



INTERNAL AUDIT DIVISION

REPORT 2018/112

Audit of Certificate of Entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

**There was need to improve the efficiency
and effectiveness of the Certificate of
Entitlement process to ensure the continuing
eligibility of beneficiaries**

**19 November 2018
Assignment No. AS2018/800/02**

Audit of Certificate of Entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of Certificate of Entitlements (CE) in the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective and efficient administration of CE in the UNJSPF Secretariat. The audit reviewed the CE exercises conducted in 2016 and 2017 as well as related events pertaining to previous years.

The audit showed that there was need to improve the efficiency and effectiveness of the CE process to ensure the continuing eligibility of beneficiaries.

OIOS made one critical and four important recommendations. To address the issues identified in the audit, the UNJSPF Secretariat needed to:

- Finalize the new procedures relating to CE following the implementation of the Integrated Pension Administration System and update the Procedure General accordingly;
- Strengthen its controls over management of the CE process and payments to beneficiaries who are assisted by local offices of United Nations organizations and agencies;
- Implement effective measures to address the low completion rate for signature verification of CEs (**critical**);
- Assess the risks associated with cases with unique circumstances to adequately prioritize their selection for signature verification, and include reinstated cases in the CE exercise; and
- Strengthen its management of suspended accounts by terminating the concerned accounts from payroll in a timely manner, initiating recovery proceedings, and writing off uncollectable overpayments in accordance with established procedures.

The UNJSPF Secretariat accepted the recommendations and has initiated action to implement them.

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Audit of Certificate of Entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of Certificate of Entitlements (CE) in the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF).
2. UNJSPF was established by the General Assembly in 1948 to provide retirement, death, disability and other related benefits for staff upon cessation of their services with the United Nations and the Fund's other member organizations.
3. The Client Services, Records Management and Distribution Section (hereafter referred to as "Client Services") of the Fund Secretariat is primarily responsible for conducting the CE exercise. The CE exercise, which is guided by the Fund's Procedure General, aims to verify the continuing entitlement of beneficiaries for receiving their pension benefits. The Procedure requires the Fund to mail CEs to applicable beneficiaries every year for them to return it with their signature or thumb impression. Article 46 of the Fund's Regulations states that failure to return the CE may result in forfeiture of pension benefits.
4. The total number of beneficiaries receiving periodic benefits from the Fund as of 31 December 2016 and 2017 were 74,788 and 78,247 respectively. The total pension benefits disbursed during 2016 and 2017 were \$2.5 billion and \$2.6 billion, respectively. These were paid in 15 different currencies to individuals living in more than 190 countries. The total number of CEs mailed to beneficiaries by the Fund in 2016 and 2017 were 57,035 and 58,697, respectively.
5. Comments provided by the UNJSPF Secretariat are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective and efficient administration of CE in the UNJSPF Secretariat.
7. This audit was included in the 2018 risk-based work plan of OIOS due to the risks associated with the CE process including: (i) potential control deficiencies in the related methodology which may adversely affect the completion of the CE process; and (ii) the risk of making inadmissible payments of benefits due to non-verification of eligibility.
8. OIOS conducted this audit from April to July 2018. The audit reviewed the CE exercises in 2016 and 2017 as well as related events pertaining to previous years. Based on an activity-level risk assessment, the audit reviewed risk areas in the CE process including: (i) policies and procedures for management of CE; (ii) administration of CE; and (iii) suspension of benefits and recovery of overpayments.
9. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of CE using the stratified sampling method.
10. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Policies and procedures

Need to update the policies and procedures to reflect current practices

11. Policies and procedures serve as an important element of internal control by providing guidance for implementation of accepted practices. Operating procedures should be updated on a regular basis to ensure their continuing relevance.

12. In September 2001, the Fund issued Procedure General No. 2001-68 on administration of CE which provided guidance on the annual CE exercise. Despite changes in practice over time, the procedure had not been revised. After implementation of the Integrated Pension Administration System (IPAS) in August 2015, work types which described various tasks in the legacy system had been largely consolidated in IPAS. There were also several policy and procedural changes such as: (i) all beneficiaries over the age of 75 became subject to signature verification in 2016 whereas the threshold was previously set at 85 years of age; (ii) the timing of the CE exercise was changed from October to May every year; and (iii) the timeline for beneficiaries to return the CE was extended to 90 days whereas it was previously 45 days. These changes were not formally reflected in the Fund's procedures and templates, which may cause confusion to beneficiaries and the Fund's staff.

13. Moreover, the procedure of 2001 did not adequately explain the processes and timelines for handling death cases and related queries, as well as signature verification. There were about 1,000 death cases reported every year. OIOS review of a sample of 100 cases showed that in 64 cases, delays in death notification resulted in overpayments amounting to \$665,870. It took up to 18 months for the Fund to respond to queries of family members or relatives concerning the beneficiary's death.

14. Although IPAS was expected to automate certain manual processes of CE administration, the functionalities were yet to be implemented at the time of the audit. Client Services needed to coordinate with the concerned units to automate processes such as suspension of benefits and recovery of overpayments and come to an agreement on the new procedures. Although the Fund recognized the need for updating the procedures on CE administration, the lack of consensus on the new procedures caused delays in finalizing the revised Procedure General.

15. In the absence of updated policies and procedures that provide adequate and reliable guidance on CE administration, the quality and consistency of the CE exercise may be compromised.

(1) The UNJSPF Secretariat should finalize the new procedures relating to Certificate of Entitlement following the implementation of the Integrated Pension Administration System and update the Procedure General accordingly.

The UNJSPF Secretariat accepted recommendation 1 and stated that it will finalize the update to Procedure General No. 2001-68. The Procedure documents the responsibilities in the administration of CE. Recommendation 1 remains open pending receipt of the updated version of the Procedure General that defines the new procedures for CE and the related processes in the IPAS environment, including mechanisms for coordination among the various sections/units of the Fund.

B. Administration of the CE exercise

Need to improve coordination among the various units

(a) Coordination within the Fund Secretariat

16. In the UNJSPF strategic framework, the Fund indicated that streamlining transactional processes was one of the focus areas. Streamlining the CE process requires effective coordination and information-sharing among the sections/units within the Fund Secretariat as well as external partners.

17. Client Services is primarily responsible for conducting the CE exercise. The tasks include mailing the CEs, scanning the returned CEs, verifying signatures and thumb impressions, following up on unreturned CEs, opening workflows for suspension, reinstatement or termination of beneficiary accounts, responding to inquiries, and performing other related tasks. After the end of a CE cycle, Client Services opens workflows to suspend, reinstate or terminate the concerned accounts. Open workflows are subsequently reflected in the payroll and they remain open until their status changes. The Payments Section approves benefit payments and the Cashier's Unit disburses them. After disbursement, the Accounts Section records accounting entries and performs bank reconciliations.

18. There was lack of coordination among the various units. In some instances, death of beneficiaries was spotted by the Accounts Section during bank reconciliation. The Section would be the first to notice discrepancies when bank transfers were returned due to closure of the beneficiary's bank account following death. However, this information was not always shared with the Payments Section, Client Services or the Cashier's Unit. In this situation, the Payments Section did not take actions such as contacting the surviving family members for collecting necessary documents to terminate the accounts and initiating the process for a survivor benefit where applicable. As a result, the deceased beneficiaries remained on the payroll, the Cashier's Unit continued to disburse payments, and Client Services continued to mail CEs to the deceased beneficiaries for their continued eligibility. This condition occurred because the Fund had not formally defined the responsibilities among its various units for certain processes in IPAS to ensure coordination. OIOS is of view that the UNJSPF Secretariat should improve coordination among its various units by clearly defining their responsibilities relating to the CE process in the Procedure General. Since the Fund Secretariat intends to address this issue in conjunction with implementation of recommendation 1, OIOS did not make a separate recommendation.

(b) Coordination between the Fund and local offices of United Nations organizations and agencies

19. Since 2016, IPAS has provided the "Member Self Service" functionality which allows most beneficiaries¹ to download and print CE online. About 20,000 beneficiaries had signed up for Member Self Service; nonetheless, the Fund sent CEs to all beneficiaries by post. For beneficiaries who reside in remote locations, the Fund is assisted by the local offices of United Nations organizations and agencies in collecting CEs; in such cases, the Fund dispatched CEs by pouch mail to the concerned local offices for beneficiaries to sign or thumb print the CE on site. Such assistance by local offices was provided on a pro bono basis; there are no formal agreements or cost-sharing arrangements for such assistance.

20. OIOS' review showed that the CE cases handled by local offices (known as "pouch mail cases") had a lower likelihood of being returned. For 2016 and 2017, the percentage on unreturned CEs for pouch

¹ Beneficiaries who were paid in local currency were excluded from this functionality of Member Self Service due to the need to confirm their residency by postal mail.

mail cases was 13.7 and 12.6 per cent, respectively, compared to 6.5 and 7.4 per cent for regular cases as shown in Table 1.

Table 1
Receipt of CEs in 2016 and 2017

	2016			2017		
	CEs mailed	CEs not received	Percentage of CEs not received	CEs mailed	CEs not received	Percentage of CEs not received
Regular cases	51,675	3,370	6.5%	53,124	3,920	7.4%
Pouch mail cases	5,360	734	13.7%	5,573	706	12.7%

21. Similarly, benefit payments were made to beneficiaries through the local offices in the following ways: (i) a single check payment to the local office with a list of payees for the office to issue checks to individual beneficiaries or credit their bank accounts; (ii) a set of checks payable to beneficiaries sent to the local office for distribution; or (iii) a single check payment to the local office for them to disburse cash to the listed beneficiaries. As of September 2018, 1,894 beneficiaries were paid a total amount of \$2.3 million through the local offices.

22. The Fund's Procedure General No. 58 Rev.1 provides for alternate payment arrangements such as distribution of payments for pouch mail cases through the local offices of the United Nations organizations and agencies. However, the Fund did not follow the Procedure to ensure that payments remitted to the accounts of local offices had reached the accounts of beneficiaries. In the majority of pouch mail cases that were reviewed during the audit, records of payments from the local offices to beneficiaries were not properly kept or reconciled. OIOS' review also showed that 20 per cent of overpayments following the beneficiary's death related to pouch mail cases, although they constituted only 10 per cent of the total cases. Moreover, some pouch mail cases raised concerns about possible fraud, as explained below.

(i) The Fund wired \$46,098 to a local office for payments to a beneficiary for 30 months after her death in 2014. When the Fund contacted the legal heirs to recover the overpayment, the latter claimed that the payments were never received. The record in the local office showed that a bank transfer of \$1,000 was made to the beneficiary's account and a check payment of \$456 was made to a third person after the beneficiary's death. There was no information about the remaining funds in the local office. The Fund has not identified the recipient(s) of the remaining funds or recovered any portion of the overpayment.

(ii) The Fund sent \$4,187 to a local office by check for payment to a beneficiary for 12 months after her death in 2015. Her son collected the checks without giving death intimation and submitted CE with forged signatures in 2016 and 2017. The signatures were not verified because they were not selected for verification. The Fund eventually recovered the overpayment from the survivor's benefit payments.

(iii) The Fund paid \$12,407 to a beneficiary for 19 months after his death. The beneficiary died in October 2015, however CE was submitted for the 2016 exercise with a signature presumably forged by a third person. The beneficiary had no surviving spouse or child who was entitled to a benefit. The beneficiary's signature was not verified in the 2016 CE exercise as required. The Fund initiated the recovery process by contacting the beneficiary's estate.

(iv) The Fund paid \$78,456 to a beneficiary for 36 months after his death in 2014. Despite the unreturned CE in the 2014 CE exercise, the Fund did not suspend his account and continued to pay the benefit until April 2017. There was no death intimation by his family members during this period. The Fund eventually recovered the overpayment from the survivor's account.

23. While the assistance provided by the local offices has been an indispensable part of the benefit payment process and CE administration, the existing informal arrangement with these offices has blurred accountability at both ends and represents a weak control environment for the shared processes. OIOS is of view that despite having to rely on the assistance of these local offices, it is still the responsibility of the Fund to establish mechanisms to ensure that benefit payments reach the accounts of the rightful recipients, and that such payments cease upon cessation of eligibility. Considering that the current process for pouch mail cases is prone to error or manipulation, the Fund needs to strengthen its controls over the CE process and payments to beneficiaries who are assisted by local offices.

(2) The UNJSPF Secretariat should strengthen its controls over management of the Certificate of Entitlement process and payments to beneficiaries who are assisted by local offices of the United Nations organizations and agencies.

The UNJSPF Secretariat accepted recommendation 2 and stated that it will implement a strategy to reduce payments distributed through the United Nations Development Programme and replace them with other payment mechanisms including electronic funds transfer, to reduce related risks. The distribution of payments through local offices is applied in exceptional circumstances, at the request of beneficiaries residing in locations where traditional payment mechanisms are not available. In September 2018, 906 payments were distributed through local offices equivalent to 1.4 per cent of the counts and 0.4 per cent of the amount of total payments. For the CE process, beneficiaries request the services of local agencies considering the reality of mailing services in their country of residence. Local offices provide services on a pro-bono basis, with no additional costs for the Fund or the Fund's beneficiaries.

As mentioned in paragraph 21, as of September 2018, 1,894 payments were distributed through local offices either by check or wire transfer (i.e., pouch mail cases). The 906 payments mentioned in the Fund's response do not include payments made by wire transfer through local offices. Recommendation 2 remains open pending receipt of evidence of the corrective actions taken to address the issues relating to management of the CE process and payments to beneficiaries who are assisted by local offices of United Nations organizations and agencies.

Need to address the low completion rate for signature verification

24. Signature verification is the core element of the CE exercise to establish the continuing entitlement of beneficiaries. The verification process should be efficient and effective to avoid unnecessary interruption in benefit payments and at the same time protect the financial interest of the Fund from false or fraudulent benefit claims.

25. After receiving CEs from beneficiaries, Client Services authenticates the signatures by comparing them to signatures on previous CEs, the original payment instruction, or other official documents. The Procedure General requires the Fund to verify signatures for 100 per cent of beneficiaries who were: (i) receiving a disability benefit; (ii) receiving a survivor's benefit; and/or (iii) over the age of 75. In addition, the Fund randomly selects 25 per cent of the remaining beneficiaries for signature verification.

26. In the CE exercises of 2016 and 2017, there were significant delays in completing signature verification. The overall completion rate was 11 and 8 per cent in 2016 and 2017, respectively, as shown in Table 2. When CEs were received, Client Services scanned them and created a new workflow for signature verification in IPAS. At the time of audit, there were 76,690 open workflows, including 23,738 workflows created in 2013 and 2014, for signature verification relating to about 32,000 beneficiaries.

Table 2
Completion rate of signature verifications in 2016 and 2017

Types of beneficiary	2016			2017		
	Required	Completed	Percentage	Required	Completed	Percentage
Beneficiaries receiving a disability benefit	1,330	264	20%	1,414	228	16%
Beneficiaries receiving a survivor's benefit	10,673	1,229	11%	10,663	901	8%
Beneficiaries over the age of 75	14,312	1,645	11%	14,734	1,117	7%
Other beneficiaries	7,678	631	8%	7,951	443	5%
Total	33,993	3,769	11%	34,762	2,689	8%

27. The Procedure General requires proper follow-up on cases where a signature on a CE does not appear to be that of the beneficiary. OIOS randomly selected 50 cases from the CE exercises of 2016 and 2017 to review the thoroughness of signature verification. The review showed that Client Services had verified 25 of the 50 cases and in 5 of the verified cases, the signatures were apparently different from that of the beneficiary on record but were still accepted as authentic signatures.

28. Among the other 25 cases which were not verified by Client Services, there were 7 cases where the signatures did not match. Additionally, in one case a beneficiary switched from signature to thumbprint without submitting a medical certificate to prove his difficulty to sign, as required by the Procedure General. Similarly, in another case, a beneficiary submitted a CE with thumbprint without the required authentication by an official of a United Nations organization. The CE exercises of 2016 and 2017 led to rejection of 48 signatures (or 0.7 per cent of the 6,458 cases verified during the period) which, if projected over the total population, works out to about 436 potentially false signatures that could go unchecked due to incomplete verification. It also suggests that the actual financial loss due to manipulation of the CE process may be higher than what the Fund has recognized in its financial and operational reports.

29. There were no timelines or defined priority for the task of signature verification; the task could be assigned to any Client Service staff for processing without a specific timeline. This unsystematic approach posed a significant challenge in completing signature verification for about 34,000 beneficiaries every year. OIOS' analysis showed that it would take at least 971 person-days to manually process the volume every year².

30. Additionally, the distribution of caseload for signature verification between the New York and Geneva offices of the Fund appeared disproportionate to the level of available resources. Based on the countries assigned to the two offices, five staff in the Geneva office were responsible for about 60 per cent of the caseload whereas 13 staff in the New York office were responsible for 40 per cent. The number of cases per staff was four times higher in the Geneva office than in the New York office: 4,126 and 1,028 cases per staff in the Geneva and New York offices, respectively, as shown in Table 3. Such disproportionate distribution was observed in other areas of CE administration (such as managing the accounts of beneficiaries, updating of beneficiary's record, and following up on suspension and reinstatement) with the exception of mailing out the CEs which was centrally performed in New York.

Table 3
Number of cases for signature verification per person in the New York and Geneva offices

Caseload and resource/Office	New York	Geneva	Total
Number of cases for signature verifications	13,363 (39%)	20,630 (61%)	33,993 (100%)
Number of staff available to perform signature verification	13	5	18
Number of cases per staff	1,028	4,126	1,889

² It generally takes 12 minutes to verify one case. One person can process 35 cases per day on the assumption that he/she engages only in this task.

31. In addition to the capacity to process a large volume of cases, signature verification requires certain skills and experience. The Fund's staff had not received training on signature verification since February 2012 which undermined the effectiveness of the CE process and increased the risk that this manual process may be prone to error. OIOS is of view that the Fund needs to identify the various factors contributing to the low verification rate (such as the current requirements for signature verification, work distribution and timelines, and lack of appropriate tools for signature verification) to address the issue. An effective mechanism for signature verification is critical to ensure the integrity of the CE process and prevent loss to the Fund.

(3) The UNJSPF Secretariat should implement effective measures to address the low completion rate for signature verification of Certificates of Entitlement.

The UNJSPF Secretariat accepted recommendation 3 and stated that it will complete the implementation of the project for the automation of the signature verification in 2019 for its use in the 2020 CE exercise. Recommendation 3 remains open pending receipt of evidence showing that corrective actions have been taken to address the low completion rate for signature verification.

Need to evaluate the risk of excluding certain cases from signature verification and annual CE exercises

32. The CE exercise should be designed taking into consideration the risks associated with each benefit type and unique circumstances. Article 36 of the UNJSPF Regulations allows a child with disability to continue to receive a child benefit after the age of 21. While recipients of a disability benefit are subject to 100 per cent signature verification, recipients of a child benefit are not subject to the same requirement. The Fund randomly selected child benefit recipients for signature verification until he or she reaches 75 years of age.

33. Also, when a principal beneficiary dies before his or her child with disability reaches 21 years of age, a legal guardian of the child signs the CE on the child's behalf even after the child reaches 21 years. Until the child reaches 75 years of age, the legal guardian is not subject to 100 per cent signature verification.

34. Furthermore, once a beneficiary's account for any type of benefit is suspended, the beneficiary is excluded from the next CE exercise even if the account is reinstated, which may result in overpayment in the event of the beneficiary's death after reinstatement. For example, there was a case where the account was suspended in 2015 and subsequently reinstated, but was excluded from the 2016 CE exercise. This caused a two-year delay in discovering the beneficiary's death and overpayments.

35. By prioritizing the cases for signature verification based on risk assessment, the CE exercise may serve its purpose more effectively and efficiently.

(4) The UNJSPF Secretariat should: (i) assess the risks associated with cases with unique circumstances to adequately prioritize their selection for signature verification; and (ii) include reinstated cases in the Certificate of Entitlement exercise.

The UNJSPF Secretariat accepted recommendation 4 and stated that as part of the implementation of the new automated signature verification tool, it will review the cases to be selected for signature verification. The review will consider the risks associated with the process, changes derived from the new tool and resources available. The processing of benefit reinstatements involves the provision of a valid signature document (proof of life), which mitigates CE related risks. Recommendation 4

remains open pending receipt of documentation showing the requirements for signature verification on risk-based criteria and inclusion of reinstated cases in the CE exercise.

Need to improve the data integrity of beneficiaries in IPAS

36. The Fund Secretariat is responsible for maintaining the integrity of the data in respect of individual participants or beneficiaries. Since the implementation of IPAS in 2015, CEs were generated through the system for printing with the beneficiary's name, address, benefit type and barcodes. Data migration issues identified at the time of IPAS implementation had remained unresolved, such as: (i) missing or incomplete records of dependents; (ii) duplicate entries of dependents; (iv) incorrect association of dependents with the principal beneficiary; (v) out-of-range values in dates of birth; and (vi) multiple Unique Identification Numbers (UID) assigned to the same beneficiaries. Also, 12 issues relating to IPAS functionalities for the CE process were still open (five recorded in 2016 and seven in 2017).

37. In reviewing cases with multiple UIDs, OIOS noted that 125 beneficiaries were assigned multiple UIDs in the 2017 CE exercise. Assigning multiple UIDs to a single beneficiary caused duplication of work by mailing multiple CEs to the same beneficiaries. It also increased the risk of overpayments. For example, a benefit payment was split into multiple accounts that belonged to the same beneficiary. OIOS reviewed 20 cases with multiple UIDs and noted that in five cases, the beneficiary's death triggered cessation of benefit payments for one UID, but not for the other UID, which resulted in overpayment.

38. Unresolved data discrepancies increase the risk of improperly excluding beneficiaries subject to the CE exercise from the mailing list, or inclusion of those who are exempt from the exercise. Since OIOS had reported issues relating to data consistency and integrity in its audit of post-implementation of IPAS (Report 2017/104), no additional recommendation is made on this issue in the present report.

C. Suspension of benefits and recovery of overpayments

Need to improve management of suspended accounts and unrecoverable overpayments

39. The annual CE exercise starts in May by dispatching CEs to beneficiaries (the first CE mailing). If CEs are not returned by the end of September, they are mailed for the second time (the second CE mailing). If CEs are still not returned by the end of December, the Fund marks the cases as "Slated for Suspension" and sends a list of such cases to the secretaries of the Staff Pension Committees and retirees' associations for their assistance in January of the following year. If no communication is received regarding the cases slated for suspension by the first week of May, in the May payroll cut-off, they are marked as "Hold suspended due to no CE received." The Fund forfeits the beneficiary's right to a benefit and terminates the beneficiary's account when it receives no communication for more than two years since suspension of the account, as illustrated in Chart 1 (see page 9 below).

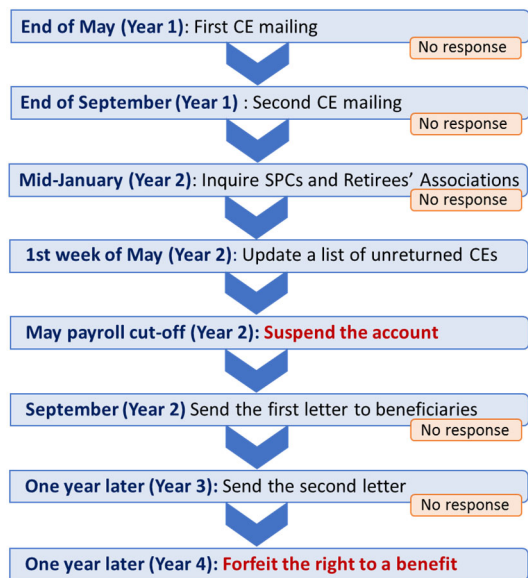
40. There were 962 and 833 suspended accounts in 2013 and 2014, respectively. Of these, 185 and 215 accounts for the two years, respectively, remained suspended at the time of audit even though more than two years had elapsed since their suspension. If the due process for terminating applicable accounts from payroll is not completed in a timely manner, the Fund would continue to recognize unverified financial obligations.

41. OIOS also observed instances of incomplete CE processing and/or irregular intervals in CE exercises. In 2014, for example, due to the Fund's transition to IPAS, the CE exercise was limited to the first and second mailing, and there was no follow-up on unreturned CEs after the second mailing. Similarly, in 2015, the CE exercise was not performed due to prioritization of IPAS go-live. The 2014 CE exercise

was resumed only in 2016, which resulted in suspension of 833 accounts with a delay of about 18 months. The inability to undertake the annual exercise caused delays in suspension of accounts, which often resulted in overpayment of benefits. In the 2016 CE exercise, for example, OIOS noted that 13 beneficiaries had died in 2012, 2013 or 2014. However, their death was not recorded until 2016 when the CE exercise resumed. In 10 of the 13 cases, delays in terminating accounts resulted in overpayments amounting to \$166,755.

Chart 1

Process of suspension and forfeiture of accounts due to unreturned CE



42. For recovery of overpayments, recommendations for write-off are proposed by the Accountant and approved by the Chief of Accounts Section. Recommendations must be approved by the Chief Financial Officer for amounts more than \$50,000. Before write-off, the Fund initiates the recovery process by notifying the deceased's legal heirs. According to the Fund administrative rules, recovery of overpayments must be made within two years from the date of the initial notification to the legal heirs. Also, in case legal heirs do not respond to the Fund's notification for more than two years, the overpayment is deemed as uncollectable and written off.

43. As of December 2017, there were more than 1,800 cases amounting to about \$7 million for which the Fund had initiated the recovery process. Of these, 1,044 cases should have been written off because more than two years had elapsed since the Fund notified the legal heirs. The possibility of recovery in some cases dating back to 1971 and 1991 seemed remote but they were still shown as receivables in the Fund's financial statements.

(5) The UNJSPF Secretariat should strengthen its management of suspended accounts by terminating the concerned accounts from payroll in a timely manner, initiating recovery proceedings, and writing off uncollectable overpayments in accordance with established procedures.

The UNJSPF Secretariat accepted recommendation 5 and stated that it will introduce system enhancements to further automate the forfeiture and termination of benefits due to non-receipt of the certificate of entitlement. The Fund will review and gradually terminate benefits that are suspended for more than two years. No benefit payments are made after a benefit is suspended as there are

instantly removed from the payroll. Recovery action is timely initiated for cases of confirmed overpayments. Recommendation 5 remains open pending receipt of evidence showing that corrective actions have been taken to strengthen the management of suspended accounts.

IV. ACKNOWLEDGEMENT

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

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

STATUS OF AUDIT RECOMMENDATIONS

Audit of Certificate of Entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ³ / Important ⁴	C/ O ⁵	Actions needed to close recommendation	Implementation date ⁶
1	The UNJSPF Secretariat should finalize the new procedures relating to Certificate of Entitlement following the implementation of the Integrated Pension Administration System and update the Procedure General accordingly.	Important	O	Receipt of the updated version of the Procedure General that defines the new procedures for CE and the related processes in the IPAS environment, including mechanisms for coordination among the various sections/units of the Fund.	30 June 2019
2	The UNJSPF Secretariat should strengthen its controls over management of the Certificate of Entitlement process and payments to beneficiaries who are assisted by local offices of the United Nations organizations and agencies.	Important	O	Receipt of evidence of the corrective actions taken to address the issues relating to management of the CE process and payments to beneficiaries who are assisted by local offices of United Nations organizations and agencies.	30 June 2019
3	The UNJSPF Secretariat should implement effective measures to address the low completion rate for signature verification of Certificates of Entitlement.	Critical	O	Receipt of evidence showing that corrective actions have been taken to address the low completion rate for signature verification.	31 July 2020
4	The UNJSPF Secretariat should: (i) assess the risks associated with cases with unique circumstances to adequately prioritize their selection for signature verification; and (ii) include reinstated cases in the Certificate of Entitlement exercise.	Important	O	Receipt of documentation showing the requirements for signature verification on risk-based criteria and inclusion of reinstated cases in the CE exercise.	31 July 2020
5	The UNJSPF Secretariat should strengthen its management of suspended accounts by terminating the concerned accounts from payroll in a timely manner, initiating recovery proceedings, and writing off uncollectable overpayments in accordance with established procedures.	Important	O	Receipt of evidence showing that corrective actions have been taken to strengthen the management of suspended accounts.	31 December 2019

³ 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.

⁴ 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.

⁵ C = closed, O = open

⁶ Date provided by the UNJSPF Secretariat in response to recommendations.

APPENDIX I

Management Response

UNITED NATIONS



NATIONS UNIES

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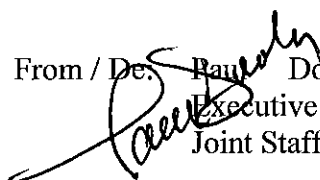
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MEMORANDUM

Ref:

New York, 2 November 2018

To / A: Mr. Gurpur Kumar, Deputy Director Internal Audit Division, OIOS

From / De:  Raymond Dooley, Acting Chief Executive Officer, United Nations Joint Staff Pension Fund

Subject / UNJSPF response to draft report audit of certificate of entitlements in the UNJSPF secretariat (Assignment No. AS2018/800/02)

1. Reference is made to your memorandum dated 19 October 2018, in which you submitted for the Fund's review and comments, the draft report on the above-mentioned audit.
2. As requested, the Fund's response to the audit recommendations is included in Annex I. Annex II contains additional comments to the draft report.
3. The Fund secretariat thanks OIOS in advance for considering our comments when preparing the final report.

cc.: Ms. K. O'Donnell, Chief of Operations
Mr. K. Soll, Chief Financial Officer
Mr. D. Dell'Accio, Chief Information Management Systems Service
Ms. J. Sareva, Chief Risk Management and Legal Services Section
Ms. C. Hofer, Chief Client Services, Records Management and Distribution Section
Ms. K. Manosalvas, Risk Officer, Audit Focal Point

MANAGEMENT RESPONSE TO AUDIT RECOMMENDATIONS
Audit of certificate of entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementati on date	Client comments
1	The UNJSPF Secretariat should finalize the new procedures relating to Certificate of Entitlement following the implementation of the Integrated Pension Administration System and update the Procedure General accordingly.	Important	Yes	Chief Client Services, Records Management and Distribution Section	June 2019	The Fund secretariat will finalize the update to Procedure General No. 2001-68. The Procedure documents the responsibilities in the administration of the Certificate of Entitlement.
2	The UNJSPF Secretariat should strengthen its controls over management of the Certificate of Entitlement process and payments to beneficiaries who are assisted by local offices of the United Nations organizations and agencies.	Important	Yes	Chief Financial Officer / Chief Client Services, Records Management and Distribution Section	June 2019	<p>The Fund will implement a strategy to reduce payments distributed through UNDP and replace them with other payment mechanisms including EFT, to reduce related risks.</p> <p>The distribution of payments through local offices is applied in exceptional circumstances, at the request of beneficiaries residing in locations where traditional payment mechanisms are not available. In September 2018, 906 payments were distributed through local offices equivalent to 1.4% of the counts and 0.4% of the amount of total payments.</p> <p>For the certificate of entitlement process, beneficiaries request the services of local agencies considering the reality of mailing services in their country of residence. Local offices provide services on a pro-bono basis,</p>

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.

Rec. no.	Recommendation	Critical/ ¹ / Important ²	Accepted ? (Yes/No)	Title of responsible individual	Implementati on date	Client comments
						with no additional costs for the Fund or the Fund's beneficiaries.
3	The UNJSPF Secretariat should implement effective measures to address the low completion rate for signature verification of Certificates of Entitlement.	Critical	Yes	Chief Client Services, Records Management and Distribution Section	July 2020	The Fund secretariat will complete the implementation of the project for the automation of the signature verification in 2019 for its use in the 2020 certificate of entitlement exercise.
4	The UNJSPF Secretariat should: (i) assess the risks associated with cases with unique circumstances to adequately prioritize their selection for signature verification; and (ii) include reinstated cases in the Certificate of Entitlement exercise.	Important	Yes	Chief Client Services, Records Management and Distribution Section	July 2020	As part of the implementation of the new automated signature verification tool, the Fund secretariat will review the cases to be selected for signature verification. The review will consider the risks associated with the process, changes derived from the new tool and resources available. The processing of benefit reinstatements involves the provision of a valid signature document (proof of life), which mitigates CE related risks.
5	The UNJSPF Secretariat should strengthen its management of suspended accounts by terminating the concerned accounts from payroll in a timely manner, initiating recovery proceedings, and writing off uncollectable overpayments in accordance with established procedures.	Important	Yes	Chief of Operations / Chief Financial Officer	December 2019	The Fund secretariat will introduce system enhancements to further automate the forfeiture and termination of benefits due to non-receipt of the certificate of entitlement. The Fund will review and gradually terminate benefits that are suspended for more than two years. No benefit payments are made after a benefit is suspended as these are instantly removed from the payroll. Recovery action is timely initiated for cases of confirmed overpayments.

General Comments, Factual Corrections and Clarifications to Draft Report on the Audit of certificate of entitlements in the Secretariat of the United Nations Joint Staff Pension Fund

The Fund secretariat kindly requests OIOS to consider the following comments to the draft report:

General Comments to the Report

1. It needs to be highlighted that the Fund secretariat dispatches over 60,000 certificates of entitlement (CE) each year to the Fund's retirees and beneficiaries residing in 208 countries. Given the broad scope of the Fund's operations, this is a complex process which requires the involvement of local offices of UN organizations and agencies, the UN Mailing and Diplomatic Pouch services and other stakeholders. To facilitate the process, most retirees and beneficiaries can also access their CE via the Member Self Service (MSS). In cases of non-receipt of CE, the Fund makes every effort to reach retirees and beneficiaries before a benefit is suspended. The Fund also seeks the assistance of FAFICs local offices and the Staff Pension Committees to supplement its own efforts in reaching beneficiaries who do not return the certificate of entitlement.
2. The Fund secretariat further notes that the distribution of benefit payments through the United Nations (UN) local offices and the recovery of possible overpayments are not part of the CE process.

Comments and factual corrections and clarifications to specific paragraphs:

3. **Paragraph 14 – Procedure updates:** The updated Procedure General No. 2001-68 on the administration of the CE is close to completion. On 8 October 2018, the Change Advisory Board decided to prioritize the implementation of system changes in V3 related to the automation of the termination process. The updated Procedure General will reflect changes to the process derived from system enhancements
4. **Paragraph 18 - Coordination among functions:** The Accounts Section is responsible for maintaining financial records including performing bank reconciliations. After obtaining required banking information from the bank website, and Cashiers Unit if necessary, the Accounts Section channels to the Payments Section cases of returned payments due to the closure of beneficiary's bank accounts following death. The Payments Section is responsible for reviewing returned payments and determining the appropriate action. Possible actions include suspending, reissuance, deletions or addressing the issue with the Pension Entitlements Section. The Payment Section directly interacts with the beneficiary and gathers required documentation for reissuance or deletion of payments.
5. It needs to be clarified that although the Client Services, Records Management and Distribution Section (CSRMDS) is the first point of contact with the Fund, this Section is not responsible

for contacting surviving family members or collecting the necessary documents to terminate the accounts or initiating survivor benefits, as it is incorrectly stated in the report.

6. **Paragraph 19 - Local Offices support to CE process:** Local offices assist in collecting CEs from beneficiaries residing in remote locations. Beneficiaries request these services considering the reality of mailing services in their country of residence. Local offices provide these services on a pro-bono basis, with no additional costs for the Fund or the Fund's beneficiaries.
7. **Paragraph 21 - Distribution of payments through local offices:** OIOS is kindly requested to clarify in the report that payments through UN offices are limited to UNDP payroll and UNIFIL payroll. As shown in Table 1, which shows a breakdown of all payments processed in September 2018 payroll, no money or checks are being transferred by pouch (through the local offices). In September 2018 payroll, 906 payments were distributed through local offices equivalent to 1.4% of the counts and 0.4% of the amount of total payments. Only 680 payments with an amount of \$506,895.67 were included in UNDP payroll and 226 payments with an amount of \$238,333.22 were included in UNIFIL payroll.
8. **Paragraph 22 - Procedures to ensure payments reach beneficiaries:** OIOS is kindly requested to clarify that in accordance with Procedure General No. 58 Rev.1, the Fund makes a bank transfer to UNDP Headquarters, which is later disbursed to the local duty stations account numbers by UNDP. Please also consider the evidence of receipt by individual beneficiaries of sampled payments distributed through local offices provided to OIOS. The Fund maintains the controls specified in the referenced Procedure General to ensure payments reach the rightful recipients, including duly signed lists of beneficiaries and reviews and reconciliations as well as on-going communications with Paying Agencies. It should also be emphasized that beneficiaries serve as additional control by immediately contacting the Fund when a benefit payment is not received.
9. **Paragraph 23 - Arrangement for distribution of payments through local offices:** OIOS statement that the Fund has an informal arrangement for the distribution of payments through UN local offices is inaccurate and needs to be clarified. The existing arrangement with UNDP has been duly agreed and closely discussed with all parties involved and considering that it has been in place for a long period of time it is an 'official' mode of payment. All details regarding reconciliation of payments distributed through the local offices have been duly stipulated in the General Procedure No. 58 Rev.1.

Table 1: Breakdown of all payments processed by the Fund secretariat in the September 2018 payroll (Local offices in bold)

Disbursement Type	Payment type	Payment counts	% of counts	Payment amount \$	% of amount	Remarks
EFT	EFT	62,610	97.06%	184,000,756.14	98.74%	Direct bank transfer
Check	Check	741	1.15%	745,433.71	0.40%	Like a bank transfer, individualized checks are being cleared/reconciled via bank. Diplomatic pouch is only a secured mailing device to prevent a loss of check for the benefit of beneficiary.
Bulk Check	UNESCO SEPU	247	0.38%	847,954.43	0.46%	Unlike UN offices, UNESCO SEPU (Service d'Épargne et de Prêt du personnel de l'UNESCO) is an independent financial institution. The bulk payment to SEPU is a bank transfer and is subject to the Fund's bank reconciliation.
Bulk Check	UNDP Paylist	680	1.05%	506,895.67	0.27%	Paylist via UNDP. The Fund makes a bank transfer to UNDP Headquarters which is being disbursed later to the local offices by UNDP Headquarters. After UNDP local offices make payments to beneficiaries, the Fund receives payment evidence from UNDP local offices and reviews/reconciles it.
Bulk Check	UNIFIL Paylist	226	0.35%	238,333.22	0.13%	Paylist via UNIFIL. The Fund makes a bank transfer to UNIFIL. After UNIFIL makes payments to beneficiaries, the Fund receives payment evidence from UNIFIL and reviews/reconciles it.
Total		64,504		186,339,373.17		

10. **Paragraph 22 – Overpayments:** OIOS is kindly requested to note that the four overpayment cases described in this paragraph are mainly the result of late notification to the Fund of retirees’ death. In the case of a retiree in receipt of a benefit from the Fund, a late notification can lead to overpayment risks that given the broad scope of the Fund’s operations cannot be avoided. The CE process acts as a control for these cases. Moreover, in accordance with the Fund’s Regulations, any indebtedness to the Fund by any beneficiary or third person can be deducted from any benefit payable to survivors. The Fund’s exposure is therefore mainly limited to those beneficiaries with no survivors. It is further noted that the number of confirmed overpayments and related losses are not material compared to the total number of benefits paid or annual payment amount.

Upon the death of a retiree, a family member/friend or other representative must notify the Fund of the retiree’s death as soon as possible and provide the Fund with a certified copy of the official death certificate. This allows the Fund to determine what benefit(s), if any, are payable. Upon receipt of death notification, the Fund takes prompt action to suspend the benefit and recover any overpayments from his/her estate or from benefits payable to his/her survivors.

Table 2 - Clarifications on overpayment cases described in the audit report

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22 (i). The Fund wired \$46,098 to a local office for payments to a beneficiary for 30 months after her death in 2014. When the Fund contacted the legal heirs to recover the overpayment, the latter claimed that the payments were never received. The record in the local office showed that a bank transfer of \$1,000 was made to the beneficiary’s account and a check payment of \$456 was made to a third person after the beneficiary’s death. There was no information about the remaining funds in the local office. The Fund has not identified the recipient(s) of the remaining funds or recovered any portion of the overpayment.	This is not a case of fraud, since UNDP Liberia confirmed that payments to the beneficiary were suspended after his death on 3 April 2014. The Fund cannot deduct these funds from UNDP since listing payments to UNDP Liberia were discontinued in November 2016. Recovery efforts are on-going. The death of the beneficiary was notified to the Fund on 2 March 2017.
22 (ii) The Fund sent \$4,187 to a local office by check for payment to a beneficiary for 12 months after her death in 2015. Her son collected the checks without giving death intimation and submitted CE with forget signatures in 2016 and 2017. The signatures were not verified because they were not selected for verification. The Fund eventually recovered the overpayment from the survivor’s benefit payments.	The retiree's death was reported to the Fund on 7 June 2017 (20 months after his death). Upon death notification, the Fund recovered the overpayment. Had the signature verification exercise been completed, the Fund could have noticed the discrepancy in the CE signature.
22 (iii) The Fund paid \$12,407 to a beneficiary for 19 months after his death. The beneficiary	The beneficiary’s death was reported to the Fund on 7 June 2017 (19 months after his

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<p>died in October 2015, however CE was submitted for the 2016 exercise with a signature presumably forged by a third person. The beneficiary had no surviving spouse or child who was entitled to a benefit. The Fund initiated the recovery process by contacting the beneficiary's estate.</p>	<p>death), this resulted in an overpayment. The beneficiary had no spouse or children who were entitled at the time of death, so the case was Terminated. Since the Fund was not informed of the beneficiary's death, the CE was mailed to the beneficiary in 2016. Had the Signature Verification been completed by the time the 2016 signed CE was received, the Fund would have noticed the signature discrepancy.</p>
<p>22 (iv) The Fund paid \$78,456 to a beneficiary for 36 months after his death in 2014. His account was suspended in 2015 due to non-receipt of CE. However, the account was reinstated in 2016, after his death, and payments were deposited in his bank account until May 2017 when the Fund discovered his death. There was no record providing the basis for reinstatement of the beneficiary's account. The Fund eventually recovered the overpayment from the survivor's account.</p>	<p>The death of the beneficiary was reported to the Fund 36 months after his death. The Fund recovered the overpayment from the survivor. OIOS report incorrectly states that the beneficiary was suspended in 2015 and reinstated in 2016, which was when he was already dead. Beneficiary was suspended for the 2011 CE exercise on 7 August 2012 and was Reinstated on 8 March 2013, while he was still alive.</p>

11. **Paragraphs 26 to 29:** Delays in completing signature verification in the CE exercises 2016 and 2017 were a one-time issue resulting from the implementation of a new system and the change in the cycle for the certificate of entitlement. The Fund is implementing a project to automate signature verification tasks, which is expected to increase processing capacity and reduce possible errors.
12. **Paragraph 30 and Table 3:** The comparison of the signature verification cases processed in New York and Geneva is not appropriate since it does not cover the wide range of certificate of entitlement related tasks or other tasks performed by the same staff. Moreover, the new signature verification tool is expected to alter the tasks and work distribution between the Fund's offices in New York and Geneva.
13. **Paragraph 31:** While some staff might have not recently received external training on signature verification, all staff involved in this task receive regular guidance and training provided by staff members who participated in the external training and who have extensive experience in this matter.
14. **Paragraph 34:** It needs to be clarified that the Fund does not exclude individual cases from the CE exercise. Statistical sampling criteria are applied to select the cases subject to signature verification.

- 15. Paragraph 40:** After a benefit is suspended, the Fund makes attempts to reach a beneficiary before a benefit is terminated.
- 16. Paragraph 41:** As above, the Fund secretariat kindly requests OIOS to note in the report that delays in processing the certificate of entitlement in 2015 and 2016 were a one-time issue resulting from the adoption of the new system and the change in the CE cycle.
- 17. Paragraph 43:** OIOS is kindly asked to consider that:
- a. Recovery actions are initiated by the Fund on a timely manner. On confirmed overpayment cases, Payment Section/PES starts the initial collection efforts (recall payments from bank, recovery from survivor benefit payments, and initial overpayment letters issuance). If the overpayment is not recovered by the initial collection efforts, the Accounts Section issues periodic dunning letters to the concerned individuals. If after multiple attempts there is no recovery expectation, the Accounts Section prepares a memorandum to justify the write-off. These receivables have been impaired and therefore have no financial impact.
 - b. Suspended cases for which overpayment is not confirmed are not terminated until further analysis and follow ups are conducted by Client Services to determine the reason for no CE receipt. The Fund makes several efforts to contact beneficiaries before a benefit is terminated. It needs to be clarified that the termination of benefits will result in a reversal of benefit expenditure and not in a write-off of overpayments.