



INTERNAL AUDIT DIVISION

REPORT 2015/036

Audit of payments to vendors by the
United Nations Interim Force in
Lebanon

Overall results relating to the effective
processing of payments to vendors by the
United Nations Interim Force in Lebanon
were initially assessed as satisfactory

FINAL OVERALL RATING: SATISFACTORY

6 May 2015

Assignment No. AP2014/672/08

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AUDIT REPORT

Audit of payments to vendors in the United Nations Interim Force in Lebanon

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of payments to vendors in the United Nations Interim Force in Lebanon (UNIFIL).
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. The approved budgets of UNIFIL for the financial period 2013/14 and 2014/15 were \$493 million and \$510 million, respectively. The UNIFIL Finance and Budget Management Section's Payments Unit and Cashier's Office were responsible for reviewing invoices and processing payments to UNIFIL vendor, respectively. The approved staffing level for the Section, which was headed by a Chief at the P-5 level, was 33 posts. The Section processed 4,000 vendor invoices, which resulted in 2,645 payment transactions totaling \$76.9 million for the 15-month period from 1 July 2013 to 30 September 2014.

II. OBJECTIVE AND SCOPE

4. The audit was conducted to assess the adequacy and effectiveness of UNIFIL governance, risk management and control processes in providing reasonable assurance regarding the **effective processing of payments to vendors by UNIFIL**.
5. The audit was included in the 2014 risk-based work plan of OIOS due to the financial risk relating to payments.
6. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: (a) exist to guide the processing of payments to vendors; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
7. The key control was assessed for the control objectives shown in Table 2.
8. OIOS conducted the audit during December 2014 and January 2015. The audit covered the period from 1 July 2013 to 30 September 2014. Table 1 summarizes the invoice payments tested by the audit.

Table 1: Summary of audit population and sample size by payment type (all amounts expressed in \$'000)

Type	Population		Sample Size	
	Cases	Amounts	Cases	Amounts
Purchase order	2 096	70 435	50	1 407
Non-purchase order	395	7 136	30	2 190
Low-value acquisition	115	258	20	46
Total payments	2 606	77 829	100	3 643
Credit memo	39	(900)	10	(377)
Total transactions	2 645	76 929	110	3 266

Source: Population generated from Umoja system

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

III. AUDIT RESULTS

10. The UNIFIL governance, risk management and control processes examined were **satisfactory**¹ in providing reasonable assurance regarding the **effective processing of payments to vendors by UNIFIL**. UNIFIL established adequate procedures, including the proper set-up of certifying and approving functions in Umoja, to ensure that only valid obligations were paid to vendors in accordance with required procedures. Also, UNIFIL implemented steps to improve the verification of contract terms during the three-way matching process and the timeliness of processing invoices.

11. The initial overall rating was based on the assessment of the key control presented in Table 2. The final overall rating is **satisfactory**.

Table 2: Assessment of key control

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective processing of payments to vendors by UNIFIL	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory

Regulatory framework

Certification and approval functions for invoice payments were properly set up in Umoja

12. United Nations Financial Regulations and Rules required UNIFIL to establish separate certifying and approving functions as designated by the United Nations Controller to pay vendor invoices. Also, the Umoja foundation module, which was implemented on 1 February 2014, required UNIFIL to establish a

¹ A rating of “**satisfactory**” means that governance, risk management, and control processes are adequately designed and operating effectively to provide reasonable assurance regarding the achievement of control and/or business objectives under review.

certifying function of service entry sheets in Umoja, replacing the manual receipt and inspection report in the legacy system. A review of all user roles assigned in Umoja indicated that certifying, approving and bank signatory functions were set up in the system as required. OIOS concluded that adequate controls over the set-up of user roles in Umoja to pay vendor invoices were in place and working as intended.

New procedures were implemented to verify contract terms during the three-way matching process

13. The Field Finance Procedure Guidelines required the Payments Unit to make payments against valid obligations only after verifying vendor invoices against a purchase order and receipt of goods and services. Under Umoja, the Payments Unit was required to conduct 'three-way matching' of a vendor invoice, purchase order and service entry sheet confirming receipt of goods and services.

14. A review of 110 payment transactions indicated that UNIFIL conducted three-way matching in all cases including proper adjustments resulting from credit memos issued by vendors. However, in two cases; for publication services and for fuel delivered, overpayments of \$960 and \$1,500 respectively were made. The Payment Unit made these overpayments, as the Unit did not always review all contract terms as part of the three-way matching process since under Umoja, only the terms included in purchase order were required to be matched. The exclusion of key contract terms and conditions from the purchase order during the three-way matching in Umoja could result in overpayments for other Mission contracts, not just for the above-mentioned cases.

15. After the audit, OIOS confirmed that UNIFIL had established new procedures for self-accounting units, the Procurement Section and Finance and Budget Management Section to ensure the inclusion of all relevant terms and conditions in shopping carts and purchase orders so that the Payments Unit can confirm the receipt of goods or services in accordance with contract terms. As UNIFIL had taken steps to address the issue, OIOS did not make a recommendation.

Controls over credit memos were adequate

16. The Field Finance Procedure Guidelines required the Payments Unit to review cases of partial deliveries or returned items in consultation with requisitioning offices and process credit memos to reduce payments to vendors accordingly as part of its three-way matching process. A review of 10 of 39 credit memos indicated that these memos were properly documented and adjusted to invoiced amounts. OIOS concluded that UNIFIL had implemented adequate controls over the processing of credit memos.

Mission took action to improve controls over low-value acquisitions

17. The Field Finance Procedure Guidelines provided for UNIFIL to select a vendor based on three informal quotes for low-value acquisitions of one-time, non-recurring items with a value of up to \$4,000, excluding payments for annual renewals of subscriptions and additional costs incurred over the approved amount of an existing contract.

18. A review of 20 low-value acquisitions indicated that in all cases, three informal quotes or adequate justifications for the selection of a sole source vendor were documented, and three-way matching was conducted prior to approving payments. OIOS noted minor exceptions in three cases totaling \$6,000, where low-value acquisitions were used for renewals of annual subscriptions and additional costs incurred over the approved amount of an existing contract. This was due to lack of proper guidance to the Payments Unit and self-accounting units. During the audit, UNIFIL developed standard operating procedures for the proper use of low-value acquisitions. As a result of the action taken, OIOS did not make a recommendation.

Controls over tracking the timeliness of payments have improved

19. The Finance and Budget Manual, Procurement Manual and Umoja guidance required UNIFIL to make payments within 30 days or the payment terms established in the relevant contracts, and follow up on the progress of invoice processing.

20. An analysis of all 2,606 payments during the audit period indicated that the Payments Unit paid 2,210 cases (or 85 per cent) within 30 days. Further analysis showed that the Unit made substantial improvement in processing payments on time following the full implementation of Umoja on 1 February 2014. For example, during the Umoja pilot phase 1 July 2013 to 31 January 2014, UNIFIL processed 69 per cent of payments within 30 days. UNIFIL increased the percentage of payments within 30 days to 91 per cent during the period 1 February to 31 July 2014. Additionally, a review of 18 invoices paid after the due dates indicated that the Payments Unit regularly monitored and adequately followed up on all open invoices with the requisitioning units. OIOS concluded that UNIFIL had implemented adequate and effective controls over the timeliness of processing of payments to vendors.

IV. ACKNOWLEDGEMENT

21. OIOS wishes to express its appreciation to the Management and staff of UNIFIL for the assistance and cooperation extended to the auditors during this assignment.

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

APPENDIX I

Management Response



Inter Office Memorandum

23 April 2015

To: Ms. Eleanor T. Burns
Director Peacekeeping Audit Service
Internal Audit Division, OIOS

From: Major General Luciano Portolano
Head of Mission and Force Commander
UNIFIL



Subject: **Draft report on an audit of Payments to Vendors in UNIFIL (Assignment No. AP2014/672/08)**

1. UNIFIL acknowledges receipt of your memorandum reference IAD: MO150401 dated 08 April 2015 enclosing the draft report on the audit of payments to vendors in UNIFIL.
2. We noted that the overall results relating to the effective processing of payments to vendors by UNIFIL were satisfactory with no recommendations issued pertinent to the Mission.
3. UNIFIL wishes to express its appreciation to OIOS for the cooperation and efforts extended during the audit.

Best regards.

Cc: Mr. Fabio Bendinelli, Officer-in-charge, Director of Mission Support, UNIFIL
Mr. Effendi Syukur, Chief Risk Management, Compliance and BOI Unit, UNIFIL
Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS