



INTERNAL AUDIT DIVISION

REPORT 2014/131

Advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the United Nations Development Programme Service Clearing Account

10 December 2014
Assignment No. AN2014/590/01

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Advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the United Nations Development Programme Service Clearing Account

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' (OCHA) reconciliation of backlog transactions in the United Nations Development Programme (UNDP) Service Clearing Account for the period 2004-2013.
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. UNDP, the main service provider of OCHA for its field operations, required OCHA to maintain sufficient funds as an advance in a Service Clearing Account. OCHA issued financial authorizations on the basis of which UNDP made payments for goods and services on behalf of OCHA field offices. OCHA spent about \$100 million annually through the Service Clearing Account, and UNDP provided monthly reports to OCHA detailing all payments made.
4. By his 18 December 2012 memorandum, the Director, Division of Administration in the United Nations Office at Geneva (UNOG) informed OCHA management of significant unreconciled differences between the UNDP Service Clearing Account reports and the OCHA account maintained in the Integrated Management Information System (IMIS). The 2011 ending balances between the two accounts were "different by about \$20 million". OCHA management indicated that it had carried out an initial review and identified several errors including a \$12 million difference between the closing balance in 2007 and the opening balance in 2008 in the OCHA account in IMIS, as well as a \$3.6 million remittance to UNDP that appeared in the Service Clearing Account report as a receivable instead of it being expensed. As of April 2013, OCHA and the Financial Resources Management Service (FRMS) of UNOG agreed that the projected 'amount at risk' that was potentially irreconcilable was about \$4.3 million. This exposure was confirmed by the results of the reconciliation exercise completed as of December 2013.
5. In order to resolve the differences between UNDP reports and OCHA records in IMIS, the Administrative Services Branch in Geneva and FRMS agreed to put in place an Inter-Office Voucher Reconciliation Team in 2013 with additional resources provided by OCHA management to fully reconcile all the Service Clearing Account data for the financial periods 2004 to 2013. The reconciliation process was structured in several phases including setting up a dedicated project, hiring new and temporarily reassigning existing staff, developing a central database with in-house information technology support, obtaining data for the matching and reconciliation exercise, and carrying out a final analysis to identify and process outstanding items.
6. Comments provided by OCHA are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The advisory engagement was conducted to review the **reconciliation by OCHA of backlog transactions in the UNDP Service Clearing Account for the period 2004 to 2013, and to identify related opportunities for improvement.**

8. The assignment was requested by management and included in the 2014 risk-based work plan due to the financial risks related to unreconciled and old outstanding items appearing in the UNDP Service Clearing Account reports.

9. OIOS conducted the advisory engagement from 19 January to 14 February 2014 and reviewed the work of the Inter-Office Voucher Reconciliation Team, which covered the period from financial year 2004 to 2013.

10. OIOS assessed whether OCHA had: (a) established procedures defining roles and responsibilities with clear segregation of duties and effective oversight mechanisms for regularly monitoring, supervising and approving the reconciliation process; (b) assigned adequate and trained staff resources; (c) deployed effective tools to reconcile the Service Clearing Account reports in a centralized manner with a system for archiving IMIS processing documents; and (d) implemented a system to follow up and resolve discrepancies/rejects on a timely basis. OIOS selected a sample of 19 out of 146 OCHA country offices and reviewed activities to reconcile backlog transactions. OIOS also reviewed: (a) the methodology developed to perform the backlog reconciliation; (b) data and documentation used to validate transactions; and (c) the process for resolving disputed charges.

III. RESULTS OF THE ADVISORY ENGAGEMENT

11. For the period prior to 2013, OCHA did not have a system in place to carry out a proper reconciliation of the Service Clearing Account charges and there was not an effective oversight on the part of UNOG-FRMS and the Controller's Office to ensure that inter-office charges between OCHA and UNDP were properly reconciled. This resulted in significant differences between OCHA records in IMIS and the UNDP Service Clearing Account reports. The efforts agreed upon between OCHA and UNOG-FRMS that started in 2013 to resolve the differences between the Service Clearing Account report and the OCHA account in IMIS for 2004 and onwards were largely effective in identifying and reconciling the outstanding charges. However, the reconciliation was still to be completed for some country offices/years.

12. OIOS made four recommendations to address issues identified in this review. OCHA accepted these recommendations and is in the process of implementing them.

The ongoing reconciliation exercise provided results that were reliable

13. The United Nations Finance and Budget Manual required Inter-Office Voucher reconciliations to be prepared on a monthly basis. OCHA established a step by step guideline for the process to reconcile the backlog transactions in the UNDP Service Clearing Account reports with OCHA records in IMIS in 2013.

14. OIOS assessed the methodology used by OCHA in reconciling the prior year charges from January 2004 through December 2012. The methodology consisted of: (a) uploading of two sets of data, specifically the year-to-date Service Clearing Account data from UNDP and the corresponding IMIS processed data for each country office from 2004-2012, and running a matching exercise in Microsoft Excel; and (b) uploading the matched data in the Agency Service Clearing Account database. The process

allowed OCHA to identify what had been matched and what remained outstanding, semi-processed, over-processed (where OCHA processed in IMIS more than the amounts appearing in the Service Clearing Account reports), completely rejected and/or held for additional information from UNDP before resolution. In addition, for the reconciliation of 2013 transactions, a Microsoft-Excel-based application known as Model Inter-Office Voucher was developed in-house with additional control features to match the Service Clearing Account and IMIS data.

15. To test the reliability of the approach taken by OCHA, OIOS selected 19, out of 146, OCHA country offices that had the highest charges and the largest differences between the Service Clearing Account and IMIS total charges. This sample represented 66.5 per cent of the dollar value of the Service Clearing Account charges amounting to \$296 million. The OIOS review showed that OCHA followed a consistent approach to reconcile year-to-date Service Clearing Account reports with IMIS data. For the matched data, representing about \$294.8 million or 99.6 per cent of the total Service Clearing Account amount covered by the selected country offices, OCHA was able to provide adequate supporting evidence validating the charges. Based on the review, OIOS concluded that the ongoing exercise to reconcile backlog inter-office transactions was reliable.

There was a need to consistently ensure the completeness and accuracy of charges recorded in UNDP Service Clearing Accounts

16. The United Nations Finance and Budget Manual required inter-office account discrepancies revealed in reconciliation processes to be resolved on a priority basis.

17. OCHA paid UNDP a monthly advance to make various payments on behalf of OCHA country offices on the basis of financial authorizations issued by OCHA. UNDP provided a monthly report of payments, which were captured in the OCHA account in IMIS by desk officers responsible for individual OCHA country offices after validating the charges. Service Clearing Account transactions that could not be matched or reconciled with the OCHA IMIS account were posted to a suspense account.

18. Until 2013, OCHA did not have a system to reconcile Service Clearing Account reports with IMIS records, and resolve discrepancies between the two records. The total unreconciled transactions between the Service Clearing Account reports and the OCHA account in IMIS grew over the years reaching approximately \$42 million in 2007, when the Controller raised the issue of reconciliation backlogs. In response to the Controller's concern, OCHA indicated that actions were initiated to reconcile the differences; however, the consistency of the reconciliation process was not maintained because of lack of an institutionalized reconciliation system. As a result, the same issue was again raised by UNOG-FRMS in 2012 noting unreconciled items of \$20 million, and a suspense account of \$3.4 million with questionable charges that were yet to be cleared.

19. The backlogs arose because OCHA focused on processing charges in IMIS instead of simultaneously reconciling and resolving discrepancies. Without a formal reconciliation structure and procedures to identify and resolve the differences between the UNDP reports and IMIS data, there was a significant risk of recurring reconciliation backlogs, even after the completion of the current reconciliation exercise.

(1) OCHA should institute policies and procedures for the: monthly reconciliation of the UNDP Service Clearing Account, and submission of reconciliation statements to UNOG for approval.

OCHA accepted recommendation 1 and stated that its implementation was dependent on the completion of recommendations 2 and 3. Recommendation 1 remains open pending receipt of

evidence that policies and procedures to reconcile and approve monthly reconciliations of the UNDP Service Clearing Account have been instituted.

There was a need to determine the threshold for continuing reconciliation efforts

20. United Nations Financial Rules provided that any unmatched reconciling items highlighted by a reconciliation exercise could be authorized, after a full investigation, for write-off by the Under-Secretary-General for Management.

21. Overall, OCHA was able to reconcile about 99.6 per cent of IMIS data with the Service Clearing Account reports covering the 2004-2012 period. Despite this significant achievement, unmatched charges remained either as already processed in IMIS but yet to be reflected in reports (\$2,114,332) or as reflected in reports but yet to be processed in IMIS (\$2,276,580). These represented cumulative amounts for the period 2004-2012, and comprised outstanding, over-processed, semi-processed and/or rejected charges.

22. In order to address the remaining reconciliation work, the Administrative Services Branch in Geneva indicated that it would continue the matching exercise for all country offices focusing on those offices achieving less than 99 per cent success rate in the reconciliation effort and where the net balance between the Service Clearing Account and IMIS charges was more than \$100,000. However, determining the threshold for continuing reconciliation efforts based on net amounts might not take into account the risks related to individual transactions leading to possible write off of significant transactions.

(2) OCHA should determine, for the purpose of the backlog reconciliation of the UNDP Service Clearing Account, the threshold for continuing reconciliation efforts on an individual transaction basis to ensure that discrepancies relating to significant transactions are properly resolved.

OCHA accepted recommendation 2 and stated that charges from 2004 to 2009 had been cleared and the remaining charges for 2010-2012 currently amounted to \$42,201. Documentation would be provided once the remaining charges were cleared. Recommendation 2 remains open pending receipt of evidence that OCHA had fully cleared the outstanding charges on the UNDP Service Clearing Account reconciliation statement.

Discrepancies in the 2004 Service Clearing Account opening balance needed to be resolved

23. As part of its reconciliation process, OCHA verified, item-by-item, and reconciled the charges reported in the Service Clearing Account reports against its own records maintained in IMIS, and resolved differences with UNDP for any outstanding items.

24. OCHA paid \$3.6 million to UNDP to settle the difference between the closing balance of the Service Clearing Account and OCHA IMIS data to reduce the 2004 opening balance to zero. However, OCHA later processed \$600,000 of pre-2004 charges. Also, the 2004 year-to-date Service Clearing Account report showed a beginning balance of \$172,000 in favor of OCHA. This raised questions regarding the correctness of the opening balance for 2004 and the justification for the payment of \$3.6 million to UNDP.

25. OIOS also observed that while processing the Service Clearing Account charges for prior years, OCHA identified a number of questionable and/or rejected charges, which had been posted to a Suspense Account. Some of those charges were not resolved with UNDP. As a result, the balance in the Suspense Account was \$703,203 as of 31 December 2013.

(3) OCHA should investigate the reasons why additional pre-2004 charges of \$600,000 were processed in the UNDP Service Clearing Account, and determine the actual beginning balance of the account in 2004.

OCHA accepted recommendation 3 and stated that it had successfully recruited the Head of the Inter-Office Voucher and Special Projects Unit who will continue the investigation of this issue. Recommendation 3 remains open pending receipt of evidence that the 2004 beginning balance in the UNDP Service Clearing Account was properly resolved.

(4) OCHA should, with respect to its reconciliation of the UNDP Service Clearing Account, analyze and clear the amount appearing as the balance of Suspense Account as of 31 December 2013, and document the basis for processing such charges.

OCHA accepted recommendation 4 and stated that the Suspense Account balance was \$741,740 as at December 2012. The balance was \$7,483 as at November 2014. Journal vouchers were in the pipeline to clear the outstanding balance down to zero. Recommendation 4 remains open pending receipt of evidence that the balance on the Suspense Account has been cleared.

IV. ACKNOWLEDGEMENT

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

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

STATUS OF RECOMMENDATIONS

Advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the United Nations Development Programme Service Clearing Account

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	OCHA should institute policies and procedures for the: monthly reconciliation of the UNDP Service Clearing Account and submission of reconciliation statements to UNOG for approval.	Important	O	Submission of evidence that policies and procedures to reconcile and approve monthly reconciliations of the UNDP Service Clearing Account have been instituted.	31 October 2015
2	OCHA should determine, for the purpose of the backlog reconciliation of the UNDP Service Clearing Account, the threshold for continuing reconciliation efforts on an individual transaction basis to ensure that discrepancies relating to significant transactions are properly resolved.	Important	O	Submission of evidence that OCHA has fully cleared the outstanding charges on the UNDP Service Clearing Account reconciliation statement.	31 December 2014
3	OCHA should investigate the reasons why additional pre-2004 charges of \$600,000 were processed in the UNDP Service Clearing Account, and determine the actual beginning balance of the account for in 2004.	Important	O	Submission of evidence that the 2004 beginning balance in the UNDP Service Clearing Account was properly resolved.	31 July 2015
4	OCHA should, with respect to its reconciliation of the UNDP Service Clearing Account, analyze and clear the amount appearing as the balance in the Suspense Account as of 31 December 2013, and document the basis for processing such charges.	Important	O	Submission of evidence that the balance on the Suspense Account has been cleared.	30 November 2014

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.

³ C = closed, O = open

⁴ Date provided by OCHA in response to recommendations.

APPENDIX I

Management Response

OFFICE FOR THE COORDINATION OF HUMANITARIAN AFFAIRS

TO: Muriette Lawrence-Hume, OiC, Internal Audit Division
A: Office of Internal Oversight Services, OIOS

DATE: 18 November, 2014

Valerie Amos

REFERENCE:

FROM: Valerie Amos, Under-Secretary-General for Humanitarian
DE: Affairs and Emergency Relief Coordinator

SUBJECT: **OCHA response to OIOS advisory engagement related to a review of the Office for the
OBJET: Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the
United Nations Development Programme Service Clearing Account**

1. Thank you for sharing the draft report on OIOS "Advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the United Nations Development Programme Service Clearing Account".
2. The report was reviewed and OCHA has no further comments. The Action Plan for the implementation of the four remaining recommendations is attached.
3. We stand ready to provide you with any additional clarifications, if needed.

cc:

Kyung-Wha Kang
Kelly David
Wiebke Uhde

Management response

Advisory engagement related to a review of the Office for the Coordination of Humanitarian Affairs' reconciliation of backlog transactions in the United Nations Development Programme Service Clearing Account

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OCHA should institute policies and procedures for the monthly reconciliation of the UNDP Service Clearing Account and submission of the reconciliation statements to UNOG for approval.	Important	Yes	Executive Officer	31 October 2015	Implementation is dependent on the completion of recommendations no. 2 and 3.
2	OCHA should determine, for the purpose of the backlog reconciliation of the UNDP Service Clearing Account, the threshold for continuing reconciliation efforts on an individual transaction basis to ensure that discrepancies relating to significant transactions are properly resolved.	Important	Yes	Executive Officer	31 December 2014	Charges from 2004 to 2009 have been cleared. The remaining charges for 2010-2012 currently amount to \$42,201.53. Documentation will be provided once the remaining charges are cleared.
3	OCHA should investigate the reasons why additional pre-2004 charges of \$600,000 were processed and determine the actual beginning balance for 2004.	Important	Yes	Executive Officer	31 July 2015	OCHA successfully recruited the Head of the IOV and Special Projects Unit and work is ongoing..
4	OCHA should analyze and clear the amount appearing as the balance in the Suspense Account as of 31 December 2013 and document the basis for processing such charges.	Important	Yes	Executive Officer	30 November 2014	The balance was \$741,739.73 as at December 2012. The balance was \$7,483.11 as at November 2014. Journal vouchers are in the pipeline to clear the outstanding balance down to zero.

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.