



IOM International Organization for Migration

**EXECUTIVE SUMMARY**  
**INTERNAL AUDIT REPORT**  
**IOM Ciudad**  
**GT201801**  
**24 - 28 September 2018**

**Issued by the Office of the Inspector General**

**Report on the Audit of IOM Ciudad**  
**Executive Summary**  
**Audit File No. GT201801**

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Ciudad, Republic of Guatemala (the “Country Office”) from 24 to 28 September 2018. The internal audit aimed to assess adherence to financial and administrative procedures in conformity with IOM’s regulations and rules and the implementation of and compliance with its internal control system.

Specifically, the audit assessed the risk exposure and risk management of the Country Office’s activities, in order to ensure these are well understood and controlled by the local management and staff. Selected samples from the following areas were reviewed:

- a. Management and Administration
- b. Personnel
- c. Finance and Accounting
- d. Procurement and Logistics
- e. Contracting
- f. Information and Technology
- g. Programme and Operations

The audit covered the activities of the Country Office from August 2016 to July 2018. The Country Office recorded the following expenses based on IOM financial records:

- August to December 2016 – USD 639,160 representing 0.10 per cent and 1.60 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.
- 2017 – USD 1,358,268 representing 0.08 per cent and 1.49 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.
- January to July 2018 – USD 792,227 representing 0.07 per cent and 1.69 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.

Because of the concept of selective testing of data and inherent limitation of the internal audit work, there is no guarantee that all matters of significance to IOM will be discovered by the internal audit. It is the responsibility of local management of the Country Office to establish and implement internal control systems to assure the achievement of IOM’s objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with relevant laws, regulations and policies. It is also the responsibility of local management to determine whether the areas the internal audit covered, and the extent of verification or other checking included are adequate for local management’s purposes. Had additional procedures been performed, other matters might have come to internal audit attention that would have been reported.

The internal audit was conducted in accordance with the Charter of the Office of the Inspector General and in general conformance with the *International Standards for the Professional Practice of Internal Auditing*.

## Overall audit rating

OIG assessed the Office as **largely ineffective** which means that “*significant control gaps exist. Either controls do not treat root causes, or they do not operate at all effectively*”.

This rating was mainly due to weaknesses noted in the following areas:

1. Risks on IOM operations
2. Outstanding legal cases and vendor balances
3. Frozen bank accounts
4. Financial cash management
5. Procurement process
6. Strategic plan and organizational structure
7. Delegation of authority matrix and segregation of duties
8. Security risk management
9. Escort contracts
10. Human resource requirements
11. Advances to staff
12. Vendor creation and approval
13. Assets and non-food items
14. Contract with implementing partners
15. Local travel services
16. Project management

**Key recommendations: Total = 24; Very High Priority = 5; High Priority = 12; Medium Priority = 6; Low Priority = 1**

### Very High Priority Recommendations

Prompt action is required within one month to ensure that processes will not be critically disrupted, and IOM will not be **critically** adversely affected in its ability to achieve its strategic and operational objectives.

There are 5 Very High priority recommendations consisting of: 2 recommendations each for Management and Administration and Finance and Accounting, and 1 recommendation in Procurement and Logistics. These are as follows:

- Conduct a risk assessment and a strength, weaknesses, opportunities and threats analysis for the country office.
- Coordinate with Legal department on best possible way forward on legal matters.
- Seek local legal advice on available mechanisms to deal with the frozen bank accounts in Guatemala and pursue other banking options.
- Strengthen financial controls over cash management.
- Ensure procurement process is carried out in the most efficient, effective and ethical manner.

## High Priority Recommendations

For the high priority recommendations, prompt action is required within three months to ensure that IOM will not be adversely affected in its ability to achieve its strategic and operational objectives.

The High Priority recommendations are presented below:

1. Three (3) recommendations for Management and Administration, 2 recommendations each in Personnel, Procurement and Logistics and Contracting, and 1 recommendation each in Information Technology<sup>1</sup> and Programme and Operations. These recommendations aim to ensure that the assets of IOM are properly safeguarded, staff welfare is secured and that IOM operations are effective and efficient.
  - Prepare a formal strategic plan aligned to regional strategy and design the organizational structure to achieve its objectives.
  - Improve the delegation of authority matrix and align the segregation of duties in the system with the updated roles and responsibilities.
  - Prioritize security setup for the country office and consider implementing enhanced access control to critical areas.
  - Ensure compliance with IOM guidelines on handling contracts with escorts.
  - Coordinate with Legal Human Resources to clarify implications of current staff contracts and undertake actions to regularize the ungraded contracts.
  - Vendor verification procedures must be adequately documented, and approvals obtained before creating vendors or modifying vendor records in the system.
  - Immediately conduct physical inventory, tagging of assets and non-food items and reconcile balances with the system.
  - Given the materiality of the contract, the country office should implement close budget monitoring and verification of expenses.
  - Fully comply with IOM guidelines on the processing and approval of local travel services.
  - Strengthen project management to ensure compliance with IOM rules and regulations.
  
2. One (1) recommendation on Finance and Accounting is directed towards the enhancement of the reliability and integrity of the country office's financial and operational information.
  - Strengthen monitoring of open items and settlement of operational advances to staff.

There are 6 Medium priority recommendations consisting of: 2 recommendations each in Management and Administration and Personnel, and 1 recommendation each in Contracting and Information Technology, which need to be addressed by the country office within one year to ensure that such weaknesses in controls will not moderately affect the country office's ability to achieve its entity or process objectives.

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<sup>1</sup> On the high priority recommendations, one recommendation each under Information and Technology was not presented in the executive summary, according to the provisions of IB/78 "Disclosure of IOM Internal Audit Reports".

The Low priority recommendation (not included in this Executive Summary) has been discussed directly with management and actions have been initiated to address them.

### **Management comments and action plans**

Out of the 24 recommendations 3 were closed and implemented as of October 2020, including 2 very high and high priority recommendations presented. Management is in the process of implementing the remaining open recommendations. Comments and/or additional information provided have been incorporated in the report, where appropriate.

This report is intended solely for information and should not be used for any other purpose.

**International Organization for Migration  
Office of the Inspector General**

**I. About the Country Office**

The main office is located in the Republic of Guatemala. As of August 2018, the Country Office is supported by 44 personnel categorized into: 4 officials located in El Salvador and 28 staff and 12 non-staff in Guatemala. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- August to December 2016 – USD 639,160 representing 0.10 per cent and 1.60 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.
- 2017 – USD 1,358,268 representing 0.08 per cent and 1.49 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.
- January to July 2018 – USD 792,227 representing 0.07 per cent and 1.69 per cent of IOM Total and Central American, North American and the Caribbean Region, respectively.

The Country Office has a total portfolio of 24 projects and a total budget of USD 3,019,160. The top 2 projects by type:

- 3 Projects for Return Assistance to Migrants and Government amounting to USD 1,404,307 or 47 per cent of the budget.
- 3 Projects for Response Volcan de Fuego Emergency amounting to USD 320,000 or 11 per cent of the budget.

**II. Scope of the Audit**

**1. Objective of the Audit**

The internal audit was conducted in accordance with the Charter of the Office of the Inspector General and in general conformance with the *International Standards for the Professional Practice of Internal Auditing*. The focus of the audit was adherence to financial and administrative procedures in conformity with IOM's rules and regulations and the implementation of and compliance with its internal control system.

**2. Scope and Methodology**

In compliance with Internal Audit standards, attention was paid to the assessment of risk exposure and the risk management of the Country Office activities in order to ensure that these are well understood and controlled by the local management and staff. Recommendations made during the internal audit fieldwork and in the report aim to equip the local management and staff to review, evaluate and improve their own internal control and risk management systems.

### III. Audit Conclusions

#### 1. Overall Audit Rating

OIG assessed the Office as **largely ineffective** which means that “*significant control gaps exist. Either controls do not treat root causes, or they do not operate at all effectively*”.

### IV. Key Findings and Very High and High Priority Recommendations

#### I. Very High Priority Recommendations

##### 1. Risks on IOM operations

The country context and office’s past decisions represent a high risk to IOM operations. There were also concerns on staff safety and security, among others, and no risk assessment is in place.

Very High Priority Recommendation:

- Conduct a risk assessment and a strength, weaknesses, opportunities and threats analysis for the country office.

##### 2. Long outstanding legal cases and vendor balances

There were several long outstanding legal cases over fiduciary funds. There were also outstanding vendor account balances due to separations and other legal cases due to inactive projects.

Very High Priority Recommendation:

- Coordinate with Legal department on best possible way forward on legal matters.

##### 3. Frozen bank accounts

The total balance of frozen bank accounts is significant. There is also a risk that balances with local banks may be subjected to seizure order from the local civil court.

Very High Priority Recommendation:

- Seek local legal advice on available mechanisms to deal with the frozen bank accounts in Guatemala and pursue other banking options.

##### 4. Cash management

There were significant weaknesses noted in financial controls over cash management, including petty cash custodianship and payment process.

Very High Priority Recommendation:

- Strengthen financial controls over cash management.

5. Procurement process

There were significant deficiencies in the procurement process such as non-compliance with minimum requirements of the Bids, Evaluation and Awards Committee in terms of its members and decision-making and potential conflict of interest of a staff who is part of the Bids, Evaluation and Awards Committee.

Very High Priority Recommendation:

- Ensure procurement process is carried out in the most efficient, effective and ethical manner.

II. High Priority Recommendations

1. Strategic plan and organizational structure

There is no formal strategic plan to ensure that objectives are clearly established. Further, the organizational structure is not designed towards the achievement of formal objectives.

High Priority Recommendation:

- Prepare a formal strategic plan aligned to regional strategy and design the organizational structure to achieve its objectives.

2. Delegation of authority and segregation of duties

The delegation of authority matrix developed is not effective as neither the terms of references nor the level of authority of staff members were taken into consideration when it was drawn up. Further, the segregation of duties in the system is not in line with the updated roles and responsibilities.

High Priority Recommendation:

- Improve the delegation of authority matrix and align the segregation of duties in the system with the updated roles and responsibilities.

3. Security risk management

Several security risk management measures in place were found to be deficient and not consistent with the approved security risk management assessment.

High Priority Recommendation:

- Prioritize security setup for the country office and consider implementing enhanced access control to critical areas.

4. Escort contracts

There were signed contracts for escorts which did not follow standard templates and properly coordinated with the head office. These were also not signed by the proper authorized officer.

High Priority Recommendation:

- Ensure compliance with IOM guidelines on handling contracts with escorts.



5. Human resource requirements

Staff contracts are prepared and signed from El Salvador. In addition, it was common practice to do a direct recruitment leading to ungraded contracts.

High Priority Recommendation:

- Coordinate with Legal Human Resources to clarify implications of current staff contracts and undertake actions to regularize the ungraded contracts.

6. Advances to staff

There were several long outstanding advances from local staff. There was also an advance from a staff nearing contract expiry which aggregated to more than three advances not settled timely.

High Priority Recommendation:

- Strengthen monitoring of open items and settlement of operational advances to staff.

7. Vendor creation and approval

The country office uses providers without appropriate verification, with no vendor information sheet or in other cases incomplete (without reference checks). There were also no evidence of appropriate review and evaluation of vendor accounts.

High Priority Recommendation:

- Vendor verification procedures must be adequately documented, and approvals obtained before creating vendors or modifying vendor records in the system.

8. Assets and non-food items

Tracking of assets and non-food items is weak. While there was physical inventory performed and submitted, the tagging of assets has not been done.

High Priority Recommendation:

- Immediately conduct physical inventory, tagging of assets and non-food items and reconcile balances with the system.

9. Contract with Implementing Partners

There was no due diligence review made on the adequacy of implementing partner's financial accounting policies, processes and procedures prior to contracting. Moreover, there was poor financial monitoring of the implementing partner during project implementation.

High Priority Recommendation:

- Given the materiality of the contract, the country office should implement close budget monitoring and verification of expenses.

10. Local travel services

There was non-compliance with Resettlement and Movement Management Division requirements on Competitive Bidding Process and Approval on local travel services.

High Priority Recommendation:

- Fully comply with IOM guidelines on the processing and approval of local travel services.

11. Project management

There were several deficiencies noted in the current practice of projects execution and monitoring of planned activities.

High Priority Recommendation:

- Strengthen project management to ensure compliance with IOM rules and regulations.

*Management agreed with the recommendations. Of the 17 key findings and very high and high priority recommendations presented, 15 remain open and are in the process of implementation, related to long outstanding legal cases and vendor balances, frozen bank accounts, cash management, procurement process, strategic plan and organizational structure, delegation of authority and segregation of duties, security risk management, escort contracts, human resource requirements, advances to staff, vendor creation approval, assets and non-food items, Local travel services and project management.*

## ANNEXES

### Definitions

The overall adequacy of the internal controls, governance and management processes, based on the number of audit findings and their risk levels:

Descriptor	Guide
<b>Fully effective</b>	Nothing more to be done except review and monitor the existing controls. Controls are well designed for the risk, address the root causes and Management believes that they are effective and reliable at all times.
<b>Substantially effective</b>	Most controls are designed correctly and are in place and effective. Some more work to be done to improve operating effectiveness or Management has doubts about operational effectiveness and reliability.
<b>Partially effective</b>	While the design of controls may be largely correct in that they treat most of the root causes of the risk, they are not currently very effective. Or, some of the controls do not seem correctly designed in that they do not treat root causes, those that are correctly designed are operating effectively.
<b>Largely ineffective</b>	Significant control gaps. Either controls do not treat root causes or they do not operate at all effectively.
<b>None or totally ineffective</b>	Virtually no credible controls. Management has no confidence that any degree of control is being achieved due to poor control design and/or very limited operational effectiveness.

### Audit Recommendations – Priorities

The following internal audit rating based on **IOM Risk Management** framework has been slightly changed to crystalize the prioritization of internal audit findings according to their relative significance and impact to the process:

Rating	Definition	Suggested action	Suggested timeframe
<b>Very High</b>	Issue represents a control weakness which could cause <b>critical</b> disruption of the process or <b>critical</b> adverse effect on the ability to achieve entity or process objectives.	Where control effectiveness is not as high as 'fully effective', take action to reduce residual risk to 'high' or below.	Should be addressed in the short term, normally within 1 month.
<b>High</b>	Issue represents a control weakness which could have <b>major</b> adverse effect on the ability to achieve entity or process objectives.	Plan to deal with in keeping with the annual plan.	Should be addressed in the medium term, normally within 3 months.
<b>Medium</b>	Issue represents a control weakness which could have <b>moderate</b> adverse effect on the ability to achieve entity or process objectives.	Plan in keeping with all other priorities.	Should be addressed normally within 1 year.
<b>Low</b>	Issue represents a minor control weakness, with <b>minimal</b> but reportable impact on the ability to achieve entity or process objective.	Attend to when there is an opportunity to.	Discussed directly with management and actions to be initiated as part of management's ongoing control.