

INTERNAL AUDIT DIVISION I
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Daudi L. Mwakawago
A: Special Representative of the Secretary-General
UNAMSIL

DATE: 25 October 2005

REFERENCE: AUD-7-5-16(05-00189/05)

FROM: Patricia Azarias, Director
DE: Internal Audit Division I, OIOS

P. Azarias

SUBJECT: **OIOS Audit No. AP2005/622/03: Accounts Receivable of UNAMSIL**
OBJET:

1. I am pleased to present herewith our final report on the audit of the above subject, which was conducted during June 2005.
2. We note from your response to the draft report that UNAMSIL has generally accepted the recommendations. Based on the response, we are pleased to inform you that we have closed recommendations 1 and 2 in the OIOS recommendations database, and recommendation 3 has been withdrawn. Please note that OIOS will report on the progress made in implementing its recommendations, particularly those designated as critical, in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. 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.
4. I take this opportunity to thank the management and staff of the Finance Section for the assistance and cooperation provided to the auditors in connection with this assignment.

I. INTRODUCTION

5. OIOS conducted an audit of the accounts receivable of UNAMSIL. The audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in the United Nations' Organizations.
6. The accounts receivable balance as of 30 June 2005 totaled \$608,000. This includes travel and MSA related advances and overpayment to staff, military observers, troops, civilian police and United Nations volunteers (15 per cent), vendors (8 per cent), receivable relating to quick impact projects (25 per cent), and others (9 per cent).

7. The comments made by the Management of UNAMSIL on the draft audit report have been included in the report as appropriate and are shown in italics.

II. AUDIT OBJECTIVES

8. The objective of the audit was to ascertain the accuracy of the accounts receivable balances as of 30 June 2005.

III. AUDIT SCOPE AND METHODOLOGY

9. The audit focused on accounts receivable as of 30 June 2005. The audit included the reviews of the ageing analyses of accounts receivable and pertinent document and interview concerned staff.

IV. OVERALL ASSESSMENT

10. The audit found that the accounts receivables of the Mission as 30 June 2005 are accurate. However, OIOS noted that the Mission could have reduced its exposure to the loss of cash by reducing the amount of advances provided to staff members for quick impact projects (QIPs) and advances provided to the implementing partners of those projects. This could have been achieved by using materials from the Mission's stores for QIPs and by using the United Nations' procurement procedures to replenish items in the stores and/or procure items not available in stores. These procedures are already being followed, without noticeable delays and inefficiencies, by the Engineering Section of the Mission in its daily operations.

V. AUDIT FINDINGS AND RECOMMENDATIONS

A. Review of the accounts receivable ageing analyses

11. Accounts receivable ageing analyses are part of the periodic financial reports provided to UNHQ-NY and routinely used to control losses that could result from receivables. These analyses should be accurate, reflecting the result of valid transactions. As of 30 June 2005, accounts receivable totaled \$608,000 compared to \$1.3 million as of 31 May 2005. Receivables from vendors totaled \$49,000 compared to \$353,000 as of 31 May 2005. These receivables relate mainly to rent deposit with respect to the Mission's headquarters and insurance claims settled by the Mission but are expected to be recovered from vehicle and helicopter reinsurance companies. Receivables from other United Nations' missions totaled \$260,000 compared to \$568,000 as of 31 May 2005. The movements in the receivables from vendors and other United Nations' missions resulted from valid transactions. OIOS also noted that if the Mission continues to maintain the observed high turnover rates of receivables, it will reduce the time-consuming future liquidation activities or possibly the amount of write-off relating to these two categories of receivables.

12. There was also a substantial reduction in the receivables from staff including national and international staff, troops, military police, and United Nations volunteers, from \$212,000 as of 31 May 2005 to \$94,000 as of 30 June 2005. However, this decrease was almost entirely offset by the increase in the balance of a newly created line in the analyses vaguely referred to as "Quick Impact Projects (QIP) – Advances" under the category, "Trust Fund Implementing Agencies". OIOS noted that the amounts previously reported as receivable from international staff had been transferred to the new line. In addition, a total of \$46,000 disbursed to an international staff member in June 2005 for QIPs is included in the new line. Previously, such disbursements were presented in the analyses as receivables from the staff.

13. Unlike other debtors listed in the ageing analyses, "Quick Impact Projects – Advances" is not a legal entity from whom recoveries can be claimed or accountability can be required. Therefore, by identifying advances as such, the need for the recipients to be held accountable is minimized. The Finance Section explained that the new presentation was deemed necessary in order to reflect the true purpose of the advances in the ageing analyses. In addition, it explained and OIOS verified that the particulars of the staff members that received the advances have been properly reflected in the payment vouchers. However, payments vouchers are not sent to UNHQ and as indicated above, the ageing analyses are required by UNHQ and are used in following up accounts receivable. The analyses are easily accessible and ideally used as the source of information needed to retrieve records (including payment vouchers) from the archives. Therefore, the entities and individuals that are indebted to the Organization or accountable for advances made through them should be properly identified in the analyses.

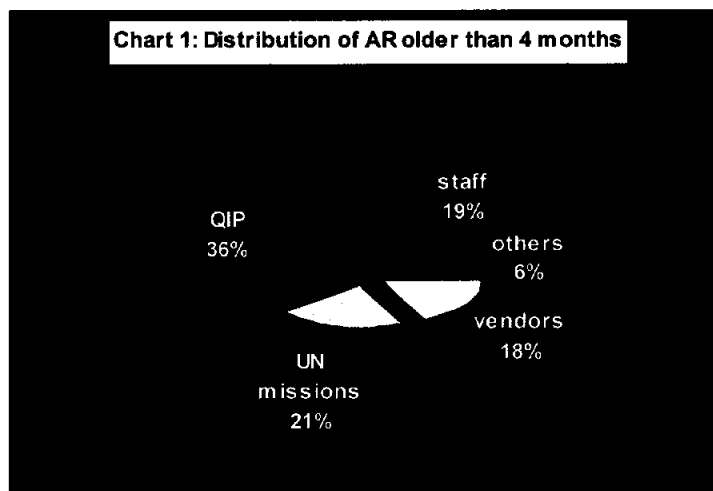
Recommendation 1

UNAMSIL Finance Section should clearly identify the entities that are indebted to the Mission and individuals who received advances in the ageing analyses of accounts receivable (AP2005/622/03/01).

14. *UNAMSIL accepted recommendation 1 and stated that the Mission has now taken appropriate corrective action.* Based on the Mission's response, OIOS has closed recommendation 1.

B. Follow-up of accounts

15. The older an account, the higher the risk in terms of its accuracy and its future collection. The Finance Section should allocate appropriate amount of resources to the follow-up of accounts that are at higher risk. As of 30 June 2005, approximately \$161,000 (or 26 per cent) of the total accounts balance of \$608,000 is represented by accounts older than four months. The distribution of the balance older than four months is provided in Chart 1. Approximately \$69,000 (or 43 per cent) of the \$161,000 relates to accounts older than a year. Staff



receivable account for 20 per cent and QIP-related receivables account for 53 per cent respectively of accounts older a year. OIOS reviewed existing documentation, discussed with staff of the Finance and Civil Affairs sections, and visited some quick impact projects. Since there are high turnover rates for receivables from vendors and other United Nations' missions as mentioned above, OIOS focused on staff and QIP-related receivables.

16. Receivables from staff who had already separated from the Mission total \$27,000 or 90 per cent of staff receivables older than four months. Some \$10,000 of the \$27,000 resulted from the payment of medical bills on behalf of three local staff members who were unable to pay their respective deductible amounts. One of the staff members died and the salaries of the other two staff members were not sufficient to cover their indebtedness to the Mission. About \$3,700 of the \$27,000 relates to two staff members who separated from the Mission without submitting their F-10 claims. The Finance Section did not provide any records on the origin and the extent of its collection efforts for another \$7,000 of the \$27,000. The Finance Section apparently relied on the vague descriptions in the SUN accounting system and the individual memories of its staff. Other receivables resulted from an accident found by the Boar of Inquiry to have been caused by the negligence of a staff member (\$2,600), errors in the time and attendance records provided to the Finance Section by the Military Personnel officers (\$100), and misrepresentation of a staff member (\$6,700).

17. Approximately \$39,000 (or 66 per cent) of the QIP-related accounts receivable balances older than four months had been outstanding for more than a year. The Finance Section had delayed making the appropriate accounting entries with respect to \$27,000 that had been justified by the implementing partner in early June 2005. Two implementing partners apparently disappeared without providing justification for the use of the final disbursements totaling \$9,000.

18. Since there was no consistent pattern in the circumstances relating to long outstanding receivables, OIOS does not recommend any remedial action for the identified problems.

However, in view of the impending liquidation of the Mission, the Finance Section needs to establish a complete record for each account. As indicated above, some staff members are familiar with the details of the cases reviewed. However, the information was generally not documented or assembled for easy reference. Adequate documentation is critical particularly during liquidation activities performed at UNHQ often by individuals that were not involved in the maintenance of the accounting records in the field.

Recommendation 2

UNAMSIL Finance Section should establish a file for each account containing documentation on how each account was created and evidence of follow-up actions taken (AP2005/622/03/02).

19. *UNAMSIL accepted recommendation 2 and clarified that it maintains files for staff and other receivables which show signs of being uncollectible. All the follow-up documents used to collect these receivables are kept on file as they will be used as supporting document when a request for write-off is submitted. Based on the Mission's response, OIOS has closed recommendation 2.*

C. Excessive advances to staff and implementing partners for QIPs

20. As of the date of the audit, nearly all contributions to quick impact projects (QIPs) had either been used or committed. In addition, the Civil Affairs Section that manages the QIPs informed OIOS that no additional contributions were expected to be received in view of the impending closure of the Mission on 31 December 2005. Therefore, the following observations on the disbursement and accounting for QIP funds may not add value to ongoing operations of the Mission. However, they could be included in the lessons learnt section of the final report on the implementation of QIPs in UNAMSIL.

21. Quick impact projects requires timely disbursement of funds. However, most implementing partners (IPs) are not established and therefore do not have the capacity to ensure the efficient use of and proper accounting for the QIP funds. In addition, these implementing partners were mainly United Nations' military contingents comprised of individuals who are not directly employed by the United Nations. For these reasons, the Mission established a unique disbursement method. In accordance with this method, the Finance Section routinely advances funds to the staff members of the Civil Affairs Section that is ultimately responsible for the QIP. Table 1 below contains a list of advances made to one staff member between April and June 2005 for QIPs.

Table 1: Advances to a staff member for QIPs

<u>Implementing partner</u>	<u>ID of SM</u>	<u>Payment Date</u>	<u>Amt in US\$</u>
PAK Engineer Branch	CIV451	14/04/2005	23,753.45
PAKENG 4	CIV451	12/5/2005	9,705.38
NIBATT 19	CIV451	19/05/2005	14,718.40
NIBATT 19	CIV451	9/6/2005	3,340.04
GHANBAT	CIV451	16/06/2005	6,686.40
PAK Engineer Branch	CIV451	24/06/2005	35,997.05
	Total		<u>94,200.72</u>

22. Although the intention of the unique disbursement method was to ensure that the Civil Affairs Section procures and accounts for the advances, OIOS noted that funds advanced to the staff are in turn disbursed to the respective focal points of the implementing partners. The focal points then procure and provide receipts, which did not always appear to be authentic, of the procured items to the Civil Affairs Section. OIOS considers the above advances to be excessive, particularly at the time when the Mission is downsizing and is expecting to complete its mandate by 31 December 2005. The advances are also excessive when compared to the staff member's income that should serve as collateral. In this regard, OIOS was informed a staff member of the Civil Affairs Section had misappropriated funds advanced to him for QIP.

23. The QIP-related advances could have been reduced. This could have been achieved by using materials from the Mission's stores and using the United Nations' procurement procedures in replenishing items from the stores and/or procuring items not available in the stores. OIOS found that the Engineering Section has an efficient and effective process of evaluating projects and supplying the needed materials. In this regard, it is noted that the major component of projects costs is materials and to a little extent, day labor. These materials could have been issued from the Engineering stores. The stores could have then been replenished using the QIP funds.

24. By using the Mission's stores, QIPs would have benefited from the low cost of materials and the professional purview of the Engineering Section. The Engineering Section would have, in accordance with its current procedures, vetted the proposed requirements of each QIP and supervised the implementation of the projects. The Civil Affairs Section would have then been entrusted with smaller amounts of advances, mainly for payment of day labor, and focused on its tasks of identifying and obtaining the approval of QIPs from the Project Appraisal Committee. Project costing and the identification of supply sources would have been done in consultation with the Engineering Section. The implementing partners would have focused more on what they are trained for and less on procurement matters.

25. The possible difficulties, which are nonetheless not insurmountable, in using materials from the Mission's stores for QIPs would have been accounting and reporting since Trust Fund should be accounted for separately from the Mission's resources. In this regard, the cost of the materials could have been recovered from the QIP Trust Fund and the financial statements of the Trust Fund would have reflected these amounts as legitimate project costs.

Recommendation 3

UNAMSIL Civil Affairs Section should include in its final report on the implementation of quick impact projects the need to use the stores and supply chain of the Engineering Section as the primary sources of materials required for QIP projects in order to reduce the amount of advances provided to individuals/entities that lack the capacity to properly account for funds disbursed and ensure effectiveness and efficiency of QIPs (AP2005/622/03/03).

26. *UNAMSIL neither agreed nor disagreed with recommendation 3. The Mission explained that implementing the recommendation may delay or create difficulties in the implementation of QIPs. The Mission concluded that Engineering Section staff resources permitting, the recommendation has a lot of merit. OIOS has revisited this matter and since the Mission is coming to a close soon, recommendation 3 has been withdrawn.*

VI. ACKNOWLEDGEMENT

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

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