reimbursement.

26. The Representation had 14 international partners in 2013 who were registered with the VAT department of the Government of Lebanon and had obtained official VAT exemption/reimbursement status. Out of these, nine international partners reported net procurement expenditure and booked the net of VAT in their financial accounts, whereas the other five partners reported gross expenditures (including VAT) with a commitment to credit the amount once VAT reimbursement was received from the Government. However, these five partners had not been successful in getting VAT reimbursement from the Government since 2012. The total VAT for partner purchases outstanding from January 2012 to October 2014 amounted to \$928,597. In addition, in 2014 the Representation signed agreements with 15 partners who were not registered in Lebanon and, therefore, were not eligible to apply for VAT reimbursement. It authorised two of these 15 partners to carry out procurement using UNHCR funds without considering the VAT status of the partners. The 15 partners carried out total procurement of \$39.7 million for the two years under the audit's scope (\$10.0 million in 2013 and \$29.7 million in 2014). These partners paid irrecoverable VAT worth \$2.1 million during the period under review. In addition, there were seven other partners whose individual applications for grant of tax reimbursement were rejected by the Government. These partners conducted procurement valued at \$3.0 million and the associated VAT estimated at \$0.3 million was not due for reimbursement.

27. According to the Representation, obtaining VAT refund due from partners was an unsolvable problem in Lebanon in the near-term. It stated that it had taken a number of measures to address the problem, including undertaking negotiations with the Government, liaising with UNHCR headquarters, seeking advice from external consulting firms in Lebanon, and supporting partners with their efforts to apply for VAT registration. However, alternative means of procuring the required good and services should have been more carefully considered to reduce the risk of loss of funds.

(4) The UNHCR Representation in Lebanon, in coordination with the Bureau for Middle East and North Africa and the Legal Affairs Service, should undertake all possible means to reduce further financial losses due to inability to obtain Value Added Tax reimbursement for partner purchases in Lebanon, including through consideration of alternative arrangements for procuring the required goods and services, and document an action plan with clear milestones in this regard.

UNHCR accepted recommendation 4 and stated that the Representation would continue to advocate with both the partners and government to facilitate the partners' VAT registration with the aim of recovering potential VAT. Recommendation 4 remains open pending receipt of evidence of reimbursement or write-off of the remaining VAT amounts due and, if the efforts are not successful, a documented action plan, endorsed by the Bureau for Middle East and North Africa, for reducing financial losses to UNHCR due to inability to obtain VAT reimbursement in Lebanon.

C. Regulatory framework

Control deficiencies were observed in procurement planning, oversight arrangements over procurement activities and vendor management

28. The Representation is required to comply with UNHCR procurement rules and procedures, which include: (a) preparing an annual procurement plan according to the needs; (b) ensuring adequate oversight over the procurement activities; and (c) establishing an effective vendor management system.

29. The Representation did not prepare annual procurement plans as required. It had constituted a Local Committee on Contracts and a Vendor Review Committee which both met at regular intervals. In 2013 and 2014 (until November 2014), it entered into 85 frame and contract agreements for procurement of various goods and services totalling \$58.0 million. A review of 31 high value contracts involving \$50.5 million and representing 87 per cent of the total value of the contracts indicated that only seven cases, totaling \$10.1 million did not disclose any major control deficiencies. However, shortcomings in the Representation's procurement activities included the following examples:

- In order to meet the requirements of its winterization programme, the Representation needed to procure timber so that the consignment would be available by 15 December 2013. However, due to lack of an annual procurement plan, the Representation placed its first purchase order for timber for \$952,714 only on 17 December 2013. Forty-six per cent of the consignment was received between March 2014 and June 2014, after the end of the winterization programme.
- The Sub Office Tripoli procured goods and the services worth \$324,107 in 2013 and 2014 but the prescribed procurement procedures were not followed in 12 procurement actions reviewed, as the payments were not supported by requisitions, purchase orders and Goods Receipt Notes. The Sub Office also did not present one of these cases involving procurement of registration material for \$20,700 to the Local Committee on Contracts as required.
- In the Branch Office in Beirut, technical evaluations for the goods and services to be procured were done by one individual only, mostly from the requisitioning unit, instead of an evaluation committee, as required by UNHCR rules. For example, the Associate Administration Officer was the sole person evaluating the bid for cleaning services for \$204,000, while the Project Control Officer evaluated the bid involving \$150,000 for audit services of partner projects.

30. The main reasons for the cited deficiencies were the lack of needs based procurement planning in advance of the start of project activities and inadequate oversight arrangements over the procurement activities by the respective procurement oversight committees. As a result, the Representation was at risk of not getting value for money in its procurement of goods and services.

31. In addition, the Representation did not maintain the vendor database for all its 1,715 vendors in MSRP as required. There were no individual vendor files containing details of registration forms, contact details and financial reports. In addition, the vendor identification numbers were repeated in 104 cases and the vendor evaluation was done only for 23 vendors. Further, vendors with no business during the last three years were not identified and weeded out. The main reason for these weaknesses was that the Representation's Vendor Review Committee, although meeting six times during the period under review, did not undertake its task of overseeing the vendor management process in line with the UNHCR requirements. Consequently, it was difficult for the Representation to assess, when soliciting procurement, whether all the vendors who supplied goods and services complied with the basic requirements.

(5) The UNHCR Representation in Lebanon should put in place oversight arrangements over the procurement and vendor management activities to ensure that: (i) the annual procurement plan is prepared and approved in advance of the project year and procurement actions are initiated in a timely manner; (ii) the Local Committee on Contracts provides adequate oversight over procurement activities, including the process of technical evaluation of bids; and (iii) the Vendor Review Committee completes the review of the vendor database and files.

UNHCR accepted recommendation 5 and stated that it had: (i) prepared a comprehensive procurement plan for 2015; (ii) reviewed the vendor database and removed the vendors with inactive status and those with multiple identification numbers; (iii) conducted two training sessions for Local Committee on Contract members; and (iv) set up a system to ensure that the technical evaluation of bids was done by a committee of two to five members; and (v) planned an independent review/verification on procurement. Recommendation 5 remains open pending receipt of the results of the independent verification of the Representation's procurement and vendor management activities.

There was a need to minimize the use of post-facto notifications and waivers of competitive bidding and follow the recommendations of the Legal Affairs Service on contract management issues

32. UNHCR rules require the Representation to ensure that contracts entered into with one single vendor and waivers of competitive bidding for purchases involving \$150,000 and above are approved by the Headquarters Contracts Committee after passing through the Local Contracts Committee. The Representation should also ensure that contracts entered into with one single vendor equal to or greater than \$20,000 up to \$150,000 are approved by the Local Contracts Committee. Furthermore, the United Nations Procurement Manual states that contracts shall not be increased or extended as a means of unduly avoiding competitive solicitation for the required goods or services.

33. A review of the Representation's contract management practices indicated excessive use of post-facto notifications and waivers of competitive bidding as detailed below:

- The Representation presented two procurement cases in 2013 and 10 cases in 2014 to its Local Committee on Contracts and the Headquarters Committee on Contracts for post-facto notification. The total amount involved was \$9.8 million, or about 17 per cent of the total volume of contracts during this period. OIOS assessed that post-facto notification cases involving at least \$512,002 could have been prevented through prior planning and better tracking of the expiry of contracts.
- The Representation obtained 45 waivers of competitive bidding in 2013 and 27 waivers in 2014 from the relevant committees on contracts. The reasons provided in the respective submissions were not in compliance with the United Nations Financial Rules on waiver of competitive bidding in all the cases. For example, a review of two major cases related to security and banking services and involving \$1,519,160 indicated that the Representation did not get the value for money by waiving off the open competition.

34. In addition, the Representation did not comply with the recommendations of the Legal Affairs Service to safeguard UNHCR from potential security and financial risks in relation to lease agreements for two buildings housing the Branch Office in Beirut. These included the need to obtain written acceptance from the landlord, who occupied the top three floors of one of the buildings, that he would comply with the security requirements of the United Nations Department of Safety and Security, and the need to obtain rent abatement from the landlord.

35. The above shortcomings happened because of lack of monitoring of the expiry of contracts and proper planning of tenders in accordance with the annual procurement plan. As a consequence, the frequent use of post-facto notifications and waivers defeated the objective of competitive bidding, which was contrary to the spirit of the procurement guidelines and may have resulted in UNHCR not obtaining best value for money. Similarly, lack of appropriate risk mitigation actions, in line with the Legal Affairs Service recommendations, exposed the Representation to security risks and financial losses in the case of the two lease agreements.

(6) The UNHCR Representation in Lebanon should establish procedures for regular monitoring of the validity of contracts and planning for tender processes to minimise post-facto notifications and waivers of competitive bidding, and comply with the recommendations of the Legal Affairs Service in relation to the lease agreements for two buildings in Beirut.

UNHCR accepted recommendation 6 and stated that it had: (i) made considerable efforts in reducing the number of waivers and post facto notifications, which was evidenced by the 35 per cent decrease since September 2014, and 40 per cent decrease in the first half of 2015 as compared to the same period of 2014; (ii) introduced a procurement tracker to closely follow up on each case to ensure delays are minimized; and (iii) liaised with the Legal Affairs Service on all contract negotiations and started negotiations on the two lease agreements. Based on the action taken and documentation provided by UNHCR, recommendation 6 has been closed.

The Representation was exposed to risks associated with lack of continuity, cost effectiveness and stability of operations as a result of engaging a large number of affiliate staff

36. In accordance with UNHCR rules on affiliate workforce arrangements, the Representation should: (a) conduct a cost benefit analysis of engaging affiliate staff including time, financial and human resources required for training, mentoring and supervising them; (b) ensure appropriate balance in workforce composition so that a sufficient number of key UNHCR staff is in place for managerial decision-making and supervision; and (c) ensure that the ratio between regular and affiliate staff provides adequate continuity and stability to the operations, as affiliate staff often have a high turnover. The Representation may engage project staff if the work relates to performing a specific task for a defined period of time, for temporary or seasonal workload increase, or temporary replacement of personnel.

37. The Representation had in total over 400 affiliate staff, the vast majority of whom were project staff, representing 57 per cent of the total staff in the operation with a cost of about \$20 million in 2014. OIOS identified the following issues in the affiliate workforce arrangements:

- The Representation could not provide documentation of a comprehensive cost benefit analysis undertaken, which would have taken into account all administrative and overhead charges incurred in engaging affiliate staff and the cost of high turnover of these staff due to the need to train and mentor them.
- Although the staffing composition had been reviewed by various units at UNHCR headquarters, the UNHCR rules allowed only temporary engagement of project staff. In some areas of its work, the Representation could not adequately ensure the continuity and stability of operations in the long term. For example, for a core mandated UNHCR activity like registration which requires continued need for renewal, verification and re-entry activities in registration, there were only six regular registration staff and 156 project registration (affiliate) staff, which did not represent a well-balanced ratio between regular staff and temporary staff. In addition, out of 62 drivers in the operation, there were nine regular UNHCR drivers against 53 project drivers.

- The Representation had not ensured that a sufficient number of regular UNHCR staff was maintained in key positions requiring decision-making and supervisory roles. For example, the 156 registration project staff was supervised by four professional regular staff. Since the maximum recommended supervisory span of control at UNHCR is 8 to 10 staff, 40 staff per one supervisor appeared to be too large a number to ensure effective supervision of the registration activities.

38. The main reason for the above shortcomings was that the Representation was of the view that several staffing reviews conducted in cooperation with Headquarters fully justified the employment of project staff. In the opinion of OIOS, however, these reviews were too much focused on the speed of hiring staff and not on effective supervision, cost effectiveness and continuity of operations in line with UNHCR rules on affiliate workforce arrangement. As a result, the Representation was exposed to risks that might be too high for the organization to manage in the future, in particular in respect lack of continuity, cost effectiveness and stability in some key areas of its operations.

(7) The UNHCR Representation in Lebanon, in cooperation with the Bureau for Middle East and North Africa and the Division of Human Resources Management, should re-assess the risks involved in engaging over 400 affiliate staff in Lebanon, and make a determination, based on a comprehensive cost-benefit analysis, of the appropriate number of affiliate staff required in the longer term as well as the balance in workforce composition between regular and affiliate staff.

UNHCR accepted recommendation 7 and stated that the Representation had undertaken various reviews and analyses and implemented best practices in consultation with the Division of Human Resources Management and the Bureau. Clear instructions that a comprehensive pre-deployment analysis including a cost-benefit analysis needed to be carried out for hiring affiliated workforce to be used by UNHCR operations was to be issued by the Division of Human Resources Management in 2016. Upon receipt of the corporate guidelines, the Representation would review its affiliated workforce arrangements accordingly and make changes where necessary. Recommendation 7 remains open pending receipt of evidence of the re-assessment of risks related to engaging over 400 affiliate staff in Lebanon, based on a comprehensive cost benefit analysis, as well as a written justification if a decision is made to continue with the current arrangements.

IV. ACKNOWLEDGEMENT

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

(Signed) David Kanja
Acting Head, Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Lebanon 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 Lebanon should establish procedures for: (a) test checking hospital bills for accuracy before releasing payments; (b) monitoring that hospitals systematically extend the benefit of discounted rates to refugees; (c) ensuring that the Third Party Administrator has regular validation checks built into its computerized system used for billing; and d) monitoring and enforcing the requirement of the Third Party Administrator to provide proof of payment for all audited and paid bills in a timely manner.	Critical	O	Submission to OIOS of confirmation that the Representation has received proof of all payments made by the former TPA and documentary evidence of a reconciliation performed to ensure that the proof of payments received matches the total hospitalization expenditure.	31 December 2015
2	The UNHCR Representation in Lebanon should develop and implement local procedures for strengthening controls over its cash assistance programmes which should include: clear and consistent selection criteria for all beneficiaries; appropriate segregation of duties; documentation of the checks and balances to prevent double payments; safe keeping of bank cards and pins; maintenance of supporting documentation for monthly payments; and timely reclaim of unused funds in bank accounts.	Important	O	Submission to OIOS of evidence of approval of write off and/or recovery of the double payments totalling \$153,000, as well as evidence that the unused funds totalling \$564,000 in bank accounts have been reclaimed.	31 October 2015
3	The UNHCR Representation in Lebanon should establish and document an appropriate management supervision process to ensure the implementation of the required procedures over financial verification of partners.	Important	C	Action completed	Implemented

² Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

³ Important recommendations address important (but not critical or pervasive) deficiencies 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.

⁴ C = closed, O = open

⁵ Date provided by UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Lebanon 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
4	The UNHCR Representation in Lebanon, in coordination with the Bureau for Middle East and North Africa and the Legal Affairs Service, should undertake all possible means to reduce further financial losses due to inability to obtain Value Added Tax reimbursement for partner purchases in Lebanon, including through consideration of alternative arrangements for procuring the required goods and services, and document an action plan with clear milestones in this regard.	Important	O	Submission to OIOS of evidence of reimbursement or write-off of the remaining VAT amounts due and, if the efforts are not successful, a documented action plan, endorsed by the Bureau for Middle East and North Africa, for reducing financial losses to UNHCR due to inability to obtain VAT reimbursement in Lebanon.	30 September 2016
5	The UNHCR Representation in Lebanon should put in place oversight arrangements over the procurement and vendor management activities to ensure that: (i) the annual procurement plan is prepared and approved in advance of the project year and procurement actions are initiated in a timely manner; (ii) the Local Committee on Contracts provides adequate oversight over procurement activities, including the process of technical evaluation of bids; and (iii) the Vendor Review Committee completes the review of the vendor database and files.	Critical	O	Submission to OIOS of the results of the independent verification of the Representation's procurement and vendor management activities.	31 December 2015
6	The UNHCR Representation in Lebanon should establish procedures for regular monitoring of the validity of contracts and planning for tender processes to minimise post-facto notifications and waivers of competitive bidding, and comply with the recommendations of the Legal Affairs Service in relation to the lease agreements for two buildings in Beirut.	Critical	C	Action completed	Implemented
7	The UNHCR Representation in Lebanon, in cooperation with the Bureau for Middle East and North Africa and the Division of Human Resources Management, should re-assess the risks involved in	Important	O	Submission to OIOS of evidence of the re-assessment of risks related to engaging over 400 affiliate staff in Lebanon, based on a comprehensive cost benefit analysis, as well as a	30 June 2016

STATUS OF AUDIT RECOMMENDATIONS

Audit of the operations in Lebanon 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
	engaging over 400 affiliate staff in Lebanon, and make a determination, based on a comprehensive cost-benefit analysis, of the appropriate number of affiliate staff required in the longer term as well as the balance in workforce composition between regular and affiliate staff.			written justification if a decision is made to continue with the current arrangements.	

APPENDIX I

Management Response

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Representation in Lebanon should establish procedures for: (a) test checking hospital bills for accuracy before releasing payments; (b) monitoring that hospitals systematically extend the benefit of discounted rates to refugees; (c) ensuring that the Third Party Administrator has regular validation checks built into its computerized system used for billing; and d) monitoring and enforcing the requirement of the Third Party Administrator to provide proof of payment for all audited and paid bills in a timely manner.	Critical	Yes	Snr. Public Health Officer and Snr. Admin/Finance Officer	July 2015	The Representation has implemented procedures for systematic verification of accuracy of the new Third Party Administrator's (TPA) bills including payments made. Proofs of payments made by the previous TPA have been received until June 2014. The Representation has put in place a mechanism to closely follow-up with the former TPA until proof of all payments is received.
2	The UNHCR Representation in Lebanon should develop and implement local procedures for strengthening controls over its cash assistance programmes which should include: clear and consistent selection criteria for all beneficiaries; appropriate segregation of duties; documentation of the checks and balances to prevent double payments; safe keeping of bank cards and pins; maintenance of supporting documentation for monthly payments; and timely reclaim of unused funds in bank accounts.	Important	Yes	Snr. ICT Officer, Programme Officer, Snr. Admin/Finance Officer, Snr Project Control Officer	October 2015	A Cash Advisory Group (CAG) was formed by the Representation to provide oversight, direction and guidance for the Cash Assistance Programme, ensuring compliance with processes. Negotiations with the bank for the reversal/refund of unused funds were concluded in July 2015.
3	The UNHCR Representation in Lebanon	Important	Yes	Snr. Project	January 2015	The Representation has reviewed and

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

Management Response

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	should establish and document an appropriate management supervision process to ensure the implementation of the required procedures over financial verification of partners.			Control Officer		amended procedures to strengthen financial verification of projects implemented through partners.
4	The UNHCR Representation in Lebanon, in coordination with the Bureau for Middle East and North Africa and the Legal Affairs Service, should undertake all possible means to reduce further financial losses due to inability to obtain Value Added Tax reimbursement for partner purchases in Lebanon, including through consideration of alternative arrangements for procuring the required goods and services, and document an action plan with clear milestones in this regard.	Important	Yes	Snr. Programme Officer, Snr. Admi/Finance Officer, Snr. Project Control Officer	Ongoing	The Representation will continue to advocate with both the partners and government to facilitate the partners' VAT registration with the aim of recovering potential VAT.
5	The UNHCR Representation in Lebanon should put in place oversight arrangements over the procurement and vendor management activities to ensure that: (i) the annual procurement plan is prepared and approved in advance of the project year and procurement actions are initiated in a timely manner; (ii) the Local Committee on Contracts provides adequate oversight over procurement activities, including the process of technical evaluation of bids; and (iii) the Vendor Review Committee completes the review of the vendor database and files.	Critical	Yes	Snr. Supply Officer	March 2015	(i) The annual procurement plan was finalized in March 2015. The Representation will review the plan regularly and undertake procurement as and when required depending upon availability of funds and confirmation of requirements. (ii) Internal control mechanisms are in place. Most members in the current LCC composition received training in September 2014. The Representation will continue to arrange refresher trainings to new members joining the Committee in coordination with the

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

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>Procurement Management and Contracting Service (PMCS). A guidance note on procurement was shared with all staff (revised in July 2015) and the periodic missions undertaken by the Senior Supply Officer to the field offices provide better oversight in ensuring compliance with rules and procedures as well as provide real time support to the operations.</p> <p>(iii) The Representation has made substantial progress in streamlining the vendors. The vendors with duplicate IDs have now been deactivated. The Vendor Review Committee (VRC) will continue to actively review the vendor database and take corrective actions as and when needed as on-going tasks to ensure that the database remains clean and reliable for sourcing of suppliers.</p> <p>(iv) The Representation is in the process of organizing an independent review/verification on procurement through a mission from PCMS (Budapest). The dates of this verification mission will be communicated once available.</p>
6	The UNHCR Representation in Lebanon	Critical	Yes	Snr. Supply	April 2015	(i) The Representation made

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Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	should establish procedures for regular monitoring of the validity of contracts and planning for tender processes to minimise post-facto notifications and waivers of competitive bidding, and comply with the recommendations of the Legal Affairs Service in relation to the lease agreements for two buildings in Beirut.			Officer		<p>considerable efforts in reducing the number of waivers and post facto notifications, which is evidenced by the 35% decrease since September 2014, and 40% decrease in the first half of 2015 as compared to the same period of 2014.</p> <p>A dedicated focal point monitors contract expiry times and reminds buyers accordingly. Information regarding approaching expiry date of contracts and frame agreements are now provided to the Head of Supply Unit on a regular basis who determines the required action, either to extend or call for a new tendering process in order to eliminate the risk to post-facto notification on expenditure. Similarly, it will also assist the Representation in avoiding the instances of waivers of competitive bidding as much as possible.</p> <p>(ii) The Representation has been and will continue to liaise closely with the Legal Affairs Service (LAS) in all contract negotiations, bringing to the attention of LAS any obstacles in implementation of all standard UNHCR clauses in the real estate environment of Lebanon, and seek alternative solutions. With regards to</p>

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Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						the current lease agreements for two buildings in Beirut, in both cases, the office started the negotiations on the basis of the LAS cleared standard lease contract and followed up with LAS after every negotiation and change made by the vendors.
7	The UNHCR Representation in Lebanon, in cooperation with the Bureau for Middle East and North Africa and the Division of Human Resources Management, should re-assess the risks involved in engaging over 400 affiliate staff in Lebanon, and make a determination, based on a comprehensive cost-benefit analysis, of the appropriate number of affiliate staff required in the longer term as well as the balance in workforce composition between regular and affiliate staff.	Important	Yes	Snr. Regional Human Resource Officer, Assistant Rep. Admin, MENA Bureau, DHRM	Mid-2016	The Representation has undertaken various reviews, analysis and implemented best practices in consultation with the Division of Human Resources Management (DHRM) and the Bureau. Clear instructions that a comprehensive pre-deployment analysis including a cost-benefit analysis needs to be carried out for hiring affiliated workforce to be used by UNHCR operations are to be issued in 2016. Upon receipt of the corporate guidelines, the Representation will review its affiliated workforce arrangements accordingly and make changes where necessary.