



INTERNAL AUDIT DIVISION

REPORT 2016/121

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

Controls were effective over partnership
management, registration and refugee status
determination, provision of basic needs and
services, and procurement and vendor
management

24 October 2016
Assignment No. AR2016/141/01

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

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the United Nations High Commissioner for Refugees (UNHCR) operations in Malaysia. The audit covered the period from 1 January 2014 to 30 June 2016 and included the following processes and activities: (a) partnership management; (b) registration and refugee status determination; (c) provision of basic needs and services, including management of the health and education programmes and cash-based interventions; and (d) procurement and vendor management.

The Representation had effectively: i) managed partnerships; ii) established monitoring controls over the implementation of registration and refugee status determination processes; and iii) planned, implemented and monitored its health programme. In addition, when control deficiencies were identified during the audit and raised with the Representation, it took immediate action to: i) establish performance indicators on the outcomes of its education programme; ii) update the standard operating procedures for cash-based interventions to also cover post distribution monitoring; and iii) strengthen controls and allocate roles and responsibilities over procurement and vendor management.

OIOS concluded that the Representation had adequate and effective controls over the areas covered by the audit.

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1
III. OVERALL CONCLUSION	2
IV. AUDIT RESULTS	2-6
A. Partnership management	2
B. Registration and refugee status determination	2-3
C. Provision of basic needs and services	3-5
D. Procurement and vendor management	5-6
V. ACKNOWLEDGEMENT	6
APPENDIX I Management response	

Audit of the operations in Malaysia 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 Malaysia for the Office of the United Nations High Commissioner for Refugees (UNHCR).
2. The UNHCR Representation in Malaysia (hereinafter referred to as ‘the Representation’) is an accredited Country Office, based in Kuala Lumpur, headed by a Representative at the D-1 level. The Representative reports to the UNHCR Regional Representative for South East Asia in Bangkok. As at end of July 2016, the Representation registered 151,596 refugees and asylum seekers in urban areas; mostly Chins and Rohingyas from Myanmar. The persons of concern (POCs) also included some 80,000 Filipino refugees in the Sabah region, and about 10,000 persons who were stateless or in a stateless-like situation.
3. In 2014, the total expenditure of the Representation was \$9.3 million. In 2015, this figure was reduced slightly to \$9.2 million and the 2016 budget was further reduced to \$8.9 million. At the time of the audit, the Representation had a staffing level of 15 international officers, 10 national officers and 39 national positions. These posts were supplemented by an affiliate workforce engaged through another United Nations agency for about \$1.6 million annually.
4. The Representation worked with 11 partners through which it spent \$3.3 million in 2014 and 2015. Partners were primarily engaged to provide education, health and livelihoods services to POCs. The Representation’s most significant objectives in terms of expenditure were health, education, and refugee status determination (RSD). The most significant types of expenditure in 2014 and 2015 were affiliate workforce costs, partner personnel costs, and cash assistance to POCs.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The audit was conducted to assess the adequacy and effectiveness of governance, risk management and control processes over UNHCR operations in Malaysia.
6. This audit was included in the 2016 risk-based work plan of OIOS due to risks associated with the registration and status determination of the large urban caseload in Malaysia and the significant education and health programmes implemented by the Representation.
7. OIOS conducted this audit from July to September 2016. The audit covered the period from 1 January 2014 to 30 June 2016. Based on an activity-level risk assessment, the audit covered higher risk processes and activities pertaining to the operations in Malaysia, which included: (a) partnership management; (b) registration and RSD; (c) provision of basic needs and services, including management of the health and education programmes and cash-based interventions; and (d) procurement and vendor management.
8. The audit methodology included: (a) interviews of key personnel; (b) review of relevant documentation; (c) analytical reviews of data, including financial data from Managing for Systems, Resources and People (MSRP), the UNHCR enterprise resource planning system, and performance data from FOCUS, the UNHCR results-based management system; (d) testing of controls using random sampling; and (e) visits to three partners implementing UNHCR projects and a detention centre in Kuala Lumpur.

III. OVERALL CONCLUSION

9. The Representation had effectively: i) managed partnerships; ii) established monitoring controls over the implementation of registration and RSD processes; and iii) planned, implemented and monitored its health programme. In addition, in response to control deficiencies identified during the audit, the Representation took immediate action to: i) establish performance indicators on the outcomes of its education programme; ii) update its standard operating procedures (SOPs) for cash-based interventions to also cover post distribution monitoring; and iii) strengthen controls and allocate roles and responsibilities over procurement and vendor management. OIOS concluded that the Representation had adequate and effective controls over the areas covered by the audit and did not raise any recommendations.

IV. AUDIT RESULTS

A. Partnership management

The Representation managed its partnerships effectively

10. The UNHCR Enhanced Framework for Implementing with Partners requires the Representation to: (a) select and retain the best-fit partners for its projects following an objective and transparent selection process; (b) establish agreements with partners on a timely basis using the relevant UNHCR Project Partnership Agreement (PPA) template; (c) establish and deliver a risk-based plan for performance and financial monitoring to be conducted by a multi-functional team to verify project activities and expenditures reported by partners; and (d) assess and develop partner capacity if required.

11. The Representation established an Implementing Partnership Management Committee and managed partner retention and selection activities as required. All decisions were adequately documented and partners were informed of the outcomes. In close collaboration with partners, the Representation developed PPAs with clear project descriptions, work plans, impact and performance indicators, and detailed budgets. In 2014 and 2015, the Representation only signed 8 of the 18 PPAs within one month of the effective date. However, for 2016 the Representation initiated the partner selection and retention process earlier and signed eight of its nine PPAs within one month of the effective date. Partners and the Representation indicated to OIOS that the delays in previous years had minimal operational impact.

12. The Representation developed clear monitoring schemes for all PPAs which were shared and agreed with the partners in advance. Standard templates for performance monitoring and financial verification were completed for all partners on a quarterly basis. Multifunctional teams carried out the monitoring activities, supported by the Programme Unit. The Representation also developed a project for enhancing the capacity of all implementing partners and selected operational partners, and provided training in programme management and operational delivery to partners throughout the period covered by the audit. OIOS concluded that the Representation managed its partnerships effectively.

B. Registration and refugee status determination

Monitoring controls over the implementation of registration and RSD processes were effective

13. The Representation is required to ensure adherence to UNHCR's globally promulgated procedures for registration and RSD. Accordingly, the Representation needs to develop local SOPs for registration and RSD and put in place sufficient staffing and supervisory and monitoring controls to ensure these processes are conducted as intended. Controls should be in place to monitor timelines established for these processes. The SOPs should also cover anti-fraud measures.

14. The Representation had developed a comprehensive set of SOPs covering registration, RSD and end-to-end case management. Staff from each of the units responsible for implementing the SOPs were involved in their development and review through a consultative process led by the senior management of the Representation. The SOPs were shared with all staff and made available on a shared drive. The Representation developed a checklist for supervisors, aligned with the SOPs, to ensure that reviewers assessed whether the process had been conducted correctly. Each case file included the checklist. The SOPs also established clear criteria for prioritizing the registration of POCs into three tiers. The Registration Unit produced weekly reports for senior management, which enabled them to monitor the application of this prioritization. The Representation continually kept staffing needs under review based on the expected processing times of various registration and RSD activities both at its office and in detention centres and based on the expected demand.

15. The Representation followed UNHCR global benchmarks for target timelines for the RSD process and also tracked timelines for registration although no specific targets were in place for this activity. In 2014 and 2015, the average processing times for case management were longer than the targets at each stage. However, for the first half of 2016, average timelines reduced significantly and were within targets. The Representation also established comprehensive anti-fraud SOPs to address identity and resettlement fraud. Senior managers of the Representation were members of the fraud panel and provided regular reports on their activities to the Regional Representation in Bangkok and other stakeholders. The fraud panel processed a backlog of over 1,400 cases in 2014 and 2015. The Representation also undertook a number of fraud prevention initiatives, including public awareness campaigns and the development and issuance of a new UNHCR card which included multiple security measures. OIOS concluded that monitoring controls over the implementation of registration and RSD processes were effective.

C. Provision of basic needs and services

Prompt action was taken to establish performance indicators on education programme outcomes

16. The Representation is required to assess the needs and barriers to education among POCs and develop, implement and monitor strategies and activities to address these. Responses should be aligned with the UNHCR Education Strategy 2012-2016.

17. The Representation had a multi-year country Education Strategy for Malaysia which was developed by a multi-functional team in consultation with the Education Unit in headquarters. The strategy was aligned with the results of the Representation's participatory needs assessments as well as the global UNHCR Education Strategy. In line with its local strategy, the Representation had six partnerships with non-governmental organizations which operated schools for POCs. The Representation further monitored over 120 community learning centres which provided education to POCs. The Representation provided transport to help children attend the schools and also ran a teacher compensation programme designed to improve teacher retention and motivation in the community learning centres. The Representation and partners tracked data on student attendance and schools, and provided training to school teachers to enhance their capacity and improve their motivation. The Representation also signed Memorandums of Understanding with six universities extending access of tertiary education to refugees in Malaysia.

18. At the time of the audit, no performance targets related to education outcomes were included in FOCUS or the Representation's annual operations plan. In response to this observation, the Representation added an indicator in FOCUS measuring the percentage of boys and girls in grade 3 who

transitioned to grade 4. The indicator had baseline data and a target. The Representation informed its partners that this indicator would be included as part of the next revision of their PPAs and reiterated the importance of continuously collecting the related data. Starting 2017, the Representation was planning to add an additional impact level indicator to measure the percentage of grade 3 students who could read at grade 3 level. As a result of the action taken, OIOS did not raise a recommendation.

Controls over the management of the health programme were effective

19. The Representation is required to assess the health needs and problems faced by POCs and develop, implement and monitor strategies and activities to address these. Responses should be aligned with the UNHCR Global Strategy for Public Health 2014-2018.

20. In Malaysia, POCs had access to paid health care at private and public clinics. Refugees holding a UNHCR card were entitled to a discount of 50 per cent of the standard rate charged to foreigners in public hospitals. However, in January 2016, the fees charged were doubled, which meant that health care became unaffordable to many POCs. The Representation was in the process of drafting a Public Health Strategy. Although this document was not finalized at the time of the audit, the Representation had articulated its objectives and planned activities with regards to health in its 2016 operations plan and the draft strategy. As part of its regular planning cycle, the Representation had conducted comprehensive and participatory needs assessments that incorporated age, gender and diversity issues. Accordingly, the Representation developed responses related to public health, and reproductive health and HIV/AIDS.

21. The Representation provided three static and two mobile clinics through three partners as well as an innovative health insurance scheme for POCs. The Representation tendered for an insurance provider and selected a vendor after a competitive process conducted in December 2013. The Representation retendered the contract in January 2016 and selected a different vendor in March 2016. An estimated 12 per cent of POCs were covered by medical insurance. The Representation collaborated closely with the Regional Representation in Bangkok in designing and establishing this scheme. All partners reported on health activities and outcomes through a health information system. The Representation further undertook a Health Utilization Study in November 2015 which provided a detailed analysis of health outcomes through interviews with POCs. This study made a number of recommendations related to tracking of the urban caseload, removing barriers to access, increasing enrolment in the insurance scheme, and improving support to chronic conditions and maternity and ante-natal care. The Representation was in the process of implementing these recommendations. OIOS further observed that the responses of the Representation were aligned with the guiding principles and strategic approaches of the UNHCR Global Strategy for Public Health. Therefore, OIOS concluded that controls over the planning, implementation and monitoring of the Representation's health programme were effective.

Immediate action was taken to introduce procedures for post distribution monitoring of cash-based interventions

22. The UNHCR policies and guidance for cash-based interventions require the Representation to: effectively plan and design its cash assistance programme, including undertaking a risk assessment and assessing the feasibility of such a programme; developing SOPs governing the selection criteria, value of transfers and operational, financial and protection related controls; and monitoring the performance of the cash-based interventions and evaluating their impact.

23. The Representation delivered cash-based interventions to assist POCs through a combination of one-off emergency and regular payments based on vulnerability, as well as one-time payments to persons released from detention centres. As the majority of POCs were unable to open bank accounts in Malaysia, the Representation disbursed financial assistance through cash directly to beneficiaries. The

Representation conducted a risk assessment and identified mitigation actions for the risks assessed. In close collaboration with the Cash Based Interventions Section at headquarters, the Representation developed and promulgated an SOP for its cash-based interventions, as well as a spreadsheet-based assessment tool, which calculated the value of payments based on pre-determined criteria. The formulas in the tool were locked so that staff could not make an error in calculating the value of payments. OIOS reviewed a sample of 173 payments, which constituted 22 per cent of all payments made since the vulnerability assessment tool and new procedures were introduced in June 2015. The review indicated that the Representation processed all payments as intended, following review and authorization as specified in the SOP. Staff obtained cash for payments issued from the office and on visits to detention centres through operational advances. When the balance was returned, the Administration/Finance Unit reviewed all supporting documentation submitted to close the operational advance. OIOS concluded that controls over the design and execution of the Representation's cash-based interventions were effective.

24. The Representation was planning to conduct a detailed impact assessment of the cash assistance scheme. However, this was not reflected in the SOP. The SOP also did not outline procedures for ongoing post distribution monitoring. In response to the observations raised during the audit, the Representation promptly revised its SOP to include a detailed section on post distribution monitoring covering process and performance monitoring as well as impact assessment. The Representation further revised the duties and responsibilities of the cash assistance focal point to reflect the tasks related to post distribution monitoring and impact assessment. The Representation stated that the results of the monitoring and impact assessment would feed into the design of the next iteration of the cash assistance scheme. Given the action taken, OIOS did not raise a recommendation in this area.

D. Procurement and vendor management

The Representation took prompt action to strengthen controls over procurement and vendor management

25. The Representation is required to establish a Local Committee on Contracts (LCC) in accordance with Revised Rules and Procedures Governing Committees on Contracts at UNHCR Headquarters and in the Field. These rules also require the Representation to put in place adequate arrangements to ensure the proper functioning of the LCC in providing effective oversight over procurement and contract management activities. In addition, Chapter 8 of the UNHCR Manual and the Terms of Reference of the Vendor Review Committee (VRC) require the Representation to establish a VRC to oversee and facilitate vendor registration and vendor performance management processes.

26. The Representation had established an LCC which held regular meetings to review whether procurement actions were in line with UNHCR rules. The LCC clearly documented its decisions and deliberations in meeting minutes. The Representation also periodically reviewed its vendor database and had marked 159 of the 2,031 registered vendors as inactive. A VRC was established in July 2016. However, OIOS identified the following remaining control weaknesses related to procurement and vendor management:

- The Representation had not prepared procurement plans for 2014, 2015 or 2016. However, as the overall volume of procurement was low and did not involve many complex cases, OIOS concluded that there was no significant impact from the lack of procurement plans.
- In three cases where the cumulative value of expenditures through a vendor exceeded \$20,000 over a 12 month period, the case had not been submitted to LCC for review as required. However, OIOS review of these cases indicated that the Representation had already initiated a tender process for the services provided by one of these vendors, which would shortly be

submitted to LCC, and completed a tender for another and already submitted this to the LCC. In all the other cases reviewed, competitive processes had been duly followed for each purchase.

- In 2016, LCC submissions were not circulated to members in advance of the meeting to allow them sufficient time to review cases. However, the Representation explained that in each LCC meeting the members read through all the submissions together, line by line, to ensure that each member was familiar with the case.
- Interpreters were not registered as individual vendors in the vendor database, but were instead registered either under the name of the bank through which payments to some interpreters were made, or under a separate, generic vendor for all interpreters. Nevertheless, OIOS review of the supporting documentation for these payments indicated that there were clear records of the hours worked by interpreters, and payments made to them, and that these payments were appropriately reviewed and authorized.
- There were 42 duplicate entries in the vendor database as well as the names of three staff members who had been incorrectly classified as suppliers, beneficiaries or United Nations Volunteers.

27. To address the above issues, the Representation took immediate action to clearly allocate roles and responsibilities for procurement and vendor management tasks in the absence of any dedicated supply positions. This included assigning responsibility for formulating procurement plans to the Head of the Administration Unit. In addition, the Representation removed duplicate entries from its vendor database and corrected the vendor classifications. The Representation also held a meeting on the management of procurement chaired by the Representative and attended by all LCC and VRC members as well as Heads of Units. The meeting discussed procurement planning, explained the roles and responsibilities of VRC to its members, and reaffirmed the roles and responsibilities for procurement processing across the Representation. Based on the actions taken by the Representation, OIOS did not raise a recommendation in this area.

V. ACKNOWLEDGEMENT

28. OIOS wishes to express its appreciation to the management and staff of UNHCR for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

APPENDIX I

Management Response



UNHCR
United Nations High Commissioner for Refugees
Haut Commissariat des Nations Unies pour les réfugiés

Memorandum

UNHCR

Case postale 2500
CH-1211 Genève 2

To/A: Mr. Mika Tapio, Chief, UNHCR Audit Service, OIOS

Through: Ms. Linda Ryan, Controller and Director, Division of Financial and Administrative Management, DFAM

From/De: Mr. Erwin Policar, Audit Coordinator, DFAM

File: FIN-02-01-02
Code/Dossier: CM00/2016/0142/FT/ft

Subject/Objet: **Response to the draft audit of the operations in Malaysia (AR2016/141/01)**

Date: 18 October 2016

1. UNHCR has reviewed the draft audit report of the operations in Malaysia. In view of the fact that the draft report does not raise any recommendations requiring action, UNHCR has no further comment.
2. Thank you for your attention.