



INTERNAL AUDIT DIVISION

REPORT 2018/150

Audit of payroll processing at the
United Nations Office at Nairobi

Payroll was processed in a timely manner but
controls needed to be strengthened to
ensure accuracy of data

31 December 2018
Assignment No. AA2017/210/01

Audit of payroll processing at the United Nations Office at Nairobi

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of payroll processing at the United Nations Office at Nairobi (UNON). The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes in ensuring the accurate and efficient processing of payroll at UNON. The audit covered the period from June 2015 to 30 June 2018 and included a review of: (i) payroll administration and processing; (ii) payroll accounting and reporting; and (iii) records management.

OIOS made three important recommendations. To address the issues identified in the audit, UNON needed to:

- Ensure that the Payroll Unit reviews the pay variances identified and adequately addresses the underlying causes to ensure the accuracy and completeness of payroll data; and periodically reviews the variances below the 15 per cent threshold to confirm their validity;
- Ensure that the Payroll Unit performs regular reconciliation for all bulk uploads and other deductions to ensure the accuracy of the processed deductions and remittances to recipient organizations; and
- Ensure that the Payroll Unit establishes and maintains a proper records management system in accordance with the Organization's standards to enable proper storage and easy retrieval of payroll records.

UNON accepted the recommendations and has implemented two of them. The third recommendation was under implementation.

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	1-2
III. AUDIT RESULTS	2-7
A. Payroll administration and processing	2-5
B. Payroll accounting and reporting	5-6
C. Records management	6-7
IV. ACKNOWLEDGEMENT	7
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

Audit of payroll processing at the United Nations Office at Nairobi

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of payroll processing at the United Nations Office at Nairobi (UNON).
2. The UNON Payroll Unit within the Staff Pay & Benefits Section (SP&B) provides payroll services to over 2,600 personnel of the United Nations Environment Programme (UNEP), the United Nations Human Settlements Programme (UN-Habitat), UNON, OIOS, the United Nations Dispute Tribunal (UNDT), the International Fund for Agricultural Development (IFAD), and the Economic Commission for Africa (ECA).
3. The payroll services provided include processing of salaries, staff entitlements, separation benefits, pension, settling-in and relocation grants, residential security allowances, insurance benefits and other allowances. UNON, however, does not process payroll for UNEP and UN-Habitat staff who are administered by other agencies such as the United Nations Office for Project Services and the United Nations Development Programme.
4. The UNON Payroll Unit uses the enterprise resource planning system Umoja for processing payroll. For the period 1 June 2015 to 30 June 2018, the Unit processed net salaries and entitlements totaling \$803.5 million pertaining to 2,633 staff members (on average), as summarized in Table 1.

Table 1: Payroll expense for the period from 1 June 2015 to 30 June 2018

Year	Total number of staff	Amount (\$)
2015 (June to December)	2,428	139,558,213
2016	2,774	239,777,246
2017	2,687	03,301,727
2018 (January to June)	2,644	120,860,861
Total		03,498,047
Average number of staff	2,633	

5. As of 30 June 2018, the UNON Payroll Unit had seven approved posts of which six were encumbered. A Finance Officer (P-4) heads the Payroll Unit supported by five General Service staff. The Finance Officer reports to the Chief (P-5), SP&B.
6. Comments provided by UNON are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes in ensuring the accurate and efficient processing of payroll at UNON.
8. This audit was included in the 2017 risk-based work plan of OIOS due to the risks associated with payroll processing which could potentially cause over-expenditures to the Organization.
9. OIOS conducted this audit from March to August 2018. The audit covered the period from 1 June 2015 to 30 June 2018. Based on an activity-level risk assessment, the audit covered risk areas which

included: (i) payroll administration and processing; (ii) payroll accounting and reporting; and (iii) records management.

10. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) tests of controls using random and stratified sampling.

11. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Payroll administration and processing

Monthly payrolls were processed in a timely manner

12. The UNON Payroll Unit is mandated to provide payroll services for over 2,600 personnel in UNEP, UN-Habitat, UNON, OIOS, UNDT, IFAD and ECA in an accurate and timely manner. UNON had set the annual timetable indicating the payday for each month for the payment of salaries to staff members, including provision of pay slips.

13. OIOS reviewed 13 out of 37 payroll months for the period 1 June 2015 to 30 June 2018 for timeliness and accuracy in processing payroll and payments. The UNON Payroll Unit had conducted payroll simulations in a timely manner to identify exceptional cases such as nil pay and large payments (where salary variances equal to or exceed 15 percent of prior month's pay) which enabled their timely resolution before processing the final pay. For the 13 months, OIOS also tested a sample of the staff pay details and validated them against the respective pay-slips and cashiers files used to transfer net pay to employee bank accounts. The details were further compared to immediate employee previous month's pay and explanations obtained for variances noted. The payrolls reviewed were all processed on time and staff were paid as per established timetables. OIOS concluded that the UNON Payroll Unit processed the monthly payroll within the mandated timeframe.

Staff separation entitlements were processed appropriately

14. A total of 789 staff separated between 1 June 2015 and 30 June 2018. The UNON Payroll Unit was required to ensure accuracy of payments for separating staff by checking and verifying pension entry date, adjusting any special leave without pay or leave with half pay of more than one month, offsetting payables and receivables, clearance of staff and that all assets of the organizations have been accounted for, and clearance of credit unions.

15. OIOS reviewed separation records for 80 out of the total of 789 staff separations for compliance with the clearance requirements and timely processing of separation entitlements. Human Resource (HR) Partners processed the clearance of the separating staff members before forwarding a separation payment personnel action to the UNON Payroll Unit for separation payments. The UNON Payroll Unit then checked for any outstanding amounts owed to the organization by the separating staff member, including medical insurance co-pay, staff union loans, telephone recoveries and United Nations Cooperative Savings and Credit Society (UNSACCO) recoveries to ensure that they were processed in the separation payroll.

16. In all the 80 cases reviewed, separation entitlements were processed in a timely manner, subject to the timeliness of the clearance processes by the separating staff members before final pay was processed. OIOS concluded that the UNON Payroll Unit had appropriately processed the entitlements for separating staff members.

Processing of off-cycle payments was appropriate

17. Off-cycle payments are a one-off payment to staff members initiated by HR Partners, which relate to relocation grant, assignment grant, education grant, and salary advances through the off-cycle workflow bench in Umoja Employee Self Service module. The UNON Payroll Unit is required to include or validate the off-cycle payment reason, date of payment, currency and amount before further processing and disbursement.

18. For the period 1 June 2015 to 30 June 2018, there were a total of 600 off-cycle payments valued at about \$2.8 million processed by the UNON Payroll Unit. OIOS reviewed a total of 30 off-cycle payments valued at approximately \$624,565 relating to relocation grant, assignment grant, education grant, and salary advances that were processed during the period under review and confirmed that they complied with established guidelines. OIOS concluded that the UNON Payroll Unit had appropriately processed off-cycle payments.

Need to review staff salary variations

19. The UNON payroll standard operating procedures require the Payroll Team Leader to generate a variance report to show percentage change in entitlements between the current month's payroll and previous month's actual payroll. The report is distributed to Payroll Auditors to review and provide comments on variances equal to or exceeding 15 per cent of exceptions noted. Exceptions arise mainly due to recoveries, missing entitlements, erroneous entitlements and retrospective payments. Any exceptions are escalated to HR Partners and Officers for correction. The Payroll Partners were further required to review, audit and validate entitlements after each payroll simulation and provide cumulative comments in the simulation database called HANA (an Umoja business intelligence reporting tool).

20. OIOS analysis of the November 2015, May 2016, December 2016, July 2017, December 2017 and March 2018 payroll simulations indicated that the required comments were not provided in a majority of the cases identified where salaries varied by over 15 per cent. Table 2 below shows the level of compliance with the need to provide comments where variances exceeded the 15 per cent threshold.

Table 2: Comments provided for variances exceeding the threshold of 15 per cent

Month	Staff category	Total cases with variance over 15%	Total cases without comments	Total cases with comments	Percentage of compliance
November 2015	Local	411	358	53	13%
November 2015	International	328	285	43	13%
May 2016	Local	469	342	127	27%
May 2016	International	248	149	99	40%
December 2016	Local	388	363	25	6%
December 2016	International	204	153	51	25%
July 2017	Local	371	363	8	2%
July 2017	International	985	962	23	2%
December 2017	Local	404	90	314	78%

Month	Staff category	Total cases with variance over 15%	Total cases without comments	Total cases with comments	Percentage of compliance
December 2017	International	217	176	41	19%
March 2018	Local	667	617	50	7%
March 2018	International	155	0	155	100%

21. OIOS also noted that the UNON Payroll Unit had not established a mechanism to periodically review the validity of the variations that fell below the 15 per cent threshold. Such a review would enable timely detection and correction of any errors/omissions.

22. The UNON Payroll Unit indicated that due to the high frequency of such cases arising during each payroll month, coupled with the current staffing levels, the Unit was unable to review and validate all the identified cases as required. However, from June 2018, the Unit commenced the review and validation of cases with variances below 15 per cent.

23. The absence of review and validation of the identified payroll variances did not provide assurance that the payroll payments were accurate and complete, and that the impact of the variations on the staff member and the Organization was adequately mitigated.

(1) UNON should ensure that the Payroll Unit: (i) reviews the pay variances identified and adequately addresses the underlying causes to ensure the accuracy and completeness of payroll data; and (ii) periodically reviews the variances below the 15 per cent threshold to confirm their validity.

UNON accepted recommendation 1 and stated that reviews are being performed and recorded in the Payroll Analysis tool (HANA) and now form part of its key performance indicators as of January 2018. Based on action taken by UNON, recommendation 1 has been closed.

Pay-slips were provided to staff members as required

24. Employers are legally bound to provide a pay-slip to an employee at the end of a pay period which details the amount of pay accrued and paid to the employee for the period, deductions and contributions, and any other statutory deductions. Pay-slips also act as a detective control by allowing staff members the opportunity to identify any errors.

25. All staff members on payroll are required to receive their monthly salary statements in form of pay-slips. These are generated monthly and electronically sent to the staff members on payday. The UNON Payroll Unit provided pay-slips to staff on a monthly basis except for an average of three staff whose electronic mail addresses were missing in Umoja. This was mainly for new staff or transferred staff whose data was not properly maintained or updated by their HR Partners. Lists of the missing pay-slips were forwarded to respective HR Partners for their action. OIOS concluded that controls were adequate in ensuring that staff received their pay-slips for each payroll month.

B. Payroll accounting and reporting

Need for payroll related reconciliation

(i) Reconciliation of bulk uploads and other deductions to remittances

26. By the fifth of each month, the UNON Payroll Unit receives various bulk payment files relating to payroll deductions on behalf of entities such as UNSACCO and Staff Union. The UNON Payroll Unit also processes other bulk deductions such as Medical Insurance Plan (MIP) co-pay and telephone bills recoveries. Reconciliation was required between the total amounts per lists received from these entities against the total deducted from staff members' pay and funds remitted to the entities.

27. A review of eight out of the 37 payroll months (September 2015, March 2016, April 2017, July 2017, October 2017, November 2017, December 2017 and May 2018) showed that only the deductions relating to UNSACCO were reconciled. There were no reconciliations for deductions made for the MIP co-pay, Staff Union loans and contributions, and telephone recoveries. The UNON Payroll Unit indicated that due to resource constraints, it was unable to reconcile all accounts for which it processed bulk deductions. Lack of reconciliation could result in inaccurate amounts being deducted, and errors and omissions going undetected.

(ii) Reconciliation of payroll to the general ledger

28. As part of internal control, the UNON Payroll Unit is expected to carry out a reconciliation of the payroll with the general ledger to ensure proper accounting of payroll expenses. The payroll reconciliation process ensures that all accounts are accurate as reported and that the general ledger is in balance for each pay period. Timely reconciliation helps the organization to: (i) save time and resources by simplifying and streamlining the period-end process; and (ii) minimize the need for direct supervisory intervention during the financial accounts closure process.

29. A comparison of the payroll expense totals and related amounts posted to the general ledger indicated differences as summarized in Table 3.

Table 3: Comparison between general ledger and payroll expenses

Month and Year	General Ledger (\$)	Payroll (\$)	Difference (\$)
July 2015	17,294,803	18,183,595	(888,791)
January 2016	19,500,907	18,706,421	794,486
December 2017	25,621,646	26,615,223	(993,576)
June 2018	18,756,630	21,135,561	(2,378,931)

Source: Umoja

30. The differences were attributed to payroll items processed in retrospect for various payroll line items. OIOS noted that the vendor insurance related liabilities were incorrectly mapped to the general ledger resulting in discrepancies. Consequently, the total payroll expense differed from the corresponding amount in the general ledger.

31. There was no evidence that the UNON Payroll Unit reconciled the payroll amounts to the general ledger to ensure these were properly posted. Therefore, there is a risk that errors and irregularities may not be detected and corrected in a timely manner.

(2) UNON should ensure that the Payroll Unit performs regular reconciliation for all bulk uploads and other deductions to ensure accuracy of the processed deductions and remittances to recipient organizations.

UNON accepted recommendation 2 and stated that steps have been taken to ensure monthly reconciliations are performed consistently for all mass-upload files and variances reported accordingly. Based on action taken by UNON, recommendation 2 has been closed.

C. Records management

Need for records to be systematically managed

32. The Secretary-General's bulletin on record-keeping and the management of United Nations archives (ST/SGB/2007/5) sets out the rules and procedures to be followed in respect of the creation, management and disposition of physical records, electronic records, archives and non-current records of the United Nations. Further, it requires departments and offices to develop procedures to identify and manage their vital records, including electronic records as part of overall Secretariat disaster recovery and business continuity planning, in keeping with the guidelines to identify vital records established by the Archives and Records Management Section.

33. The UNON Payroll Unit had not established an adequate physical and electronic record management system for its records. Records were either stored on unsecured shared drives or in staff email archives which were not accessible to others. As a result:

(a) It was difficult to locate the records when required to support some of the activities undertaken. For instance, the UNON Payroll Unit was not able to retrieve records for bulk payment reconciliations for the years 2015 and 2016. UNON indicated that these records were maintained in the email accounts of staff members who had since separated from the Unit. These records would have been useful for verification of payments and reconciliations;

(b) It would be a challenge for the UNON Payroll Unit to organize and prepare the records for archiving as required by the relevant rules and procedures;

(c) Inefficient use of resources when staff spend time reconstructing lost records or searching for misplaced records; and

(d) Records may be lost or rendered unreliable in the absence of control over the documents stored in staff emails and shared drives since their access is not controlled, and alterations are not tracked or authenticated.

34. It was not immediately clear why the UNON Payroll Unit had not established an adequate records management system to streamline management of its records. The Unit acknowledged this limitation and the need for a proper mechanism for management of payroll records.

(3) UNON should ensure that the Payroll Unit establishes and maintains a proper records management system in accordance with the Organization's standards to enable proper

storage and easy retrieval of payroll records.

UNON accepted recommendation 3 and stated that it recognizes the need to establish a unified records management system and will liaise with the Office of Programme Planning, Budget and Accounts, as business process owners, to implement a system-wide records management that will meet the standards that will be set for the Global Service Delivery Model. Recommendation 3 remains open pending evidence of establishment of a records management system for proper storage and easy retrieval of payroll records.

IV. ACKNOWLEDGEMENT

35. OIOS wishes to express its appreciation to the management and staff of UNON for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of payroll processing at the United Nations Office at Nairobi

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNON should ensure that the Payroll Unit: (i) reviews the pay variances identified and adequately addresses the underlying causes to ensure the accuracy and completeness of payroll data; and (ii) periodically reviews the variances below the 15 per cent threshold to confirm their validity.	Important	C	Action completed.	Implemented
2	UNON should ensure that the Payroll Unit performs regular reconciliation for all bulk uploads and other deductions to ensure the accuracy of the processed deductions and remittances to recipient organizations.	Important	C	Action completed.	Implemented
3	UNON should ensure that the Payroll Unit establishes and maintains a proper records management system in accordance with the Organization's standards to enable proper storage and easy retrieval of payroll records.	Important	O	Receipt of evidence of establishment of a records management system for proper storage and easy retrieval of payroll records.	30 June 2019

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

³ C = closed, O = open

⁴ Date provided by UNON in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of payroll processing at the United Nations Office at Nairobi

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNON should ensure that the Payroll Unit: (i) reviews the pay variances identified and adequately addresses the underlying causes to ensure the accuracy and completeness of payroll data; and (ii) periodically reviews the variances below the 15 per cent threshold to confirm their validity.	Important	Yes	Chief Payroll Unit/Deputy Chief Staff Pay and Benefits Section, HRMS	Done	UNON recommends closure of this recommendation and confirms that reviews are being performed and recorded in the Payroll Analysis tool (HANA) and now form part of its key performance indicators as of January 2018.
2	UNON should ensure that the Payroll Unit performs regular reconciliation for all bulk uploads and other deductions to ensure the accuracy of the processed deductions and remittances to recipient organizations.	Important	Yes	Chief Payroll Unit/Deputy Chief Staff Pay and Benefits Section, HRMS	Done	UNON recommends closure of this recommendation as it is already implemented.
3	UNON should ensure that the Payroll Unit establishes and maintains a proper records management system in accordance with the Organization's standards to enable proper storage and easy retrieval of payroll records.	Important	Yes	Chief Payroll Unit/Deputy Chief Staff Pay and Benefits Section, HRMS	30 June 2019	UNON Recognizes the need to establish a unified records management system both locally and in the context of a global payroll center. UNON will therefore liaise with OPPBA, as Business Process Owners, to ensure that the local system to be implemented is in line with a system-wide records management that will meet the standards that will be set for the Global Service Delivery Model

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.