IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Djibouti

DJ202001

2 - 6 February 2020

Issued by the Office of the Inspector General

Report on the Audit of IOM Djibouti
Executive Summary
Audit File No. DJ202001

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Djibouti, Republic of Djibouti (the "Country Office") from 2 to 6 February 2020. The internal audit aimed to assess 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.

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 01 July 2018 to 31 December 2019. The Country Office recorded the following expenses based on IOM financial records:

- July to December 2018 – USD 2,585,193 representing 0.3 per cent and 1.8 per cent of IOM Total and East Africa and the Horn of Africa Region, respectively.
- 2019 – USD 6,896,100 representing 0.3 per cent and 2.3 per cent of IOM Total and East Africa and the Horn of Africa 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. Relationship with the government
2. Organization structure
3. Financial management training
4. Financial/budget monitoring
5. Manual purchase orders
6. Material management and procurement
7. Construction materials and equipment for project beneficiary
8. Delegation of authority matrix
9. Payroll processing
10. Staff contracts
11. Staff vendor accounts
12. Payment controls
13. Cash journals
14. Warehouse management and asset tracking
15. Contract with vehicle service provider
16. Administration of consultants
17. Office workstations
18. Data backup procedures and protection

Key recommendations: Total = 27; Very High Priority = 7; High Priority = 11; Medium Priority = 8; 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 7 Very High Priority recommendations consisting of 2 recommendation each for Management and Administration, Finance and Accounting, Procurement and Logistics and 1 recommendation for Contracting. These are as follows:

- o The Chief of Mission, together with relevant units in IOM, should cooperate when working with Government Ministries/Directorates to implement activities related to projects or other specific requests.
- o The Country Office should rectify the organizational structure issue within funding constraints.
- o Provide the Chief of Mission the necessary financial management training for this role.
- o Implement periodic financial/budget status reporting.
- o Discontinue the use of manual purchase orders and expand the selection of trusted vendors.
- o Remedial actions should be undertaken to conform with IOM guidelines on material management and procurement.

- Aside from the local cooperation agreement, the Country Office should use other applicable IOM templates to comply with the objectives of the work conducted with the government agencies.

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 11 High Priority recommendations are presented below:

1. Two (2) recommendations each for Personnel, Contracting and Information Technology, 1 recommendation each for Management and Administration, and Procurement and Logistics. 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.

   - The Country Office should prepare a more robust delegation of authority matrix even if the Chief of Mission does not delegate any of the responsibilities.
   - Strengthen internal controls over payroll processing.
   - Review the staff responsibilities along with the project requirements and consider providing a better contract to staff.
   - Establish a register to manually document all items coming in and going out of the warehouse.
   - An appropriate services agreement should be prepared and possibly a long-term agreement to ensure staff are provided with transportation to conduct IOM programming.
   - Active Consultants should be entered in the system including the validity dates of their contracts to have accurate staff and non-staff statistics for contract monitoring; the Country Office should only engage in activities following IOM protocols.
   - All desktops and laptops that connect to the IOM network must be protected with the official and updated anti-virus software and have the basic software installed.
   - Ensure regular backup procedures and establish safe location off-premises for the back-up cartridges.

2. Three (3) recommendations on Finance and Accounting are directed towards the enhancement of the reliability and integrity of the Country Office's financial and operational information.

   - Strengthen the review and follow-up mechanism for staff vendor open items.
   - Strictly implement the IOM guidelines on payments.
   - Endeavor to post the expenses within the month they are incurred.

Except in the area of Contracting, there remains another eight 8 Medium priority recommendations consisting of 3 recommendations in Management and Administration, 2 recommendations in Procurement and Logistics, and 1 recommendation each for Personnel, Information Technology and Programme and Operations, 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.

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

Management comments and action plans

15 out of the 27 recommendations were implemented and closed as of the date this report is publicly available. Management is in the process of implementation the remaining 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 Djibouti, Republic of Djibouti. As of 25 January 2020, the Country Office has 65 personnel categorized into 7 officials, 51 staff and 7 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- July to December 2018 – USD 2,585,193 representing 0.3 per cent and 1.8 per cent of IOM Total and East Africa and the Horn of Africa Region, respectively.
- 2019 – USD 6,896,100 representing 0.3 per cent and 2.3 per cent of IOM Total and East Africa and the Horn of Africa Region, respectively.

The Country Office has a total portfolio of 38 projects and total budget of USD 13,791,309. The top 2 projects by type:

- 5 Projects for Counter Trafficking amounting to USD 6,010,005 million or 43.6 per cent of the budget.
- 6 Projects for Internally Displaced Persons amounting to USD 3,199,095 million or 23.2 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. Relationship with the government
   Many project activities with several ministries were conducted without having a formal local cooperation framework delineating each party's obligations.

   Very High Priority Recommendation:
   - The Chief of Mission, together with relevant units in IOM, should cooperate when working with Government Ministries/Directorates to implement activities related to projects or other specific requests.

2. Organization structure
   The County Office has not deployed more senior staff to represent IOM at the front-line providing services to highly vulnerable migrants.

   Very High Priority Recommendation:
   - The Country Office should rectify the organizational structure issue within funding constraints.

3. Financial Management training
   Financial management is ultimately the responsibility of the Chief of Mission. However, the newly appointed Chief of Mission was not briefed or trained in financial management as part of his onboarding for the position.

   Very High Priority Recommendation:
   - Provide the Chief of Mission the necessary financial management training for this role.

4. Financial/budget monitoring
   The Country Office does not have a financial/budget monitoring tool in place, which gives information on the Country Office's combined financial situation across all projects.

   Very High Priority Recommendation:
   - Implement periodic financial/budget status reporting.

5. Manual purchase orders
   The Country Office has resorted to the use of manual purchase orders since one-time vendors are not allowed in the system and not enough selection of trusted vendors in the system.

   Very High Priority Recommendation:
   - Discontinue the use of manual purchase orders and expand the selection of trusted vendors.

6. Material Management and Procurement
There were commitments that was not captured at an early stage that could lead to misinformed decisions due to incorrect project balances, incorrect reporting of general ledger financial reporting of staff and office costs versus operational expenses and misleading information and unreliable data.

Very High Priority Recommendation:
   o   Remedial actions should be undertaken to conform with IOM guidelines on material management and procurement.

7. Construction materials and equipment for project beneficiary
Several construction materials and equipment were provided to the beneficiary without having an agreement or a framework to clearly define the responsibilities of either party.

Very High Priority Recommendation:
   o   Aside from the local cooperation agreement, the Country Office should use other applicable IOM templates to comply with the objectives of the work conducted with the government agencies.

Management agreed with the recommendations. 4 out of the 7 key findings and very high priority recommendations presented had been closed and implemented as of May 2021.

II. High Priority Recommendations

1. Delegation of authority matrix
The delegation of authority matrix only covers procurement and did not include any other processes and or documents such as contracts for staff and non-staff, payroll, implementing partners agreements, etc.

High Priority Recommendation:
   o   The Country Office should prepare a more robust delegation of authority matrix even if the Chief of Mission does not delegate any of the responsibilities.

2. Payroll processing
There are no adequate and effective internal controls over payroll processing to ensure the validity, accuracy, and completeness of the payroll.

High Priority Recommendation:
   o   Strengthen internal controls over payroll processing.

3. Staff contracts
Some staff holding special short-term graded have been with IOM for more than eight years while some have been with IOM from three to five years.

High Priority Recommendation:
   o   Review the staff responsibilities along with the project requirements and consider providing a better contract to staff.

4. Staff vendor accounts
   There were long outstanding staff vendor accounts requiring immediate attention.

   High Priority Recommendation:
   - o Strengthen the review and follow-up mechanism for staff vendor open items.

5. Payment controls
   There were internal control weaknesses noted in the payment process, for example, inconsistency in the registered name of the vendor and the payee or no proper documentation that payment has been made.

   High Priority Recommendation:
   - o Strictly implement IOM guidelines on payments.

6. Cash Journals
   The physical cash custodian is located in the sub-office and the cash journal is managed by the main office. Entries in the cash journal are not timely since these are performed only after the supporting documents are provided at main office.

   High Priority Recommendation:
   - o Endeavor to post the expenses within the month they are incurred.

7. Warehouse management and asset tracking
   IOM uses a free space provided by the Government where other UN Agencies and Civil Society Organizations are also storing goods without any defined perimeter per agency. As such, IOM stock was impossible to count due to the lack of organization or having a stock cards for inventory control.

   High Priority Recommendation:
   - o Establish a register to manually document all items coming in and going out of the warehouse.

8. Contract with vehicle service provider
   IOM contracted a vehicle service provider to supply the needs of the programme staff and or consultants. However, there was no service agreement issued with this vendor.

   High Priority Recommendation:
   - o An appropriate services agreement should be prepared and possibly a long-term agreement to ensure staff are provided with transportation to conduct IOM programming.

9. Administration of consultants
   Contracting of consultants are handled outside of the system; hence, the full staffing of the Country Office is not transparent. The Country Office also engaged in activities that have no clear specifications and ownership of the process.

   High Priority Recommendation:
   - o Active Consultants should be entered in the system including the validity dates of their contracts to have accurate staff and non-staff statistics for contract monitoring; the Country Office should only engage in activities following IOM protocols.

10. Office workstations
   The Office's computers do not follow the "basic workstation software" standard and are not protected with the official and updated anti-virus software. Only two computers were compliant.

   High Priority Recommendation:
   - All desktops and laptops that connect to the IOM network must be protected with the official and updated anti-virus software and have the basic software installed.

11. Data back-up procedures and protection
   The Country Office has been without backup for several months and the server is not protected by firewall.

   High Priority Recommendation:
   - Ensure regular back-up procedures and establish safe location off-premises for the back-up cartridges.

Management agreed with the recommendations. 7 out of the 11 key findings and high priority recommendations presented had been closed and implemented as of May 2021.

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
Fully effective	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.
Substantially effective	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.
Partially effective	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.
Largely ineffective	Significant control gaps. Either controls do not treat root causes, or they do not operate at all effectively.
None or totally ineffective	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
Very High	Issue represents a control weakness which could cause *critical* disruption of the process or *critical* 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.
High	Issue represents a control weakness which could have *major* 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.
Medium	Issue represents a control weakness which could have *moderate* 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.
Low	Issue represents a minor control weakness, with *minimal* 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.