



INTERNAL AUDIT DIVISION

REPORT 2020/031

Audit of vendor payments processing at the Regional Service Centre in Entebbe

**While controls over vendor payments
processing were generally in place
improvements were needed to ensure
accuracy and timeliness**

**23 September 2020
Assignment No. AP2018-616-01**

Audit of vendor payments processing at the Regional Service Centre in Entebbe

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of vendor payments processing at the Regional Service Centre in Entebbe (RSCE). The objective of the audit was to assess whether RSCE was processing vendor payments effectively and efficiently. The audit covered the period from 1 July 2018 to 31 December 2019 and included a review of the accuracy and timeliness of vendor payments and the administration of the payment process.

While RSCE received prompt payment discounts of \$8.4 million, delays were sometimes experienced in paying those vendors that did not offer an early-payment discount. Improvements were also needed to ensure accuracy and timeliness of vendor processing, including the need to accurately capture the invoice baseline date and payment terms in Umoja in order to strengthen controls and thus improve efficiency of the vendor payment process. As the Department of Management Strategy, Policy and Compliance was in the process of implementing an earlier OIOS recommendation on this issue, no recommendation was made in this report.

OIOS made two recommendations. To address issues identified in the audit, RSCE needed to:

- Build the capacity of its staff in the use of automated controls and reference field capturing invoice numbers in Umoja to ensure accuracy of vendor payments; and
- Establish and monitor achievement of an end-to-end key performance indicator covering all stages of vendor payments from procurement to disbursement by RSCE, especially timely certification of service entry sheets by the client missions to improve timeliness in processing of vendor payments.

The Department of Operational Support accepted the recommendations and has initiated action to implement them.

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Audit of vendor payments processing at the Regional Service Centre in Entebbe

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of vendor payments processing at the Regional Service Centre in Entebbe (RSCE).
2. The RSCE Vendor Service Line (VSL) was responsible for vendor payments processing for supply of goods and services provided to 18 client missions. The payment process in RSCE included certification of Service Entry Sheets (SESS)/Goods Receipts (GRs) in Umoja by client missions, review and approval of invoices for payments by VSL and disbursement of funds to vendors by the Cashier Service Line. VSL processed 14,855 vendor payments for goods and services, totaling \$1.6 billion between 1 July 2018 and 31 December 2019.
3. The vendor payment process was guided by the Financial Regulations and Rules of the United Nations, the United Nations Finance and Budget Manual, and the United Nations Procurement Manual. The related business processes in Umoja are guided by Umoja job aids.
4. VSL was comprised of 39 staff members and headed by a Chief at the P-4 level, who reported to the Chief, RSCE through the Chief of the Financial Services and Compliance Monitoring Pillar.
5. Comments provided by RSCE are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess whether RSCE was processing vendor payments effectively and efficiently.
7. This audit was included in the 2019 risk-based work plan of OIOS due to financial and operational risks associated with inaccurate and untimely payment of vendors.
8. OIOS conducted this audit from September 2019 to January 2020. The audit covered the period from 1 July 2018 to 31 December 2019. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in vendor payments, which included: accuracy and timeliness of vendor payments; and administration of the payment process.
9. The audit methodology included: (a) interviews of key personnel, (b) reviews of relevant documentation, (c) analytical review of data, and (d) sample testing of 93 randomly selected vendor payments.
10. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Accuracy of vendor payments

Controls intended to ensure accurate vendor payments were not consistently used

11. The Financial Regulations and Rules of the United Nations require approving officers to confirm that goods and services have been received in accordance with contracts, agreements and/or purchase orders (POs) to validate that the payment is due prior to processing it. This confirmation process is facilitated by the Umoja automated three-way matching of invoices with corresponding POs and SESs/GRs. A review of all 14,855 vendor payments totaling \$1.6 billion made by RSCE during the audit period identified areas where controls needed to be strengthened.

(a) Need to improve controls over payments through funds commitments

12. The United Nations Controller instructed missions to minimize the use of funds commitments. This was because vendor payments obligated through funds commitments, which did not require raising a PO and certification of receipt through a SES/GR, bypassed the three-way matching control built in Umoja. Of the 14,855 payments processed, 3,300 totaling \$52 million, were made through funds commitments. A review of a sample of 35 of them found that controls were weak. This was because RSCE processed these payments solely on certification of the invoice provided by the client mission, and in the absence of the three-way matching concept, did not independently verify the validity of the invoice against relevant supporting documents. This included, for example, VSL processing a payment of \$114,000 for security costs of staff residences in a Mission without verifying whether the supporting contracts were valid, and the security services had been performed. Inadequate verification of validity of payments increased the risk of overpayment, fraud and loss of financial resources.

13. The control gaps in procedures mainly occurred as the Office of Programme Planning, Finance and Budget (OPPFB) in the Department of Management Strategy, Policy and Compliance (DMSPC) had not established guidelines on the proper use of funds commitments and did not have monitoring/reporting tools to identify inappropriate use of funds commitments that require corrective action. The need to provide further guidance and oversight of payments made through funds commitments was already raised by OIOS in its report 2019/001, dated 26 February 2019. As OPPFB is taking action to address the issue, OIOS did not make a new recommendation in this report.

(b) Actions were taken to properly certify receipt of services by client missions

14. The SES certification process in Umoja records the performance of services rendered and should not be used to reserve funds at end of the financial year. OIOS review of all vendor payments identified eight exceptions from three client missions totaling \$1.7 million. In these cases, in order to reserve funds, missions incorrectly certified the SESs/GRs even though the goods and services were not received prior to the end of the year. For seven of the eight incorrectly certified cases goods/services, they were either subsequently delivered or canceled in the following financial year.

15. For the remaining case, RSCE in August 2018, paid \$477,465 (well after the end of the fiscal year) to a vendor for a closed-circuit television (CCTV) system for the United Nations Interim Security Force for Abyei (UNISFA). This payment was made even though the CCTV system was not delivered or installed. This occurred because: (a) a certifying officer in UNISFA, who was not working in the technical unit responsible for the CCTV system and had no firsthand knowledge of the contract status, had certified the

SES without actual receipt of goods and services in order to reserve funds for the next year; and (b) RSCE, based on the certified SES, directly contacted the contactor and asked for an invoice to match the SES. RSCE then made the payment without confirming the validity of the SES with UNISFA.

16. Due to poor communication and coordination between RSCE and UNISFA, UNISFA (unaware that the payment had already been made) terminated the contract with the vendor in December 2018 due to poor performance. This exposed the Mission to a risk of a significant loss of funds. However, after UNISFA's discussions with the contractor, work was resumed and the contractor was making good progress in the installation of CCTV. To address these gaps in controls, UNISFA established enhanced standard operating procedures for review and approval of SESs to prevent re-occurrence; that included a centralized intake point for all invoices and having certifying officers certifying only for their respective technical units. RSCE in May 2020 promulgated a new communication procedure whereby only the Chief of VSL or the alternate is authorized to contact vendors and only after proper due diligence is done to avoid improper payments.

(c) Need to effectively use automated controls in Umoja to identify duplicate invoices

17. In Umoja, a reference field is provided to enter unique invoice numbers to detect and prevent duplicate payments. An automated control in Umoja identifies duplicate payments by using a reference field. RSCE was not consistently utilizing this control, mainly as it did not systematically enter the invoice number in the reference field. In addition, the reference field could only accommodate up to 16 digits and thus limiting the ability of staff to use it effectively. However, VSL had not developed a uniform approach to addressing this challenge like capturing only the first invoice number in cases of multiple invoices or capturing only the first 16 digits of an invoice number. OIOS analysis of the data found that 42 per cent of RSCE payments included the invoice number, but the remaining 58 per cent included information such as dates of transactions, PO numbers, SES numbers, discount rates, descriptions of goods or services and various other information. Responsible staff informed OIOS that they were unaware of the importance of including the invoice number in the reference field to prevent and detect duplicate payments.

18. Instead, VSL implemented a compensatory control of manually reviewing all previous payments made to a vendor prior to approving a new payment in order to prevent duplicative payments. Such a manual control was cumbersome and prone to error. For example, OIOS identified two cases of duplicate payments processed by RSCE where the related invoices had similar invoice numbers, resulting in overpayment of \$22,209. Although these overpayments were recovered, efforts need to be made to reduce use of manual controls that have resulted in errors, where effective automated controls are available.

(1) RSCE should build capacity of its Vendor Service Line staff on the use of the automated controls and reference field capturing invoice numbers in Umoja to ensure accuracy of vendor payments.

RSCE accepted recommendation 1 and stated that it would provide training to VSL staff to ensure they understand how to use the "reference" field and its importance in facilitating prevention and detection of duplicate payments. VSL staff utilize the "reference" field regularly, but the main limitation of the field is that it can only accommodate up to 16 digits by default, which is not enough to accommodate full invoice references. As a result of this deficiency, staff resort to abbreviating the characters and using more of the text provision under the "notes" field in Umoja to document the invoice details. VSL staff do employ manual review actions to identify potential duplicate payments because they understand and know the consequence of duplicate payment if not detected as the Umoja automatic search function cannot be fully relied upon. Recommendation 1 remains open pending receipt of evidence that RSCE has provided training to VSL staff on the use of the reference field and automated controls in Umoja.

B. Timeliness of vendor payments

RSCE developed procedures to ensure prompt payment discounts were received

19. RSCE processed payments related to 55 contracts across 10 client missions that provided for a prompt payment discount (PPD), and by ensuring payments to these vendors were made timely, RSCE obtained discounts of \$8.4 million. This was because VSL assigned a dedicated team to process these payments and had developed fast track procedures for their review and approval. VSL used a database, called RSCE Work Tracker, to register incoming PPD invoices and thus track details related to such vendors. Those occasions where the PPD was not obtained, which were minimal, were often beyond the control of RSCE and justifications were well documented for future reference. OIOS concluded that RSCE had implemented a good practice for efficiently processing payments to ensure discounts were obtained.

Additional controls were needed to ensure timely submission of approved SES by client missions

20. The United Nations Procurement Manual generally requires payments to be made within 30 days of receipt of a vendor's invoice, upon satisfactory delivery of the vendor's obligations. The Financial Regulations and Rules require commitments, disbursements and expenses relating to contracts and POs to be certified by missions' designated certifying officers prior to their approval.

21. A review of all payments showed that 80.4 per cent of invoices were processed within 30 days after certification by client missions as shown in Table 1. However, the processing time for the remaining 19.6 per cent could be improved, as it was taking on average of 39 days to process.

22. OIOS analysis of the 649 invoices for which the payment was processed after more than three months noted that 401 invoices (62 per cent) were delayed as client missions had not certified the SES in a timely manner to confirm satisfactory delivery of the vendor's obligations. For the remaining 248 invoices, there were various reasons for the delay, including inadequate budget/liquidated POs, non-levying liquidated damages and delayed responses to RSCE queries by client missions. Most significant delays related to the need for RSCE to follow up with client missions to determine reasons for not imposing liquidated damages due to delays in delivery of goods/services by vendors. This was sometimes a protracted process, as although RSCE followed up with missions, missions did not react promptly in validating the amount of the liquidated damages to be recovered as identified by RSCE. For example, RSCE requested confirmation from a mission on 8 April 2019 on an amount of liquidated damages to be imposed for a delay of six months for the delivery of rations. The mission responded to RSCE on 8 May 2019. This delayed payment of the invoice where the billed amount was reduced by \$278,000 in liquidated damages.

Table 1
Aging analysis of number of days taken to process incoming invoices

<i>Processing timeframe</i>	<i>Number of Payments</i>	<i>Number of Invoices</i>	<i>Amount in United States Dollar (\$)</i>	<i>Percentage of invoices</i>
Less than 1 month	11,711	37,526	\$1,302,867,803	80.4%
1-3 months	2,505	7,546	\$268,246,298	16.2%
3- 6 months	523	1,475	\$42,829,556	3.2%
Over 6 months	116	119	\$5,267,791	0.2%
Total	14,855	46,666	1,619,211,448	100%

Source: data extracted from Umoja as of 31 January 2020

23. RSCE, to improve the payment timeline, had established target timeliness for each stage of the VSL payment process including receipt of invoices, processing and approval of invoices, and action by the Cashier Service Line office. Additionally, RSCE advised that it intended, in collaboration with client missions, to establish and measure an end-to-end key performance indicator covering all stages of vendor payments from procurement to disbursement by the missions and RSCE. This KPI was currently being piloted by one mission. Delays in payments to vendors increased reputational risks for the United Nations and a potential increase in prices by vendors in future supply of goods and services to absorb the opportunity costs of overdue payments.

(2) RSCE in conjunction with client missions should establish and monitor achievement of an end-to-end key performance indicator covering all stages of vendor payments by RSCE and the client missions, especially timely certification of service entry sheets in Umoja by the client missions, to further improve timeliness in processing of the vendor payments.

RSCE accepted recommendation 2 and stated that it constantly reminded its client missions through video teleconferencing, emails and telephone, to take timely action to raise GRs or SESs and to provide funds for the services rendered or for goods delivered in order to facilitate payment. In addition to monitoring all stages of the procurement to pay process and improve payment timeliness, RSCE had agreed on an end-to-end key performance indicator which was currently being piloted in one mission. Recommendation 2 remains open pending receipt of evidence that RSCE has effectively established and monitored the end-to-end key performance indicators for all its client missions.

The baseline date field in the accounts payable and treasury modules of Umoja was not effectively used

24. In Umoja, the baseline date and terms of payment fields are pivotal to the timely payment of invoices. This is because Umoja uses this information to determine the date the invoice is due for payment. The default value for the baseline date in Umoja was the document date (invoice date) but could be updated with the date of receipt of goods/services where vendors issued invoices prior to the delivery of goods/services.

25. In recording the baseline date, while some VSL processors correctly used the default invoice date, others entered the invoice processing date or the accounts payable entry date. OIOS analysis of the 14,855 payments noted that the baseline date for: (a) 2,327 payments (16 per cent) totaling \$210 million, was the date of the invoice; (b) 7,041 payments totaling \$485 million, the invoice posting date was used; (c) 1,498 payments totaling \$133 million, the accounts payable entry date was used when the invoice was approved for payment in Umoja; and (d) 3,989 payments totaling \$791 million used various dates that were not attributable to any payment processing milestones. As a result of the inconsistent practices by VSL staff, various date fields in the accounts payable and treasury modules were not correctly and/or consistently completed, making Umoja baseline dates unreliable. Consequently, payment dates could not be accurately determined by Umoja.

26. Furthermore, as the terms of payment field can be modified by accounts payable users and cashiers after raising of PO, the payment terms in some cases were changed from “payment in 30 days” to “pay immediately” at the time of processing the payment. This was often to the advantage of vendors. RSCE informed OIOS that it had adopted the default payment terms to “pay immediately” as it assumed that by the time the invoices reached VSL, payment was due.

27. Analysis of payment data showed that VSL staff changed the payment terms in 11,459 of the 14,855 payments (77 per cent) from the standard terms of payment “within 30 days due net” to “pay immediately” in order to expedite the vendor payment. The audit noted that this resulted in 7,896 invoices being paid

within an average of 17 days instead of 30 days. OIOS estimated that this practice may have resulted in forgone investment income of \$707,000¹. This was not prudent considering the current cash liquidity problems, and RSCE needed to take steps to manage the payments process to avoid making early payments.

28. However, as OIOS already raised this issue in its report 2019/001 (dated 26 February 2019) on the audit of vendor payment processing at United Nations Headquarters, and DMSPC is taking action to address these controls weaknesses organizational-wide, OIOS did not make a new recommendation in this report.

C. Administration of payment processes

There was adequate segregation of roles assigned in Umoja

29. The Financial Regulations and Rules and Umoja User Roles Guide and Security Liaison Officer Workbook specify role combinations to ensure proper segregation of duties. OIOS assessed that the role combinations assigned in Umoja, including those for certifying and approving officers and bank signatories ensured that duties were adequately separated.

30. However, access rights to Umoja for former RSCE staff were sometimes delayed, as the audit noted that the access rights of two staff were removed three to six months after their separation. One of the two staff had access to the role of Security Liaison Officer for an extended period, which was concerning as security of information remained compromised during that period. This occurred because RSCE was not strictly adhering to the requirement to deactivate all Umoja access rights as part of the check-out process. OIOS verified that the two former staff had not accessed the accounts after their separation from RSCE. Subsequently, RSCE implemented a procedure to review validity of all access rights twice a year. Therefore, OIOS did not make a recommendation on this issue.

V. ACKNOWLEDGEMENT

31. OIOS wishes to express its appreciation to the management and staff of RSCE 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

¹ OIOS calculated by multiplying (a) total amount of invoices paid before due date, (b) the annual average number of days those invoices were paid before due dates and (c) United States Federal reserve bank discount rate as of 31 December 2019 (2.25 per cent).

STATUS OF AUDIT RECOMMENDATIONS

Audit of vendor payments processing by the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	RSCE should build capacity of its Vendor Service Line staff on the use of the automated controls and reference field capturing invoice numbers in Umoja to ensure accuracy of vendor payments.	Important	O	Receipt of evidence that RSCE has provided training to VSL staff on the use of the reference field and automated controls in Umoja.	30 June 2021
2	RSCE in conjunction with client missions should establish and monitor achievement of an end-to-end key performance indicator covering all stages of vendor payments by RSCE and the client missions, especially timely certification of service entry sheets in Umoja by the client missions, to further improve timeliness in processing of the vendor payments.	Important	O	Receipt of evidence that RSCE has effectively established and monitored the end-to-end key performance indicators for all its client missions.	30 June 2021

² Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

³ Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

⁴ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁵ Date provided by RSCE in response to recommendations.

APPENDIX I

Management Response



UNCLASSIFIED

Immediate

DATE: 24 August 2020

REFERENCE: DOS-2020-03830

TO: Ms. Eleanor Burns, Director
A: Internal Audit Division
Office of Internal Oversight Services

THROUGH:
S/C DE:

FROM: Atul Khare, Under-Secretary-General
DE: for Operational Support

A handwritten signature in blue ink, appearing to read 'Atul Khare', with a long horizontal line underneath it.

SUBJECT: **Audit of vendor payments processing at the Regional Service Centre in Entebbe**
OBJET: **(Assignment No. AP2018-616-01)**

1. I refer to your memorandum OIOS-2020-01184 dated 7 August 2020, regarding the draft report on an audit of vendor payments processing at the Regional Service Centre in Entebbe.
2. As requested, please find our comments attached under Appendix I.
3. Thank you for the opportunity to comment on the draft report. We stand ready to provide any further information that may be required.

cc: Fatoumata Ndiaye
Cynthia Avena-Castillo

Management Response

Audit of vendor payments processing by the Regional Service Center in Entebbe

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	RSCE should build capacity of its Vendor Service Line staff on the use of the automated controls and reference field capturing invoice numbers in Umoja to ensure accuracy of vendor payments.	Important	Yes	Chief, RSCE	Second quarter of 2021	The RSCE's comments are reflected in the report.
2	RSCE in conjunction with client missions should establish and monitor achievement of an end-to-end key performance indicator covering all stages of vendor payments by RSCE and the client missions, especially timely certification of service entry sheets in Umoja by the client missions, to further improve timeliness in processing of the vendor payments.	Important	Yes	Chief, RSCE	Second quarter of 2021	The RSCE's comments are reflected in the report.
3	RSCE should accurately utilize baseline date and terms of payment fields in Umoja and limit amendments of standard terms of payment to improve timeliness of vendor payments and at the same time to avoid early payment.	Important	N/A	N/A	N/A	The Department of Operational Support (DOS) wishes to clarify that the use of baseline date and terms of payments fields in Umoja is an organizational-wide matter, noting similar issues were identified by OIOS in its audit of vendor payment processing at the United Nations Headquarters in New York (report 2019/001). Since the Department of Management Strategy, Policy and Compliance had accepted the recommendations made by OIOS to strengthen controls to improve the efficiency of the vendor payment process,

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Management Response

Audit of vendor payments processing by the Regional Service Center in Entebbe

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						DOS requests that this recommendation be deleted from the report, and reference instead be made to report 2019/001, following the observations.