INTERNAL AUDIT DIVISION

REPORT 2014/091

Audit of payment of client missions' vendors by the Regional Service Centre in Entebbe

Overall results relating to the effective management of payment of client missions' vendors by the Regional Service Centre in Entebbe were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

24 September 2014
Assignment No. AP2014/616/01

CONTENTS

AUDIT REPORT

Audit of payment of client missions' vendors by the Regional Service Centre in Entebbe

I. BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of payment of client missions' vendors by the Regional Service Centre in Entebbe (RSCE).

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.   As part of the Global Field Support Strategy, the General Assembly approved the establishment of RSCE as a regional shared services centre, with responsibility for providing non-location dependent administrative and financial support such as the processing of vendor payments for the following missions:

- United Nations Office in Burundi;
- United Nations Integrated Peacebuilding Office in Central African Republic
- United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO);
- African Union-United Nations Hybrid Operation in Darfur (UNAMID);
- United Nations Interim Security Force for Abyei;
- United Nations Mission in the Republic of South Sudan (UNMISS);
- United Nations Support Office for the African Union Mission in Somalia; and
- United Nations Assistance Mission in Somalia.

4.   The activities of RSCE were governed by the RSCE Steering Committee, which comprised the Assistant Secretary-General of the Department of Field Support (DFS) and directors/chiefs of mission support of the above-mentioned missions. This Committee was responsible for monitoring and providing oversight of the performance of RSCE.

5.   The RSCE Vendor Service Line was responsible for reviewing invoices to ensure that goods and services were received in accordance with relevant contracts and the United Nations Financial Regulations and Rules, and for preparing the related disbursement vouchers. The Cashier Unit was responsible for paying vendors based on disbursement vouchers issued by the Vendor Service Line.

6.   The Vendor Service Line and Cashier Unit were both headed by officers at the P-4 level. As at 31 December 2013, the Vendor Service Line and Cashier Unit had 21 and 17 posts, respectively representing approximately 6 and 5 per cent of the posts of RSCE. The posts and other operational costs of RSCE, including those of the Vendors and Cashier Service Lines, were funded by client missions based on cost-sharing arrangements. The RSCE had a 2013/14 budget of $26.7 million for staff and $11.7 million for operational costs. From 1 January to 31 December 2013, RSCE made 9,171 payments valued at $1.1 billion to the vendors of MONUSCO, UNAMID and UNMISS. The other missions had not transferred any of their vendor payment functions to RSCE.

7.   Comments provided by DFS are incorporated in italics.

II.   OBJECTIVE AND SCOPE

8.   The audit was conducted to assess the adequacy and effectiveness of RSCE governance, risk management and control processes in providing reasonable assurance regarding the **effective management of payment of client missions' vendors by RSCE**.

9.   The audit was included in the OIOS 2014 risk-based work plan because of the operational and financial risks related to vendor payments made by RSCE.

10.   The key controls tested for the audit were: (a) risk management; (b) regulatory framework; and (c) performance monitoring. For the purpose of this audit, OIOS defined these key controls as follows:

(a)   **Risk management -** controls that provide reasonable assurance that risks relating to the effective and efficient transfer of the vendor review and payment function to RSCE are identified and assessed, and that action is taken to mitigate or anticipate risks.

(b)   **Regulatory framework -** controls that provide reasonable assurance that policies and procedures: (i) exist to guide the review and payment of vendors; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

(c)   **Performance monitoring** - controls that provide reasonable assurance that metrics are: (i) established and appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) prepared in compliance with rules and are properly reported on; and (iii) used to manage operations appropriately.

11.   The key controls were assessed for the control objectives shown in Table 1.

12.   OIOS conducted this audit from January to March 2014. The audit covered the period from 1 January 2013 to 28 February 2014.

13.   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 conducted necessary tests to determine their effectiveness.

III.   AUDIT RESULTS

14.   The RSCE governance, risk management and control processes examined were assessed as **partially satisfactory[1]** in providing reasonable assurance regarding the **effective management of payment of client missions' vendors by RSCE**. OIOS made five recommendations to address the identified issues. RSCE had established a service line for the payment of vendors and key performance indicators (KPIs) to measure its performance. However, although client missions agreed to fully transfer their vendor payment processes to RSCE in March 2013, this had not been fully implemented. Additionally, RSCE needed to: (a) fill vacant positions to ensure achievement of established KPIs; and (b) enhance KPIs to ensure that it monitors and reports on the end-to-end payment process.

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[1] A rating of **"partially satisfactory"** means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

15.   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 payment of client missions' vendors by RSCE	(a) Risk management	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Performance monitoring	Partially satisfactory	Partially satisfactory	Satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Risk management

Some vendor payment functions had not been transferred to the Regional Service Centre in Entebbe

16.   As part of the Global Field Support Strategy, field missions in East and Central Africa were required to transfer operational and transactional non-location dependent functions such as processing of vendor payments to RSCE. Missions agreed, through their respective service level agreements with RSCE, to transfer all of their vendor payment process to RSCE and the RSCE, through its Steering Committee, established a plan with a time table setting out the functions and the staff that would be transferred by 18 March 2013.

17.   The majority the field missions in East and Central Africa had not fully transferred the processing of vendor payments to RSCE:

- The United Nations Office in Burundi, the United Nations Integrated Peacebuilding Office in Central African Republic, the United Nations Interim Security Force for Abyei; and the United Nations Support Office for the African Union Mission in Somalia had not transferred any of their vendor payment functions;

- UNMISS transferred the processing of payments for its international vendors, but continued to process payments for local vendors; and

- MONUSCO and UNAMID continued to pay local vendors as well as a number of international vendors that offered prompt payment discounts. MONUSCO and UNAMID were of the view that RSCE did not have the capacity to process payments in time to take advantage of early payment discounts. However, RSCE had established a dedicated capacity to process payments to vendors offering prompt payment discounts and had obtained approval of the Controller to make these payments based on scanned copies of

invoices to prevent delays in receiving documents. RSCE had also successfully processed invoices of UNMISS vendors to take advantage of all prompt payment discounts.

18. Missions did not transfer all vendor payment functions as RSCE had not taken adequate and effective actions through its Steering Committee to ensure missions fulfilled their commitments. As a result, there were inefficiencies in the payment of vendors as RSCE functions were duplicated in missions, and the economies of scale anticipated by the Global Field Support Strategy were not being fully achieved.

> **(1) The RSCE, with the support of the RSCE Steering Committee, should update the plan for the transfer of vendor payment processing functions to RSCE and ensure that field missions comply with the plan.**
>
> *RSCE accepted recommendation 1 and stated that the plan for the transfer of non-location dependent payment processing functions still retained in missions would be presented to RSCE Steering Committee in September 2014. Once approved, action would be taken to transfer the functions.* Recommendation 1 remains open pending receipt of evidence that the agreed vendor payment processing functions have been transferred to RSCE.

B. Regulatory framework

Standard operating procedures needed to be developed

19. The Field Finance Procedures Guidelines required payment processors to: (a) review invoices and related documents to ensure that invoices presented were for the goods and services received, and were in accordance with contractual agreements; and (b) ensure that the Organization recovers applicable liquidated damages.

20. A review of 144 payments indicated that:

- In 39 cases, full payments were made against invoices although the delivery of the related goods and services was delayed. There were also no written communications from missions requesting RSCE to release payments without assessing approximately $1.1 million in possible liquidated damages related to 33 of the 39 reviewed payments. Subsequent to the audit, RSCE reviewed the 33 cases and determined that 21were not subject to liquidated damages and stated that it received confirmations from client missions for recovery of liquidated damages in only two of the remaining 12 cases but these were subsequently waived; and

- Thirty-eight payments were made based on internal purchase orders, which did not include the general terms and conditions for United Nations contracts. As a result, there was no evidence that RSCE considered these terms and conditions when processing transactions related invoices.

21. The above resulted as RSCE had not developed standard operating procedures for the payment of vendors that incorporated the changes that resulted from the transfer of the vendor payment function to RSCE and the implementation of Umoja.

> **(2) RSCE, in consultation with the Field Budget and Finance Division of the Department of Field Support, should develop standard operating procedures for the processing of vendor payments taking into account the implementation of Umoja and the centralization of this**

> **function by RSCE.**
>
> *RSCE accepted recommendation 2 and stated that it would develop standard operating procedures reflecting the changes brought about by Umoja.* Recommendation 2 remains open pending receipt of a copy of standard operating procedures for the processing of vendor payments, taking into account the implementation of Umoja and the centralization of this function in RSCE.

C. Performance monitoring indicators

Key performance indicators for paying vendors had not been achieved

22.   The report of the Secretary-General on the overview of financing of the United Nations peacekeeping operations (A/67/723) set out a KPI for the RSCE to pay valid vendors, which was 98 per cent within 28 days for 2012/13 and 27 days for 2013/14.   This process required completing the vetting of invoices and approval of payment vouchers within the Vendor Service Line as well as the electronic transfer of funds by the Cashier Unit.

23.   From 1 January 2013 to 28 February 2014, the Vendor Service Line took 27 days to complete and transmit on average 82 per cent, against the requirement of 98 per cent, of payment vouchers to the Cashier Unit. Also, from a sample of 43 payments, for 62 per cent of these payments OIOS calculated that the Cashier Unit took on average 5 days, against the required 3 days. RSCE had not implemented a system to track time taken by the Cashier Unit to make electronic transfer of funds.

24.   The inability of the RSCE to achieve KPIs was attributed to: (a) unavailability of staff from July 2013 as they were assigned responsibilities for the rollout of Umoja; and (b) the high vacancy rate since only 12 of the 21 authorized posts for the Vendor Service Line were encumbered. Non-achievement of KPIs had resulted in vendors' complaining to the Department of Management about payment delays.

> **(3) RSCE should expedite the recruitment to fill the vacant positions of the Vendor Service Line to ensure that vendor payments are made within the established timelines.**
>
> *RSCE accepted recommendation 3 and stated that it was in the process of filling vacant positions in the Vendor Service Line, and expected them to be filled by the end of March 2015.* Recommendation 3 remains open pending receipt of evidence that the vacant positions have been filled.

Development of key performance indicators and monitoring thereof needed to be enhanced

25.   RSCE was required to monitor and report to the RSCE Steering Committee on its vendor payment performance to ensure that bottlenecks were identified and appropriate actions were taken to improve the process.

26.   The RSCE KPIs for vendor payments did not include processes performed by field missions, such as the receiving and inspection function. Therefore, RSCE in preparing and reporting against its KPIs did not include the time spent by field missions on the vendor payment process. For example, RSCE excluded 851 pending invoices relating to periods from November 2013 to February 2014 in the March 2014 report against the RSCE KPIs. RSCE had not received sufficient supporting documentation such as receiving and inspection reports from concerned missions to enable it to initiate the payment process. RSCE explained that it excluded the invoices from reporting against its KPI because it was not accountable for delays resulting from missions' failure to provide supporting documents. However, RSCE needed to monitor and report to the RSCE Steering Committee the entire vendor payment process, and

not only the part RSCE was responsible for. This would ensure that the Organization consistently meets its contractual obligations to vendors, and would enable RSCE and mission management (who are members of the Steering Committee) to identify bottlenecks in the process and to take appropriate corrective action.

27.   As indicated above, the RSCE, in preparing its monthly performance reports for presentation to the RSCE Steering Committee, did not include the time taken by the Cashier Unit to make electronic fund transfers, which OIOS calculated was on average 5 days for a sample of 43 payments reviewed. This was mainly due to the lack of an appropriate system for capturing payment processing performance data, as well as a mechanism for monitoring and accurately reporting on processes performed by the Cashier Unit. As a result, the RSCE performance was generally overstated, reducing the effectiveness of the RSCE Steering Committee in providing oversight, and ultimately in identifying and addressing performance issues.

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(4) RSCE should develop key performance indicators that take into account the complete vendor payment process starting from the receipt of goods and services by field missions to the issuance of payment instructions by RSCE.

RSCE accepted recommendation 4 and stated that KPIs were designed to measure the time taken by RSCE finance to process payments after receipt of invoices, and delays arising from mission-based functions were not reflected. However, for the 2015/16 results-based budget performance reports, as part of the reengineering of the Service Line, RSCE would propose a KPI that measures the end-to-end process including mission-dependent functions. Recommendation 4 remains open pending receipt of evidence that the performance monitoring and reporting system for vendor payment processing takes into account all processes starting from the receipt of goods and services by field missions.

(5) RSCE should implement a system for capturing vendor payment processing data to facilitate monitoring and reporting on performance.

RSCE accepted recommendation 5 and stated that it developed and rolled out an electronic tracking system in the Vendors Service Line in the first half of 2014. Once the system was fully adopted, it would improve the monitoring and reporting of performance with respect to processing of payment transactions. Recommendation 5 remains open pending receipt of evidence that RSCE has implemented an adequate system for capturing its payment processing performance data.

IV.   ACKNOWLEDGEMENT

28.   OIOS wishes to express its appreciation to the Management and staff of RSCE and DFS 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 payment of client missions' vendors by the Regional Service Centre in Entebbe

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	The RSCE, with the support of the RSCE Steering Committee, should update the plan for the transfer of vendor payment processing functions to RSCE and ensure that field missions comply with the plan.	Important	O	Receipt of evidence that the agreed vendor payment processing functions have been transferred to the RSCE.	Second quarter of 2015
2	RSCE, in consultation with the Field Budget and Finance Division of the Department of Field Support, should develop standard operating procedures for the processing of vendor payments taking into account the implementation of Umoja and the centralization of this function by RSCE.	Important	O	Receipt of a copy of standard operating procedures for the processing of vendor payments, taking into account the implementation of Umoja and the centralization of this function in RSCE.	Third quarter of 2015
3	RSCE should expedite the recruitment to fill the vacant positions of the Vendor Service Line to ensure that vendor payments are made within the established timelines.	Important	O	Receipt of evidence that the vacant positions have been filled.	First quarter of 2015
4	RSCE should develop key performance indicators that take into account the complete vendor payment process starting from the receipt of goods and services by field missions to the issuance of payment instructions by RSCE.	Important	O	Receipt of evidence that the performance monitoring and reporting system for vendor payment processing takes into account all processes starting from the receipt of goods and services by field missions	Third quarter of 2015
5	RSCE should implement a system for capturing vendor payment processing data to facilitate monitoring and reporting on performance.	Important	O	Receipt of evidence that RSCE has implemented an adequate system for capturing its payment processing performance data.	Third quarter of 2015

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[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 DFS in response to recommendations.

APPENDIX I

Management Response

United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: A:	Ms. Eleanor Burns, Director Internal Audit Division, OIOS

DATE: **AUG 1 4 2014**

THROUGH:
S/C DE:

REFERENCE: UNHQ-AR-BOI-Memo-2-2014-1750

FROM:
DE: Anthony Banbury, Assistant Secretary-General
Department of Field Support

SUBJECT:
OBJET: **AP2014/616/01 - Draft report on an audit of the Regional Service Centre in Entebbe's payment of client missions' vendors**

1.   I refer to your memorandum dated 23 July 2014 regarding the above-mentioned audit. Please find attached our comments on the recommendations and issues contained in the report. In formulating our response, we have conferred with the respective officials in DFS and RSCE and their comments, where appropriate, have been incorporated in this reply.

2.   Thank you for the opportunity to comment on the draft report. We stand ready to provide any further information that may be required.

cc: Ms. Cynthia Avena-Castillo

Management Response

Audit of payment of client missions' vendors by the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The RSCE, with the support of the RSCE Steering Committee, should update the plan for the transfer of vendor payment processing functions to RSCE and ensure that field missions comply with the plan.	Important	Yes	Chief, RSCE	Second quarter of 2015	The plan for the transfer of non-location dependent payment processing functions that are still retained in the missions to the Regional Service Centre Entebbe (RSCE) is scheduled for discussion and approval by the RSCE Steering Committee in September 2014. Once approved, action will be initiated to transfer the functions.
2	RSCE, in consultation with the Field Budget and Finance Division of the Department of Field Support, should develop standard operating procedures for the processing of vendor payments taking into account the implementation of Umoja and the centralization of this function by RSCE.	Important	Yes	Chief, RSCE	Third quarter of 2015	DFS comments are reflected in the draft report. The Department does not have any further comments.
3	RSCE should expedite the recruitment to fill the vacant positions of the Vendor Service Line to ensure that vendor payments are made within the established timelines.	Important	Yes	Chief, RSCE	First quarter of 2015	RSCE is in the process of filling the vacant positions in Vendor Service Line. The anticipated completion time is the first quarter of 2015.
4	RSCE should develop key performance indicators that take into account the complete vendor payment process starting from the receipt of goods and services by field missions to the issuance of payment instructions by RSCE.	Important	Yes	Chief, RSCE	Third quarter of 2015	DFS comments are reflected in the draft report. The Department does not have any further comments.

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[1] 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.

[2] 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 payment of client missions' vendors by the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
5	RSCE should implement a system for capturing vendor payment processing data and to facilitate monitoring and reporting on performance.	Important	Yes	Chief, RSCE	Third quarter of 2015	An electronic tracking system was developed and rolled out in the Vendors Service Line in the first half of 2014. Once the system is fully adopted, it will improve the monitoring and reporting of performance with respect to processing of payment transactions.