INTERNAL AUDIT DIVISION

REPORT 2014/105

Audit of the processing of staff claims and payments by the Regional Service Centre in Entebbe

Overall results relating to effective processing of staff claims and payments by the Regional Service Centre in Entebbe were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

4 November 2014
Assignment No. AP2014/616/02

CONTENTS

AUDIT REPORT

Audit of the processing of staff claims and payments by the Regional Service Centre in Entebbe

I.   BACKGROUND

1.   The Office of Internal Oversight Services (OIOS) conducted an audit of the processing of staff claims and payments by the Regional Service Centre in Entebbe (RSCE).

2.   In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.

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

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

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

5.   The Claims Unit (currently part of the Claims Service Line) within the RSCE Finance Section was directly responsible for processing and approving travel claims, and the Cashier Unit was responsible for processing payment release requests and for authorizing payments. From 1 July to 31 December 2013, Claims Unit received 24,000 and this Unit approved the Cashier Unit to pay 11,100 staff claims. These claims were for official and evacuation travel, reimbursement of costs related to minimum operating residential security standards and medical expenses. During the same period, the Cashier Unit made 104,000 payments including, but not limited to, staff claims approved by the Claims Unit.

6.   The Claims Unit was headed by an officer at the P-3 level who reported to the Chief Finance Officer at the P-5 level. As at 31 December 2013, the Claims Unit had 20 posts, representing approximately 6 per cent of the posts of RSCE.

7.   The Cashier Unit was headed by the Chief Cashier at the P-4 level. As at 31 December 2013, the Cashier Unit had 17 posts, representing approximately 5 per cent of the posts of RSCE.

8.   The posts and other operational costs of the Claims and Cashier Units were funded by client missions based on an agreed cost-sharing arrangement. The RSCE had a 2013/14 budget of $26.7 million for staff costs and $11.7 million for operational costs.

9.   Comments provided by RSCE and DFS are incorporated in italics.

II.   OBJECTIVE AND SCOPE

10.   The audit of was conducted to assess the adequacy and effectiveness of RSCE governance, risk management and control processes in providing reasonable assurance regarding the **effective processing of staff claims and payments by RSCE**.

11.   The audit was included in the 2014 OIOS risk-based work plan based on a request from RSCE management and due to the financial risks related to incorrect payments and operational risks related to delays in paying staff claims.

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

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

   (b)   **Performance monitoring -** controls that provide reasonable assurance that metrics are: (i) established and appropriate to enable measurement of the efficiency and effectiveness of operations; (ii) properly reported on; and (iii) used to manage the claims and payments processing functions appropriately.

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

14.   OIOS conducted this audit from January to March 2014. The audit covered the period from 1 July to 31 December 2013, which was the period when the RSCE began receiving a large number of staff claims.

15.   OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

16.   The RSCE governance, risk management and control processes examined were initially assessed as **partially satisfactory[1]** in providing reasonable assurance regarding the **effective processing of staff claims and payments by RSCE**. OIOS made three recommendations to address the issues identified. The RSCE processed staff members' claims in accordance with the relevant provisions of United Nations Financial Regulations and Rules. However, RSCE needed to: (a) establish and monitor key performance indicators (KPIs) for claims review and approval sub-processes to identify bottlenecks in processing claims; (b) include in staff members' e-performance plans, goals and success criteria that were linked to their specific work responsibilities and ensure that staff performance was regularly monitored and reported on; and (c) complete the process of recording in Umoja all payments made using black out forms, prepare the relevant bank reconciliations and investigate all discrepancies.

17.   The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 1:   Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	**Accurate financial and operational reporting**	**Safeguarding of assets**	**Compliance with mandates, regulations and rules**
Effective processing of staff claims and payments by RSCE	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Satisfactory	Partially satisfactory
	(b) Performance monitoring	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A.   Regulatory framework

Staff claims were approved and paid in accordance with relevant policies and procedures

18.   The processing of staff claims was governed by the United Nations Financial Regulations and Rules. Prior to payment, RSCE was required to review claims and relevant supporting documents, prepare a payment voucher to be approved by an officer designated by the Department of Management. Based on a review of a sample of 245 claims, OIOS concluded that payment and approving officers complied with the relevant rules and procedures for processing and paying staff claims.

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

B.   Performance monitoring

<u>The key performance indicator for the claim processing function had not been achieved</u>

19.   The report the Secretary-General on the overview of financing of the United Nations peacekeeping operations (A/67/723) set out a KPI for the claims processing function. This required that 98 per cent of claims be vetted and approved within 21 days of receipt by the Claims Unit.

20.   Forty-two per cent of all staff claims processed from 1 July to 31 December 2013 were processed within 21 days, with 35 per cent being processed after more than 30 days. As result, as at 31 December 2013, RSCE had a backlog of 7,860 claims, representing 30 per cent of all claims received by the Claims Unit during the period under review. Delays in the process were due to: (a) frequent technological issues related to the Field Service Suite; (b) shortage of human resources due to the heavy involvement of finance staff in the implementation of Umoja; (c) inaccurate and/or lack of banking information of payees; and (d) changes in processes resulting from the implementation of Umoja. RSCE had taken commendable actions to address and work with these challenges.

21.   There was not yet a robust staff performance management system to ensure that individual performance issues relating to achievement of these established targets were promptly identified and addressed. The Claims Unit had not established specific KPIs for payment and approving officers. RSCE had also not included goals in staff members' performance management work plans that were linked to the overall claims processing targets. For example, performance management work plans for 11 of the 12 staff for the 2013/14 performance cycle did not include goals related to the number of claims they or their team were expected to process and the timeframe within which to process claims.

22.   RSCE managers regularly generated claims processing performance statistics at the level of individual processors. The level of performance differed, sometimes considerably, between processors; RSCE did not promptly identify the causes for lower than expected performance and implement measures to expedite the processing of claims. RSCE explained that some staff were assigned non-claim processing tasks, which may have impacted on their claims processing performance. Nonetheless, a robust performance management system could have addressed differences in workload to ensure improved productivity.

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(1) The RSCE should establish key performance indicators (KPIs) for claims review and approval sub-processes that are linked to the overall KPI for the claims processing process, and implement procedures for monthly review of progress against these KPIs to identify bottlenecks and take prompt corrective actions.

RSCE accepted recommendation 1 and stated that KPIs for the overall claims processing were in place and the breakdown of KPIs by component was pending the re-engineering of the Claims Service Line and the application of a tracking tool. Recommendation 1 remains open pending receipt of a copy of KPIs for claims review sub-processes and evidence that these have been linked to the overall KPI for claims processing and are being adequately monitored.

(2) The RSCE should include in staff members' e-performance goals and success criteria that are linked to claims and payment processors' specific work responsibilities and ensure that performance is regularly monitored and reported on.

RSCE accepted recommendation 2 and stated that goals for managing individual staff performance

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> *were set for the 2014/15 performance period and agreed as part of the annual e-performance cycle.* Recommendation 2 remains open pending receipt of evidence that claims processors' goals and success criteria are adequately linked to their specific work responsibilities and adequate performance monitoring and reporting against established target are in place.

Bank reconciliations were not conducted in a timely manner

23.   The Field Finance Procedure Guidelines require the preparation of monthly bank reconciliations. However, due to the implementation of Umoja, RSCE had not prepared bank reconciliations from October 2013 to the date of the audit. As of 3 February 2014, RSCE had more than 17,000 payment instructions that had not been reconciled to the bank statement. These included payments made using specific forms called black out forms introduced during the implementation of Umoja. The contents of these forms needed to be encoded in Umoja to ensure that the payments were properly controlled.

24.   However, based on additional audit work performed in September/October 2014, RSCE had made significant progress, since February 2014, in reconciling all of its 14 bank accounts, as well as investigating and resolving outstanding items. In early October 2014, nearly all outstanding items resulting from the implementation of Umoja from October to December 2013 had been resolved. RSCE only had 287 outstanding items with the net value of $141,269 relating to the period before and during the implementation of Umoja. This resulted because, following the activation of the bank reconciliation function in Umoja, RSCE expedited the reconciliation of accounts. However, in OIOS view, RSCE needed to implement procedures to avoid the further accumulation of long outstanding items (i.e. reconciling items older than one month), which were 1,400 or on average 100 per account in October 2014.

> **(3) The RSCE should record in Umoja all payments made using black out forms and prepare the relevant bank reconciliations and investigate all discrepancies.**
>
> *RSCE accepted recommendation 3 and stated that black out forms were submitted to Service Lines and recorded in the system. RSCE also stated that it was now preparing bank reconciliations with the assistance of the Department of Management.* Recommendation 3 remains open pending receipt of evidence that the remaining 287outstanding items with the net value of $141,269 relating to the period before and during the implementation of Umoja have been resolved.

IV.   ACKNOWLEDGEMENT

25.   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.

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(*Signed*) David Kanja
Assistant Secretary-General for Internal Oversight Services

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STATUS OF AUDIT RECOMMENDATIONS

Audit of an audit of the processing of staff claims and payments by the Regional Service Centre in Entebbe

Recom. no.	Recommendation	Critical[2]/ Important[3]	C/ O[4]	Actions needed to close recommendation	Implementation date[5]
1	The RSCE should establish key performance indicators (KPIs) for claims review and approval sub-processes that are linked to the overall KPI for the claims processing process, and implement procedures for monthly review of progress against these KPIs to identify bottlenecks and take prompt corrective actions.	Important	O	Receipt of a copy of the KPIs for the claims review sub-processes and evidence that these have been linked to the overall KPI for claims processing and adequately monitored.	Second quarter of 2015
2	The RSCE should include in staff members' e-performance goals and success criteria that are linked to claims and payment processors' specific work responsibilities and ensure that performance is regularly monitored and reported on.	Important	O	Receipt of evidence that claims processors' goals and success criteria are adequately linked to their specific work responsibilities and adequate performance monitoring and reporting against established target are in place.	Second quarter of 2015
3	The RSCE should record in Umoja all payments made using black out forms and prepare the relevant bank reconciliations and investigate any discrepancies.	Important	O	Receipt of evidence that all payments made using black out forms during Umoja implementation period have been recorded, bank reconciliations prepared and discrepancies investigated and resolved.	First quarter of 2015

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[2] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

[3] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

[4] C = closed, O = open

[5] Date provided by RSCE in response to recommendations.
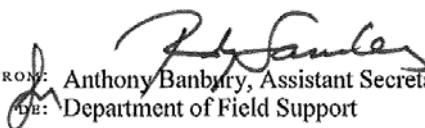
APPENDIX I

Management Response

United Nations ⊕ Nations Unies

INTEROFFICE MEMORANDUM   MEMORANDUM INTERIEUR

UNCLASSIFIED

Routine

TO: A:	Eleanor Burns, Director, Internal Audit Division, OIOS	DATE:	9 September 2014
THROUGH: S/C DE:		REFERENCE:	UNHQ-AR-BOI-Memo-2- 2014-1980
FROM: DE:	Anthony Banbury, Assistant Secretary-General Department of Field Support		

SUBJECT: **AP2014/616/02 - Audit of staff claims and payments processing in the**
OBJET: **Regional Service Centre in Entebbe**

1.   I refer to your memorandum dated 4 August 2014 regarding the above-mentioned audit. We note that OIOS has substantially taken into account the comments of the Regional Service Centre in Entebbe (RSCE) provided in July 2014. The Department is providing additional comments on the recommendations in the enclosed matrix. In formulating our response, we have conferred with the respective officials in RSCE and their comments, where appropriate, have been incorporated in this reply.

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

cc: Ms. Safia Boly
    Ms. Cynthia Avena-Castillo

Management Response

AP2014/616/02 – Audit of staff claims and payments processing in the Regional Service Centre in Entebbe

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The RSCE should establish key performance indicators (KPIs) for claims review and approval sub-processes that are linked to the overall KPI for the claims processing process, and implement procedures for monthly review of progress against these KPIs to identify bottlenecks and take prompt corrective actions.	Important	Yes	Chief, RSCE	Second quarter of 2015	RSCE's comments are reflected in the draft report. The Centre does not have any further comments.
2	The RSCE should include in staff members' e-performance goals and success criteria that are linked to claims and payment processors' specific work responsibilities and ensure that performance is regularly monitored and reported on, with additional training and on-the-job coaching provided where required.	Important	Yes	Chief, RSCE	Second quarter of 2015	RSCE's comments are reflected in the draft report. The Centre does not have any further comments.
3	The RSCE should record all payments made using black out forms in Umoja and prepare the relevant bank reconciliations and investigate any discrepancies.	Important	Yes	Chief, RSCE	First quarter of 2015	The process of recording blackout forms in Umoja and bank reconciliation is in progress. Adjustments are being made as necessary.

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[1] Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

[2] Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.