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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT OF STAFF BENEFITS,
ENTITLEMENTS AND FINANCIAL ASSISTANCE**

FINAL REPORT
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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the management of staff benefits, entitlements and financial assistance at UNFPA. The audit covered the period from 1 January 2012 to 30 June 2014. Transactions pertaining to other periods were covered by the audit, as appropriate.

Background

2. Benefits and entitlements, which are regulated primarily by the United Nations Staff Regulations and Rules, are a significant component of the United Nations compensation system. From 1 January 2012 to 30 June 2014, UNFPA paid benefits and entitlements to over 3,000 staff members for a total amount of USD 84.6 million. In addition, it provided advances to 1,065 staff members, amounting to approximately USD 11.8 million over the same period.




Methodology and scope

3. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and internal control processes in place. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

4. The scope of the audit included the review of benefits, entitlements and financial assistance governance and transaction processing for UNFPA staff, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships and information technology affecting the scope. The audit did not include an assessment of the United Nations Staff Regulations and Rules or other components of the benefits and entitlements regulatory framework in place in other United Nations system organizations.

Audit rating

5. The audit indicates that, for the period covered, the process for managing staff benefits, entitlements and financial assistance was '**Partially Satisfactory**', which means that governance, risk management and internal controls processes were established and functioning well but that issues were identified that may negatively affect the achievement of the objectives of the process audited, should they not be addressed by Management. Ratings by key audit area are summarized in the following table.

Audit ratings by key audit area		
Process governance		Unsatisfactory
Benefits and entitlements processing		Satisfactory
Staff advances		Partially satisfactory

Key findings and recommendations

6. The audit identified a number of good practices as well as areas that require Management attention, some of a strategic nature, and others related to operational and compliance matters. Overall, the audit report includes six high priority and nine medium priority recommendations designed to help Management improve the processing and monitoring of staff benefits, entitlements and financial assistance. Of the 15 recommendations, 2 are of strategic nature; 3 are operational; and 10 refer to compliance matters.

Good practices

7. The audit identified several good practices in the management of staff benefits and entitlements, including the use of the e-Services application for the initiation and authorization of several benefits, as well as the use of computation sheets to ease up the calculation of certain benefits.

Strategic level

8. The Division for Human Resources should strengthen managerial oversight of staff benefits, entitlements and financial assistance, and monitor more closely the operational performance of the process as well as the level of service received from the Benefits and Entitlement Services (BES) Unit of the United Nations Development Programme (UNDP).

Operational level

9. There is an opportunity to further leverage the use of the Atlas e-Services module and of the UNFPA Integrated Service Desk to support the initiation, approval and management of benefits, entitlements and financial assistance. There is also room to improve staff awareness on policies and processes for the different benefits and entitlements.

Compliance level

10. There is a need to strengthen the “first line of defence” controls over some benefits and entitlements, to enforce compliance with the applicable policies and procedures relative to eligibility and computation, and to prevent or, at least, detect over or under-payments. Of particular importance is the need to take prompt action as regards potential over-/under-payments identified by the audit, as well as to accelerate the analysis of old staff advance balances and take recovery actions or make accounting adjustments, as appropriate.

Management response

11. Management is very pleased to note that the outcome of the Benefits and Entitlements processing was found to be satisfactory by OAS. As regards staff advances, the Organization is aware that improvements in the processing of such advances are advisable and is already in the process of addressing this issue. As regards process governance, management acknowledges OAS’ concerns to establish more oversight directly through UNFPA Management. However, it is important to note that UNFPA currently is relying on oversight and due diligence carried out by UNDP, as negotiated and agreed on in the service level agreements between the Organizations. This oversight seems to function well, as indicated by the fact that the audit identified only issues for an amount of USD 142,000, which is not significant compared to the total amount paid in the period under review of USD 84.6 million. Adding additional levels of supervision would require additional staff resources, currently not available in times of austerity, and in view of the relative small amount in question would also not be cost effective.

Note: where relevant, OAS specific comments on the Management responses were included in the corresponding section of the report.

The OAS team would like to thank the management and personnel of the Division for Human Resources, the UNDP Benefits and Entitlements Services Unit, the UNFPA Finance and Management Information Services branches and the different country offices for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered staff benefits, entitlements and financial assistance paid in the period from 1 January 2012 to 30 June 2014. Transactions pertaining to other periods were covered by the audit, as appropriate.
2. The objective of the audit, conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control over the UNFPA process for managing staff benefits, entitlements and financial assistance (BEFA).
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of BEFA transaction processing activities and controls;
 - b) The level of compliance with the applicable regulations, rules, policies and procedures;
 - c) The reliability of the recording and reporting of BEFAs; and
 - d) The effectiveness of the preventive and/or detective controls implemented by Management to mitigate BEFA-related errors and the risk of fraud.
4. The audit scope included the review of BEFA procedures and practices and the application of analytical review procedures on BEFA transaction information maintained in the payroll as well as in the accounts payable and payment systems. The audit also included assessing the controls in place over the processing of BEFAs and the related BEFA management oversight controls, including reporting to senior management, as well as surveys, submitted to around 200 staff members, to gauge their perception of the BEFA process and to confirm information recorded in staff files. The audit only covered processing procedures and controls undertaken by the New-York -based team of the Benefit and Entitlement Services (BES) unit of the United Nations Development Programme (UNDP) dedicated to UNFPA. Also, the audit did not include any assessment of the adequacy of the United Nations Staff Regulations and Rules and of other components of the benefits and entitlements regulatory framework.
5. The audit involved the testing of a sample of 370 benefits and entitlements transactions, representing approximately 20 per cent of the total benefits and entitlement paid in the period under review. The sample was selected combining the results of a detailed analytical review of benefits and entitlements transactions to identify potential exceptions in value, with a random selection. Details on the extent of the testing performed as regards benefits and entitlements, including a break-down by type, are provided in Section III.B of the report. In addition, the audit involved the review of advances paid to 61 staff members, representing approximately 7 per cent of advances paid in the period under review. Testing of 30 tax reimbursements included in the above sample could not be completed as the required supporting documentation was not made available for review by the audit team. Details on the extent of the testing performed in this area are provided in Section III. C of the report.
6. The engagement was conducted by a team of OAIS audit specialists and assistants. The audit planning was started in September 2014, and field work was completed in the first quarter of 2015. Findings and recommendations resulting from the audit were initially discussed with the Division for Human Resource management at a meeting held on 25 March 2015, at a formal exit meeting held on 20 May 2015 and a follow-up meeting held on 12 June 2015. Comments and clarifications provided by Management were reflected in a draft report submitted to Management on 16 June 2015. A final Management response, received on 3 and 15 July 2015, is reflected in the report.

II. BACKGROUND

7. In the period from 1 January 2012 to 30 June 2014, UNFPA paid staff benefits and entitlements to over 3,000 staff members, for a total amount of USD 84.6 million. In addition, it provided advances to 1,065 staff members amounting to approximately USD 11.8 million. A detailed breakdown by BEFA is provided in Table 1 below.

Table 1: Analysis of benefits, entitlements and financial assistance paid
(Amounts in millions of US Dollars)

BEFA	Amount paid in the period under review			
	2012	2013	2014 (6 months)	Total amount paid
Education grant	5.98	6.21	3.68	15.90
Tax reimbursement	4.87	4.69	2.82	12.38
Mobility hardship and non-removal	4.42	4.74	1.94	11.10
Assignment grant	4.13	4.52	1.67	10.33
Dependency allowances	3.25	3.40	1.78	8.43
SOLA ¹ and AHA ²	2.44	2.39	1.16	6.00
Rental allowance	1.29	1.53	0.89	3.72
Repatriation benefit	0.64	1.68	1.36	3.68
Home leaves and family visits	0.92	1.30	0.34	2.55
Relocation grant	0.40	1.33	0.69	2.41
Danger pay	0.76	0.74	0.50	2.00
Termination indemnity	0.36	0.90	0.35	1.61
Rest and recuperation	0.39	0.33	0.17	0.89
Other benefits ³	1.30	1.50	0.80	3.60
Sub-total	31.15	35.26	18.15	84.60
Staff advances	4.76	3.89	3.14	11.79
Total benefits, entitlements and financial assistance paid	35.91	39.15	21.29	96.39

8. A descriptive list of the above BEFAs is included in Annex 2.

9. Staff benefits and entitlements are a significant component of the United Nations compensation system. They are governed under the United Nations common compensation framework based on the following hierarchy of applicable rules and regulations:

- a) Charter of the United Nations;
- b) United Nations Staff Regulations;
- c) United Nations Staff Rules;
- d) UNFPA Human Resources policies or past practices;
- e) UNDP Human Resources policies or past practices which apply, mutatis mutandis, in cases where a matter is not regulated by a UNFPA policy or past practice; and

¹ SOLA: Special Operation Living Allowance

² AHA: Additional Hardship Allowance

³ Includes concepts such as staff security costs, language allowances and compensatory payments

- f) United Nations Secretariat Human Resources policies or past practices which apply, mutatis mutandis, in cases where a matter is not regulated by a UNFPA or UNDP policy or past practice.
10. Benefit and entitlement related policies and guidelines are available in the UNDP Programme and Operations Policy and Procedures manual which can be accessed by UNFPA staff through the UNFPA intranet.
11. The processing of BEFAs is decentralized. The UNDP BES unit plays, primarily through its UNFPA New York based team, a critical role in the processing of BEFA transactions for UNFPA. Other actors such as the UNDP Payroll unit, country offices heads and operation teams (operation managers and administrative and finance assistants), UNDP country offices, the Headquarters Finance Branch and Travel unit and the United Nations Income Tax Unit⁴, are also involved in the management of BEFAs (refer to Annex III for details). Annex 3 provides a succinct view of the major players and key actions they undertake as regards the processing of each BEFA.
12. The BES team comprises a total of seven staff members from UNDP assigned to manage the processing of UNFPA BEFA transactions; it reports to the manager - Staff Administrative Services within UNDP. The team was created in February 2003 following the signing of a Memorandum of Understanding between UNFPA and UNDP. The current contractual relationship is governed through a Service Level Agreement (SLA) signed in December 2013, with retroactive application from 1 January 2012; it is due to expire on 31 December 2015. Under the provisions of the SLA, payroll and benefits and entitlements processing service costs are charged by UNDP based on UNFPA's international, general service or service contract staff headcount.

⁴ The Income Tax Unit is part of the United Nations Secretariat Division of Management - Accounts Division

III. DETAILED FINDINGS

A. PROCESS GOVERNANCE

UNSATISFACTORY

Strengthen management oversight of staff benefits, entitlements and financial assistance

13. Despite their materiality and the decentralized processing structure in place, BEFAs have not benefited from systematic managerial oversight by UNFPA, for instance regular monitoring trends as regards BEFA amounts, spot-checks of individual transactions, inquiries and verifications in response to significant fluctuations in amounts paid or potential exceptions as regards BEFA eligibility and calculation, or periodic reporting on BEFAs to senior management.

14. The audit team is of the view that some of the issues identified through audit work (such as duplicate payments, computation errors and lack of recovery of staff advances, which are discussed in detail in sections III.B and III.C of the report) and through investigations conducted by OASIS in 2013 and 2014, as well as the inaccurate recording of benefits and entitlements payments as discussed in paragraphs 22 and 26 below, could have been detected through strengthened managerial oversight. Such oversight could have allowed management to timely identify and correct any underlying process and control weaknesses.

15. The net financial impact of the issues identified during this audit as regards benefits and entitlements (USD 142,000⁵) is not significant compared to the total amount paid during the period under review. However, such issues affected nearly 9 per cent of the transactions tested, a ratio which would appear high for a process to be considered operating with a high level of effectiveness, thus requiring limited managerial oversight.

16. The Division for Human Resources Management represented that it relies primarily on the supervisory controls implemented by UNDP, and expressed concern that any additional oversight activities would demand additional human resources. While acknowledging Management’s representation and concern, the audit is of the view that there is a need for a reasonable level of oversight by UNFPA management (for which sufficient resources should be assigned) as the BEFA processing involves the BES unit as well as UNFPA field offices and headquarters units; further, it would also provide UNFPA management with reasonable assurance that any issues that could affect the process operating effectiveness are timely detected and corrected.

IMPACT	<i>Errors or exceptions impacting the processing and recording of BEFAs may not be detected and corrective actions taken in a timely manner.</i>
ROOT CAUSE	<i>Guidance (lack of or inadequate supervision at the Headquarters and/or Regional and Country Office level).</i>
CATEGORY	<i>Strategic.</i>

RECOMMENDATION 1

PRIORITY: HIGH

Strengthen management oversight over staff benefits, entitlements and financial assistance, by developing and reviewing periodic reports on BEFA management (for example, quarterly payments by benefit and entitlement and by Office; fluctuations in amounts paid; payments to staff members) to identify and analyze unusual trends and potential exceptions.

RESPONSIBLE MANAGER: Director, Division for Human Resources

STATUS: Disagree

⁵ Including the net financial impact of issues identified by investigations conducted in 2013 and 2014

MANAGEMENT ACTION PLAN:

DUE DATE: December 2015

Management oversight is already carried out by UNDP, as per the service level agreement between the two organizations. The amount where OASIS noted issues is not significant compared to the amount paid during the period under review (0.17 per cent). Adding another level of management oversight would add additional staff costs, which are not available in times of austerity and would also not be cost effective in view of the amount in question. Nevertheless, the Division for Human Resources will consider this recommendation and will review the possibility to obtain spot reports from UNDP and determine whether it has the technical capacity to conduct a meaningful analysis of this information within the existing structure without receiving additional resources.

OASIS COMMENTS ON THE MANAGEMENT RESPONSE:

Good internal control practices over processes which are managed by outsourced service providers – in this case, UNDP - call for a combination of receiving an appropriate form of independent assurance about the effectiveness of said outsourced processes and own management oversight controls, commensurate with the assurance received and the internal processes in place.

UNFPA management oversight controls, building upon those performed by UNDP, should be integrated into the UNFPA “second line of defence” architecture (i) as the BEFA processes cut across multiple UNFPA business units, in addition to the UNDP BES unit, and involve activities which are outside the control and realm of the latter Unit.

It is recalled that an assessment of the effectiveness of management oversight controls put in place and undertaken by UNDP was not within the scope of this UNFPA audit. Further, the considerations reflected in the management response (already summarized in paragraph 16 of this report) as well as the satisfactory results of entitlements and benefits processing tests, were taken into account by OASIS in developing the above recommendation.

Better leverage existing systems for processing BEFAs

17. The audit noted that the Atlas e-Services module is not consistently used to support the initiation and processing of locally-managed BEFAs. For example, requests for staff advances and rest and recuperation payments are not submitted by staff members through e-Services. In addition, the Integrated Service Desk, UNFPA’s one-stop portal for access to technical, operational and programmatic support, is not consistently used to report and track issues or requests related to BEFAs, to facilitate communication between staff members and the BES unit team, or to provide a clear trail of how matters were resolved. During the period under review, a limited number of cases related to human resources matters were submitted through the Integrated Service Desk, primarily on training matters. The audit noted an increased use of the tool since June 2014 to respond to staff member queries, including BEFA-related matters. However, no BEFA-related typology has been defined within the Integrated Service Desk which would facilitate the submission and tracking of cases.

18. In addition, to enhance efficiency and prevent control issues and errors, the audit noted opportunities to centralize processing steps currently undertaken by country offices for some BEFAs (assignment grant; danger pay; relocation grant; rest and recuperation; and staff advances). For example, the BES Unit could directly create relocation grant payment vouchers, instead of sending an email authorizing the country office where the staff member is located to proceed. Such a procedure would enhance control and efficiency, as well as minimize the risk of errors such as those identified during the audit.

IMPACT	<i>Processing of BEFAs may not be done consistently and errors, duplications or omissions may arise and not be promptly detected.</i>
ROOT CAUSE	<i>Guidelines (inadequate corporate procedures).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 2

PRIORITY: HIGH

Further leverage the use of e-Services and of the Integrated Service Desk portal for benefit processing initiation and communication with the BES unit. In addition, assess the cost effectiveness of further centralizing at Headquarters BEFA processing and payment authorization.

RESPONSIBLE MANAGER: Director, Division for Human Resources

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2016

The Division for Human Resources will examine, together with the Management Information Services Branch, the feasibility of leveraging communications between staff and the BES Unit through online systems with the goal of streamlining the BES process. In addition, an assessment of cost effectiveness will be conducted. However, due to higher staff costs at the New York duty station, it is not expected that a centralization exercise would be cost effective.

Improve the monitoring of the BEFA management process operating performance

19. The Service Level Agreement with UNDP provides for a joint annual and informal review to analyze feedback on services provided by the BES Unit. The audit did not obtain evidence that any such review was conducted.

20. The Division for Human Resources indicated that, for purposes of monitoring the benefits and entitlements process operating performance, it relies on surveys conducted by the Division for Management Services; these measure the field offices' perception of different services provided to them. In this regard, the audit noted that such surveys were conducted in 2012 and, more recently, in March 2015. The 2012 survey reflected an overall 60.9 per cent positive assessment of the performance of UNDP human resources services. The results of the 2015 Survey were still being analyzed at the time of preparation of the draft audit report. While acknowledging that the above surveys are a valuable management tool, the audit is of the view that these may not be sufficiently detailed to allow assessing the BEFA management process operating effectiveness. In addition, the surveys exclude headquarters units, and their perception is therefore not measured.

21. In a survey⁶ conducted by OAI during the audit, 85.4 per cent of respondents positively assessed the services provided by the BES Unit. At the same time, 17 per cent stressed the need to improve the BES Unit pro-activeness⁷ in addressing staff members' needs and 25 per cent, the timeliness⁸ in processing BEFAs.

IMPACT	<i>Issues impacting the operating effectiveness of BEFA management may not be detected and corrective actions taken in a timely manner.</i>
ROOT CAUSE	<i>Guidance (lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level).</i>
CATEGORY	<i>Operational.</i>

⁶ The survey was submitted to 150 staff members, with 48 responses (32 per cent response rate) with an overall satisfactory rating of 85.4 per cent – Refer to Annex 4 for details

⁷ 17 per cent of respondents indicated the need to improve the pro-activeness of the BES team in sharing information on the type, process, changes and computation of BEFAs

⁸ 25 per cent of respondents indicated concerns as regards the timeliness of BES services. In particular, staff members indicated that BEFA requests often require substantial staff member follow-up efforts before being addressed

RECOMMENDATION 3

PRIORITY: HIGH

Improve the monitoring of the BEFA management process operating performance, through SMART⁹ metrics, a periodic assessment of BES services, and more detailed surveys which also cover BEFA recipients.

RESPONSIBLE MANAGER: Director, Division for Human Resources

STATUS: Partially agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2015

While Management agrees that the inclusion of metrics to measure the performance of the services provided by UNDP could be useful, this has been adamantly refused by UNDP during the negotiations for the latest service level agreement for 2012 to 2015. UNFPA will bring up this matter again in the upcoming discussions in the second half of 2015. However, whether UNDP will agree to this is not solely dependent on UNFPA. As for conducting more staff surveys, Management is reluctant to add yet another layer of surveys in order not to over-survey staff. However, it will examine whether existing surveys could be adjusted to include information on BES services.

Analyze over- and/ or under-payments identified in this report and initiate recovery or reimbursement actions, as warranted

22. The audit identified six cases of over-/under payment of staff benefits and entitlements, with an aggregated net financial impact of USD 54,191, as summarized in Table 2 below. These cases require management analysis and follow-up.

Table 2: Summary of over (under) payments identified by the audit that require management follow-up

BEFA	Number of instances	Amount (USD)	Nature
Education grant	1	656	Board paid for child in the same duty station, special education grant without a UN medical clearance and inconsistencies in admissible expenses
Mobility hardship and non-removal	1	6,146	Error in length of appointment for non-removal computation
Assignment grant	1	14,440	Second lump-sum payment at Headquarters duty station
Rental allowance	1	13,016	Non-supported claim for force majeure
Relocation grant	1	22,374	Duplicate payment of relocation and travel (error attributable to the country office processing the payment)
Total - over-payments	5	56,632	
Dependency allowance	1	(2,441)	Under-payment of staff member dependency due to error in child age
Net financial impact	6	54,191	

IMPACT *UNFPA assets may not be properly safeguarded if recovery action is not promptly undertaken once an over-payment is identified.*

ROOT CAUSE *Guidance (lack of or inadequate guidance or supervision at Headquarters and Regional and Country Office level).*

CATEGORY *Compliance.*

⁹ Specific, measurable, attainable, relevant and time-bound

RECOMMENDATION 4

PRIORITY: HIGH

Analyse each individual potential over / under-payment and take appropriate corrective actions.

RESPONSIBLE MANAGER: *Director, Division for Human Resources
(in collaboration with the Chief, Finance Branch)*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2015*

Each noted case of over-/underpayment will be reviewed and followed up accordingly.

Improve staff awareness on the policy requirements and processes on benefits, entitlements and financial assistance

23. The audit noted that there is room to improve access to information on BEFA eligibility and determination, as well as to the related forms and tools available to staff members.

24. Information on BEFAs is available in the UNDP Programme and Operations Policies and Procedures and Staff Administrative Services webpage, as well as in the United Nations Staff Regulations and Staff Rules, which can be accessed through separate links in the Resources tab of the Division for Human Resources microsite; it is, however, not easy to navigate. The guidelines can also be accessed through the UNFPA Policies and Procedures manual, although some of the links included therein (e.g., to the Benefits and Entitlements site) need to be verified as they were not operating despite several attempts during the audit.

25. Ease of access to guidelines and resources could contribute to increase staff members' awareness and compliance, as well as reduce time spent looking for guidance. The survey conducted by OAIS also reinforced that point in that nearly a quarter of the respondents explained that references to the UNDP links were not always of expected assistance, and that they preferred information on BEFAs in the form of an interactive webpage or printable documents with relevant deadlines and "to-do" lists prepared from a staff member's standpoint.

IMPACT	<i>Increased staff members' awareness of benefits and entitlement could contribute to improved compliance with the related policies and procedures.</i>
ROOT CAUSE	<i>Guidelines (inadequate communication of corporate policies and procedures).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 5

PRIORITY: HIGH

Improve staff members' awareness of benefits, entitlements, financial assistance mechanisms and processes by easing access to relevant reference materials that would be prepared from a staff member's standpoint (e.g., outlining eligibility requirements, process steps, 'to-do' lists and deadlines).

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2016*

Access of staff to policies and related tools is already available via the Policy and Procedures Manual, which provides access to all UNFPA policies, the UNDP policy site and the UNDP BES site. DHR will take action to raise awareness amongst staff about the existing resources which are already available.

Enhance oversight over the recording of benefits and entitlements transactions

26. The audit identified multiple instances of miscoding of staff benefits and entitlements transactions. For example, payments totaling USD 31,478 for leave accrued at the time of separation of staff members were wrongly charged to a repatriation grant account, instead of the accrued leave account. The audit also noted erroneous postings to relocation grant accounts totaling USD 40,635.

Conversely, relocation grants amounting to USD 15,000 were posted to other general ledger accounts. In addition, the audit identified two payments amounting to USD 90,000 corresponding to training of counterparts conducted by a country office that were erroneously recorded as education grant expenses.

27. Under IPSAS, UNFPA adopted the policy of accounting termination indemnities at their net amount (i.e., after deducting staff assessments) in the corresponding general ledger accounts. The audit noted that 5 out of 10 termination indemnities selected for testing were, however, accounted for at their gross value. This resulted in a total overstatement of the account by USD 116,698.

28. The audit acknowledges that primary accountability for accurate recording of benefits and entitlements transactions lies with the field offices processing the payments. However, a reasonable level of oversight by Headquarters management is required to help identify and correct errors such as those exemplified above. No separate recommendation is provided as regards this issue as it could be addressed through effective implementation of Recommendation No 1 of this report.

B. BENEFITS AND ENTITLEMENTS PROCESSING

SATISFACTORY

29. The audit noted issues affecting 34 out of 370 benefits and entitlements transactions selected for testing (9 per cent of transactions tested). Of the 34 exceptions identified, 15 (44 per cent) corresponded to a lack of supporting documents, as required by the applicable policies and procedures, to demonstrate that staff members had actually taken approved home leave to which they were entitled. The remaining 19 exceptions corresponded to isolated instances of: (i) lack of compliance with applicable policies and procedures as regards benefit or entitlement eligibility or computation; (ii) errors in the financial processing of authorized transactions; (iii) absence of relevant supporting documentation as required by the applicable policies and procedures; (iv) inaccurate information in staff records; and (v) inconsistency in applying the relevant policies. The net monetary effect of the issues identified, amounting to approximately USD 59,460, or approximately 0.4 per cent of the value of the transactions tested, was assessed by the audit as immaterial.

30. A summary of the audit scope and the exceptions identified is provided in Table 3.

Table 3: Summary of scope and results of audit work performed

Benefit / entitlement	Payments in the period reviewed		Sample tested			Exceptions identified			
	N°	Amount (millions of USD)	No of items	Amount (millions of USD)	% of amount paid	N°	% of sample tested	Amount (USD)	% of sample tested
Education grant	335	15.9	24	2.20	14%	6	25%	5,965	0.2%
Tax reimbursement	314	12.38	50	5.08	41%	Not quantified (see Note below)			
Mobility, hardship and non-removal	615	11.1	4	0.28	3%	1	25%	6,146	2.1%
Assignment grant	452	10.33	25	1.03	10%	1	4%	14,400	1.4%
Dependency allowance	1,993	8.43	147	0.23	3%	9	6%	(2,441)	-1.1%
SOLA ^[1] and AHA ^[2]	126	6.00	15	1.50	25%	0	-		
Rental allowance	293	3.72	30	1.23	33%	1	3%	13,016	1.1%
Repatriation benefit	150	3.68	25	1.21	33%	-	-	-	-
Home leave and family visits	400	2.55	15	0.38	15%	15	100%	Not quantified (if any)	

Benefit / entitlement	Payments in the period reviewed		Sample tested			Exceptions identified			
	N°	Amount (millions of USD)	No of items	Amount (millions of USD)	% of amount paid	N°	% of sample tested	Amount (USD)	% of sample tested
Relocation grant	204	2.41	5	0.10	4%	1	20%	22,374	22.4%
Danger pay	222	2.00	15	1,00	50%	-	-	-	-
Termination indemnity	22	1.61	10	1.00	62%	-	-	-	-
Rest and recuperation	167	0.89	5	0.13	15%	-	-	-	-
Other benefits	431	3.60	Not tested			Not tested			
Total	5,724	84.6	370	16.5	20%	37	10%	59,460	0.4%

Note: Based on documentation made available for review, the audit noted a net difference of USD 168,196 between the amount of tax reimbursement expenses amounting to USD 1.30 million recorded by UNFPA for 20 staff members and the corresponding tax settlement forms, the cause and nature of which could not be determined. Planned testing of tax reimbursements could not be completed, as required supporting documentation was not provided to the audit team.

31. The following paragraphs provide details on the testing performed and issues identified, by benefit and entitlement within the audit scope.

Education Grant

32. Audit work performed as regards this benefit included: (i) verification of staff member eligibility and of the accuracy of education grant payments based on the certifications of expense submitted by the staff members; (ii) verification of eligibility for reimbursement of the different expense components included in the education grant claims; (iii) requests for confirmation by the attended schools, of the authenticity of the school certifications provided by the staff members (with a response rate of 42 per cent); (iv) online searches to assess the reasonableness of the tuition amounts claimed as compared to the amounts published by the schools on their online portals; and (v) verification of the timeliness of processing claims.

33. The following issues were identified based on the audit work performed.

Process education grants in accordance with the applicable policies

34. The audit noted one instance in which board expenses were paid for attendance at an educational institution within the same location as the staff member duty station, which constitutes a deviation from the provisions of Administrative Instruction ST/AI/2011/4 on Education Grant. This situation created an excess payment of USD 656. The administrative instruction allows the payment of a flat rate covering board expenses for students only when the staff member is serving in a duty station different from the location where the child attends school.

35. In addition, out of the 24 education grant payments tested, the audit noted 5 instances (20 per cent of tests performed) where parent-teacher association dues, music lessons fees, institutional fees or facility improvements fees totaling USD 5,309 were considered as admissible for purposes of calculating the grant amount, although they had not been considered admissible for the remaining 19 payments tested (80 per cent of tests performed). This inconsistency was a consequence of the lack of clarity in the guidelines provided in Administrative Instruction ST/AI/2011/4 as regards admissible vs. inadmissible expenses, the list of which was not comprehensive enough. The issue has been addressed through the recently revised Administrative Instruction ST/IC/2014/12/Rev.1.

IMPACT	<i>The amount of education grant reimbursed to staff members may be overstated.</i>
ROOT CAUSE	<i>Human error (un-intentional mistakes committed by staff entrusted to perform assigned functions).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 6

PRIORITY: MEDIUM

Perform exception analyses of individual education grant cost concepts accepted for reimbursement, for reasonableness and conformance to applicable policies.

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Disagree*

MANAGEMENT ACTION PLAN:

DUE DATE: *N/A*

A robust and stringent review is already being conducted for education grant claims submitted to Global Payroll Services for payment, which serves as a second level review of claims processed by the BES Unit team in New York. Adding another layer of review would most likely not result in an increased level of oversight. Further, the processing and review of education grant claims requires specialized knowledge. For UNFPA to obtain this knowledge, which is currently not available, would not be cost-effective, particularly as the only case noted by the auditors resulted merely in a small overpayment of USD 656.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Controls undertaken by the UNDP Global Payroll Services were not within the scope of this UNFPA audit.

While acknowledging the positive results of testing performed and bearing in mind the inconsistencies found, OAIS continues to be of the view that reasonable exception report review controls should be integrated into the UNFPA "second line of defence" architecture, given the multiple cost concepts that are factored in the determination of the grant amount. UNFPA Management may wish to consider requiring UNDP, as the outsourced provider, to provide an appropriate form of independent assurance about the effectiveness of the Benefits and Entitlement Services and of the Global Payroll Services education grant review and approval controls in place.

Tax reimbursements

36. The UN Income Tax Unit is responsible for processing tax advances and reimbursements for UN staff members who are subject to United States income tax on their UN income. This unit is responsible for making the payments required to settle the staff members' tax obligations, which are subsequently reported to UNDP for settlement on behalf of UNFPA. The UNFPA Finance Branch subsequently reviews the entries processed by UNDP for accuracy of the accounting followed.

37. Audit work performed as regards this benefit included (i) the analytical review of tax reimbursement payments made during the period under review; (ii) a comparison, for a sample of tax settlements, of the amounts of the payments to the tax settlement forms provided by the UN Income Tax Unit; and (iii) inquiries of the UNFPA Finance Branch focal person and the UN Income Tax Unit on discrepancies noted between payments per the UNFPA accounting records and the tax settlement forms.

38. The initial audit sample included payments for 50 staffs representing 41 per cent of the tax reimbursements made in the period under review. Supporting tax settlements forms and tax returns were requested from the UN Income Tax Unit for 30 payments, amounting to USD 2.0 million, or 17 per cent of total tax reimbursements paid, based on the analytical review results. The audit team was not provided with the tax returns for any of the selected 30 payments. Tax settlement forms were

provided only for 20 of the payments selected for testing. This situation prevented the audit from concluding whether income reported for tax reimbursement computation purposes matched the staff members' UNFPA remuneration and whether late payment fees were absorbed (or not) by UNFPA.

39. The following issue was identified based on the audit work performed.

Improve the review of tax reimbursements reported by the UN Income Tax Unit

40. UNFPA does not receive the source documents supporting the amounts of tax reimbursed or advanced, such as settlement forms and tax returns. An attempt to compare the amounts of the 20 tax settlement forms received from the UN Income Tax Unit to the amount of the payments per the corresponding UNFPA Atlas records revealed a net difference of USD 168,196 (with settlement form amounts larger than the amounts included in Atlas), which may be due to timing differences. The audit could not obtain appropriate explanations from the Finance Branch or from the UN Income Tax Unit as regards these differences.

IMPACT	<i>Errors in tax reimbursements may not be detected. Financial information related to tax reimbursements may be inaccurate.</i>
ROOT CAUSE	<i>Guidance (lack of or inadequate guidance or supervision at the Headquarters level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 7

PRIORITY: HIGH

Obtain and retain source documents, such as tax settlement forms and tax returns, for taxes reimbursed to UNFPA staff members. Periodically review tax reimbursements paid against source documents and assess their reasonableness and proper accounting.

RESPONSIBLE MANAGER: *Chief, Finance Branch*

STATUS: *Disagree*

MANAGEMENT ACTION PLAN:

DUE DATE: *N/A*

The Finance Branch does not agree with the audit recommendation. UNFPA has outsourced services related to tax returns where assessment and implementation of necessary controls exist. UNFPA's responsibility is to ensure the amount owing for tax is paid and reimbursements are also recorded correctly in the accounting records based on the supporting documents received from the UN Income Tax Unit. The Finance Branch lacks in-house expertise for tax returns, thus is not able to perform additional review of the tax reimbursement documents. This position is consistent with that taken by other New-York-based agencies.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

Controls undertaken by the UN Income Tax Unit were not within the scope of this UNFPA audit. UNFPA management oversight controls over tax reimbursements should be integrated into the UNFPA "second line of defence" to provide assurance that the Income Tax Unit controls operate effectively on an ongoing basis and allow for an accurate calculation and payment of reimbursements to eligible staff members, consistent with good internal control practices over processes managed by outsourced service providers. UNFPA Management may also consider requiring the UN Income Tax Unit to provide independent assurance about the effectiveness of its procedures and controls.

Mobility, Hardship and Non-Removal allowance (MHN)

41. Based on the audit planning risk assessment, audit work as regards this benefit was limited, focused on the validation of: (i) eligibility; (ii) accuracy of computation; and (iii) accuracy of accounting, for a sample of four payments representing 2.5 per cent of total MHN expenses.

42. The following issue was identified based on the audit work performed.

Review MHN payments for eligibility and accuracy

43. The audit noted that the length of service for one staff member was erroneously processed in Atlas, leading to an overpayment of USD 6,146 for her non-removal allowance. This situation was discovered in November 2011 and the staff member, who had already left UNFPA, was requested to return the funds to the Organization. Per Management, the recovery was in process at the time of submission of the draft audit report.

IMPACT	<i>The amount of Mobility and Hardship and Non-Removal allowances paid to staff members may be inaccurate.</i>
ROOT CAUSE	<i>Human error (un-intentional mistakes committed by staff entrusted to perform assigned functions).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 8

PRIORITY: MEDIUM

Systematize an effective secondary review of manual entries of staff information at the time of hiring or transfer before they become effective in the payroll system.

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Disagree*

MANAGEMENT ACTION PLAN

DUE DATE: *N/A*

A secondary review is already in place. Mobility counts of all staff are calculated by one Human Resources Associate and then again reviewed and approved by a second Human Resources Associate before the record is entered into ATLAS or communicated to the staff member concerned. In order to further reduce the occurrence of human error, UNDP is internally examining, as a long term solution, the possibility of automating the mobility count verification process. While it is regrettable that a case of overpayment occurred, it has to be realized that human errors will exceptionally take place.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

OAIS notes Management’s response regarding the secondary review process in place and the manner in which it is evidenced, as well as plans to automate the verification process. OAIS would like to point out that supervisory controls should have the level of effectiveness required to detect human error in processing transactions.

Assignment grant

44. Audit work as regards this benefit included the validation of: (i) eligibility; (ii) accuracy of computation; and (iii) accuracy of accounting for a sample of 25 payroll transactions representing 10 per cent of total assignment grant payments.

Develop second lump-sum assignment grant payment automated reminders

45. The audit noted an assignment grant lump-sum payment for USD 14,440 to a staff member assigned to a headquarters duty station which deviated from the criteria as per Administrative Instruction ST/AI/2012/1 which states that staff members at headquarters duty stations are not eligible for a second lump-sum payment. This issue appears to be the consequence of a human error. Similar occurrences could be identified through managerial oversight reviews discussed in section III. A of the report, therefore, no separate recommendation is provided as regards this matter.

46. In another case, a second lump-sum payment amounting to USD 12,091 for which a staff member was eligible due to the extension of his initial appointment was made late, two years after the effective date of extension, deviating from section 5 of Administrative Instruction ST/AI/2012/1. This

section specifies that payment of the second lump sum is due on the date of extension of the appointment to or beyond three years. It should be noted that the BES unit timely submitted the payment authorization to the country office responsible for processing the payment, the latter being processed with delay.

IMPACT	<i>The amount of assignment grants paid to staff members may be miscalculated. Staff members may receive assignment grants to which they are not entitled.</i>
ROOT CAUSE	<i>Human error (unintentional mistakes committed by staff entrusted to perform assigned functions).</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 9

PRIORITY: MEDIUM

Develop automated reminders for the payment of second lump-sum assignment grants upon extension of staff member appointments.

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Agree*

MANAGEMENT ACTION PLAN

DUE DATE: *December 2015*

The BES Unit team will liaise with UNDP to develop an IT solution.

Dependency allowances

47. Audit work as regards this benefit included: (i) the review of accuracy of the number of dependents; (ii) the review of birth, marriage or common-law marriage certificates; (iii) the verification of accuracy of personnel records and dependent child's date of birth; and (iv) the review of adequacy of payments made to eligible staff members for a sample of 32 staff members with a total of 97 dependent children and secondary dependents. Additionally, a survey was sent to 50 staff members for verification of dependency information, including the number of children and dependency status of spouse.

48. The following issue was identified based on the audit work performed.

Institute a yearly certification of dependency situation by staff members and retain relevant supporting documents

49. The amount of dependency payments is based on the number of dependents, their age, the staff member's marital status and spouse earning situation. Staff members are required to report changes in their dependency status annually. However, there is no requirement for staff members to certify the accuracy of their dependency information on a periodic basis. As part of the audit, a survey was sent to 50 staff members for confirmation of their dependency situation and obtained a response rate of 44 per cent.

50. The survey results were consistent with payroll system records as regards dependents. However, the audit noted that in two cases reviewed, payroll system information relative to children age was incorrect. The audit team estimates that this may have resulted in an under-payment of USD 2,441 of the staff member's dependency allowance. Further, the audit team was unable to obtain substantiating documents for the dependency status of three staff members, with a total of seven dependents.

IMPACT	<i>The amount of dependency allowances paid to staff members may be miscalculated. Staff members may receive dependency allowances payments to which they are not entitled.</i>
ROOT CAUSE	<i>Guidelines (lack of or inadequate corporate policies or procedures).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 10

PRIORITY: MEDIUM

Institute a mandatory yearly certification of dependency information and correct errors uncovered through it. As a complement to the certification process, perform spot checks to verify the completeness of personnel records as regards supporting documents (i.e. child birth and marriage certificates).

RESPONSIBLE MANAGER: Director, Division for Human Resources

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2015

The BES Unit team will liaise with UNDP to develop an IT solution.

Special Operation Living Allowances (SOLA) and Additional Hardship Allowance (AHA)

51. Audit work performed as regards this benefit consisted in the testing of payments made to 15 staff members representing 25 per cent of the combined AHA and SOLA payments in the period under review. The audit testing included: (i) a verification of the eligibility of the staff members for SOLA/AHA payments; (ii) a review of the authorization for payment; (iii) a comparison of actual payments to the International Civil Service Commission published rates; and (iv) a verification of the accuracy of computed figures over the transitional period.

52. No reportable audit issues were identified based on the work performed.

Rental subsidy

53. Audit work as regards this benefit included: (i) a verification of staff member's eligibility for the subsidy; (ii) a verification of the accuracy of amounts paid; and (iii) an assessment of the lease validity for a sample of 30 staff members representing 33 per cent of rental subsidy payments during the period under review.

54. The following good practices and issue were identified based on the audit work performed.

Good practices noted

55. Good practices noted as regards this benefit included the use of e-Services to process rental subsidy applications; the existence of detailed guidance documents on the process; and the computation of rental subsidies using an automated system that leaves little room for errors.

Reinforce the process for verification of Force Majeure situations when processing rental subsidies

56. The UNDP Administrative Instruction dated 1 January 2012, which governs rental subsidy payments, provides for the continuing payment of rental subsidies beyond the seven-year period when the staff member submits a case for "Force Majeure". Administrative Instruction ST/AI/2000/16¹⁰ describes situations under which staff members qualify for extended rental subsidy payments under "Force Majeure" as the following: (i) demolition of the dwelling or extensive damage or lack of access to the dwelling owing to elements beyond the control of the staff member, (ii) forced eviction/repossession by the landlord through legal proceedings, and (iii) conversion of the dwelling from rental to cooperatives or condominiums. The 1 January 2012 UNDP Administrative Instruction further states that the staff member should submit appropriate documentary evidence in support of their reasons for applying for extended rental subsidy under "Force Majeure".

¹⁰ As last amended by ST/AI/2004/4, effective 1 January 2005 "Rental subsidies and deductions" Part II "Additional terms and conditions for rental subsidy at 5 duty stations in Europe and North America Section 9(b)

57. The audit noted that in one instance, a rental subsidy under “Force Majeure” was paid to a staff member during her seventh year. While the staff member failed to provide required documentation attesting to the reasons of the “Force Majeure”, her application was nevertheless approved. Since the “Force Majeure” situations qualify for a higher rental subsidy, the staff member received an additional USD 13,016. Following the audit finding, a request was sent to the staff member to produce the required documentation, which had not been provided at the time of compiling this report.

IMPACT	<i>The amount of rental allowances paid to staff members may be miscalculated. Staff members may receive rental allowances to which they are not entitled.</i>
ROOT CAUSE	<i>Guidance (lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 11

PRIORITY: MEDIUM

Develop exception reports to identify and validate instances of rental subsidy payments in excess of the periods and reimbursement percentages established in the applicable policy framework.

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2015*

The system has already been fine tuned to avoid similar occurrences of Force Majeure cases in the future. However, the additional creation of an exception report could be useful. The BES team will examine the feasibility for the creation of such a report together with UNDP.

Repatriation benefit

58. Audit work as regards this benefit included: (i) an examination of the proof of country of residence form submitted by staff members who relocated upon termination of their employment with UNFPA and received repatriation benefits; (ii) a re-computation of the amount of the repatriation benefit amounts based on the staff members’ dependency status, number of years at UNFPA and salary at separation; and (iii) an assessment of the lead time for payment, for a sample of 25 payments representing 33 per cent of the repatriation benefits paid in the period under review.

59. No reportable audit issues were identified based on the work performed but the following good practice was noted.

Good practice noted

60. The audit noted that the UNDP BES Unit developed a spreadsheet model that computes, with a high level of accuracy, all separation entitlements based on the staff member individual situation, preventing errors in the determination of payments.

Home leave and family visit

61. Audit work included: (i) a verification of the eligibility of staff members who received this benefit; (ii) the review of the benefit’s approval process; and (iii) a verification of the accuracy of lump-sum payments for a sample of home leave transactions administered in 10 country offices and which represented 15 per cent of home leave expenses during the period under review.

62. The following issue was identified based on the audit work performed.

Improve home leave processing and certification

63. The UNDP guidance on home leave does not require the submission of proof of travel, such as boarding passes and passport stamps when staff members opt for lump-sum payments. This situation makes it difficult to determine whether the staff member actually travelled according to the claim. Although the policy requires that staff members keep evidence of travel for two years and produce it if and when requested, six staff members did not produce some of these documents when requested by the audit team.

64. The policy also requires a certification of travel within 30 days of return from home leave; this is done either manually (through a paper form) or through e-Services. The certification did not take place for any of the 15 home leaves tested. The audit also noted that there is no established certification monitoring mechanism and that no Atlas generated automated messages are issued to the staff members reminding them about the need to provide the certification upon completion of the home leave.

65. Further, the maintenance of supporting documents, including home leave request and approval, ticket quotes, and proof of travel is not consistent across country offices. Only 3 of the 10 country offices covered were able to provide all supporting documents for their staff members' home leaves; the remaining 7 offices provided incomplete or no information.

66. The audit acknowledges that the e-Services home leave application and the approval notifications sent via email advise staff members to upload copies of their boarding passes within 30 days of return from leave and that it is the staff members' responsibility to retain travel documents. The audit believes that there is an opportunity to further leverage on the use of technology to help staff members comply with the requirements in place, for example, by sending additional reminders at the end of the home leave period.

67. Additionally, the audit noted that in one instance, Atlas home leave records did not include the home leave taken by a staff member while on duty in a country office which was processed locally by that office outside of e-Services.

IMPACT	<i>Home leave paid may not have been taken by the concerned staff members.</i>
ROOT CAUSE	<i>Guidance (lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 12

PRIORITY: MEDIUM

Process all home leave requests through e-Services. Enforce leave certifications by staff members and the submission of appropriate supporting documents, leveraging on e-Services data and functions.

RESPONSIBLE MANAGER: *Director, Division for Human Resources*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *December 2015*

The e-Services module is already used to process home leave requests. To better enforce the submission of documents, the BES Unit will explore the feasibility to send automated reminders to affected staff. Incomplete submissions will result in recovery from salary of paid amounts and non-approval of next home leave.

Relocation grant

68. Audit work as regards this benefit included: (i) an analytical review of relocation grant payments made; (ii) a verification of the accuracy of selected relocation grant payments; and (iii) a review of the eligibility of staff members that received relocation payments for a sample of five transactions representing 4 per cent of total relocation grant payments.

69. The following issue was identified based on the audit work performed.

Monitor and streamline payments for relocation grants

70. The audit noted that two identical payments of USD 22,375 were issued to the same staff member for relocation at a new duty station. Inquiries conducted by the audit team revealed that this situation occurred as the staff member had two different vendor codes in Atlas, which were used by different finance clerks of that country office for processing separate payment requests based on the authorization from the Headquarters Division for Human Resources focal person. This defeated the Atlas-embedded control that flags similar payment amounts to the same vendor. It should be noted that the prime responsibility for the duplicate payment lies with the country office that processed the payment, as the BES unit had sent correct instructions.

71. The country office subsequently confirmed that the second payment (i.e., made to a bank account no longer used by the staff member) was returned by the bank. At the time of writing this report, no supporting documents had been provided as to whether the funds were reimbursed to UNFPA, and how and when the reimbursement was processed and accounted for.

IMPACT	<i>The amount of relocation grants paid to staff members may be miscalculated. Staff members may receive relocation grant payments to which they are not entitled.</i>
ROOT CAUSE	<i>Human error (un-intentional mistakes committed by staff entrusted to perform assigned functions).</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 13 **PRIORITY: HIGH**

Perform a review of staff members with multiple UNFPA vendor codes and clear redundant codes created without a relevant justification or that are not used.

RESPONSIBLE MANAGER: Chief, Finance Branch

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2015

The Finance Branch has already instituted regular and intensive reviews of vendor database for potential redundant codes, including but not limited to vendors that are not used for a certain period of time and/or double vendors. As a result, during the 2012-2014 period, UNFPA already inactivated about 67 thousand vendors (44 percent of the total vendor database). The staff member's double vendor code noted in the audit observation, has been already deactivated early 2014 as part of the above mentioned review.

Danger pay

72. Audit work as regards this benefit included: (i) the verification of standard danger pay rates by duty station; (ii) the review of amounts that differ from the standard amounts; (iii) the verification of leave monitoring systems in place at the selected duty stations; and (iv) the review of the accuracy of the accounting for the payments, for a sample of five duty stations and 15 staff members representing 50 per cent of all danger payments during the period under review.

73. No reportable audit issues were identified based on the work performed.

Termination indemnity

74. Audit work performed as regards this benefit included: (i) the computation of the theoretical termination indemnity and a comparison to paid amounts; (ii) the examination of the payment authorizations; and (iii) the assessment of the accuracy of the accounting for termination payments, for a sample of 10 staff members who received payments representing 62 per cent of the total amount paid during the period under review.

75. No reportable audit issues were identified based on the work performed as regards this benefit, other than miscoded transactions.

Rest and recuperation (R&R)

76. Audit work performed as regards this benefit included: (i) a review of country office eligibility for R&R purposes; (ii) a verification of the accuracy of the R&R payments made; and (iii) an assessment of controls in place to ensure that staff presence in the duty station is monitored, for a sample of five transactions representing 15 per cent of R&R payments during the period under review.

77. No reportable audit issues were identified based on the work performed.

C. STAFF ADVANCES

PARTIALLY SATISFACTORY

78. Staff advances amounted to USD 11.8 million during the period under review, representing salary and other advances granted to 1,065 UNFPA staff members. Net outstanding staff advances increased from USD 0.5¹¹ million as at 31 December 2013 to USD 1.7 million as at 25 November 2014, involving 1,114 individual advance transactions. The balance of outstanding advances included 277 advances dated on or before the fourth quarter of 2013, totaling USD 0.8 million.

79. In general, advances are granted to staff member for: (i) rental assistance, when landlords require large rent advance payments or deposits; (ii) the purchase of a vehicle; and (iii) emergency situations.

80. Payment of advances is approved by the Division for Human Resources or by country offices management. Audit work performed as regards this benefit included: (i) the review of the process followed for awarding and authorizing staff advances; (ii) a review of the nature and purpose of the advances paid to assess the staff members eligibility; (iii) the verification of the automation of the advance recovery in the payroll system; and (iv) a review of the effectiveness of the outstanding staff advances monitoring process, for a sample of 42 current and 19 old advances selected based on the analysis of outstanding advances as at 25 November 2014. These transactions represented 47 per cent of the staff advance balance at that date.

81. The following issues were identified based on the audit work performed.

Strengthen the guidelines on processing and monitoring staff advances

82. The audit noted that during the period under review, there were insufficient guidelines regarding staff advances. While the United Nations Regulation 3.16 briefly outlines the conditions under which staff members may be eligible for a salary advance, there were no comprehensive guidelines on administering the most common types of staff advances (i.e., rental, vehicle and emergency). Guidelines

¹¹ Including credit amounts

on staff advances were not available in the UNDP webpage¹² which indicates that guidelines are “currently being revised”. Management provided the audit team with a copy of a salary advances policy issued in 2007, but it is not clear whether this policy was in use throughout the period covered by the audit or how it could be accessed by staff members and Management.

83. Management indicated that, as from 2015, staff advances have to be approved by the Division for Human Resources and that a project is underway to process all staff advance requests through the use of e-Services.

IMPACT *Excessive or ineligible advances may be granted to staff members.*
 ROOT CAUSE *Guidelines (lack of or inadequate corporate policies or procedures).*
 CATEGORY *Operational.*

RECOMMENDATION 14

PRIORITY: HIGH

Promptly update and publish policies and procedures applicable to staff advances.

RESPONSIBLE MANAGER: *Director, Division for Human Resources* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *September 2015*

There is already a UNDP policy in place that governs staff advances. However, it is currently not available on the UNDP Programme and Operations Policies and Procedures site. The Division for Human Resources will take the necessary action to have the policy uploaded to the UNFPA Policies and Procedures Manual so all UNFPA staff has access.

Accelerate the clearing of aged staff advances

84. Outstanding staff advances amounted to USD 1.7 million as at 25 November 2014. Of this amount, USD 0.8 million represented advances originated before 31 December 2013, including USD 0.6 million originated before 31 December 2012.

85. The audit reviewed a sample of seven aged advances totaling USD 0.2 million, representing 25 per cent of the outstanding advances originating on or before 31 December 2013. The original sample selected of 19 old advances could not be fully tested due to the time required to complete the analysis of each individual balance, which required a thorough research and analysis of potential repayments posted in different accounts.

86. All seven advances reviewed represented amounts previously recovered which had however not been cleared because the recoveries were recorded in different accounts. The audit was unable to analyze the root causes of this accounting mismatch. The Finance Branch was conducting, at the time of completion of audit work, a review of aged outstanding advances to ensure that recoveries are matched to the relevant outstanding staff balances and that uncollected advances are identified for follow-up. The timeline for completion of this review has not yet been defined by the Finance Branch.

IMPACT *Recovery of advances might not be promptly undertaken. Staff receivables may be overstated.*
 ROOT CAUSE *Guidance (lack of or inadequate supervision at Headquarters).*
 CATEGORY *Operational.*

¹² <https://info.undp.org/global/popp/hrm/Pages/salary-advcs.aspx#FlowChart>

RECOMMENDATION 15**PRIORITY: HIGH**

Finalize the analysis of outstanding aged advances and record appropriate adjustment or undertake recovery actions, as appropriate, by the end of 2015, based on a work-plan with clearly defined milestones.

RESPONSIBLE MANAGER: Chief Finance Branch

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: December 2017

The Finance Branch is already working and made substantial progress in clearing outstanding staff advances. Furthermore, the Finance Branch has developed an action plan for full review and clearance of the remaining outstanding aged balances. Due to volume and complexity of the work ahead, and the existing resource constrain it is estimated that the full completion of the task will take 2-3 years. However it is targeted to significantly reduce aged balances by the end of 2015.

OAIS COMMENTS ON THE MANAGEMENT RESPONSE:

OAIS discussed the implementation timeline provided by the Finance Branch. Management indicated that the process of clearing the outstanding staff advances is a time consuming activity, which will involve detailed research into the accounting records for origin of the advance and prior actions taken on each advance. Given the current human resources available, the Finance Branch indicated that this exercise cannot be thoroughly completed in a more expeditious manner.

ANNEX 1

A. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

- **Guidelines:** absence of written procedures to guide staff in performing their functions:
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate Regional and/or Country Office policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors:
 - Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skills, staff) to carry out an activity or function:
 - Lack of or insufficient resources: financial, human, or technical resources
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions.
- **Intentional:** intentional overriding of internal controls.
- **Other:** Factors beyond the control of UNFPA.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

Audit recommendations are categorized according to their priority, as a further guide to management in addressing the related issues in a timely manner. The following categories of priorities are used:

- **High:** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization);
- **Medium:** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences);
- **Low:** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are discussed by the audit team directly with the management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

C. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic:** High level goals, aligned with and supporting the entity's mission.
- **Operational:** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage.
- **Reporting:** Reliability of reporting, including fulfilling accountability obligations.
- **Compliance:** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions.

ANNEX 2

INFORMATION ON THE BENEFITS AND ENTITLEMENTS COVERED WITHIN THE SCOPE OF THE AUDIT

In alphabetical order

Assignment grant

1. The assignment grant (paid for reassignment or installation) is authorized by UN Staff Regulation 7.14 and by Administrative Instructions ST/AI/364 and ST/AI/2000/17. It is normally payable to staff in the professional and higher categories holding Fixed Term Appointments upon reassignment or initial appointment, assignment or transfer, and for whom the period of service at the new duty station is expected to be at least one year. It aims at providing staff members with a reasonable cash amount for covering pre-departure expenses and settling-in expenses.

Danger pay

2. Danger pay is a special allowance established for staff members who are required to work in locations where very dangerous conditions prevail¹³. It came into effect on 1 April 2012 as a replacement to previously applied hazard pay and extended hazard pay.

Dependency allowances

3. Dependency allowances are authorized by UN Staff Regulation 3.4 and Rule 3.6. These allowances are paid to staff members in connection to dependent children¹⁴ or secondary dependents¹⁵, at a standard yearly rate of USD 2,929 for dependents children and USD 1,025 for secondary dependents. A married staff member or a staff member with at least one dependent child receives his salary at the dependency rate. The salary impact of the dependency status was excluded from the scope of the engagement albeit records on marital status were reviewed.

Education Grant

4. The education grant is governed by UN staff Regulation 3.2 and Rule 3.9, UNDP guidelines UNDP/ADM/2002/50 of 21 November 2002 and a series of subsequent UNDP administrative circulars. This benefit is paid to international staff members with an appointment period of six or more months, whose duty station is different from their country of origin and whose children are in full time attendance of school up till the first university degree. Travel expenses are also covered in the event that the child attends school in a location other than the duty station of the staff member. A special education grant is awarded to both international and general service staff members when their children are disabled. Typically, the education grant covers 75 per cent of the tuition cost and includes actual or standard amounts for other costs such as board and books.

¹³ These locations include:

- a) Duty stations where United Nations staff, owing to the very fact of their association with, or employment by, an organization of the United Nations common system, are clearly, persistently and directly targeted or where premises are clearly, persistently and directly targeted, thus presenting an imminent and constant threat to staff and activities
- b) Duty stations where United Nations staff or premises are at high risk of becoming collateral damage in a war or active armed conflict
- c) Non-protected environments where medical staff members are specifically at risk for their lives when deployed to deal with public health emergencies as declared by the World Health Organization

¹⁴ A dependent child is a) a staff member's natural child; b) a staff member's legally adopted child; c) a staff member's stepchild, if residing with the staff member; d) for whom the staff member provides main and continuous support; e) who is under 18 or who is in full attendance of school if aged between 18 or 21; or who is disabled if over 18

¹⁵ Secondary dependents may include parents or siblings to whom staff members provide regular support. Staff member can claim a secondary dependent only if he does not receive the spouse allowance

Home leave

5. Home leave is authorized by UN staff Regulation 5.3 and Rule 5.2. Home leave is a period of annual leave taken by a staff member in order to visit his/her home country. Family visits complement home leaves for staff members serving at non-family duty stations. UNFPA covers travel costs¹⁶ for the staff member and his/her eligible family members. For accounting purposes, home leave expenses are accrued annually, and actual home leave payments charged against the liability when made.

Mobility, hardship and non-removal allowance (MHN)

6. This benefit compensates for the mobility and hardship faced by staff in their duty stations and the non-removal of staff personal effects and household goods. It is governed, inter alia, by UN Staff Rule 3.13 through 3.15, as well as by Administrative Instruction ST/AI/2000/2 (mobility, hardship and non-removal), as amended by administrative instruction ST/AI/2001/9.

7. The amount of MHN payable to each eligible staff member is a function of his/her placement on a three-dimensional matrix where the hardship element increases in correlation to the hardship level of the duty station. The mobility element varies according to the number of assignments and the length of service at one duty station. The non-removal element varies according to whether the staff member is entitled to and opts for full removal of household goods. The hardship element depends on the assigned duty station category as defined by the International Civil Service Commission.

Relocation grant

8. A relocation grant is paid to international staff members travelling to a new duty station for a new assignment, a reassignment or a separation. Assignments or reassignments have to be for a period of more than one year for the full amount to be paid. The benefit is regulated by Administrative Circular UNDP/ADM/2003/28. The standard payments are (i) USD 10,000 for single staff members; (ii) USD 15,000 for married staff members or staff members with dependents; (iii) USD 20,000 for Representatives and for Under Secretary-General and Assistant Secretary-General positions; and (iv) USD 1,200 for appointments of less than one year of duration.

Rental allowance

9. This benefit is governed by Staff Rule 3.7 and several other UN administrative circulars. Rental allowances are paid to staff members in the international professional and above categories. The amount paid is determined based on the grade level, the dependency status and the duty station. Rental subsidy payments are made through the Global Payroll after an application through e-Services. For duty stations categorized as Headquarters, the allowance phases out gradually within a seven-year period.

Repatriation benefit

10. This benefit is paid at the time of separation to internationally recruited staff members who reside, by virtue of their service with UNFPA, outside their country of nationality. It forms, along with termination and relocation payments, the bulk of separation entitlements. In general, payment is made within two years of separation upon submission by the staff member of a proof of country of residence from his place of relocation. The benefit is regulated by Annex IV of Staff Regulations and Staff Rule 3.19.

Rest and recuperation (R&R)

¹⁶ Covered travel expenses include economy ticket, baggage fees, shipment fees and terminal expenses. Staff members can opt for a lump-sum, in which case they receive 75% of the estimated air ticket cost.

11. R&R is governed by UN Administrative Circular ST/AI/2011/7. R&R payments provide for the cost of air travel to designated locations for staff members assigned to duty stations approved for rest and recuperation. The frequency by which R&R is taken depends on the cycle of the duty station and ranges from 4 to 12 weeks. R&R accrual time is restarted when the staff member spends more than three consecutive days outside the duty station where he works within the cycle.

Special Operation Living Allowances (SOLA) and Additional Hardship Allowance (AHA)

12. SOLA and AHA are paid to staff members assigned to non-family duty stations and are meant to address the hardship faced in such locations. Beginning 1 July 2012, SOLA is gradually replaced by AHA in accordance with transitional measures introduced by General Assembly Resolution 63/248. From that date onward, new staff members are only eligible to AHA; SOLA will be fully phased out by 30 June 2016 for existing staff members. The SOLA computation is based on the prevailing Daily Subsistence Allowance or Mission Subsistence Allowance rates, whichever is applicable to the duty station, and monthly payment is decentralized to country offices following authorization from Headquarters. AHA payments, on the other hand, are made through global payroll credits.

Tax reimbursements

13. In application of the tax equality principle, staff members subject to income taxation by the United States on their earnings from the United Nations because citizens of the United States or permanent residents (i.e., “green card” holders), are entitled to the reimbursement of their tax liabilities on UN income for federal, state and local taxes purposes, and to 50 per cent of the applicable self-employment tax. Payments are also issued to eligible staff members to settle their tax advances during the fiscal year.

Termination indemnity

14. A termination indemnity is paid to staff members whose appointments are terminated because of (i) abolition of posts or reduction of staff; (ii) poor health or incapacitation for further service; and (iii) unsatisfactory service or agreed termination. The amount paid depends on the number of years of services in the United Nations system and varies from 1 to 12 weeks of net salary; it can be increased by up to 50 per cent over the baseline amount at the discretion of management. This benefit is governed by Annex III of Staff Regulations and Staff Rule 9.8.

ANNEX 3

OVERVIEW OF BENEFITS, ENTITLEMENTS AND FINANCIAL ASSISTANCE PROCESSING

<i>Benefit</i>	<i>Staff Member</i>	<i>UNDP-BES staff</i>	<i>UNFPA country office</i>	<i>Local UNDP office</i>	<i>Payroll</i>	<i>Finance</i>	<i>Other Units</i>
Education Grant	Initiates	Processes			Approves Pays		
Assignment Grant		Initiates Approves	Processes (Country Office staff)	Pays (Country Office staff)		Pays (HQ staff)	
Repatriation Grant	Initiates	Processes			Approves Pays		UNDP Pension Fund Unit Approves
Relocation Grant		Initiates Approves	Processes (Country Office staff)	Pays (Country Office staff)		Pays (HQ staff)	
Staff salary Advances	Initiates	Processes (HQ staff)	Processes Approves (Country Office staff)	Pays (Country Office staff)	Approves Pays (HQ and Intl staff)		
Rest and Recuperation	Initiates		Processes Approves	Pays			
Dependency allowance	Initiates	Approves Processes			Pays		
Home leave	Initiates	Approves Processes				Pays	Travel unit & staff member supervisor Approve
Danger Pay			Initiates Approves Processes	Pays			
Mobility, H&N		Initiates Approves Processes			Pays		
SOLA AHA		Initiates Processes (initial) Approves	Processes (subsequent)	Pays (SOLA)	Pays (AHA)		
Rental subsidy	Initiates	Processes Approves			Pays		
Termination indemnity		Initiates Processes Approves			Pays Approves		UNDP Pension Fund Unit Approves (PFU)
Tax reimbursements	Initiates					Accounts for	UN Income Tax Unit Processes Approves Pays

ANNEX 4

**SURVEY ON STAFF PERCEPTIONS ON SERVICES PROVIDED
BY THE BENEFITS AND ENTITLEMENTS SERVICES UNIT**

1. The survey was submitted to 150 staff members.
2. 48 responses were received, which are summarized below:

Attribute assessed	Poor (1)	Below average (2)	Good (3)	Excellent (4)	N/A	Average score	Response Count	Percentage of good and above responses
Responsiveness	0	6	20	22	0	3.33	48	87.5%
Timeliness	1	8	23	16	0	3.13	48	81.3%
Pro-activeness	3	10	21	12	2	2.91	48	68.8%
Usefulness	0	6	22	18	1	3.26	47	85.1%
Overall satisfaction	0	7	24	17	0	3.21	48	85.4%

GLOSSARY

AHA	Additional Hardship Allowance
BEFA	Benefits, Entitlements and Financial Assistance
BES	Benefit and Entitlement Services (UNDP)
MHN	Mobility Hardship and Non-Removal allowance
OAIS	Office of Audit and Investigations Services (UNFPA)
PFU	UNDP Pension Finance Unit
R&R	Rest and Recuperation
SLA	Service Level Agreement
SOLA	Standard Operating Living Allowance
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USD	United States Dollars