



Reference: AUD-8-10:2 (003405)

Date: 26 January 2005

To: Mr. Bernard Cochemé  
Chief Executive Officer  
United Nations Joint Staff Pension Fund

From: Patricia Azarias, Director  
Internal Audit Division I  
Office of Internal Oversight Services

A handwritten signature in black ink that reads "P. Azarias".

Subject: **OIOS Audit No. AS2004/800/2: Audit of UNJSPF Benefit Processing**

1. I am pleased to present the final report on the subject audit which was conducted at the United Nations Headquarters in September and October 2004. The audit was conducted in accordance with the standards for the professional practice of internal auditing in the United Nations organizations.
2. The report incorporates the comments of the UNJSPF dated 5 January 2005 which are marked in italics. Based on the response, we have revised recommendation 2 and added additional text to paragraph 30 for the UNJSPF's consideration, and would appreciate receiving any further comments you may have with respect to this recommendation. As indicated in the text of the report following UNJSPF's comments, recommendations 1 through 3 will remain open pending receipt of further comments and completion of the implementation actions outlined in the initial response.
3. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the audit team.

#### **I. Introduction**

4. This report presents the results of an OIOS audit on benefit processing in respect of divorced surviving spouse, spouse married after separation, child and secondary dependent cases. Divorced surviving spouse and surviving spouse benefits were covered in our audit of March 2002 and this audit served as a follow-up review. Benefits payable to children and secondary dependents were the last of those benefits not covered by our cycle of benefit processing audits which have taken place over the last few years.
5. The main objectives of the UNJSPF regarding these categories of benefits are to ensure that beneficiaries of the Fund are eligible to receive benefits and that they are paid the correct

amount as long as their eligibility continues to be valid. The Client Servicing, Records Management & Distribution Unit (CSRMDU), which is organizationally part of the Pension Entitlements and Client Services Section (PECSS) of the Fund's Secretariat, manages the process. Overall, PECSS is entrusted with administering and managing benefits and entitlements, in addition to the participation and separation processes.

6. As of 31 December 2002, there were 51,028 retirees and beneficiaries receiving periodic benefits of approximately US\$1.2 billion, in 15 currencies going to some 190 countries in 2003.

## **II. Audit Objectives and Scope**

7. The purpose of the audit was to assess the appropriateness and effectiveness of internal controls applied by the UNJSPF Secretariat in calculating benefit entitlements and monitoring the continuing eligibility to benefits in order to prevent/recover overpayment of benefits. A determination of whether or not established policies and procedures were being adhered to was also undertaken. The audit examined the process for the establishment and payment of benefits in the categories reviewed for the periods 2002 and 2003 and work performed to process current cases.

8. The auditors performed tests of controls in place to determine whether they were operating effectively, and sampled divorced surviving spouse, spouse married after separation, child and secondary dependent benefits to determine their accuracy. They also tested the validity of the benefit provisions by comparing the UNJSPF benefit structure with those benefits provided by the Social Security Administration and Civil Service Retirement System of the United States of America, and by California Public Employees' Retirement System (CalPERS).

## **III. Overall Assessment**

9. In general, OIOS found that the UNJSPF had satisfactorily carried out benefit processing in the four main areas reviewed. However, no specific internal control exists to verify that children under the age of 21 remain unmarried and thus are eligible for benefits under the present policy. With respect to the other three categories reviewed (which were relatively few in comparison with the child benefits paid), our sample review indicated that benefits were being processed accurately. In addition, as found in earlier audits, reporting of statistical information to management (and for audit review) was restricted by the data information systems presently in use. Also, guidance manuals need to be updated. Improvements were being planned by the UNJSPF which would eventually provide better extraction of reports on specific payments.

## **IV. Audit Findings and Recommendations**

### **A. Divorced Surviving Spouse**

10. Under Article 35 *bis* of the Regulations, Rules and Pension Adjustment System of the United Nations Joint Staff Pension Fund (Regulations and Rules), any divorced surviving spouse of a participant or former participant, separated on or after 1 April 1999, who was entitled to a retirement, early retirement, deferred retirement or disability benefit, or of a participant who died in service on or after that date, may, subject to article 34 (b) and certain specified conditions, request a former spouse's benefit. The benefits are payable prospectively following receipt of a request if these conditions are fulfilled in the opinion of the Chief Executive Officer of the UNJSPF. These include: (i) marriage to a participant for at least ten years during which contributions were paid to the Fund, or the participant was awarded a disability; (ii) the former spouse had not remarried; (iii) the participant's death occurred within 15 years of final divorce date; (iv) the former spouse has reached the age of 40; and, (v) evidence is provided by the former spouse that the participant's pension entitlement from the Fund was not taken into account in a divorce settlement. Certain other conditions also are detailed in the Regulations and Rules.

11. This benefit is similar to the benefits paid to divorced spouses by the national and public employee pension funds used as comparators in the audit, the Civil Service Retirement System and Social Security Administration of the United States of America and by California Public Employees' Retirement System (CalPERS).

12. For the year 2002, ten cases of divorced surviving spouse benefits were processed and in 2003, six divorced surviving spouse cases were processed. The initial payments were calculated manually based on the participants' benefits payable at the time the cases were processed. Due to the small number of cases processed, OIOS assesses the materiality of the risk exposure to the Pension Fund to be relatively low.

13. Our review of related internal controls found that the controls in place were adequate. For the establishment of a benefit, the Fund's Legal Officer checks the validity of documentation against the established criteria. Calculations are performed by the calculator, checked by an auditor and rechecked by a releaser prior to certification for payment.

14. Verification of the continuing eligibility to the benefit is by the annual Certificate of Entitlement (CE) review undertaken to make sure the divorced surviving spouse is still alive. As a deterrent, a warning against misrepresentation has been included in the annual Pension Fund letter, and according to the Fund's management, a fraud warning will also be included in the CE when it is redesigned in 2006. Given these developments and the small number of divorced surviving spouse beneficiaries, OIOS considers the verification risk to be relatively low for this benefit.

## **B. Spouses Married after Separation**

15. Under Article 35 *ter* of the Regulations and Rules, a former participant receiving a periodic benefit may elect to provide a periodic benefit for life, in a specified amount, to a spouse who was not married to him or her at the date of separation. Such election shall be made within 180 days of the date of marriage and becomes effective one year after the date of marriage. The benefit becomes payable as of the first day of the month following the death of the former participant. When the election becomes effective, the benefit payable to the former participant is reduced in accordance with actuarial factors determined by the UNJSPF's Consulting Actuary. The amount of the benefit payable to the former participant shall be at least one half of the benefit payable prior to the election, and the benefit payable to the spouse shall also not be larger than the amount of the benefit payable to the retired participant after reduction for the election.

16. OIOS' review of internal controls in place found the controls to be adequate. Establishment of a benefit follows the same steps as for divorced surviving spouses; it is processed by a calculator, reviewed by an auditor and checked by a releaser. Although cases are processed manually, the few cases processed receive special attention due to their rarity.

17. It was noted that one case of spouse married after separation was processed in 2002 and one case was processed in 2003, and that a total of seven beneficiaries are currently being paid under this category. The materiality risk related to this category was thus found to be relatively low.

18. The verification risk was also determined to be low. As for all other primary beneficiaries, existence of a spouse is verified by the annual CE review. As mentioned in para. 14, the Fund plans to include a warning in the CE when it is redesigned as a deterrent against falsification.

19. The provisions for this benefit were compared against those benefits provided by the Civil Service Retirement System and Social Security Administration of the United States of America and were found to be similar. Under the CalPERS plan, however, a survivor benefit is only made to spouses when the marriage took place one year prior to separation and remained married to the beneficiary at the time of death. Thus, while national benefit schemes allow for a spouse married after separation of the pensioner to qualify for a survivor benefit, public employee pension funds may be more restrictive in allowing such benefits.

20. Our review of the actuarial tables in the 2002 case noted that the actuarial factor used to calculate the reduction in the original benefit appeared to be very low as compared to the life expectancy factors used for calculation of lump sum benefits for participants between the ages of 55 and 62. In this case, the beneficiary chose a 50 per cent spouse benefit which reduced the beneficiary's benefit to 70.36 per cent of the original benefit, even though the beneficiary was 71 years of age and the spouse was 48 at the time of election. If a 25 per cent benefit had been chosen, the reduction in the benefit would have only reduced the

original benefit marginally to 82.60 per cent of the original benefit.

21. In our opinion, the reduction of the original benefit by such low percentages was surprising and appeared to be generous in respect of the eventual spousal benefit received after the death of the beneficiary. This indicated that a review of the actuarial tables may be warranted to ascertain if they fairly reflect the UNJSPF's financial risk of payments to surviving spouses exceeding the actuarial present value of payments to the beneficiaries at the time of election, and are in the best interests of both the beneficiaries and the Pension Fund.

### **Recommendation 1**

OIOS recommends that the UNJSPF conduct a review of the actuarial tables in use to determine if the reduction factors fairly reflect the UNJSPF's financial risk of payments to surviving spouses exceeding the actuarial present value of payments to the beneficiaries at the time of election. (AS2004/800/2/01)

22. *The UNJSPF accepted recommendation 1 and indicated it would request the Fund's Consulting Actuary, at a meeting scheduled for January 2005, to undertake a review of the actuarial tables used in establishing the amounts required to purchase a survivor's annuity for a spouse married after separation from service. OIOS will keep this recommendation open pending notification of the outcome of the Consulting Actuary's review.*

### **C. Children**

23. Under Article 36 a child's benefit shall be payable to each child of a participant who is entitled to a retirement, early retirement or disability benefit or who has died in service, while the child is under the age of 21 and remains unmarried. A child who is over the age of 21 and is incapacitated by illness or injury for substantial gainful employment shall also be eligible for a benefit. Conditions and minimum and maximum levels per annum are detailed in the Regulations and Rules of the UNJSPF.

24. In 2002, the Pension Fund paid 8,116 child and orphan benefits in the total amount of \$15.3 million and in 2003, 8,221 benefits were paid in the amount of \$16.2 million. Thus, the materiality of pension fund payments with respect to child benefits is considered to be high.

25. For new benefits, the Pension Fund requires certification of unmarried status when a new benefit is established. The verification risk of confirming the marital status of children for new beneficiaries is medium in that it may be difficult to verify the single status of children.

26. The UNJSPF has a good control in place to ensure that once children reach the age of 21, the child benefit is discontinued. Based on date of birth, this is done by the automated

system in use. Beneficiaries are duly notified of the discontinuance of this benefit and are notified of the recalculated benefit payable.

27. However, a review of internal controls found that the controls with respect to marriage of children under 21 were inadequate. The periodic certification of proof that children under 21 were not married was waived some years ago due to the difficulty of administration. Although it is highly likely that overpayments are taking place in respect of children under the age of 21 who are married, no current internal controls exist to verify the continued eligibility for child benefits once initially established.

28. Under current arrangements, the processing of the certificate of entitlements (CE) does not confirm individual children's status as single or married. In OIOS' view, the CE process could be used to verify the marital status of children under the age of 21 as an internal control against fraud.

29. OIOS compared the UNJSPF child benefit to those child benefits provided by other similar organizations, and with the United Nations staff rules for active staff members in terms of the rationale for payment of dependency benefits. In comparison, both CalPERS and the United States Social Security Administration generally consider minor children to be under the age of 18, and benefits are not payable in respect of non-minor children. Another comparator organization, the United States Civil Service Retirement System, pays child benefits only upon the death of the primary beneficiary. Staff members of the United Nations must provide documentary proof for recognition of a dependent child for payment of child allowance. Children over 18 but under 21, must be in full-time attendance at a school or university. A staff member must provide the main and continuous support, especially if a child does not reside with the staff member, is married or is recognized as a dependent under special conditions. OIOS calculated that UNJSPF payments to children between the ages of 18 and 21 totalled approximately \$2.3 million per year in 2003 (representing 14.2 per cent of those children currently in receipt of benefits).

30. The UNJSPF is exposed to the risk that payments to certain children in receipt of benefits may not be valid due to their marriage under the age of 21. The Pension Board is planning to review the benefit provisions in respect of family and former family members at its 2006 meeting. OIOS is of the opinion that the UNJSPF should bring to the Pension Board's attention the difficulties it faces in verifying the marital status of children in receipt of child benefits, since the Fund's current procedures for administering child benefits do not adequately address the verification risk for this benefit. The UNJSPF may also wish to bring to the Board's attention the practices of comparator organizations with respect to the payment of child benefit for non-minor children age 18 or older. The Board could then decide whether it wishes to relax the requirement in respect of the marital status of children under the age of 21, or to consider the practices of similar pension funds with respect to non-minor children.

## **Recommendation 2**

OIOS recommends that the UNJSPF consider enhancing the Certificate of Entitlement process by including steps to verify the continuing eligibility of children for child's benefits. OIOS further recommends that the UNJSPF bring to the Pension Board's attention the difficulties it faces in verifying the marital status of children in receipt of the child benefit in connection with the Board's review of benefit provisions in respect of family and former family members. (AS2004/800/2/02)

31. *UNJSPF's response to recommendation 2 noted that the child's benefit has been under constant review by the UNJSPB. Initially, a child's benefit was payable until the age of 18. As from 1961, coverage was extended to age 21 provided the child was in full time attendance at an educational institution, and documentary proof of attendance was required by the Fund to determine continued eligibility to a child's benefit if the child was between eighteen and twenty-one. The child's benefit was again changed on 1 January 1970 so that the benefit would be payable while the child remained unmarried and under the age of 21. That provision discontinued the school attendance requirement for children between ages 18 and 21, making the submission of further attendance certificates unnecessary. Moreover, at its 50<sup>th</sup> session in July 2000, the UNJSPB established a Working Group to undertake a fundamental review of the benefit provisions of the UNJSPF. The review has been completed and the Working Group made no recommendations as regards changing the child's benefit.*

32. *The annual certificate of entitlement (CE) is being used to confirm continued eligibility of a child to a child's benefit in payment. The certificate has no specific box for the beneficiary to check to confirm that a child is unmarried. Adding such a feature in the CE would introduce a further level of complexity for recipients of child's benefit and for the UNJSPF. The administrative costs involved in confirming that children in receipt of benefits remain unmarried would exceed any savings achieved by identifying children who may have married prior to age 21. However, a statement that a child's benefit is payable to unmarried children will be included in the fraud warning on the enhanced CE which will be issued in October 2006. OIOS is reiterating this recommendation because we continue to believe that it would be prudent for the UNJSPF to enhance the Certificate of Entitlement process by including steps to verify the continuing eligibility of children for child's benefits. We would also appreciate receiving the UNJSPF's comments on OIOS' recommendation to bring the difficulties faced by the Fund in verifying the marital status of children to the Pension Board's attention in connection with its review of family benefit provisions.*

### **D. Secondary Dependants**

33. Under Article 37 of the Regulations and Rules, a secondary dependant's benefit may be payable to not more than one surviving secondary dependant of a participant who was entitled to a retirement, early retirement or disability benefit at the date of death, or who died

in service. This benefit is not payable where a benefit is payable to a child or a surviving spouse of a participant, or in the case of a brother or sister where the benefit payable to the participant was a deferred retirement benefit. The benefit is payable in the case of a father or mother at the rates and conditions applicable to a widow or widower's benefit. In the event of remarriage, the Board may decide in its discretion to continue the benefit. With respect to a brother or sister, the rate applicable to a child's benefit shall be payable and continue to be payable beyond the age of 21 years under the conditions of those benefits payable to a child incapacitated by illness or injury for substantial gainful employment.

34. The audit review noted that materiality of secondary cases was relatively low. For the year 2002, one case was processed and for the year 2003 four additional cases were processed. A total of five cases currently exist relating to secondary dependents.

35. Internal controls were found to be adequate. Special attention is paid to secondary dependency cases since they are infrequently presented, and as in the case of all other benefits processed, the benefits are calculated and then checked by an auditor and a releaser before being certified for payment.

36. Once established, the annual CE exercise serves to confirm that the secondary dependent is still eligible to receive the benefit. Verification risk was therefore considered to be relatively low. As to the validity of these benefits, the conditions for qualifying as a secondary dependent were comparable to those of a large public pension fund (CalPERS).

### **E. Benefits Processing Administration**

#### Procedures manual

37. A review of the administration of the four types of benefits indicated that the procedures for the actual processing of the benefits were not routinely updated nor found in a manual of procedures. Those staff members tasked with the calculation of benefits relied on various directives and procedures which were not readily available to new users, other than by obtaining photocopies from long-serving staff. However, the UNJSPF indicated that they were planning to draft procedures and steps required in processing of all benefit categories as part of their knowledge management database project.

#### Manual calculation of benefits

38. Since there are four benefit categories (spouse married after separation, divorced surviving spouse, children and secondary dependants) that have not been fully automated, a higher degree of risk exists in the manual calculation of certain of these benefits. Although few cases of spouse married after separation, divorced surviving spouse and secondary dependants were being processed (and therefore had a lower risk of materiality based on their inaccurate calculation), a higher risk exists in the manual processing of child benefits for those pensioners who have elected an early retirement. The UNJSPF indicated that this risk



would be addressed by the UNJSPF when it completes the automation of all child benefits.

### **Recommendation 3**

OIOS recommends that the UNJSPF ensure that the procedures manual is completed and the automation of benefits processing in respect of children is implemented, as currently planned. (AS2004/800/2/03)

39. *The UNJSPF accepted recommendation 3 noting that the project to computerize processing/terminating a child's benefit has been delayed by the implementation of Content Manager in October 2004 and will be impacted by the changes to the Pension Adjustment System mandated by the General Assembly and the move to the new premises. The expectation is that the project will be implemented by September 2005. A comprehensive general procedure outlining all aspects of benefit processing is being drafted. A major area of focus for the 2006-2007 biennium will be to publish procedures covering all processes undertaken by the Section, develop training manuals and document precedent cases, which will become an integrated part of the Knowledge Management System. OIOS will keep recommendation 3 open in its database pending completion of the project scheduled for implementation by September 2005.*

### **V. Acknowledgement**

40. I would to express our appreciation for the assistance and cooperation extended to the auditors by management and staff of the UNJSPF. I have attached a client satisfaction survey form for the assignment. I would greatly appreciate your discussing this survey with the managers who worked with the auditors on this assignment, and returning the completed form to me at your earliest convenience.

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Programme Officer, OIOS



OIOS/IAD-1 Client Satisfaction Survey

The Internal Audit Division-1 is assessing the overall quality of its audit process. A key element of this assessment involves determining how our clients rate the quality and value added by the audits. As such, I am requesting that you consult with your managers who dealt directly with the auditors, and complete the survey below. I assure you that the information you provide will remain strictly confidential.

**Audit Title & Assignment No.: Audit of UNJSPF Benefit Processing (AS2004/800/2)**

**By checking the appropriate circle please rate:**

	1 (poor)	2	3	4(excellent)
1. The extent to which the audit addressed your concerns as a programme manager.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. The audit staff's understanding of your operations and objectives.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. The professionalism of the audit staff (communications, integrity, professional knowledge and responsiveness)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. The quality of the audit report in terms of:				
-- accuracy and validity of findings and conclusions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
-- clarity and conciseness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
-- balance and objectivity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
-- timeliness	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6. The extent to which your comments were considered by the auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7. Your overall satisfaction with the conduct of the audit and its results.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please comment on any areas in which you have rated the audit team's performance as below your expectations. Also, please feel free to provide any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

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Title: \_\_\_\_\_

Organization: \_\_\_\_\_

*Thank you for taking the time to fill out this survey. Please send the completed survey form as soon as possible to:*

- by mail: Ms. Patricia Azarias, Director, Internal Audit Division-1, OIOS  
Room DC2-518, 2 UN Plaza, New York, NY 10017 U.S.A.*
- by fax: 212-963-3388*
- by email: [iad1support@un.org](mailto:iad1support@un.org).*