



INTERNAL AUDIT DIVISION

REPORT 2014/077

Audit of donor relations and resource mobilization activities of the Office of the United Nations High Commissioner for Refugees

Overall results relating to the effective management of the donor relations and resources mobilization activities of UNHCR were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

11 August 2014
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AUDIT REPORT

Audit of donor relations and resource mobilization activities of the Office of the United Nations High Commissioner for Refugees

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of donor relations and resource mobilization activities of 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. UNHCR is funded almost exclusively by voluntary contributions. These contributions, from both governments and the private sector, increased from \$2.3 billion in 2012 to \$3 billion in 2013. UNHCR also received contributions in-kind, valued at \$26 million in 2012 and \$23 million in 2013.
4. Government donor contributions ranged from those financing tightly-earmarked projects in a specific country to regionally earmarked or completely unearmarked contributions, with the latter providing UNHCR much needed flexibility to prioritize and reprioritize based on changing needs during the course of the year. Government donors comprised approximately 93 per cent of the voluntary contributions, while private sector donors were around 4 per cent.
5. The Donor Relations and Resource Mobilization Service (DRRM) reported to the Director of the Division for External Relations (DER), who reported to the Deputy High Commissioner. DRRM dealt with government donors, United Nations pooled funds and multi-donor trust funds among others. DRRM Brussels was established as a dedicated unit for resource mobilization from the European Union institutions. It reported to the Director of the Regional Bureau for Europe. Additionally, representatives and staff in field operations also had a resource mobilization responsibility.
6. In order to provide consistent support to UNHCR operations, DRRM produced global reports and appeals, providing donors, other organizations and individuals with comprehensive information describing UNHCR's work such as its planned activities, financial requirements, achievements and impacts. To increase donor support, DRRM maintained close contact and coordination with Bureaux/Divisions and Field Representations, as well as with the Division of Financial and Administrative Management (DFAM), and the Programme Budget Service (PBS).
7. DRRM's staffing consisted of 32 posts in Geneva, plus three additional staff on temporary assistance. DRRM Brussels had eight posts. DRRM's expenditure was \$5.7 million in 2012 and \$5.6 million in 2013.
8. Comments provided by UNHCR are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

9. 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 donor relations and resource mobilization activities of UNHCR**.

10. The audit was included in the 2013 internal audit work plan due to the risk that lack of adequate funding could negatively impact UNHCR's ability to effectively protect, assist and find durable solutions for all persons of concern. In addition, this function had not been audited since 2000.

11. The key controls tested for the audit were: (a) fundraising capability; and (b) coordination mechanisms. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Fundraising capability:** controls that relate to the capability of DRRM to raise funds to meet targets and expectations of UNHCR in line with strategies, plans and policies.

(b) **Coordination mechanisms:** controls that provide reasonable assurance that DRRM coordinates fundraising and resource mobilization activities with field offices and acts as a bridge on all fundraising matters between field offices and donors thus ensuring timely, coherent and effective communication that serves to sustain good relations with donors.

12. The key controls were assessed for the control objectives shown in Table 1 below. Certain control objectives (shown in Table 1 as "Not assessed") were not relevant to the scope defined for this audit.

13. OIOS conducted this audit from 10 February to 27 March 2014. The audit covered the period from 1 January 2012 to 30 November 2013.

14. 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 their effectiveness.

III. AUDIT RESULTS

15. The UNHCR governance, risk management and control processes examined were assessed as **partially satisfactory**¹ in providing reasonable assurance regarding **the effective management of the donor relations and resource mobilization activities of UNHCR**. OIOS made five recommendations to address issues identified in the audit.

16. Fundraising capability was assessed as partially satisfactory because there was a need to: (a) ensure that the upgrade to the Managing Systems, Resources, and People (MSRP) system appropriately includes essential functionalities and priorities for fund raising activities; (b) strengthen linkages between the DRRM offices in Brussels and Geneva; (c) develop an annual training plan for staff; and (d) change procedures to address gaps in the handling of in-kind contributions.

¹ Partially satisfactory overall ratings apply to audit results concluding that important (but not critical) deficiencies exist in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding achievement of control and/or business objectives under review.

17. Coordination mechanisms were assessed as partially satisfactory because there was a need to improve communication with donors and with field offices.

18. 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 implementation of five 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 the donor relations and resource mobilization activities of UNHCR	(a) Fundraising capability	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
	(b) Coordination mechanisms	Partially satisfactory	Not assessed	Not assessed	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Fundraising capability

Action needed to ensure that the upgrade to the Managing Systems, Resources, and People system appropriately includes essential functionalities and priorities for fund raising activities

19. The version of MSRP that was in the process of being upgraded had limitations that prevented it from carrying out some functions required to effectively support the fundraising activities of UNHCR. For example:

- The system lacked an income recording module, which was needed for more accurate recording of income from donors.
- Income forecasting was a manual process requiring constant updating and overlapping interventions, such as inputting the same data twice for each contribution (first in a spreadsheet then in MSRP) resulting in duplication of effort.
- The matching of amounts deposited by donors to the contribution detail number in MSRP was done offline and manually outside MSRP. This required extra resources in terms of time and staffing and could have been avoided if the system had the required functionality.
- DER was not able to use MSRP to produce reports that combined income, budget and expenditure data. DER and other divisions in the organization manually combined data from Focus (a software tool for planning, monitoring performance and reporting the organization's results) and MSRP to produce such reports. The process was slow and time-consuming.

- Tracing of the use of unearmarked and broadly earmarked funds was not possible in MSRP, although donors who contributed unearmarked and broadly earmarked funding expressed their wish to know how their funds were being utilized. Some donors had already started requesting customized reports, but because of this limitation, UNHCR was not in a position to provide such reports to donors.

20. At the time of the audit, there was insufficient indication that the limitations cited above were among the MSRP Upgrade Project's priorities. This could lead to DER using a module less than ideal for its processes.

(1) The Division of External Relations should, in conjunction with the MSRP Upgrade Project Team and relevant project owners, develop an action plan to ensure that DER priorities are taken into consideration, including the following: (a) allowing for the efficient and accurate entry of income recording and forecasting; (b) integration with relevant financial modules; (c) matching the contributions with deposits made by donors; and (d) tracing unearmarked and broadly earmarked funds to enable UNHCR to provide donor countries with reports on the use of their funds.

The Division of External Relations accepted recommendation 1 and stated that several technical meetings involving DRRM and DFAM had taken place since May 2014 in order to address the issues identified by the audit. DRRM continues to advocate for the inclusion of features that would improve the tracking of contributions. The requirements for income recording and forecasting were included into the design requirements for the MSRP Upgrade Project which was progressing according to plan and would enter implementation by the 4th quarter of 2014. Recommendation 1 remains open pending receipt of an action plan to ensure that DER priorities are taken into consideration in the MSRP Upgrade Project.

Need to strengthen linkages between Donor Relations and Resource Mobilization offices in Brussels and Geneva

21. The UNHCR Global Management Accountability Framework required that there should be clarity and understanding of decision-making processes, team roles, responsibilities and reporting lines within departments. However, the status of the DRRM Brussels office was unclear, because:

- There was lack of clarity on the linkage of the DRRM Brussels office with DRRM Geneva. Both DRRM Brussels and DRRM Geneva needed greater synergies and linkages in order to ensure that UNHCR fundraising was conducted in a clear and coherent manner.
- The DRRM Brussels office reported to the Bureau for Europe and did not have a reporting line to DRRM Geneva. The Bureau for Europe was itself not certain of the extent of its authority over the DRRM Brussels office. For a more coherent global fundraising effort, UNHCR needed to clarify the authority of both the Bureau for Europe and DRRM Geneva on the one hand and DRRM Brussels on the other.

22. Because of the lack of clarity in the reporting lines of DRRM Brussels, neither the Bureau for Europe nor DRRM was in a position to provide adequate oversight over the unit's activities. DRRM Geneva has since taken steps to initiate a discussion of how to strengthen relations between DRRM Brussels and DRRM Geneva.

(2) The Division of External Relations and the Bureau for Europe should consult with each

other and the Division of Human Resources Management to strengthen the linkages between the two Donor Relations and Resource Mobilization offices in Geneva and Brussels and to establish appropriate reporting arrangements.

The Division of External Relations accepted recommendation 2 and stated that the Organizational Development and Management Service (ODMS) was reviewing the Europe Bureau structure. ODMS would also review the structure and responsibilities of DRRM Brussels. Upon completion of the review, ODMS, the Europe Bureau and DRRM Geneva and Brussels would meet to discuss and clarify reporting arrangements. Recommendation 2 remains open pending completion of the ODMS review and receipt of evidence that DER, the Europe Bureau, and DHRM have agreed ways to strengthen the linkages between, and reporting arrangements of, the two DRRM offices in Geneva and Brussels.

An annual training plan was needed for staff

23. DRRM had no annual training plan for the personal development of its core team. Training of DRRM staff was being carried out, but in an ad hoc and as needed basis. The work of interacting with donors was delicate and required good communications skills, alongside competence in tools such as Word, Excel, MSRP and Global Focus Insight. This lack of training for core staff could result in staff carrying out their work inefficiently.

(3) The Donor Relations and Resource Mobilization Service should put in place an annual training plan for core staff to enhance their skills.

The Donor Relations and Resource Mobilization Service accepted recommendation 3 and stated that they would identify appropriate trainings throughout the year and recommend them to DRRM's staff. They added that new staff would be trained and regular refresher sessions on resource mobilization, and donor reporting conducted throughout the year. Recommendation 3 remains open pending receipt of an annual training plan for core staff.

Need for changes in procedures to address gaps in the handling of in-kind contributions

24. The UNHCR policy for handling in-kind contributions was inadequate since it did not cater for donations involving service packages. Service packages contributed by donors were not fully recognized, as only property, plant and equipment as well as inventory could be recognized at the time of the audit. In-kind service packages are arrangements in which a donor provides a service package to UNHCR that can include tangible items such as generators and intangible items such as staff deployment and various other services. Service in-kind contributions were estimated at \$10 million in 2012 and \$11 million in 2013.

25. Failure to recognize these service donations could result in inadequate acknowledgement of donations, and lack of accountability for their use, which could discourage donors from arranging further in-kind contributions. DER had not yet finalized lengthy consultations to strengthen the policy because the process lacked ownership due to the absence of dedicated staff to work on it and inadequate coordination with the Division of Emergency, Security and Supply (DESS), and the Division of Financial and Administrative Management (DFAM).

(4) The Division of External Relations should liaise with the Division of Emergency, Security and Supply, and the Division of Financial and Administrative Management and finalize the development and implementation of appropriate procedures to address the gaps in the

handling of in-kind contributions including service packages.

The Division of External Relations accepted recommendation 4 and stated that the DRRM Funding analysis team was working closely with the Private Sector Fund Raising Service to improve the handling of in-kind contributions. Recommendation 4 remains open pending receipt of evidence that appropriate procedures to address the gaps in the handling of in-kind contributions have been developed.

B. Coordination mechanisms

Need for a plan to increase efforts to improve communication with donors and with field offices

26. UNHCR's Global Management Accountability Framework required the organization to maintain a close dialogue with, and provide accurate information and timely feedback to, donors through reports, briefings and field visits. As an institutional priority UNHCR was aware that donors placed great importance on regular communication and receiving information in advance.

27. However, there was a need for a mechanism to prevent communication lapses that constrained the effective management of donor relations. For example:

- In January 2013, UNHCR wrote off \$15 million dollars which was part of a \$30 million pledge. The reason for the write-off was that the donor cancelled the undisbursed part of the pledge on the grounds that a UNHCR country operation to which the funds were earmarked did not notify the donor before reallocating the pledged funds to other critical areas of the emergency operation. This was a non-traditional donor whose coming on board was within UNHCR's fundraising strategy to broaden its donor base.
- In 2013, a UNHCR country operation to which a donor earmarked some funding did not comply with the requirement to inform that particular donor in a timely manner of the reallocation to other priorities of \$1 million of the earmarked funds.
- In 2013, a UNHCR country operation signed a contribution agreement with a donor for \$4.9 million and failed to inform DRRM. Since these were earmarked funds, there were conditions that needed to be complied with, which could have been better monitored at global level. This could have had an impact on the management of donor relations, as failure by the field office to comply with earmarking conditions could have damaged, at a global level, UNHCR's relations with the donor concerned.

28. The incidents above were caused by a breakdown in communication between the field and DER.

(5) The Division of External Relations should put in place a mechanism for increasing interaction so that field offices communicate appropriately, and on a timely basis, with the Donor Relations and Resource Mobilization Service and relevant donors on matters related to the use of earmarked contributions and the terms of donor agreements.

The Division of External Relations accepted recommendation 5 and stated that new guidance would be developed on the negotiation and authorization required for contribution agreements in conjunction with PSFR and DFAM, which should be available in the last quarter of 2014. DRRM's 2015 plan included increased trainings and visits to the field by Regional Focal Points and senior DRRM staff to strengthen relations. In addition, each Regional Focal Point would identify existing

external relation officers in his/her region and develop a network around resource mobilization issues. DRRM Brussels would continue organizing annual trainings in each region on EU funding although this training budget had been reduced. Recommendation 5 remains open pending receipt of evidence that a mechanism to increase timely interaction between field offices, DRRM and donors on earmarked contributions and the terms of donor agreements has been established.

IV. ACKNOWLEDGEMENT

29. 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) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of donor relations and resources mobilization activities of 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 Division of External Relations should, in conjunction with the MSRP Upgrade Project Team and relevant project owners, develop an action plan to ensure that DER priorities are taken into consideration, including the following: (a) allowing for the efficient and accurate entry of income recording and forecasting; (b) integration with relevant financial modules; (c) matching the contributions with deposits made by donors; and (d) tracing unearmarked and broadly earmarked funds to enable UNHCR to provide donor countries with reports on the use of their funds.	Important	O	Submission of an action plan to ensure that DER priorities are taken into consideration in the MSRP Upgrade Project.	Date not indicated
2	The Division of External Relations and the Bureau for Europe should consult with each other and the Division of Human Resources Management to strengthen the linkages between the two Donor Relations and Resource Mobilization offices in Geneva and Brussels and to establish appropriate reporting arrangements.	Important	O	Submission of evidence that DER, the Europe Bureau, and DHRM have agreed ways to strengthen the linkages between, and reporting arrangements of, the two DRRM offices in Geneva and Brussels.	31 December 2014
3	The Donor Relations and Resource Mobilization Service should put in place an annual training plan for core staff to enhance their skills.	Important	O	Submission of an annual training plan for core staff.	31 December 2014
4	The Division of External Relations should liaise with the Division of Emergency, Security and Supply, and the Division of Financial and Administrative Management and finalize the	Important	O	Submission of evidence that appropriate procedures to address the gaps in the handling of in-kind contributions have been developed.	31 December 2014

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 donor relations and resources mobilization activities of 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
	development and implementation of appropriate procedures to address the gaps in the handling of in-kind contributions including service packages.				
5	The Division of External Relations should put in place a mechanism for increasing interaction so that field offices communicate appropriately, and on a timely basis, with the Donor Relations and Resource Mobilization Service and relevant donors on matters related to the use of earmarked contributions and the terms of donor agreements.	Important	O	Submission of evidence that a mechanism to increase timely interaction between field offices, DRRM and donors on earmarked contributions and the terms of donor agreements has been established.	31 December 2014

APPENDIX I

Management Response

Management Response

Audit of donor relations and resource mobilization activities of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Division of External Relations should, in conjunction with the MSRP Upgrade Project Team and relevant project owners, develop an action plan to ensure that DER priorities are taken into consideration, including the following: (a) allowing for the efficient and accurate entry of income recording and forecasting; (b) integration with relevant financial modules; (c) matching the contributions with deposits made by donors; and (d) tracing unearmarked and broadly earmarked funds to enable UNHCR to provide donor countries with reports on the use of their funds.	Important	Yes	Chief of Governmental Donors and Funding Analysis Section	Throughout the upgrade process of MSRP	Several technical meetings involving DRRM and DFAM have taken place since May in order to improve the recording of income and projections in the system, the better integration of financial modules, the matching in the system of contributions with deposits made by donors and the tracking of revenue allocation of unearmarked and broadly earmarked contributions. DRRM continues to advocate for the inclusion of features that would improve the tracking of contributions. The requirements for income recording and forecasting were included into the conceptual design requirements for the MSRP Upgrade Project. The project is progressing according to plan and will enter the next project phase (implementation) by the 4 th quarter of 2014.
2	The Division of External Relations and the Bureau for Europe should consult with each other and the Division of Human Resources Management to strengthen the linkages between the two Donor Relations and Resource Mobilization offices in Geneva	Important	Yes	Head of DRRM Head of DRRM Brussels	December 2014	The Organizational Development and Management Service (ODMS) has engaged in the reviewing of the Europe Bureau structure. ODMS has also agreed to review the structure and responsibilities of DRRM Brussels during its review of the Europe Bureau taking place between June and July 2014. Upon completion of the review, ODMS, the Europe Bureau and DRRM Geneva and Brussels will meet to discuss and clarify

⁶ 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.

⁷ 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.

Management Response

Audit of donor relations and resource mobilization activities of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	and Brussels and to establish appropriate reporting arrangements.					reporting arrangements.
3	The Donor Relations and Resource Mobilization Service should put in place an annual training plan for core staff to enhance their skills.	Important	Yes	Head of DRRM Head of Appeals and Reports Section Head of DRRM Brussels	December 2014	Trainings for UNHCR's staff are coordinated by UNHCR's Global Learning Center. The Head of DRRM, together with Heads of Section will identify appropriate trainings throughout the year and recommend them to DRRM's staff. DRRM Brussels will likewise identify relevant trainings for the unit's staff. In addition, new staff will be trained and regular refresher sessions on resource mobilization, and donor reporting will be conducted throughout the year .
4	The Division of External Relations should liaise with the Division of Emergency, Security and Supply, and the Division of Financial and Administrative Management and finalize the development and implementation of appropriate procedures to address the gaps in the handling of in-kind contributions including service packages.	Important	Yes	Chief of Governmental Donors and Funding Analysis Section	December 2014	DRRM Funding analysis team is working closely with the Private Sector Fund Raising Service (PSFR) to improve the handling of in-kind contribution. In June, DRRM and PSFR met to test the several improvements that are to be brought to the system handling in-kind contributions, such as: Improving the purchase requisitions system; and including transport costs in the value of the in-kind contribution during the early stage of the recording process, as opposed to current practice of waiting for actual transport costs which are not available until after items have shipped.
5	The Division of External Relations should put in place a mechanism for increasing interaction so that field offices communicate	Important	Yes	Chief of Governmental Donors and Funding	Last quarter 2014	The Division of External Relations (DER) is developing new guidance on negotiation of and authorization required for contribution agreements in conjunction with PSFR and DFAM. The guidance should be available in

Management Response

Audit of donor relations and resource mobilization activities of the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical ⁶ / Important ⁷	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	appropriately, and on a timely basis, with the Donor Relations and Resource Mobilization Service and relevant donors on matters related to the use of earmarked contributions and the terms of donor agreements.			Analysis Section Head of DRRM Brussels		<p>the last quarter of 2014.</p> <p>DRRM's 2015 plan contains provisions for increased trainings and visits to the field by Regional Focal Points and senior DRRM staff. This will help strenghtening relationships with field staff responsible for donor relations.</p> <p>In addition, each Regional Focal Point will identify existing external relation officers in his/her region and develop a network around resource mobilization issues.</p> <p>DRRM Brussels will continue organising annual trainings in each region on EU funding. The training budget provided though the Global Learning Center for DRRM Brussels to train field staff on EU funding has been significantly reduced in 2014 despite the importance attributed to training colleagues for field-based fund raising and the need to increase interaction with field offices.</p>