



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of disbursements in UNAMI

**Generally internal controls were in place, but
could be further strengthened**

14 July 2009

Assignment No. AP2008/812/07

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Andrew Gilmour, Special Representative of the
A: Secretary-General, a.i.,
United Nations Assistance Mission for Iraq

DATE 14 July 2009

REFERENCE IAD: 09- 07673

FROM Fatoumata Ndiaye, Acting Director
DE Internal Audit Division, OIOS

Fatou

SUBJECT **Assignment No. AP2008/812/07 – Audit of disbursements in UNAMI**
OBJET

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 4 and 5 in the OIOS recommendations database as indicated in Annex 1.
 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 and 2) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Milan Trojanovic, Chief of Mission Support, UNAMI
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management
Mr. Seth Adza, Audit Response Team, Department of Field Support
Mr. Byung-Kun Min, Programme Officer, OIOS
Ms. Eleanor Burns, Chief, Peacekeeping Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

"The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization" (General Assembly Resolution 48/218 B).

CONTACT INFORMATION

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EXECUTIVE SUMMARY

Disbursements in UNAMI

OIOS conducted an audit of disbursements in the United Nations Assistance Mission for Iraq (UNAMI). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over disbursements. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Generally internal controls were in place but could be further strengthened as follows:

- UNAMI did not update its list of assigned object codes when a new object code is established. As a result, about 50 per cent of transactions reviewed were certified by individuals without the required delegated authority;
- From a sample of 40 payments relating to staff allowances, four errors were found in their calculation resulting in over and underpayments; and
- Estimated costs of common services provided to UN Agencies and Funds and Programmes were not compared with the actual cost. A review of some common services revealed a net overcharge of about \$24,000. In the absence of an annual review to compare estimated and actual costs, there is a risk that remittances or recoveries are not made.

OIOS made recommendations to address the issues identified during the audit to further strengthen existing controls.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of disbursements in the United Nations Assistance Mission for Iraq (UNAMI). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UNAMI operates in Iraq, Kuwait, and Jordan, and has four bank accounts for payments to vendors and staff. Moreover, imprest funds are maintained in Amman, Baghdad and Erbil to meet immediate requirements, and petty cash is provided to the Travel Unit, and Air Operations and Transport Sections for small expenditures.
3. The UNAMI Finance Section, located in Kuwait, is responsible for processing and disbursing funds in accordance with applicable United Nations Financial Regulations and Rules. The Chief Finance Officer (CFO) who handles the overall management of the finance functions in UNAMI including disbursements, reports to the Chief Administrative Services (CAS) who in turn reports to the Chief of Mission Support (CMS).
4. The total disbursements recorded in the financial statements for the period of the audit from 1 January 2007 to 30 September 2008 were \$165 million. The details are given in Table 1.

Table 1: Type of disbursements

Disbursement	Amount (\$ '000)
Vendor payments	91,619
Mission Subsistence Allowance (MSA)	43,197
Hazard and Special Allowance for Iraq (SAI)	6,445
Travel and Daily Subsistence Allowance (DSA)	4,567
National staff salary and allowances	18,303
Medical Insurance Plan (MIP) contribution	578
Miscellaneous	231
Total	164,940

5. Comments made by UNAMI are shown in *italics*.

II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over disbursements.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered disbursements made from 1 January 2007 to 30 September 2008. The audit was conducted in Kuwait and it focused on payments for goods and services, MSA, hazard and SAI, and reimbursement of medical expenses to national staff. The audit did not cover disbursements made at UN
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Headquarters on behalf of UNAMI, salaries and allowances of national staff, and travel claim payments, which will be covered in separate audits.

8. The audit included a review of 120 disbursement vouchers representing 18 per cent of the value of the disbursements made for the period under review. The auditors examined relevant records and interviewed key mission personnel.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Certification by unauthorized individuals

9. UNAMI issued an Administrative Circular 08/2008 dated 31 January 2008 which contains a list of certifying officers together with the object codes of the accounts for which they were delegated the authority to certify by the Controller in accordance with Financial Rule 105.5.

10. A comparison between the list of object codes specified in the Administrative Circular and the disbursement account object codes used by the Mission revealed a total of 25 object codes that were not assigned to any certifying officer. Therefore, contrary to Financial Rule 105.4, approximately 50 per cent of the 120 payment vouchers reviewed were signed by individuals who had not been specifically authorized to certify these expenditures. In 14 other instances, the Receipt and Inspection reports were signed by 8 unauthorized staff members.

11. Whenever a new object code is established, the Mission did not update the list of assigned object codes. As a result, the transactions relating to those object codes were certified by individuals who were not delegated the authority to do so. The Mission also attributed certification of transactions by unauthorized individuals to a high turnover of staff in the Mission, rest and recuperation, and other authorized absences from the Mission. Non-compliance with the delegation of authority diminishes accountability and exposes the Organization to financial losses.

Recommendations 1 and 2

The UNAMI Office of Mission Support should:

- (1) Revise and regularly update, as appropriate, the list of assigned object codes to ensure accountability of expenditure and obligations in each object code; and**
- (2) Ensure that all payments are duly certified by designated certifying officers by closely managing the leave of certifying officers and promptly identifying individuals to replace officers who have left the Mission.**

12. *The UNAMI Office of Mission Support accepted recommendation 1 and stated that a new Administrative Circular has already been drafted for CMS's approval. Recommendation 1 remains open pending receipt of the up-dated Administrative Circular.*

13. *The UNAMI Office of Mission Support accepted recommendation 2 and stated that all payments are certified by the Chief of Mission Support or alternate certifying officers as per the Controller's approval. A new Administrative Circular, which revises delegated authority for internal purpose, has been drafted for the CMS's approval. Recommendation 2 remains open pending verification payments are made after being signed by persons with the delegated authority to certify payments.*

B. Mission subsistence allowance and other allowances

14. MSA, hazard pay, SAI and retained accomodation (collectively called staff allowances) are calculated using the MSA report prepared by the International Staff Attendance Unit (ISAU) of the Human Resources Section. The ISAU uses attendance and staff movement information from various sources including the Movement of Personnel forms, travel claims and attendance records from different sections when preparing the MSA report.

15. A recalculation of a sample of 40 staff allowances revealed errors. In one case, a staff member was underpaid by \$511 of MSA for seven days and in the another case, a staff member was overpaid \$546 for hazard pay, SAI and retained accomodation for 4 days. In two other cases, incorrect attendance records were submitted along with relevant MSA reports to the Finance Section resulting in underpayments to two staff of \$102 and \$844, respectively.

16. The above anomalies were caused by errors in the Finance Section when manually transferring MSA reports to Excel. Errors were also made during the process of transferring information from the attendance sheets to MSA reports. Errors in calculating allowances may result in financial losses to the Organization. Improvement in supervisory review is necessary to identify such errors and to correct them prior to making payments.

Recommendation 3

(3) The UNAMI Finance Section should improve its supervisory review over the payment of entitlements to ensure errors in transferring information from one source to another are detected and corrected before payment.

17. *The UNAMI Office of Mission Support accepted recommendation 3 and stated that based on accurate attendance sheets to be provided by the Human Resources Section, the Finance Section will ensure accurate calculations (by processor) and through reviews (by supervisor) before vouchers are presented to approving officers for approval and to the cashier for payment. Recommendation*

3 remains open pending receipt of details of the action taken to correct the errors identified during the audit.

C. Cost sharing arrangements for common services

Annual adjustments required

18. For common services such as electricity, water, cleaning services and security guard services, the UNAMI Kuwait Office, under Memoranda of Understanding (MoU) charges UN agencies, Funds and Programmes for their estimated cost. OIOS' comparison of the estimated costs against the actual cost for four common services revealed a net overcharge of \$23,743. The overcharge may have resulted from failing to compare the actual cost with the estimated cost, a procedure that is required annually under the MoU.

Recommendation 4

(4) The UNAMI Office of Mission Support should ensure that estimated common costs are compared annually with the actual cost and that the relevant accounting records are adjusted and remittances are made appropriately.

19. *The UNAMI Office of Mission Support accepted recommendation 4 and stated that the requirements of the agencies and the support provided were dynamic and periodically changing. The actual costs were more or less equal to estimated cost. With the United Nations Country Team leaving Kheitan compound in Kuwait, this will no longer be an issue. Based on the assurances provided by management, recommendation 4 has been closed.*

D. Reimbursement of medical claims under medical insurance plan

20. According to Section 5.3 of ST/AI/343, the administering office is responsible for screening and monitoring the completeness and correctness of each medical claim and for ensuring that each claim conforms to applicable rules and is consistent with reasonable and customary costs for similar services in the locality. Further, Section F of the MIP guideline states that the screening of claims can take place by reference to earlier claims submitted, through contact with the UN Physician at the duty station and through contact with medical authorities.

21. OIOS reviewed 15 out of 80 MIP-related payment vouchers and found no evidence of a physician's examination of eight reimbursed claims and related supporting documents. Previously, the Human Resources Section had a nurse who reviewed the documents; however this expertise was no longer available. Consequently, the Mission was relying on a Human Resources Assistant to screen the claims.

Recommendation 5

(5) The UNAMI Office of Mission Support should ensure that claims are properly scrutinized by a qualified individual before processing.

22. *The UNAMI Office of Mission Support accepted recommendation 5 and stated all MIP claims are forwarded to the Chief Medical Officer in Baghdad for his review and clearance prior to processing for payment and submission to the Finance Section. Based on the assurances provided by management, recommendation 5 has been closed.*

V. ACKNOWLEDGEMENT

23. We wish to express our appreciation to the Management and staff of UNAMI for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNAMI Office of Mission Support should revise and regularly update, as appropriate, the list of assigned object codes to ensure accountability of expenditure and obligations in each object code.	Governance	High	O	Submission of documentation showing that object codes are appropriately assigned to designated certifying officers.	9 July 2009
2	The UNAMI Office of Mission Support should ensure that all payments are duly certified by designated certifying officers by closely managing the leave of certifying officers and promptly identifying individuals to replace officers who have left the Mission.	Governance	High	O	Verification that payments are made after being signed by persons with the delegated authority to certify payments.	9 July 2009
3	The UNAMI Finance Section should improve its supervisory review over the payment of entitlements to ensure errors in transferring information from one source to another are detected and corrected before payment.	Operational	Medium	O	Receipt of details of the action taken to correct the errors identified during the audit.	Continuing process
4	The UNAMI Office of Mission Support should ensure that estimated common costs are compared annually with the actual cost and that the relevant accounting records are adjusted and remittances are made appropriately.	Financial	Medium	C	Action taken.	Implemented
5	The UNAMI Office of Mission Support should ensure that claims are properly scrutinized by a qualified individual before processing.	Operational	Medium	C	Action taken.	Implemented

1. C = closed, O = open

2. Date provided by UNAMI in response to recommendations.