



International Organization for Migration (IOM)
The UN Migration Agency

EXECUTIVE SUMMARY
INTERNAL AUDIT REPORT
IOM Lima
PE201901
20 May - 7 June 2019

Issued by the Office of the Inspector General

Report on the Audit of IOM Lima
Executive Summary
Audit File No. PE201901

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Lima (the “Country Office”) from 20 May to 7 June 2019. 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 from January 2017 to April 2019. The Country Office recorded the following expenses based on IOM financial records:

- 2017 – USD 14,732,014 representing 0.9 per cent and 14.6 per cent of IOM Total and South America Region, respectively.
- 2018 – USD 47,819,560 representing 2.7 per cent and 38.8 per cent of IOM Total and South America Region, respectively.
- 1 January to 30 April 2019 – USD 61,997,915 representing 9.1 per cent and 63.3 per cent of IOM Total and South America 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. Financial accounting standards
2. Tender process
3. Evaluation and selection of contractors
4. Country office strategic plan
5. Chief of Mission
6. Delegation of authority
7. Organization structure
8. Sub-office bank account
9. Purchase orders
10. Contracting
11. Implementing partners’ contracts
12. Sustainability of operations
13. Project Monitoring
14. Coordination issues – Venezuela Crisis

Key recommendations: Total = 21; Very High Priority = 3; High Priority = 11; Medium Priority = 7

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 3 Very High Priority recommendations consisting of: 2 recommendations in Procurement and Logistics, and 1 recommendation for Finance and Accounting. These are as follows:

- Review the accounting policies for the exchange contract activities and comply with the relevant International Public Sector Accounting standard.
- Implement the tender process and selection of contractors according to IOM guidelines and procedures.
- Review evaluation and selection and/or disqualification of contractors.

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. Four (4) recommendations for Management and Administration, 3 recommendations in Programme and Operations, 2 recommendations in Contracting, and 1 recommendation for 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.
 - Prepare a country office strategic plan aligned with regional and IOM organization wide strategy as well as other IOM regulatory frameworks.
 - Suggest deploying a senior professional staff with a short-term assignment preferably within the region rather than assigning an inexperienced officer-in-charge.
 - Review the existing delegation of authority matrix to align to appropriate thresholds and authorization levels.
 - Consider hiring a professional civil engineer to oversee the infrastructure projects.
 - Avoid changing the expected delivery date of purchase orders unless there is a valid reason and both parties agreed to the change in date.
 - Observe strictly IOM's standard terms for contracting and process for contract review and approval.
 - All contracts issued to implementing partners must be entered in the system and those contracts exceeding USD 100,000 should be approved by Global Procurement and Supply Unit.
 - Diversify donor sources to minimize dependence on service fees received.
 - All purchase orders above a specific threshold limit should be entered in the IOM system to capture the commitment.
 - Strengthen coordination and communication among the country offices in the region to implement activities and to share resources, where needed.

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.
 - Coordinate opening of a bank account for the sub-office and discontinue printing receipts in the office.

There are 7 Medium priority recommendations consisting of: 3 recommendations in Personnel, 2 recommendations Information and Technology, and 1 recommendation each in Finance and Accounting and Procurement and Logistics, 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

Out of the 21 recommendations 11 were closed and implemented as of October 2020, including 7 high priority recommendations. 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 Lima, Republic of Peru. As of 30 April 2019, the Country Office has 60 personnel categorized into: 4 officials, 47 staff, 9 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2017 – USD 14,732,014 representing 0.9 per cent and 14.6 per cent of IOM Total and South America Region, respectively.
- 2018 – USD 47,819,560 representing 2.7 per cent and 38.8 per cent of IOM Total and South America Region, respectively.
- 1 January to 30 April 2019 – USD 61,997,915 representing 9.1 per cent and 63.3 per cent of IOM Total and South America Region, respectively.

The Country Office has a total portfolio of 137 projects and total budget of USD 251,921,239. The top 2 projects by type based on budget:

- 43 Projects for Community Stabilization amounting to USD 121,920,995 or 48.3 per cent of the budget.
- 9 Projects on Reparations Programmes amounting to USD 46,088,572 or 18 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. Financial Accounting Standards

The different interpretations in applying IPSAS 9, “Revenue from exchange contracts” resulted to overstatement of voluntary donor contribution and related expenses. IOM should only recognize the revenue derived from the service fee of the administered infrastructure projects at the time when the service fee is earned.

Very High Priority Recommendation:

- Review the accounting policies for the exchange contract activities and comply with the relevant International Public Sector Accounting standard.

2. Tender process

Several weaknesses were identified in relation to the tender process and selection of contractors. There were instances wherein the competitive process was not observed since vendors have been needlessly disqualified limiting the qualified contractors to two or even one contractor.

Very High Priority Recommendation:

- Implement the tender process and selection of contractors according to IOM guidelines and procedures.

3. Evaluation and selection of contractors

There were two projects of significant value wherein the same contractor was disqualified in one instance and lost the bid on the other. Further review highlighted that both projects were under the same Engineer.

Very High Priority Recommendation:

- Review evaluation and selection and/or disqualification of contractors.

II. High Priority Recommendations:

1. Country office strategic plan

There was no formal strategic plan in place but rather a power point presentation with generic objectives and activities that did not cover the regional and national migration context.

High Priority Recommendation:

- Prepare a country office strategic plan aligned with regional and IOM organization wide strategy as well as other IOM regulatory frameworks.

2. Chief of Mission

The untimely transfer of the Chief of Mission without finalizing the recruitment of his successor left a leadership vacuum at a time that there was an existing migration crisis situation.

High Priority Recommendations:

- Suggest deploying a senior professional staff with a short-term assignment preferably within the region rather than assigning an inexperienced Officer in Charge.

3. Delegation of Authority

There was no clear institutional guidance on delegation of authority resulting to compromised segregation of duties.

High Priority Recommendation:

- Review the existing delegation of authority matrix to align to appropriate thresholds and authorization levels.

4. Organization Structure

There were several large infrastructure projects that were supervised the Procurement officer while directly reporting to the Chief of Mission instead of Resource Management.

High Priority Recommendation:

- Consider hiring a professional civil engineer to oversee the infrastructure projects.

5. Sub-office bank account

Local staff use personal bank account to receive IOM funds since the sub-office does not have an IOM bank account in place. There were no pre-numbered receipts, and the Excel cashbook is not used to register expenses in the absence of a cash journal in the system.

High Priority Recommendation:

- Coordinate opening of a bank account for the sub-office and discontinue printing receipts in the office.

6. Purchase Orders

The country office procurement staff changed the expected delivery dates of purchase orders where the project end dates were still valid.

High Priority Recommendation:

- Avoid changing the expected delivery date of purchase orders unless there is a valid reason and both parties agreed to the change in date.

7. Contracting

Bank account of projects under arbitration have been frozen and the country office is unable to receive service fees from these projects to cover staff and other costs unless such arbitration cases are settled.

High Priority Recommendation:

- Observe strictly IOM standard terms for contracting and process for contract review and approval.

8. Implementing partners' contracts

Some Implementing Partners' contracts were neither entered in Material Management nor approved by Global Procurement and Supply Unit.

High Priority Recommendation:

- All contracts issued to Implementing partners must be entered in the system and those contracts exceeding USD100,000 should be approved by Global Procurement and Supply Unit.

9. Sustainability of operations

The country office is faced with a depleted fund position that puts at risk the sustainability of its operations.

High Priority Recommendation:

- Diversify donor sources to minimize dependence on service fees received.

10. Project Monitoring

The Project Manager reviews project monitoring reports every two-weeks. However, since the largest expenses are related to Implementing Partners for which no purchase orders were created in the system, the funding balance would be inaccurate.

High Priority Recommendation:

- All purchase orders above a specific threshold limit should be entered in the IOM system to capture the commitment.

11. Coordination issues – Venezuela Crisis

Due to the limited staff at the sub-office, there was a backlog in the assistance given to the identified vulnerable population.

High Priority Recommendation:

- Strengthen coordination and communication among the country offices in the region to implement activities and to share resources, where needed.

Management agreed with the recommendations. Of the 14 key findings and very high and high priority recommendations presented, 7 remain open and are in the process of implementation, related to financial accounting standards, tender process, evaluation and selection of contractors, country office strategic plan, organization structure, sub-office bank account, and contracting.

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.