IOM International Organization for Migration

EXECUTIVE SUMMARY

INTERNAL AUDIT REPORT

IOM Bucharest

RO201801

3 - 12 December 2018

Issued by the Office of the Inspector General

Report on the Audit of IOM Bucharest
Executive Summary
Audit File No. RO201801

The IOM Office of the Inspector General (OIG) conducted an internal audit of the IOM Bucharest, Romania (the "Country Office") from 3 to 12 December 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 January 2017 to November 2018. The Country Office recorded the following expenses based on IOM financial records:

- 2017 - USD 1,498,952 representing 0.094 per cent and 0.747 per cent of IOM Total and European Economic Area Region, respectively.
- As of November 2018 - USD 1,552,422 representing 0.095 per cent and 0.924 per cent of IOM Total and European Economic Area 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 Country Office as **partially effective** which means that "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 *and* those that are correctly designed are operating effectively".

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

1. Strategic plan
2. Annual leaves
3. Revenue recognition
4. General ledger accounts
5. Staff and office costs
6. IOM vehicles
7. Fire/property insurance
8. Backup and storage
9. Project financial monitoring
10. Project deficits

Key recommendations: Total = 24; High Priority = 10; Medium Priority = 14

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

    - Prioritize finalization of strategic plan.
    - Each staff member should discuss leave arrangements with his/her supervisor and for head office to re-evaluate staff workload.
    - Develop a standard operating procedure for the use of IOM vehicles for private use and establish accountability of drivers and other concerned staff.
    - Discuss with landlord the appropriate fire/property insurance coverage.
    - Prioritize acquisition of backup device and observe IOM guidelines for backup storage and location.
    - Establish an effective financial monitoring mechanism to ensure that no over or underspending will occur.
    - Consider contingency options for the projects incurring deficits.

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.

    - Promptly notify Central Accounting Support – Revenue as soon as amounts are due to IOM at the time of the payment request in order for them to recognize revenues immediately.

- Follow IOM guidelines and accounting principles to ensure proper categorization of expenses.
- Develop a staff and office costs forecast and monitoring tool for accurate information on remaining staff and office budgets across all projects.

There remain 14 Medium priority recommendations consisting of: 5 recommendations in Management and Administration, 2 recommendations each in Contracting and Personnel, 1 recommendation in finance and Accounting, and 4 recommendations in 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.

There was no Low priority recommendation noted.

Management comments and action plans

All 24 recommendations were implemented and closed as of 30 September 2019. 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.

I. About the Country Office

The main office is located in Bucharest, Romania. As of November 2018, the Country Office has 22 personnel categorized into: 20 staff and 2 non-staff. The Country Office recorded the following expenses based on IOM financial records for the following periods:

- 2017 – USD 1,498,952 representing 0.094 per cent and 0.747 per cent of IOM Total and European Economic Area Region, respectively.
- As of November 2018 – USD 1,552,422 representing 0.095 per cent and 0.924 per cent of IOM Total and European Economic Area Region, respectively.

The Country Office has a total portfolio of 25 projects and a total budget of USD 4,442,763. The top 2 projects by type:

- 9 Projects on Migrant Processing and Integration amounting to USD 2,274,297.75 or 51.19 per cent of the budget.
- 6 Projects on Resettlement Assistance amounting to USD 955,961.32 or 21.52 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 Country Office as **partially effective** which means that "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, *and* those that are correctly designed are operating effectively."

IV. Key Findings and High Priority Recommendations

1. Strategic plan
   The Country Office has not yet formalized a multi-annual strategic plan, outlining its short, medium, and long-term programming goals and objectives.

   High Priority Recommendation:
   - Prioritize finalization of strategic plan.

2. Annual leaves
   Due to heavy workload, some staff are unable to avail of their annual leave privilege. Because of the 60 days carry over limit for annual leaves, some staff lose their leave credits.

   High Priority Recommendation:
   - Each staff member should discuss their leave arrangements with his/her supervisor and for head office to re-evaluate staff workload.

3. Revenue recognition
   When payment requests for advances are submitted to the donors, the Country Office is not consistently informing Central Accounting Support – Revenue, therefore, revenue is not promptly recorded.

   High Priority Recommendation:
   - Promptly notify Central Accounting Support – Revenue as soon as amounts are due to IOM at the time of the payment request in order for them to recognize revenues immediately.

4. General ledger accounts
   Financial postings are not always accurate in using General Ledger accounts. There are many instances of erroneous postings to expense categories.

   High Priority Recommendation:
   - Follow IOM guidelines and accounting principles to ensure proper categorization of expenses.

5. Staff and office costs
   There is a Common Cost distribution tool which is a projectization forecast for staff and office costs showing percentages of allocations but are not supported by any current available budget figures.

   High Priority Recommendation:
   - Develop a staff and office costs forecast and monitoring tool for accurate information on remaining staff and office budgets across all projects.

6. IOM vehicles
   There were no standard operating procedures in place describing how reimbursement of personal use of IOM vehicles should be done. Further, the procedure for the posting of the fuel consumption to the projects versus the advance payment (fuel pre-paid cards) to the petrol company is unclear.

   High Priority Recommendation:
   - Develop standard operating procedures for the use of IOM vehicles for private use and establish accountability of drivers and other concerned staff.

7. Fire/Property Insurance
   The Country Office has no Fire/Property Insurance in place. The landlord has limited insurance only for natural catastrophes and the value of the insurable assets in the Country Office was erroneous.

   High Priority Recommendation:
   - Discuss with the landlord the appropriate fire/property insurance coverage.

8. Backup and storage
   Backup device is broken, and the Country Office has been without backups for several weeks. Backup tapes are kept in the server room which had become a storage for obsolete IT equipment.

   High Priority Recommendation:
   - Prioritize acquisition of backup device and observe IOM guidelines for backup storage and location.

9. Project financial 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.

   High Priority Recommendation:
   - Establish an effective financial monitoring mechanism to ensure that no over or underspending will occur.

10. Project Deficits
    There are two important projects that are running significant deficits. Eight staff members are directly working under these projects.

    High Priority Recommendation:
    - Consider contingency options for the projects incurring deficits.

Management agreed with the recommendations, and all 10 key findings and high priority recommendations presented have been closed and implemented as of 30 September 2019.

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.

<u>Audit Recommendations – Priorities</u>

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.