

United Nations  Nations Unies

INTEROFFICE MEMORANDUM


MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE
OIOS · BSCI

TO: Mr. Rolf Knutsson, Executive Secretary
A: United Nations Compensation Commission

DATE: 11 June 2007

REFERENCE: AUD-7-7-7 (07-00 247)

FROM:  Dagfinn Knutsen, Acting Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AF2006/820/05 – Financial Monitoring at the United Nations Compensation Commission**

OBJET: **Nations Compensation Commission**

1. I am pleased to present the report on the above-mentioned audit, which was conducted on an ongoing basis from May 2006 to January 2006. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. Based on your comments, we are pleased to inform you that we will close recommendation 3 in the OIOS recommendations database as indicated in Annex 1. OIOS reiterates recommendation 6 and requests that you reconsider your initial response concerning this recommendation. 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 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

4. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.

I. INTRODUCTION

5. OIOS conducted an audit of financial monitoring of the biennium budget of the United Nations Compensation Commission (UNCC, or the Commission) from May 2006 to January 2007 on an ongoing basis.

6. The Commission was established in 1991 as a subsidiary organ of the United Nations Security Council with a mandate to process claims and pay compensation for losses and damages suffered as a direct result of Iraq's unlawful invasion and occupation of Kuwait. Funds for claim award payments, as well as for the administrative expenditure of the Commission are drawn from the United Nations Compensation Fund that currently receives 5 percent of the revenues generated from the export of Iraqi petroleum and petroleum products. The proceeds are deposited in an escrow account paid directly to the United Nations Controller's office in New York, who then transmits the funds to the UNCC on a quarterly basis. The Compensation Fund balance as of 31 December 2006 amounted to

approximately \$407.7 million.

7. The overall administrative costs of the Commission have been low, expressed as a percentage of the value of claims, compensation awarded and compensation paid to date. Since the inception of the Commission in 1991, UNCC's administrative expenditure totalled approximately \$390 million as of December 2006, representing 0.11 percent of the asserted value of the claims filed, 0.74 percent of the amount of compensation awarded and 1.82 percent of the amount of compensation paid to successful claimants.

8. The budget for the biennium is drawn up by the UNCC secretariat and submitted for approval to the Committee on Administrative Matters (CAM), thereafter, endorsed by the Governing Council. The Controller's comments are usually sought before approval of the budget. The current allotment issued on 2 March 2007 amounted to \$14.6 million, in accordance with the latest budget revision approved by CAM during the Governing Council sixty-second session in February 2007. It should be noted that the biennium is a single financial period and the first's year allotments and expenditures are carried forward in the second year for an overall total for the biennium.

9. Comments made by UNCC are shown in *italics*.

II. AUDIT OBJECTIVES

10. The major objectives of the audit were to:

- (a) Assess the systems and controls in place to ensure proper monitoring of the approved budget;
- (b) Ensure that the budgetary actions are conducted within the framework provided by the United Nations Financial Regulations and Rules; and
- (c) Ensure that all related actions are addressed during the liquidation phase.

III. AUDIT SCOPE AND METHODOLOGY

11. The financial monitoring review covered the first year of the biennium 2006/2007. It included a review of the budgetary process and focused on the expenditure recorded as of 30 April, 30 September, and 31 December 2006, respectively. The audit reviewed the UNCC secretariat's structure and allocation of responsibilities to evaluate the adequacy of internal controls, as well as testing the accuracy of selected accounting transactions.

12. The methodology of the audit included interviews with key officials, review of budgetary procedures and budget assumptions, including works plans with the associated resources and cost estimates, review of reconciliation between the approved budget, allotments and expenditure recorded in the accounts. The audit also reviewed selected accounting transactions to verify if they were properly authorized, recorded, accumulated and supported by proper documents.

IV. OVERALL ASSESSMENT

13. In OIOS' opinion, the UNCC secretariat materially followed key controls to ensure proper monitoring of the approved budget, and that the United Nations Financial Regulations and Rules were followed. Records and reports were reliable for the period under review.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Budgetary process and procedures

14. At its fifty-eighth session in December 2005, the Governing Council endorsed the UNCC secretariat's proposal for the phasing out of UNCC into two distinct phases as follows: (i) an initial two-year period (2006-2007) associated with the completion of payment of all individual awards, as well as certain residual activities, and (ii) a post-2007 period. Until such time that a decision regarding the eventual transition to a successor arrangement is agreed upon, the Compensation Fund remains under the continuing oversight of the Governing Council, supported by a residual secretariat in Geneva. It should be noted that the interim nature of the arrangement has implications on the completion strategy as well as the associated timeframes and resources.

15. A preliminary budget of the UNCC secretariat for the biennium 2006-2007 was submitted to CAM on 28 May 2005. A total amount of \$14.2 million was projected for the biennium of which \$7.2 million related to 2006 and \$7 million for 2007, respectively. The main assumption was that the individual claimants would be fully paid by mid-2007, and that the preliminary budget factored the continuation of legal staffing for the first quarter of 2006 to address queries related to the correction of claim awards.

16. The CAM approved a revised budget, on 29 June 2005, amounting to \$15 million for the biennium, of which \$8 million related to 2006 and \$7 million to 2007, respectively. The underlying budget assumptions remained unchanged. The additional funds of around \$800,000 corresponded to an increase in the staffing costs to provide for two auditor posts in 2006, and to an increase in the budget line for temporary assistance for meetings for four Governing Council sessions in 2006.

17. In December 2005, the UNCC secretariat apprised the Governing Council with revised budget assumptions summarised as follows:

- Accelerated payment schedule – This is an earlier than anticipated completion of the payment of individual claims with an estimated completion by October 2006 resulting in an earlier transfer of responsibilities to the planned successor arrangement by mid-2007. Consequently, instead of a constant level of staffing for the Claims Payment Section, it was proposed to have an additional staff complement of four staff assigned during 2006 to complete tasks related to the phasing out, with a corresponding reduction in 2007 staffing table. Thus, in terms of budgetary implication, the accelerated payment schedule impacted exclusively on personnel costs with four additional staff for 2006 at the cost of some \$0.4 million being requested, and a corresponding reduction in 2007 staffing levels.
- Extension of “Duplicates” programme – This aims to complete the ongoing exercise to

identify potential overpayments. The associated resources to complete the programme related to staff costs, consisting of six professional and one general service staff being requested until June 2006 at a cost of some \$0.6 million.

18. At its December 2005 session, the Governing Council approved “in principle” the extension of the 12 posts until 30 June 2006 (eight at the professional level and four at the general service level), along with additional funds for the temporary assistance, and decided that the budgetary implications be consolidated and formally addressed at the forthcoming CAM session.

19. The “Proposed adjustments to the approved budget for the 2006-2007 biennium” were approved by CAM at its meeting on 7 March 2006, resulting in an overall 6 percent reduction of the budget to \$14.1 million. The reduction in budget is mainly explained by the decrease in the provision for rental of premises.

20. A consolidated budget proposal was prepared by the UNCC secretariat for the CAM meeting in June 2006. Although the exact scope of the “duplicate” claims exercise was yet to be decided by the Governing Council, the budget included a further extension until 30 October 2006 of 12 posts which were previously approved “in principle”. Despite further reductions in staff related costs for 2007, the overall budget for the biennium increased to \$15.6 million.

21. At its November 2006 meeting, CAM approved the revised consolidated budget amounting to \$14.4 million for the biennium of which \$9.4 million related to 2006 and \$5 million to 2007, respectively. The reduction is explained by the recalculation of salary costs budget provisions. The standard rates used by the UNCC secretariat in calculating personnel related costs were in fact based on the 2005 standard cost estimation. The recalculation based on the current 2006 rates translated in a decrease of \$1.3 million for the biennium. However, a provision of \$136,500 was added in respect of staffing costs related to the recovery of the overpayments identified through the “duplicate” claims exercise.

22. As of the report date, UNCC’s administrative budget is contained in the “Proposed revised 2007 UNCC budget” document that was approved by CAM at its 22 February 2007 session. This revision amounted to \$14.6 million for the biennium of which \$9.4 million related to 2006 and \$5.2 million for 2007, respectively. The increase of \$200,000 compared to the last revision is due to additional staffing costs in connection with the overpaid claims. It should be also noted that a new budget proposal for 2007 would likely be advanced at the forthcoming CAM meeting.

B. Monitoring of expenditures

23. OIOS reviewed accounting transactions to ensure that the related expenditure was properly authorized, recorded, and supported by proper documents. OIOS’ test of a sample of transactions selected on a judgmental basis, found no reportable exceptions. However, monitoring of IMIS recorded expenditure could be improved, by promptly reconciling the IMIS reports to the object-code control spreadsheets kept for monitoring purposes. For example, certain IMIS accounts were not reconciled as of 30 April 2006, and as of the report date, account 622 (Rental and premises) – was not reconciled with

the IMIS reports as of 31 December 2006. Furthermore, some unliquidated obligations recorded in IMIS could have been closed with proper monitoring. Examples were; miscellaneous amounts of \$8,141 recorded in account 604 for training provided by UNOG during August 2007, or various charges for rent and utilities which have been long overdue from UNOG.

24. The review found an amount of \$12,405 recorded by UNOG as of 31 December 2006 in account 605 for miscellaneous after-service medical coverage. Since the allotment was already exceeded, a request for redeployment within the authorised budget should be forwarded to the Controller.

Recommendations 1 to 3

The UNCC secretariat should:

- (1) Update on a regular basis the object-code control spreadsheets kept for monitoring IMIS recorded expenditure;**
- (2) Given the imminent phasing-out of the Commission, follow up with UNOG on its submission of invoices for the expenditure items in order to promptly close the related unliquidated obligations; and**
- (3) Request the United Nations Controller to redeploy within the authorised budget, the amount of \$12,405 for miscellaneous after-service medical coverage.**

25. *UNCC accepted recommendation 1 and stated that the secretariat will make every effort to keep the internal records current; however, with the downsizing of the secretariat, the same staff must deal with both financial and human resource matters, with the result that the work cannot be done as quickly as previously. Recommendation 1 remains open pending receipt of the updated object-code control spreadsheets from UNCC.*

26. *UNCC accepted recommendation 2 and stated that the secretariat sends reminders to UNOG with respect to long overdue invoices, but cannot control the timeliness of UNOG's payment of such invoices. Recommendation 2 remains open pending receipt of documentation from UNCC showing that the respective obligations have been liquidated.*

27. *UNCC accepted recommendation 3 and stated that the funds had been redeployed in the relevant budget line. Based on the action taken by the UNCC secretariat, recommendation 3 has been closed.*

C. Environmental Monitoring Programme

28. The Programme was set up as an extra-budgetary project to assist some environmental claimant countries under a regional cooperation arrangement for environmental monitoring. The concerned Governments requested the support and assistance of UNCC to oversee the process and to act as an intermediary between the parties. Cost estimates for the UNCC support, including two staff, travel, consultants, a standard support costs element and programme guidelines, were agreed by the claimant Governments.

29. On 18 April 2006, a Trust Fund was established to cover the cost of UNCC coordination and support for the regional environmental programme. The Trust Fund was established as a Special Account to be managed in Geneva, with the associated funds covered by withholding a percentage of the environmental claims awards. As of 31 December 2006, the Special Account for regional environment monitoring programme recorded expenditure amounting to \$200,362. The programme support costs, calculated at 13 percent of the total programme expenditure, related to UNCC costs for administering project staff, provision of office space, and a share of common administrative expenses. The UNCC share of programme support costs was \$26,047 as of 31 December 2006.

30. In terms of implications for the UNCC's budget, the share of support costs for the project represents expenditure incurred from UNCC's administrative budget. Consequently, the amount of \$26,047 should be reallocated to the budget lines from where the expenditure was incurred. However, no such mechanism has been yet established by the UNCC secretariat. Furthermore, the Special Account is set up in such a way that all accounting adjustments between funds are done manually. OIOS believes that the amount of \$26,047 incurred as of 31 December 2006 should be first apportioned according to the type of expenditure incurred, and thereafter, reallocated to the UNCC's administrative budget, by crediting the respective budget lines with the corresponding debit to the Special Account.

31. The review also found that as of 31 December 2006, two expenditure items in respect of the travel of project staff associated to the project are included in the UNCC's administrative budget. The cumulative amount is \$11,669 and should be reversed to the Special Account.

Recommendations 4 to 6

The UNCC secretariat should:

- (4) Apportion the amount of support costs incurred in respect of the Special Account for regional environment monitoring programme according to the type of expenditure incurred (administering the project staff, provision of office space, common share of administrative expenses, etc);**
- (5) Reallocate the respective share of expenses of the support costs of the regional environment monitoring programme to the relevant budget lines, by debiting the Special Account and crediting the expenditure accounts of the UNCC administrative budget; and**
- (6) Reverse to the Special Account of the regional environment monitoring programme, the expenditure of \$11,669 incurred in respect of the travel of project staff which had been charged to the UNCC administrative budget.**

32. *UNCC accepted recommendation 4 and stated that the general breakdown of the programme support costs will be into three parts: (1) administration, (2) office space, and (3) security. The security part remains under discussion before the amount of \$26,047 is*

charged from the Regional Environmental Monitoring Programme (REP) and credited to the UNCC (CWA) account number. The secretariat gave FRMS the transfer documentation on 4 June 2007 and will take the necessary action in IMIS by the end of June 2007. Recommendation 4 remains open pending receipt of documentation from UNCC showing that it has been fully implemented.

33. UNCC accepted recommendation 5 and stated that the reallocation of the respective shares of expenses had been done; the only pending item being the settlement of an education grant. Recommendation 5 remains open pending receipt of documentation from UNCC confirming that the education grant portion has been allocated.

34. UNCC did not accept recommendation 6, stating that the amount relates to the fees and travel costs (in November 2005) of the consultant engaged to provide advice to the Governing Council and the secretariat with respect to the preparation of guidelines for the REP. At that time, the REP was not in existence (it did not come into existence until the Council issued its decision 258 in December 2005). In the opinion of OIOS, since all accounting entries relate to 2006, the amount should be charged to the REP. Therefore, OIOS is reiterating recommendation 6, which remains open pending receipt of documentation from UNCC showing that it has been implemented.

VI. ACKNOWLEDGEMENT

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

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Ms. Corazon Chavez, Officer-in-Charge, Geneva Audit Service, OIOS

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Updated object-code control spreadsheets.	31 July 2007
2	O	Documentation showing that the respective obligations have been liquidated.	31 July 2007
3	C	Action completed.	Implemented
4	O	Documentation showing that necessary action was taken in IMIS.	31 July 2007
5	O	Documentation showing that the education grant portion has been allocated.	31 July 2007
6	O	Documentation showing that the travel costs have been charged to the REP.	

1. C = closed, O = open

2. Date provided by UNCC in response to recommendations.

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Financial Monitoring at UNCC

(AF2006/820/05)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:
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 By fax : (212) 963-3388