INTERNAL AUDIT DIVISION

REPORT 2019/011

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

The upgrade project had achieved most of its major objectives, but there was a need to address some residual deficiencies

13 March 2019
Assignment No. AR2018/166/02

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the upgraded MSRP Finance and Supply Chain (FSC) Module at the Office of the United Nations High Commissioner for Refugees (UNHCR). The objective of the audit was to assess whether the MSRP FSC Module upgrade had achieved its key objective of improving the operational efficiency of UNHCR and enhanced the internal controls in UNHCR's business processes. The audit covered the period from 1 July 2017 to 30 June 2018. The audit covered the use of the MSRP FSC Module at headquarters and in field operations, and included a review of: compliance with the International Public Sector Accounting Standards, travel processing, reporting, and user management.

The upgrade project had achieved most of its major objectives. The obsolescence risk was mitigated; the treasury functions were integrated within FSC; monthly accrual of receipts was automated; purchase orders to capture the cost of property, plant and equipment were grouped; processing of official travel was more efficient and transparent; security in transmitting payments to banks was improved; and controls to detect potential fraudulent payments were strengthened. However, UNHCR still needed to take requisite action to achieve the remaining objectives of the upgrade.

OIOS made eight recommendations. To address issues identified in the audit, UNHCR needed to:

- Review transactions where the invoice date preceded the purchase order date and determine the related risks and impact; and establish a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events is not adhered to;
- Rectify the incorrect application of exchange rates in the capitalization of assets, attributable to MSRP system errors, and ensure that the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual are aligned;
- Build the necessary automated controls to efficiently perform validation checks on electronic funds transfer data;
- Ensure that the status of each electronic funds transfer, as reflected in the Financial Gateway, matches its corresponding status in the bank statement;
- Produce a comprehensive list of roles in the MSRP system; define all conflicting combinations of roles and establish validation controls to prevent their assignment in MSRP to a single user; and implement tools and processes to log role change requests, approvals by managers and their implementation in the system;
- Train staff on the risks involved in the vendor entry, certifying and approving roles and on the adoption of mitigation measures of those risks; and more clearly define and assign such roles to staff members commensurate with their responsibilities and accountabilities;
- Process all mission and statutory travel within the Travel and Expense Module and monitor compliance; and
- Reinforce and continue with efforts to implement the Business Intelligence project to enhance the reporting and data analytics capabilities of the MSRP FSC Module.

UNHCR accepted the recommendations, implemented one recommendation, and initiated action to implement the remaining ones.

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Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugee

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the upgraded Managing for Systems, Resources and People (MSRP) Finance and Supply Chain (FSC) Module at the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. UNHCR launched MSRP, its enterprise resource planning (ERP) system, project in 2002 to replace the mainframe based legacy systems. The PeopleSoft Finance and Supply Chain version 8.4 was implemented in headquarters in 2004 and deployed to field offices between 2005 and 2007. In 2007, UNHCR also implemented the Treasury Management System version 9.0 and the Enterprise Performance Management version 8.9. With the cessation of support for existing PeopleSoft/Oracle products, UNHCR became solely responsible for ensuring that the different technological components continued to work as an integrated system to support its business. Therefore, as UNHCR faced the risk of the system collapsing due to compatibility issues between applications, databases and hardware, it launched the MSRP Upgrade Project in 2013 with the objective of updating the organization's ERP system in the areas of budgeting, financial management and supply chain management.

3. While technological obsolescence and the support concerns provided the strongest justification for the MSRP upgrade, UNHCR also expected the following benefits from the system upgrade to version 9.2:

- Reduced cost of system support and maintenance and consolidation of the different PeopleSoft databases into one single instance;
- Improved system supportability and maintainability by eliminating customizations in favour of standard functionality;
- Introduction of operational and business efficiencies including the automation or elimination of a number of manual activities currently required to comply with the International Public Sector Accounting Standards (IPSAS);
- Strengthened compliance with United Nations/UNHCR Financial Regulations and Rules;
- Enhanced system security and controls;
- Enhanced statutory and management/donor reporting and enhanced analytical capabilities;
- Reduced risks related to lack of interoperability with the new version of the MSRP Human Resources Module; and
- Updated technology to support present and future developments and functionality expansion.

4. The multi-phase project to upgrade MSRP FSC to 9.2 version was formally launched in August 2013. The principal divisions who own the FSC business processes are the Division of Financial and Administrative Management (DFAM) and the Division of Emergency, Security and Supply (DESS). The Project Steering Committee comprising of DFAM, DESS, Division of External Relations and Division of Information Systems and Telecommunications managed the upgrade project. The upgraded system went live in May 2017.

5. The project incurred expenditures of $17 million (against the budget of $24 million), and was officially closed in August 2017.

6. Comments provided by UNHCR are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess whether the MSRP FSC Module upgrade had achieved its objective of improving the operational efficiency of DFAM and DESS and enhanced the internal controls in their business processes.

8. This audit was included in the 2018 risk-based work plan of OIOS due to inherent risks relating to the design, development and implementation of the MSRP upgrade, which could potentially impact the effectiveness and efficiency of financial and supply processes in UNHCR.

9. OIOS conducted this audit from August to November 2018. The audit covered the period from 1 July 2017 to 30 June 2018. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the use of the MSRP FSC Module at headquarters and in field operations, which included: compliance with IPSAS (procure-to-pay), travel processing, reporting and user management. The audit did not review project management aspects as they may be covered in a separate audit and income recording and donor reporting issues as these areas have already been recently audited.

10. The audit methodology included: (a) interviews of key personnel; (b) reviews of relevant documentation; (c) analytical reviews of data; (d) observation of the system functionality; and (e) sample testing of MSRP FSC data and reports.

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

III. AUDIT RESULTS

A. Procure-to-pay

<u>There was a need to monitor and analyze procurement transactions where the invoice date preceded the purchase order date</u>

12. One of the objectives of the MSRP upgrade was to meet the demands of the revised budget structure and to comply with the IPSAS requirements. In accordance with IPSAS accrual basis accounting, expense recognition occurs at the time of delivery by the supplier or service provider and acceptance of goods and services.

13. Chapter 6 of the UNHCR Manual specifies that MSRP system controls automatically perform checks of transactions to enforce IPSAS requirements and those related to the UNHCR Financial Rules. For instance, control measures over purchase order transactions include the following sequence of events in MSRP: (a) a requisition is created and approved; (b) a purchase order is created and approved; (c) a receipt is entered for the goods and services received against the purchase order; (d) a purchase order voucher is processed when a vendor's invoice is received; and (e) payment is executed when it is due.

14. Based on the above sequence of events and controls, an invoice from a vendor should be processed after the issuance of the purchase order and usually after the goods and services have been delivered. In order to check the adequacy of the controls in the upgraded MSRP, OIOS tested procurement transactions for exceptions between July 2017 and June 2018 and noted several instances where the mandatory sequence in the process was not adhered to. For instance, for 6,150 transactions, the purchase order date was later

than the invoice date. The total value of such transactions for the period July 2017 to June 2018 aggregated to $48 million and $17 million for UNHCR field offices and headquarters respectively.

15. As a result, the upgraded system and process controls were insufficient to either prevent processing non-compliant procurement transactions or flag them as exceptions to the business owners for review. The three-way matching control (purchase order, receipt and payment) in the system did not identify these exceptions. Therefore, there was a potential risk that vendors delivered goods and services without receiving formal purchase orders. The lack of adequate controls in the system also increased the risk that irregularities went undetected, as well as the risk of inability to establish accountability in such instances.

(1) The UNHCR Division of Financial and Administrative Management should: (a) review the transactions where the invoice date preceded the purchase order date and determine the related risks and impact; and (b) establish a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events is not adhered to.

UNHCR accepted recommendation 1 and stated that it would review the transactions falling under the category described in part (a) of the recommendation. To address part (b), UNHCR would modify the parameters of the three-way matching process within MSRP to ensure that transactions that fail the three-way matching check are automatically routed for review by an approving officer. Recommendation 1 remains open pending confirmation, with documentary evidence, that UNHCR has: (a) reviewed the transactions where the invoice date preceded the purchase order date and determined the related risks and impact; and (b) established a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events was not adhered to.

<u>There was a need to correctly record the procurement cost of property, plant and equipment and inventories procured in non-US dollar currencies</u>

16. The MSRP upgrade aimed to improve system supportability and maintainability through development of standard functionality to comply with IPSAS. For instance, previously the purchase price (including application of exchange rates) for property, plant and equipment (PPE) and the direct costs of bringing PPE to a location and installing it required manual intervention. The current upgrade partly addressed this by grouping all related costs at the time of raising the requisition.

17. The UNHCR Manual and the Procedure for Accrual of Receipts specifies that PPE and inventory items are moved into the Asset Management or Cost Accounting Modules of FSC respectively when they are physically received by UNHCR offices. For recording the values of PPE and inventory items procured under purchase orders denominated in non-US dollar currencies, the US dollar value is calculated using the United Nations Operational Rate of Exchange (UNORE) prevailing at the date of receipt.

18. OIOS tests showed differences between the exchange rates used and UNORE when processing purchase orders denominated in non-US dollar currencies in the Asset Management and Cost Accounting Modules. This was contrary to the accounting policy and resulted in erroneous values for PPE and inventory in the Asset Management and Cost Accounting Modules. For example, UNHCR purchased: (a) 215 vehicles for ¥535,036,500 and used the UNORE prevailing at the time of purchase instead of the rate applicable at the time of delivery, resulting in these assets being understated by $219,000; and (b) 165.5 tons of ready-to-use therapeutic food at a cost of €430,560, which was recorded in the Cost Accounting Module at $534,857, whereas the value of the stock at the time it was received in May 2018 was $520,000. This resulted in these items being overstated by $14,857.

19. The above data inconsistencies were due to the erroneous application of exchange rates between Accounts Payable and Asset Management Module and Cost Accounting Module interfaces. Since UNHCR field operations undertake significant procurement in non-US dollar currencies, there is a risk of similar errors occurring.

(2) The UNHCR Division of Financial and Administrative Management should: (a) rectify the incorrect application of exchange rates in the capitalization of assets which are attributable to MSRP system errors; and (b) ensure that the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual are aligned.

UNHCR accepted recommendation 2 and stated that it would rectify the incorrect application of exchange rates to address part (a) of the recommendation and align Chapter 6 of the UNHCR Manual to reflect the MSRP logic to address part (b). Recommendation 2 remains open pending receipt of evidence confirming: (a) rectification of the incorrect application of exchange rates in the capitalization of assets which are attributable to MSRP system errors; and (b) the alignment of the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual.

There was a need to automate the resource intensive payment data verification process

20. One of the objectives of the upgrade was to reduce manual activities and improve processing efficiencies. Execute Payment is the last step in the procure-to-pay process in the FSC Module. Once the payment vouchers are approved in MSRP, they are routed through automated workflows to a process for payment, called the Pay Cycle. The output generated from this process is passed to banks through the Financial Gateway. The Financial Gateway in MSRP provides the layouts and functionality needed to process electronic payments, load electronic bank statements and payment acknowledgments.

21. UNHCR implemented a centralized payment solution in the Accounts Payable Unit, DFAM, which processed vouchers by country offices to be paid electronically from bank accounts maintained centrally by headquarters and also from the bank accounts of some of these country offices. Centralized payments have brought significant benefits to UNHCR in terms of enhanced foreign exchange management, reduced bank charges, better cash planning, better control over investments, and efficient use of available funds. Country offices have been encouraged to use this facility as much as possible.

22. The Accounts Payable Unit performed the pay cycle process in multiple currencies and effected over 81,000 electronic funds transfer payments (most payments had multiple vouchers) in the first nine months of 2018. About two thirds of the payments pertained to headquarters and the balance to field offices. Before releasing the payments data to banks, the Accounts Payable Unit imported the data into multiple spreadsheets and performed several checks to confirm its validity before processing it, such as the SWIFT code; that the beneficiary banking details complied with other local requirements and had a valid routing code; the IBAN codes for vendors paid in Europe had valid structures; and the established protocols were observed for releasing payments to vendors in sanctioned countries.

23. Only two staff were responsible for these validation checks, which were resource intensive and cumbersome, and the spreadsheets used were programmed with complex formulae that had evolved over a period of time. Consequently, there was a risk that the payment process could be adversely affected due to lack of staffing capacity or if the spreadsheets were to no longer function correctly. As a result, OIOS assessed that following the FSC upgrade, manual interventions had not been reduced and processes had not been simplified.

(3) The UNHCR Division of Financial and Administrative Management should build the necessary automated controls to efficiently perform the validation checks on the electronic funds transfer data.

UNHCR accepted recommendation 3 and stated that it would design and implement additional automated controls in MSRP to reinforce data validation checks, including through the use of best practice validation tools developed by other United Nations agencies. Recommendation 3 remains open pending receipt of evidence of the implementation of automated controls to reinforce data validation.

The Financial Gateway Module needed to reflect the correct status of electronic funds transfers

24. The Financial Gateway Module is a two-way communication channel where approved payment files from different MSRP modules such as Accounts Payable, Travel and Payroll are seamlessly released to banks in an encrypted and secure manner. Authorized users can review the payment files and payment details within the Financial Gateway Module before releasing payment files to banks. Banks acknowledge within the Financial Gateway Module the receipt of the transmitted payments and errors, if any.

25. The audit noted that, in general, satisfactory processes were in place to transmit financial data to the banks, receive acknowledgement, handle errors and execute payments. However, inconsistencies existed in the manner the payment data was displayed in the Financial Gateway Module. For the period from July 2017 to June 2018, UNHCR had over 560 payment transactions in the intermediary statuses of 'error', 'pending cancellation', 'awaiting dispatch' and 'received by bank', even though the majority of these transactions were successfully paid. The UNHCR Treasury officials explained that upon transmission of a batch of payments, the bank acknowledged receipt of the data and the Financial Gateway Module should update this transaction to 'paid'. However, if there was an error in a single payment within the batch of payments, as the bank marked one payment with an 'error' status, the remaining successful payment transactions remained as 'received by bank' and not as 'paid' in the Financial Gateway Module. The status modification to 'paid' was carried out subsequently by UNHCR Treasury. OIOS was concerned that the modification of payment status had to be done manually.

(4) The UNHCR Division of Financial and Administrative Management should ensure that the status of each electronic funds transfer, as reflected in the Financial Gateway, matches its corresponding status in the bank statement.

UNHCR accepted recommendation 4 and stated that the Treasury and Cash Service had updated the status of the 1,382 old transactions to "paid" and also implemented an enhancement whereby manual intervention was no longer required to modify the status of payments in the Financial Gateway from "received by bank" to "paid". When the acknowledgment file was received from the bank, the system updated the status to "error" if there were any errored payments and the status of remaining transactions was automatically updated to "paid". This fix was implemented in December 2018. OIOS is pleased with the prompt action taken and has recorded recommendation 4 as implemented.

B. Segregation of duties

There was a need to address deficiencies related to the delegation of authority plan

26. One of the benefits expected from the MSRP upgrade was enhanced security and accountability, the requirements for which were documented under UNHCR's financial internal control framework issued

in 2016. Their implementation was supported by automated control features available in MSRP for the approval of vouchers, mission travel, vendors, and purchase orders. In addition, several functions in the expenditure process were segregated by assigning functional roles to individuals in accordance with the operations of UNHCR. Roles were assigned on the basis of a delegation of authority plan (DOAP) and through the use of automated controls, online user access, and system security.

27. Roles in the various FSC modules are assigned on the basis of the DOAP, an offline spreadsheet based table. The DOAP is prepared by the representative of a UNHCR country office (or a divisional/regional bureau director at headquarters) on an Excel template. The DOAP table is then transmitted to the Accounts Payable Unit for approval. The Accounts Payable Unit reviews the DOAP and, if found to be acceptable, confirms the assigned roles to users and forwards it to the MSRP Security Team to upload in the system. Role changes requested by field offices (additions, deletions and amendments) from previous versions of the DOAP follow the same process.

28. Based on a review of the DOAP administration, which was manual and resource intensive and had been in place for 12 years, OIOS observed the following:

- Overall, 375 unique roles existed in MSRP FSC Module. However, the DOAP control structure had only 40 unique tasks. These 40 DOAP roles were grouped under the 'approve spending', 'approve purchase', 'confirm delivery', 'approve payment' and 'execute payment' functions and covered most of the transactions with financial implications processed by the organization. The administration of the remaining 335 roles were not clearly defined, which was a shortcoming;

- No exhaustive list of conflicting combination of roles was available;

- The Accounts Payable Unit reviewed the DOAP change requests only against 30 conflicting combinations of roles in the system focusing primarily on financial risks; and

- While 20 to 30 roles (within and outside of DOAP) would be considered a reasonable number for a staff member who performed some of the DOAP functions, the audit noted that about 30 headquarters staff had a significantly higher number of roles that ranged from 40 to 75. These roles allowed them to perform several other functions such as inventory and asset management functions; treasury functions, general ledger functions and income recording functions. Some of these roles had extensive privileges and were assigned/disabled through other processes that were distinct from DOAP. In field offices, combining the roles for receiving inventory and approving releases from warehouses exposed UNHCR to the risk of loss of inventory. There was no assurance that these staff members had appropriate and non-conflicting roles assigned to them and that their actions were monitored.

29. Overall, there was a risk that the business processes could be adversely impacted by the incompatible role combinations and, as a result, UNHCR operations could be vulnerable to irregularities. Also, with the impending decentralization and regionalization process, there was a risk that the DOAP roles, existing systems, processes and tools could become misaligned.

(5) The UNHCR Division of Financial and Administrative Management should in collaboration with other divisions: (a) produce a comprehensive list of roles in the MSRP system; define all conflicting combinations of roles (including those exclusively used by specific divisions) and establish validation controls to prevent their assignment in MSRP to a single user; and (b) implement appropriate tools and processes to log role change requests, approvals by managers and their implementation in the MSRP system.

UNHCR accepted recommendation 5 and stated that it would address part (a) of the recommendation through a series of steps. In relation to part (b) of the recommendation, it had started reviewing and assessing tools which could be used to log, approve and implement DOAP and non-DOAP requests for role assignments to MSRP users. Recommendation 5 remains open pending receipt of documentation on: (a) preparation of a comprehensive list of roles in the MSRP system, defining conflicting combinations of roles and establishing validation controls to prevent their assignment in MSRP to a single user; and (b) implementation of appropriate tools and processes to log role change requests and approvals by managers.

Vendor certifying and approval roles needed to be assigned in MSRP to staff familiar with the related responsibilities

30. The Vendor and Contract Management Operational Guidance Note issued in June 2018 by the Procurement Service, DESS specifies the roles and responsibilities of staff members discharging vendor entry and vendor certify functions in MSRP. The guidance states that: (a) the vendor entry function can be performed by a designated staff member operating at the general service level within the supply function, or outside of the supply function where no Supply Unit exists; (b) the vendor certify function can be performed by a designated staff member operating at international professional level within the supply function, or designated staff member at international professional level in charge of supply where there is no Supply Unit; and (c) the vendor approval function is performed by DFAM or Administration/Finance Unit in field offices.

31. The UNHCR Manual requires DFAM to exercise due diligence while discharging its supervisory and support roles in the vendor registration process. Furthermore, staff members performing vendor approval function cannot enter or update vendor details, certify changes to vendor records or approve payments. The DOAP also requires that managers must make sure that roles are assigned to staff members who understand them and are trained to deal with the responsibilities associated with their functions.

32. OIOS noted gaps in the implementation of the assigned roles. At the field level, OIOS noted that 197 staff members were assigned the vendor entry, certify or approve roles in four country operations (spread across 20 office locations as per the DOAP of June 2018): Kenya, Afghanistan, Tanzania and Lebanon. Out of these 197, 150 staff members were assigned the vendor certify role, of whom only 5 staff members were from the professional category. Similarly, although the vendor approval process was correctly done by DFAM, the function was performed by general service staff. Such a condition existed in field offices as well. OIOS noted that out of the 47 staff members who performed the vendor approve role in the above-mentioned four country operations, only 6 staff were from the professional category and 41 were from the general service category.

33. DFAM explained that the vendor approval role was in essence a technical approver even if the role name did not indicate this. Nevertheless, in OIOS's opinion, the duties of a vendor approver were unclear, and the responsibility placed on the staff appeared inconsistent with the functional level. The allocation of the vendor certify and approve roles appeared to be based on physical segregation of duties and not on responsibilities required by the functions. There was also a risk that staff were not aware of the related responsibilities.

34. Considering the inherent risks in the vendor certify and approve roles allocation process, OIOS reviewed the data changes made by DESS between 1 July 2017 and 30 June 2018 to the top 50 purchase order vendors who had been paid over $220 million. OIOS noted that modifications, such as to the bank account and address, were made for 22 vendors. The reasons for the modifications were not evident as documentation to support the need for the modifications was not scanned and stored in MSRP. Also, in

several cases, the comments field in MSRP was not systematically used to record the reasons for changes. In one instance, fraudsters masquerading as a major vendor successfully requested a bank account change in the MSRP vendor data and diverted UNHCR funds to a different bank account. The bank account change and the payments to that account were subsequently disowned by the vendor. The fraudulent payments were detected by the internal controls at DFAM and the matter was appropriately escalated for review and action.

35. With increased use of electronic funds transfers to make payments, including those based on e-invoices, the vendor data is vulnerable to falsifications and the changes made may remain undetected. Consequently, it is imperative that the underlying vendor data is reliable and free of errors to prevent fraudulent or incorrect payments and that the vendor management process be strengthened. To mitigate the risk of fraudulent modifications to vendor data, DESS had implemented an interface in MSRP that enabled vendors to make changes to their profiles directly. However, this facility was yet to be rolled out and even after roll out the service would cover only a small percentage of vendors serving headquarters and some select locations. If these unmitigated weaknesses are not addressed, it could expose UNHCR to losses.

(6) The UNHCR Division of Financial and Administrative Management should, in collaboration with the Division of Emergency, Security and Supply: (a) train staff members on the risks involved in the vendor entry, certifying and approval roles and on the adoption of mitigation measures of those risks; and (b) more clearly define and assign such roles to staff members commensurate with their responsibilities and accountabilities.

UNHCR accepted recommendation 6 and stated that DFAM and DESS would work together on addressing both parts of the recommendation. Recommendation 6 remains open pending receipt of documentation confirming that UNHCR has: (a) trained staff members on the risks involved in the vendor entry, certify and approval roles allocation processes; and (b) defined and assigned such roles to staff members commensurate with their responsibilities and accountabilities.

C. Travel

<u>All mission and statutory travel requests and settlements needed to be processed in the FSC Travel and Expense Module</u>

36. One of the key priorities of the MSRP upgrade was to harmonize travel administration by having a single travel system for global use. The administration and management of official travel in UNHCR was previously manual except for the payment of subsistence allowance and settlement of air ticket invoices, which were processed in the MSRP Accounts Payable Module. The travel process was resource intensive and did not allow the production of reports for monitoring compliance with the travel policy, or the production of reports to review travel data from a global perspective.

37. The UNHCR Travel and Expense Module was implemented in 2017 and its roll-out to field offices started in 2018. Staff responsible for processing travel in the system were trained and the necessary modifications were made to the DOAP (travel preparer/approver) to facilitate their work. At the end of October 2018, the module had been rolled out to 90 of the 110 locations.

38. Between January and October 2018, of the $47 million spent on the inter-regional travel (account 661100) and local and regional travel (account 661200), $22 million had been accounted for through the Travel and Expense Module, indicating that about $25 million of the expenditure was still being processed in the legacy offline/manual systems. DFAM agreed that some offices still processed a number of travel requests outside the Travel and Expense Module due to operational exigencies and delays in adapting to

the change. There was no formal plan to ensure processing of all mission travel in the Travel and Expense Module within a specific timeframe.

39. Statutory travel such as appointment travel, home leave travel, separation travel and education grant travel processed by the Division of Human Resources (DRM) was still processed outside the Travel and Expense Module. There was no formal document with a timeline for fully integrating this in MSRP. DFAM confirmed, however, that discussions were in progress with DRM to address specific requirements and conduct preparatory activities to process statutory travel in MSRP by mid-2019.

40. Integrating all travel in the Travel and Expense Module would enable UNHCR to follow common processes, enforce the policies and rules consistently, analyze comprehensive travel data, enter into global agreements with travel service providers, reduce the risk of fraud, and efficiently follow-up on unsettled claims relating to completed travel.

(7) The UNHCR Division of Financial and Administrative Management should: (a) establish a timeframe for processing all mission travel within the Travel and Expense Module and monitor compliance by the country offices; and (b) in collaboration with the Division of Human Resources, establish a strategy and timeframe to process all statutory travel in the Travel and Expense Module.

UNHCR accepted recommendation 7 and stated that as of end of 2018, the MSRP Travel and Expense Module had been implemented in all headquarters and field locations, except for seven offices which were also expected to be using the Module shortly. Monitoring of the full use of the Module would be put in place as from 2019. For (b), significant progress had been accomplished in the last quarter of 2018 on the preparatory steps for implementation of the MSRP Travel and Expense Module for all types of statutory travel. A workshop was held in Budapest in late November 2018. A detailed work plan and timeframe would be prepared, and the implementation done in several phases in 2019. Recommendation 7 remains open pending receipt of the time frame and work plan for the processing of all statutory travel in the Travel and Expense Module.

D. Reporting and change management

<u>There was a need to develop the reporting and Business Intelligence capabilities</u>

41. The MSRP upgrade business case envisaged that the upgraded version would greatly improve the reliability and integrity of its system reports, provide additional reports and performance dashboards, as well as more user-friendly tools for producing management reports.

42. OIOS observed that although there were some improvements in reporting options, some gaps remained. For instance, in the absence of an analytical tool within the MSRP FSC module, UNHCR Divisions and Regional Bureaux continued to use the existing MSRP queries and spreadsheet-based reporting for decision-making. This led to a proliferation of reports, duplication of efforts, inefficient use of resources and, above all, a risk of lack of data integrity. For example, due to the non-availability of user-friendly reports, the Regional Bureau for the Middle East and North Africa, in cooperation with DFAM, engaged an external consultant for $40,000 to develop 35 tailored reports critical for their strategic decision making.

43. To address this weakness and to meet the reporting requirements of users at different levels, DFAM initiated a new Business Intelligence project to facilitate access to finance, supply and other related data,

data analytics and data dashboards. The project had commenced gathering the reporting requirements of the users and was targeted for completion by the end of 2019.

(8) The UNHCR Division of Financial and Administrative Management, in collaboration with the Division of Emergency Security and Supply, should reinforce and continue with efforts to implement the Business Intelligence project to enhance the reporting and data analytics capabilities of the MSRP Finance and Supply Chain Module.

UNHCR accepted recommendation 8 and stated that the project had been presented to the ICT Governance Board in 2018 and was granted its request for an initiation/analysis phase. The project had progressed steadily in analyzing user requirements, user experience, design needs, and technical architecture options, and the ICT Governance Board approved the launch of the next phase of the project at its 14 February 2019 meeting. Recommendation 8 remains open pending rollout of the Business Intelligence tool to users.

Change management actions initiated for errors and bug fixing were satisfactory

44. A robust change management process provides management with assurance that only authorized and tested changes to systems are implemented. An adequate change management process is key during the early stages after the go-live date when many changes may still be proposed (and made) to the system.

45. OIOS review noted that 365 change requests were logged between 1 May 2017 and 31 October 2018. Only five per cent of the total number of change requests were still open. These changes were carried out within the terms of the agreement with a vendor responsible for applications support, had no additional cost implications for UNHCR, and did not require a separate statement of work. OIOS reviewed the change requests that had organization-wide impact and was satisfied with the controls in place.

IV. ACKNOWLEDGEMENT

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

(*Signed*) Eleanor T. Burns
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ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[1]/ Important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
1	The UNHCR Division of Financial and Administrative Management should: (a) review the transactions where the invoice date preceded the purchase order date and determine the related risks and impact; and (b) establish a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events is not adhered to.	Important	O	Submission to OIOS of documentary evidence that UNHCR has: (a) reviewed the transactions where the invoice date preceded the purchase order date and determined the related risks and impact; and (b) established a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events was not adhered to.	31 December 2019
2	The UNHCR Division of Financial and Administrative Management should: (a) rectify the incorrect application of exchange rates in the capitalization of assets which are attributable to MSRP system errors; and (b) ensure that the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual are aligned.	Important	O	Submission to OIOS of evidence confirming: (a) rectification of the incorrect application of exchange rates in the capitalization of assets which are attributable to MSRP system errors; and (b) the alignment of the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual.	31 December 2019
3	The UNHCR Division of Financial and Administrative Management should build the necessary automated controls to efficiently perform the validation checks on the electronic funds transfer data.	Important	O	Submission to OIOS of evidence of the implementation of automated controls to reinforce data validation.	31 December 2019
4	The UNHCR Division of Financial and Administrative Management should ensure that the status of each electronic funds transfer, as reflected in the Financial Gateway, matches its corresponding status in the bank statement.	Important	C	Action completed	Implemented
5	The UNHCR Division of Financial and Administrative Management should in collaboration	Important	O	Submission to OIOS of documentation confirming: (a) preparation of a comprehensive	31 December 2020

[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 UNHCR in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[1]/ Important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
	with other divisions: (a) produce a comprehensive list of roles in the MSRP system; define all conflicting combinations of roles (including those exclusively used by specific divisions) and establish validation controls to prevent their assignment in MSRP to a single user; and (b) implement appropriate tools and processes to log role change requests, approvals by managers and their implementation in the MSRP system.			list of roles in the MSRP system, defining conflicting combinations of roles and establishing validation controls to prevent their assignment in MSRP to a single user; and (b) implementation of appropriate tools and processes to log role change requests and approvals by managers.	
6	The UNHCR Division of Financial and Administrative Management should, in collaboration with the Division of Emergency Security and Supply: (a) train staff members on the risks involved in the vendor entry, certifying and approval roles and on the adoption of mitigation measures of those risks; and (b) more clearly define and assign such roles to staff members commensurate with their responsibilities and accountabilities.	Important	O	Submission to OIOS of documentation confirming that UNHCR has: (a) trained staff members on the risks involved in the vendor entry, certify and approval roles allocation processes; and (b) defined and assigned such roles to staff members commensurate with their responsibilities and accountabilities.	30 June 2020
7	The UNHCR Division of Financial and Administrative Management should: (a) establish a timeframe for processing all mission travel within the Travel and Expense Module and monitor compliance by the country offices; and (b) in collaboration with the Division of Human Resources, establish a strategy and timeframe to process all statutory travel in the Travel and Expense Module.	Important	O	Submission to OIOS of the time frame and work plan for the processing of all statutory travel in the Travel and Expense Module.	31 December 2019
8	The UNHCR Division of Financial and Administrative Management, in collaboration with the Division of Emergency Security and Supply, should reinforce and continue with efforts to implement the Business Intelligence project to	Important	O	Submission to OIOS of confirmation of the rollout of the Business Intelligence tool to users.	31 December 2020

ANNEX I

STATUS OF AUDIT RECOMMENDATIONS

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[1]/ Important[2]	C/ O[3]	Actions needed to close recommendation	Implementation date[4]
	enhance the reporting and data analytics capabilities of the MSRP Finance and Supply Chain Module.				

APPENDIX I

Management Response

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Management Response

Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNHCR Division of Financial and Administrative Management should: (a) review the transactions where the invoice date preceded the purchase order date and determine the related risks and impact; and (b) establish a process to regularly monitor and follow-up on instances where the mandatory sequence of procurement related events is not adhered to.	Important	YES	Chief Of Section, DFAM/AFS	31/12/2019	UNHCR will review the transactions falling under the category described in part (a) of the recommendation. To address part (b), UNHCR will modify the parameters of the three-way matching process within MSRP to ensure that such transactions fail the three-way matching check and are automatically routed for review by an approving officer.
2	The UNHCR Division of Financial and Administrative Management should: (a) rectify the incorrect application of exchange rates in the capitalization of assets which are attributable to MSRP system errors; and (b) ensure that the application of exchange rates in MSRP and Chapter 6 of the UNHCR Manual are aligned.	Important	YES	Part (a) - Chief Of Section, DFAM/AFS Part (b) - Senior Policy Advisor (Finance), DFAM/Policy and Audit Coordination Section	31/12/2019	UNHCR will rectify the incorrect application of exchange rates to address part (a) of the recommendation. UNHCR will also align the Chapter 6 text to reflect the MSRP logic to address part (b).
3	The UNHCR Division of Financial and Administrative Management should build the necessary automated controls to efficiently perform the validation	Important	YES	Senior System Administrator, DFAM/Office of the Controller	31/12/2019	UNHCR will design and implement additional automated controls in MSRP to reinforce data validation checks, including through the use of best practice validation

[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.

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Audit of the upgraded MSRP Finance and Supply Chain Module at the Office of the United Nations High Commissioner for Refugees

	checks on the electronic funds transfer data.					tools developed by other United Nations agencies.
4	The UNHCR Division of Financial and Administrative Management should ensure that the status of each electronic funds transfer, as reflected in the Financial Gateway, matches its corresponding status in the bank statement.	Important	YES	Treasurer, Treasury Section	31/12/2018	UNHCR has addressed this recommendation and implemented a change in MSRP to prevent reoccurrence in December 2018. OIOS has indicated it considers this recommendation as closed.
5	The UNHCR Division of Financial and Administrative Management should in collaboration with other divisions: (a) produce a comprehensive list of roles in the MSRP system; define all conflicting combinations of roles (including those exclusively used by specific divisions) and establish validation controls to prevent their assignment in MSRP to a single user; and (b) implement appropriate tools and processes to log role change requests, approvals by managers and their implementation in the MSRP system.	Important	YES	Senior System Administrator, DFAM/Office of the Controller	31/12/2020	UNHCR will address part (a) of the recommendation through a series of steps. In relation to part (b) of the recommendation, it had started reviewing and assessing tools which could be used to log, approve and implement DOAP and non-DOAP requests for role assignments to MSRP users.
6	The UNHCR Division of Financial and Administrative Management should, in collaboration with the Division of Emergency Security and Supply: (a) train staff members on the risks involved in the vendor entry, certifying and approval roles and on the adoption of mitigation measures of those risks; and (b) more clearly define and assign such roles to staff members commensurate with their responsibilities and accountabilities.	Important	YES	Chief Of Section, DFAM/AFS and Head Of SMLS, DESS	30/06/2020	DFAM and DESS will work together on addressing both parts of the recommendation.

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7	The UNHCR Division of Financial and Administrative Management should: (a) establish a timeframe for processing all mission travel within the Travel and Expense Module and monitor compliance by the country offices; and (b) in collaboration with the Division of Human Resources, establish a strategy and timeframe to process all statutory travel in the Travel and Expense Module.	Important	YES	Deputy Director - Finance, DFAM/Office of the Controller	31/12/2019	As of end of 2018, the MSRP Travel and Expense Module had been implemented in all headquarters and field locations, except for seven offices which were also expected to be using the Module by the end of February 2019. Monitoring of the full use of the Module would be put in place as from 2019. For (b), significant progress had been accomplished in the last quarter of 2018 on the preparatory steps for implementation of the MSRP Travel and Expense Module for all types of statutory travel. A workshop was held in Budapest in late November 2018. A detailed work plan and timeframe would be prepared and the implementation done in several phases in 2019.
8	The UNHCR Division of Financial and Administrative Management, in collaboration with the Division of Emergency Security and Supply, should reinforce and continue with efforts to implement the Business Intelligence project to enhance the reporting and data analytics capabilities of the MSRP Finance and Supply Chain Module.	Important	YES	Deputy Director - Finance, DFAM/Office of the Controller	31/12/2020	The project had been presented to the ICT Governance Board in 2018, and was granted its request for an initiation/analysis phase. The project had progressed steadily in analyzing user requirements, user experience, design needs, and technical architecture options, and the ICT Governance Board approved the launch of the next phase of the project at its 14 February 2019 meeting. As a measurable target for closing the recommendation, UNHCR considered the Governance Board's approval of the project as an appropriate milestone. OIOS instead indicated a preference for the recommendation to remain open pending receipt of evidence of the roll out of the Business Intelligence tool to users. UNHCR recommends instead that the roll out of Phase 1 of the project, in August

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						2019, be the milestone to consider for closure of the recommendation.