



INTERNAL AUDIT DIVISION

OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

Audit of Claims Payments at the United Nations Compensation Commission

19 June 2007

Assignment No. AF2006/820/02

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: 19 June 2007

REFERENCE: AUD-7-7-7 (07-00263)

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



SUBJECT: **Assignment No. AF2006/820/02 - Audit of Claims Payments 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 from November 2006 to January 2007.
2. Based on your comments, we are pleased to inform you that we will close recommendations 5 and 6 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, 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.

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, Acting Chief, Geneva Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

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

CONTACT INFORMATION

ACTING DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

ACTING DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

ACTING CHIEF, GENEVA AUDIT SERVICE:

Corazon Chavez: Tel: +41 22 917 2395, Fax: +41 22 917 0138,
e-mail: cchavez@unog.ch

EXECUTIVE SUMMARY

Audit of Claims Payments at the United Nations Compensation Commission

The Office of Internal Oversight Services (OIOS) conducted an audit of the claims award payments of the United Nations Compensation Commission (UNCC) from November 2006 to January 2007. The main objectives of the audit were to (i) assess the efficiency and effectiveness of the internal controls in processing and monitoring claim awards payments; and (ii) assess the effectiveness of mechanisms used by Governments to distribute claim award payments, including confirmation of actual payments to beneficiaries. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

In OIOS' opinion, the UNCC secretariat generally followed key controls to ensure compliance with the Governing Council's decisions and United Nations Financial Regulations and Rules. Records and reports were reliable for the period under review.

OIOS found that there were adequate internal controls to ensure that all funds transferred from the UNCC secretariat were received by the Governments and subsequently distributed to the successful claimants. However, Governments generally regarded distribution reports as part of the reporting obligations to the UNCC secretariat, rather than a reconciling tool of the amounts received from the UNCC secretariat to the amounts distributed to the claimants.

The review confirmed the UNCC secretariat's efforts to remind the defaulting Governments to account for all outstanding refunds, through regular communication with the concerned Permanent Missions. Given the imminent phasing out of the Commission, it is critical for these long outstanding balances to be cleared. The review also confirmed that the UNCC secretariat closely monitors the status of submission of audit certificates from Governments and international organizations.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of claims award payments of the United Nations Compensation Commission (UNCC, or the Commission) from November 2006 to January 2007.

2. 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 claims award payments are drawn from the United Nations Compensation Fund that currently receives five 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 UNCC on a quarterly basis. The Compensation Fund balance as of 31 December 2006 amounted to approximately \$407.7 million.

3. Claims were received from claimants through over 100 Governments and international organizations. The UNCC secretariat monitors the distribution of payments to successful claimants by the relevant Governments and international organizations and prepares quarterly reports on the distribution of payments, transparency and the return of undistributed funds. The current payment mechanism and priority is contained in decision 256 of the Governing Council. Table 1 summarizes the claims received, awarded and paid as of 31 December 2006. The round of payment in April 2007 brought the overall amount of compensation made available by the Commission to \$22,081,193,340.

4. The Commission completed processing of claims in June 2005 and is currently winding-down its operations. Residual award payments for individual claims from "A" to "D" categories continue during 2007. A limited number of claims with large award values will continue to be active for the receipt of future payments, with a scheduled full payment during 2025.

5. The Claims Payment Section (CPS) is responsible for processing compensation award payments in accordance with the United Nations Financial Regulations and Rules. The Section has a staff complement of five professional and general service staff. In 2003, UNCC adopted the Claims Payment Procedures Manual, which provides for systems, processes and controls used in the compensation award payment. CPS uses the Claims Payment Management System (CPMS) and the Integrated Management Information System (IMIS) to record, process and report payments.

Table 1: Summary of claims received, awarded and paid on A-F claim types as at 31 December 2006

Claims category	No. of claims received	Compensation sought \$ million	No. of claims awarded compensation	Compensation awarded \$ million	Compensation paid \$ million
A	923,158	3,455	857,554	3,202	3,201
B	5,734	20	3,941	14	14
C	1,736,265	11,504	672,823	5,205	5,202
D	13,864	16,540	10,349	3,351	3,351
E	6,571	78,736	4,048	26,298	5,489
F	516	242,278	342	14,388	4,130
Total	2,686,108	\$352,533	1,549,057	\$52,458	\$21,387

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

II. AUDIT OBJECTIVES

7. The objectives of the audit were to:

(a) Assess the accuracy of the systems used to record approved award payments and awards actually paid;

(b) Assess the efficiency and effectiveness of the internal controls used in processing award payments, including maintenance of records and production of reports;

(c) Review the policy and procedures used by the Claims Payment Section to determine compliance with United Nations Financial Regulations and Rules;

(d) Examine and assess the effectiveness of the Claims Payment Section in monitoring adherence by Governments and submitting entities to policies and procedures, particularly GC decisions, as well as review and assess compliance of Governments and submitting entities to GC payment decisions; and

(e) Review and assess the mechanisms used by Governments and submitting entities to distribute award payments to claimants.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered award payments made from January 2005 to September 2006, which amounted to around \$900 million. From this population, OIOS sampled payments totalling \$232 million, or 25 percent of total award payments effected during the period. Payment distribution reports from Governments and international organizations were assessed as to their timeliness and compliance.

9. As part of the audit, OIOS carried out field visits to New Delhi and Cairo. Requests to make arrangements by the relevant authorities to facilitate an OIOS visit to the Kingdom of Saudi Arabia have not materialized in due time, in order to undertake a field visit, in accordance to the preliminary audit plan. The letter dated 29 January 2007 from the Ministry of Finance of the Kingdom of Saudi Arabia notified UNCC that there were no compensation funds undistributed, and all reporting obligations towards the Commissions were timely adhered to. Consequently, it was requested to reconsider the opportunity of an OIOS field visit at this time, and to agree upon a convenient timetable for a future visit. The main OIOS criterion in selecting Governments for field visits was the materiality of the distributed awards. As the Kingdom of Saudi Arabia continues to remain a big recipient of award payments, OIOS will revisit the opportunity of a future field visit, in the light of the materiality of award payments that will continue after the closure of the Commission.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Award payment procedures

10. OIOS reviewed \$232 million of the award payments that UNCC made from 1 January 2005 to 30 September 2006, and examined compliance with the payment procedures outlined in UNCC's Claims Payment Procedures Manual and with payment mechanisms established by decisions 17, 73, 100, 197, 227 and 256 of the Governing Council. The review found that CPS had adequate controls to ensure that the Governing Council's decisions were complied with and that records and reports were reliable for the period under review.

11. OIOS also reviewed internal controls over the disbursement of compensation payments and found them to be operating effectively, in accordance with the United Nations Financial Rules 105.5, 105.6, 108.9, 110.3, 110.4, 110.9, and 110.14. A previous OIOS audit reported that there was no reasonable assurance that UNCC complied with the United Nations Financial Regulation 5.8(b) related to the certifying and approving functions under United Nations Financial Rules 105.5 and 105.6 in the payment of compensation awards. Subsequently, the UNCC secretariat systematically identified most of the duplicate award payments from the individual claim categories. Thus, the intent of United Nations Financial Regulation 5.8 (b) was being achieved, as confirmed by the United Nations Controller's memorandum dated 20 October 2006.

12. CPS is concurrently using two separate and distinct systems to process claims award payments. CPMS processes individual claims in detail, whereas IMIS keeps track of the financial accounting aspects of the claims payments, as well as the actual receipt and disbursement of electronic funds between UNCC and Governments/international organizations. An internal proposal to build an integrated platform for claims payments processing, where the awarded claims data would be electronically updated in both directions, has not materialized. At this stage, relatively few claims remain to be paid, albeit of sizeable value. The review found that the data entry risk in the case of processing award payments is

mitigated by suitably designed internal controls in place. Consequently, there is little merit in implementing such proposal at this stage.

B. Control of the distribution of award payments

Refunds outstanding from Governments

13. The UNCC secretariat monitors the distribution of payments to claimants by the concerned Governments and international organizations. Governments and international organizations are obligated to distribute funds to successful claimants and to report to the Commission on payments made to claimants.

14. In accordance with the Governing Council's decision 18 on the distribution of payments and transparency, a Government (or international organization) should distribute funds to claimants within six months of receiving payments from the Commission. Furthermore, it should provide information on the amount of payments distributed no later than three months after the expiration of the time limit for the distribution of payments received from the Commission. In conformance with decision 48 of the Governing Council, twelve months after a Government (or international organization) has received each payment for distribution, any undistributed funds shall be returned to the Commission with a list of claimants who have not received payments and the amount of payment due to each such claimant. Failure to report the distribution of funds received, or to return any undistributed funds by the deadlines set by the Governing Council would translate into withholding of future payments pending full compliance.

15. As of 31 January 2007, the refunds outstanding from Governments and international organizations amounted to \$107,217,430. This represents a significant increase compared to the refunds outstanding amounting to \$38,838,237 as of 31 January 2005. The award payments outflow being relatively steady over the period, the increase appears to be explained by arrears from the Governments.

16. The review confirmed that the UNCC secretariat routinely follows up on non-compliance with the Governing Council's decisions 18 and 48. Reminders of the expiry of a reporting deadline are usually sent before a submission of reports/funds falls due, with follow-ups being sent as often as necessary to obtain full accounting from the concerned Governments. Quarterly reports of the Executive Secretary on the distribution of payments and transparency, and return of undistributed funds are submitted to the Governing Council. For the Governments that have future award payments, the UNCC secretariat is also making use of suspension of payments until the respective Governments report the distribution of the repayments or reimburse the funds.

17. The balance of refunds outstanding from Governments should be accounted for as accounts receivable in the IMIS. As of 30 September 2006, IMIS records disclosed a balance for accounts receivable of \$1,730,423 against refunds outstanding of \$109,880,706, a sizeable difference. The review showed that the overdue balances for more than one year are all captured in the accounts receivable as of 30 September 2006, the difference of \$108,150,283 being made

up of refunds overdue for periods of less than twelve months. Although the UNCC secretariat is keeping track of the refunds outstanding in the CPMS, IMIS records are only reconciled twice a year in June and December, respectively. CPS represented that the refunds overdue for less than twelve months are not systematically captured in the IMIS because of their changing nature, some of them being likely to be cleared in the subsequent periods. The review also confirmed the accuracy of the IMIS balance of accounts receivable as of 31 December 2006 amounting of \$106,718,082 in line with the total refunds outstanding.

Recommendations 1 and 2

The UNCC secretariat should:

- (1) Continue to pursue its efforts in obtaining a full accounting from the Governments on the distribution of funds received, in conformance with decisions 18 and 48 of the Governing Council;**
- (2) Given the imminent phasing-out of the Commission, consider updating on a monthly basis, the IMIS records in respect of balance of Accounts Receivable from Governments to reflect the total refunds outstanding.**

18. *UNCC accepted recommendation 1 and stated that the secretariat will continue its efforts to obtain a full accounting from the Governments. Recommendation 1 remains open pending receipt and review of the documentation evidencing the implementation, such as reminders to relevant Governments.*

19. *UNCC accepted recommendation 2 and stated that the secretariat reconciles the refunds outstanding in CPMS and IMIS on a monthly basis and submits the reconciliation to FRMS UNOG. The secretariat will update the accounts receivables in IMIS on a monthly basis, taking account of lower volumes of transactions, and also particularly because in the future, the CPMS database will no longer exist. Recommendation 2 remains open pending receipt of the documentation evidencing that IMIS balance of Accounts Receivables are updated to reflect the total refunds outstanding.*

Long outstanding receivable

20. As of 30 September 2006, six Governments and one international organization were not compliant with the reporting obligations for more than one year. The cumulative amount of \$1,304,428 was made up of: Benin (\$5,000), Chad (\$36,870), Israel (\$512,950), Liberia (\$540,531), Niger (\$14,921), Senegal (\$165,636) and UNDP Washington (\$28,520). Out of the six Governments, only the releases of payments to Benin and Israel had been withheld pending their compliance with the reporting obligations.

21. The UNCC has indicated that subsequent to the audit visit, some of the entities mentioned above (i.e., Israel, UNDP Washington and Brazil) have since submitted distribution reports and are now in compliance with the reporting requirements. However it should be noted that a few accounts with amounts under \$10,000 fell overdue for more than one year, and are likely to remain outstanding in the long run. For example, Bangladesh has outstanding amounts of \$8,500 (overdue for more than one year) and \$7,140 (overdue between three to twelve months). As there are no pending award payments for Bangladesh, the suspension mechanism is not applicable.

22. The review confirmed the UNCC secretariat's efforts to remind the defaulting Governments to account for all outstanding refunds, through regular communication with the concerned Permanent Missions. Given the imminent phasing out of the Commission, it is critical for these long outstanding balances to be cleared. Further action might include guidance from the United Nations Controller to resolve the question of long outstanding refunds.

23. The Government of Liberia (GOL) represented the largest amount outstanding or 41 percent of the long outstanding receivables as of 30 September 2006. GOL had submitted to UNCC only a limited number of claims, being 30 claims filed on behalf of non-Kuwaiti corporations and other business entities (E2 category claims). Moreover, out of the 30 claims submitted, 20 were awarded nil amounts, and no payment has been made in respect of these claims. A summary of the claims award payments is presented in Table 2 below:

Table 2: Summary of payments and status of outstanding reports/refunds from the Government of Liberia as of September 2006

No.	Payment date	Payment amount \$	Distribution reports due date	Comments
1	24-Feb-2000	213,483	24-Feb-2001	GOL paid two claimants in March 2001 and refunded the difference in May 2001
2	06-Sep-2000	312,632	06-Sep-2001	Outstanding report/refund
3	20-Oct-2000	<u>227,899</u>	20-Oct-2001	Outstanding report/refund
TOTAL		<u>\$754,014</u>		Outstanding report/refund - \$540,531

24. Only two claimants received instalment award payments in March 2001 in respect of the first phase of the award payment. However, both claimants had corresponding instalments paid in the second and third phases, respectively. Since the two distributed awards had been made subsequent to the release of funds from the second and third phases of the award payments, the two claimants could have been paid in full. GOL has neither provided a distribution report, nor returned the funds pursuant to decisions 18 and 48 of the Governing Council.

25. Since 2001, UNCC pursued extensively and at various levels, the matter of outstanding distribution reports. More than 20 note verbales were sent on

several occasions and the UNCC secretariat invited the GOL to attend the informal meetings of the Commission's Working Group. The UNCC secretariat further sought the assistance of the Special Representative of the Secretary General for the United Nations Mission in Liberia (UNMIL).

26. On 30 January 2007, a tripartite meeting was convened among UNMIL, OIOS and the GOL, represented by the Deputy Minister for Expenditure and Debt Management, and Deputy Minister of Foreign Affairs for Administration. Since the complete documentation, or the names of the then officials responsible for the UNCC transactions were not readily available to the GOL, it was decided that an internal inquiry be initiated. The outcome and the corresponding action from the GOL would be reported to the Governing Council, accordingly. As of the audit report date, no official reply has been received.

Recommendations 3 and 4

The UNCC secretariat should:

(3) Continue to pursue its efforts in securing prompt recovery of the long-outstanding receivables from Governments, including contacting the Controller's office.

(4) Follow up with the Government of Liberia to ensure that the amount of \$540,531 overdue for more than six years, is accounted for in conformance with decisions 18 and 48 of the Governing Council.

27. *UNCC accepted recommendation 3 and stated that it will continue its efforts to secure the recovery of long-outstanding receivables from Governments, and will contact the UN Controller's office for guidance on the resolution of this matter.* Recommendation 3 remains open pending receipt of the Controller's guidance on the resolution of long-outstanding receivables.

28. *UNCC accepted recommendation 4 and stated that the Government of Liberia had been invited to attend meetings of the Working Group of the Governing Council to address the matter. The results of the internal inquiry by the Government of Liberia will be reported to the Governing Council and, depending on those results, further appropriate action will be taken.* Recommendation 4 remains open pending receipt of the official reply from the Government of Liberia.

Repayments

29. The UNCC secretariat handles repayments, as an important part of its claims award payment activities. A Government should return the corresponding funds when it has not been able to locate a claimant within the time limits established by the relevant Governing Council decisions. If the claimant is subsequently located, the Government would normally ask for repayment.

30. The Governing Council had set 30 September 2006 as cut-off date for repayments under decisions 48(b) and 48(c). It was further decided that the requests for repayments would be also processed by the UNCC secretariat if such requests were received/registered during the month of October 2007. The cut-off date was formally transmitted to Governments as early as December 2004, and several reminders were sent.

31. The review found that relatively few requests were received after the cut-off date, the bulk of around 250 being from India. The UNCC secretariat requested additional information on the current addresses of some 30 claimants. During the field visit to India, OIOS noted the extensive outreach efforts to locate claimants, and confirmed that as of the visit date, a number of 160 claimants had already been identified.

32. On the basis of paragraph (b) of Governing Council's decision 48, "Accounts Payable" are to be established for the returned payments and held in the Commission's reserve for a further period of twelve months from the date the return of payment is due. Consequently, the difference between IMIS Accounts Payable balance and corresponding Accounts Receivable balance relates to refunds held in reserve. As of 31 December 2006, IMIS records disclosed a balance of \$108,359,383 for Accounts Payable against Accounts Receivable balance of \$106,718,082, the difference of \$1,641,301 corresponding to the repayments. The review noted a 44 percent decrease compared to 30 September 2006 in respect of repayments, as evidence of the UNCC secretariat's monitoring of the refunds balances. CPS responded that with the next payment round on 26 April 2007, all repayable is expected to be cleared, and the Accounts Payable balance reduced to the amount of Accounts Receivable.

33. Furthermore, refunds held in Accounts Payable that are more than 24 months old from the date of initial payments are written back to the Fund, in accordance with paragraph (c) of decision 48 of the Governing Council. The process of writing back balances is manually done and supported by calculations properly documented. Since all requests for repayment are identified at this stage, the Accounts Payable write back balances should be cleared. CPS represented that the process of clearing the Accounts Payable balance would start after the payment round of 26 April 2007.

Recommendations 5 and 6

The UNCC secretariat should:

(5) Given the imminent phasing-out of the Commission, consider updating on a monthly basis, the IMIS records in respect of the Accounts Payable balances in order to bring them in line with the amounts recorded as Account Receivable.

(6) Clear the Accounts Payable write back balances as soon as all requests for repayments are identified.

34. UNCC accepted recommendations 5 and 6 and stated that following the write-back of accounts payable refunds in April and May 2007, the Accounts Receivable balances are in line with the Accounts Payable balances. Based on the action taken by UNCC, recommendations 5 and 6 have been closed.

C. Audit certificates

35. Since the Governing Council adopted in September 2003 its decision requiring audit certificates, the UNCC secretariat has closely monitored the status of submission from Governments and international organizations. The review also confirmed that the UNCC secretariat ensured that the audit certificates are reconciled to the award payments.

36. The deadline for the provision of audit certificates for payments made at the end of 2003 fell due on 31 March 2005. As of 31 December 2006, the audit certificates for these payments totaling \$197.3 million covered \$196.4 million, or 99 percent. Five Governments were not compliant compared to 16 as reported in the last OIOS review of 27 May 2005. It should be noted that two Governments accounted for 66 percent of the outstanding payments not covered by audit certificates, as follows: Hungary (30%) and Israel (36%).

37. Similarly, the deadline for the provision of audit certificates on distribution of payments transferred in 2004 fell due on 31 March 2006. As of 31 December 2006, the audit certificates on distribution of payments totaling \$791.1 million covered \$755.7 million or 95 percent. Two Governments accounted for around 80 percent of the outstanding payments not covered by audit certificates, as follows: India (36%) and Yemen (43%). During the OIOS field visit to India, it was found that the outstanding audit certificates were in fact submitted in December 2006 to the relevant department within the Ministry of Foreign Affairs, for consolidation and formal submission to the UNCC secretariat through the Permanent Mission. Furthermore, according to recent official communications, Yemen would submit the outstanding audit certificates shortly.

38. The provision for submission of audit certificates also includes international organizations. As of 31 December 2006, audit certificates were outstanding for award payments amounting to \$1,786,057 in respect of four UNDP offices and one UNHCR office. The respective offices advised the UNCC secretariat that they were not in a position to submit separate audit certificates for payments from UNCC that were included in the audited biennial financial statements of these organizations. However, it should be noted that two international organizations provided separate audit certificates, as follows: UNRWA signed by the Audit & Inspection Department of UNRWA, and UNDP Kuwait signed by a public audit practitioner.

39. The international organizations should also comply with the Governing Council's provision on submission of audit certificates. In OIOS' view, because of a different audit scope, the requirement for audit certificates covering the distribution of awards is not precluded or substituted by an unqualified audit report of the financial statements. Alternative arrangements could be made by these international organizations. Because of their independence, the internal

audit departments could assist in providing an assurance on the distribution reports. OIOS is also providing oversight services to UNHCR, and could assist the UNCC secretariat with an independent attestation, in case the respective UNHCR office could not find a suitable arrangement. UNDP has its own internal audit office.

Recommendation 7

(7) The UNCC secretariat should continue its efforts to monitor and obtain compliance with the decision of the Governing Council on the submission of audit certificates on distribution reports, including those of international organizations.

40. *UNCC accepted recommendation 7 and stated that the secretariat will continue its efforts, through the issuance of diplomatic notes and telephone contacts. In this regard, it should be noted that India has since submitted additional audit certificates, thereby significantly reducing the percentage indicated in the report, and Yemen has since submitted all the outstanding audit certificates that had fallen due on 31 March 2006. Recommendation 7 remains open pending receipt of the evidence of the follow up with the international organizations.*

D. Field visits to India and Egypt

41. As part of the review, OIOS carried out field visits to New Delhi (a five-day mission by one auditor) and Cairo (a four-day mission by two auditors). The countries were selected based on the materiality of award payments under the scope of the audit. The objective was to assess the mechanisms used by Governments to distribute award payments, and more specifically to test the degree of implementation of the Governing Council's decisions 18 and 48, including confirmation of actual payments to beneficiaries on a sampling basis. In addition, the field visits addressed the outstanding items on the distribution reports discrepancies, as identified by CPS and formally communicated to the concerned Governments by the UNCC secretariat.

42. UNCC had undertaken several field visits (five before 2002, two in 2002 and one in 2003) mainly selected on the basis of poor performance in the Governments' reporting obligations. The scope was restricted to an assessment of the national systems of payment and reporting procedures, without confirming actual payments to beneficiaries. The field visits provided expert advice to the respective counterparts, as well as practical recommendations to address the reporting obligations.

43. The Commission awarded 397,097 claims with a cumulative value of \$1,877,974,171 in respect of the Government of Egypt (GOE). Out of the total number of awarded claims, 99 percent represented individual claims in the "A" and "C" categories making up 90 percent of the awards value. As of 30 September 2006, the Commission transferred to Egypt an amount of \$1,847,139,624. Egypt refunded the Commission a cumulative amount (less

repayments) of \$3,424,441 as of 30 September 2006, in accordance with the provisions of decision 48 of the Governing Council. The refunds outstanding amounted to \$882,877 as of 30 September 2006.

44. A total number of 146,078 claims submitted by the Government of India (GOI) had been awarded a cumulative value of \$1,070,150,121. Out of the total number of awarded claims, 98 percent represented individual claims in the “A” and “C” categories making up 82 percent of the awards value. As of 30 September 2006, the Commission transferred to India an amount of \$1,043,680,099 in respect of the claims award payments. India refunded a cumulative amount (less repayments) of \$35,510,903 and had no outstanding refunds as of 30 September 2006.

45. During the field visits, OIOS found that there were adequate internal controls to ensure an effective distribution of award payments. Monitoring tools were in place to ensure all funds transferred from UNCC were received by the Governments and subsequently distributed in full to the successful claimants. Electronic records kept by the Governments generally contained the necessary details to comply with the UNCC secretariat’s requirements. However, distribution reports were generally regarded as part of the reporting obligations to the Commission, and not used as a tool to allow for reconciling amounts received from UNCC and amounts distributed to the claimants. Several identified shortcomings related to the claim awards distribution occurred mainly because of data entry errors, as well as to sub-optimal coordination among various entities involved in the distribution process.

Arrangements for the distribution of funds to claimants

46. Decision 18 of the Governing Council states that Governments responsible for the distribution of payments of compensation to successful claimants shall establish their own mechanisms to distribute payments in a fair, efficient and timely manner. This is subject to several provisions, particularly information regarding arrangements made for payments, which was to be provided on a voluntary basis.

Egypt

47. Distribution arrangements were communicated to the Commission in March 1996 and January 1998 covering the award payments for “A”, “B” and “C”. However, the information submitted did not provide a complete background of the distribution arrangements and focused mainly on the workload statistics. Funds for claims award payments are received by the Bank of Egypt that also distributes the overall amount among several governmental structures handling the distribution of payments to successful claimants, according to the claim category.

48. The Ministry of Manpower and Immigration (MMI) is coordinating the distribution of payments for individual claims for “A”, “B”, “C” and “D” categories through Egypt’s twenty-seven Governorates. From the central database, individual lists of paid instalments are produced according to the

claimants' Governorate affiliation. Subsequently, each Governorate receives a list of claimants with awards' instalments to be distributed. Governorates' lists are accompanied by a set of application forms that should be duly filled in and signed by the individual claimants. Outreach efforts include newspapers, web, or by inquiry by the individual claimants at the district level, only.

49. Upon receiving the filled in application forms from the Governorates, MMI vets the identification data from each form, including the signature with the records it is holding for each individual claimant. If no exception is found, individual cheques are prepared and sent to the Governorates for disbursement purposes within the validity period of six months. Individual cheques are signed by the Accounts Department within the Ministry of Finance. "D" claimants should come in person to collect their cheque for distributed instalment awards.

50. Several departments within the Ministry of Trade and Industry handle the distribution of corporate claims instalment awards according to the nature of the claimant's business. Special arrangements are also in place for the Egyptian workers' claim (EWC). EWC consists of 223,816 individual claims and was recorded as one claim in the UNCC claims database, in accordance with a special decision of the Governing Council. The related distribution of instalment awards is coordinated by the Central Bank of Egypt and handled through three banks, as follows: Rafidian Bank, Arab African International Bank and Alexandria Bank.

51. Individual claimants are paid in national currency at the prevailing exchange rate when funds are received from the Commission. A service charge at the rate of 1.5 percent is levied for "A", "B" and "C" claims, and at the rate of 3 percent for "D" claims. Corporate claims are paid in foreign currency and no fees are levied.

India

52. Distribution arrangements were communicated to the Commission in October 1995. GOI had established a Special Kuwait Cell (SKC) within its Ministry of External Affairs to coordinate the submission of claims and the distribution of payments to successful claimants. Distribution of payments to claimants is handled through four nationalized banks, as follows: Central Bank of India (CBI), Indian Overseas Bank (IOB), Syndicate Bank (SB) and Union Bank of India (UBI). The CBI (the nodal bank) is also the coordinating bank between the other three banks and the Ministry of External Affairs. It has the additional responsibility for initially receiving all funds transferred by the UNCC to the GOI, allocating the appropriate share to the other banks, coordinating the payment distribution reports submitted to the UNCC through SKC, as well as refunding to UNCC all undistributed funds. Special arrangements are in place for "E" and "F" claims paid directly through the Ministry of Foreign Affairs.

53. Upon receiving from the UNCC secretariat the list of claimants to be distributed, SKC produces computerized individual lists for each of the distributing banks. CBI then allocates the funds by transferring the appropriate amounts to each of the other three banks. At the same time, SKC send letters to each claimant informing about the payment amount credited with the particular

bank. Upon receiving a second letter from the bank, the individual claimants would normally visit the concerned bank branch, in order to perform identity checks and to sign a discharge certificate (for having received payment of claim), as well as an indemnity form. Each claimant has a special account opened exclusively for purposes of disbursement of compensation awards. Furthermore, SKC issued for each claimant an Acknowledgement Card containing identity details (name, address, passport number, SKC claim registration number, civil ID number) as well as the amount claimed. A brochure with comprehensive questions and answers was produced by SKC in 1995 for the benefit of the claimants.

54. Resident Indian claimants are paid in national currency at the prevailing exchange rate on the date of the disbursement, while non-resident Indian claimants could be paid in foreign currency. Corporate claims are usually paid in foreign currency. Service charges at the rate of 1.5 percent on “A”, “B” and “C” claims, and at the rate of 3 percent on some “D” and “E” and “F” claims are levied before disbursing the compensation amount to the successful claimants.

Confirmation of amounts transferred and distributed to the final claimants

55. Monitoring tools should be in place to ensure all funds transferred from UNCC were received by the Governments and subsequently distributed in full to the successful claimants. The audit tested on a sample basis through alternative procedures if the claimants actually received the money, as reported in the Governments’ distribution reports.

56. The award payments made from 1 January 2005 to 30 September 2006 amounted to \$8,026,446 for Egypt and \$14,338,852 for India. The review confirmed through alternative procedures 48 percent for Egypt award payments and 97 percent for India. The alternative procedures included any procedure deemed satisfactory in the absence of the actual confirmation from the final claimants, such as walking through the chain of transactions described in paragraphs 47-51 for Egypt, and paragraphs 52-54 for India, and vetting every step with supporting documents, including the signatures of the final claimants. No exceptions were found and a summary of the work is presented in Table 3 below:

Table 3: Summary of detailed testing for confirmation of awards distributed to the final claimants for the period 1 January 2005 to 30 September 2006

Claim category	Egypt			India		
	No. of claims	Award value \$	% total awards	No. of claims	Award value \$	% total awards
A	-	-	-	5	9,500	38%
C	18	354,404	13%	1	1,457	34%
D	10	3,486,381	72%	7	3,950,396	91%
E	1	48,920	13%	-	-	-
F	-	-	-	1	10,000,000	100%
TOTAL	29	\$3,889,705	48%	14	\$13,961,353	97%

Reporting distribution to UNCC

57. As a key tool in reconciling the award amounts paid by the Commission to the amounts distributed to the claimants, the distribution reports, are strictly monitored by the UNCC secretariat. The standardized distribution report submitted by the Governments and international organizations should include information such as the currency of payments made to claimants, the exact amounts paid in that currency, the dates of payments, as well as any processing fees deducted.

58. By the time of the field visits, there were no outstanding distribution reports, except for three claim awards amounting to \$882,447 not reported by the GOE. OIOS investigated two claims amounting to \$800,000 and \$16,608 and found that they were in fact paid by the Ministry of Manpower and Immigration in January 2006 and by the Import/Export Department within the Ministry of Trade and Industry in December 2005, respectively. However, they were not reported as distributed to the Ministry of Foreign Affairs, for consolidation purposes. As of the report date, the respective amounts were accounted for by the GOE.

59. The field visits sought to assess the accuracy and the reliability of the distribution reports submitted to the UNCC secretariat. The quality of submissions has improved over time. Errors such as lack of essential information (date of distribution, amount paid to the claimant in local currency), irregular amounts reported as distributed, distribution dates prior to the dates of funds transfer, or amounts refunded but reported as distributed were frequent, notably after the end of 2002 when comprehensive distribution reports were required for submission. The review found that the internal controls as defined by the two Governments were adhered to, and that the eventual shortcomings related to the distribution reports were mainly related to the data entry errors, as well as to the sub-optimal coordination among various entities involved in the payment process.

60. For both Governments, however, the distribution reports are rather regarded as a reporting obligation to the Commission, instead of a tool to reconcile the amounts transferred by the Commission to the amounts paid to the claimants. Both Governments do not reconcile their databases with the Government Reporting System information provided by the UNCC secretariat in the form of compact discs together with the lists of successful claimants paid. Furthermore, in the case of GOI, the claims database does not contain the UNCC claim number, with the National reference number being the sole numeric identifier for investigating the eventual discrepancies.

61. During the field visits, OIOS also calculated the average distribution delay for the claims sample under review. This delay represented the average time span between payment of funds by the Commission and distribution to the claimants. For the sample selected, the average distribution delay was 101 days for Egypt and 113 days for India.

62. During the field visits, it was observed that the distribution reports were being submitted to the respective Ministries or Foreign Affairs to be forwarded to the Commission through the Permanent Missions. However, in the case of India, even though SKC is a dedicated structure within the Ministry of Foreign Affairs, it has a limited role in coordinating the reports on payment distribution. Furthermore, the SKC claims that the database does not provide details on distribution that are to be found at the bank level. The CBI is responsible for the preparation and submission of the payment distribution reports regarding the individual claims, but it has no authority over the other three distributing banks.

63. In Egypt, the Ministry of Manpower and Immigration is coordinating the consolidation of distribution reports for the individual claimants only. The Ministry of Trade and Industry submits to the Ministry of Foreign Affairs separate distribution reports in respect of the corporate claims, and the Central Bank of Egypt is coordinating the submission of distribution for EWC. In respect of EWC, it should be noted that a substantial amount of undistributed funds was returned to the UNCC secretariat. However, a steady number of requests for repayments were subsequently submitted to the Commission. By the time of the field visit, refunds with a cumulative amount of \$9,673 remained unaccounted for to the Commission. OIOS confirmed that the miscellaneous individual claimants that made up the total balance were in fact re-paid during the period June to December 2006. As of the report date, the respective amounts were accounted for to the Commission. Nevertheless, the last portion of EWC refunds representing 1,584 individual claimants for a cumulative amount of \$500,127 became overdue, and the UNCC secretariat suspended future award payments accordingly.

Discrepancies

64. Reports' discrepancies usually arise in the information contained in the distribution reports completed and returned to the UNCC secretariat by the Governments. It is the responsibility of the Governments to provide adequate explanations for the related discrepancies. The UNCC secretariat actively seeks such clarification through note verbales, or letters of reminder when the Governments fail to provide the adequate information. Data provided is entered in the CPMS database to complete the cycle of claims payments and distribution process. As part of the field visits, OIOS also addressed the distribution reports discrepancies, as identified by CPS and formally communicated to the concerned Governments by the UNCC secretariat.

65. By the time of field visits, there were no discrepancies related to the distribution reports, in respect of GOE, except for a negligible discrepancy related to a higher percentage subsequently cleared. However, a number of individual claims submitted by GOI remain outstanding in the CPMS database because no information has been provided.

66. Seventy individual claim cases highlighted by the UNCC secretariat as early as 2003, remain outstanding because of differences between the individual claimants' name paid by the UNCC secretariat and the claimants reported in the distribution reports by the GOI. The review noted that the concerned banks

communicated to SKC the results of their investigation, in respect of 54 cases. The difference of 16 cases, all related to the Syndicate Bank was pending review as of the field visit date. OIOS tested 21 cases or 30 percent and concluded that the discrepancies fall into one of the following patterns:

- i. The right claimant was paid but a different claimant name was reported because of various errors such as printing errors (claimants names wrongly reported), database errors (SKC reclassifications), or banking errors (credit to different accounts, and subsequent corrective adjustments not reported in the discrepancies reports); and
- ii. The wrong claimant was paid. These cases represent 25 percent, and the recovery of overpayments appears unlikely.

67. A second type of discrepancy identified by the UNCC secretariat referred to the claims instalments, where in respect of the same claim, GOI distributed one instalment and refunded another as undistributed payment. The situation arose because between the two rounds of payments, the claimant was not compliant with the required procedures and the award instalment was forfeited, or the claimant changed the address without informing SKC. There are six cases outstanding since 2005, and they should be dealt with on a case-by-case basis at the bank branch level. During the field visit, it was not evident that this was done.

68. Some additional 200 claims contain discrepancies such as higher than allowed processing costs deducted, or inconsistencies in the applied rate of exchange when converting the award instalment in local currency. OIOS tested on a judgmental basis a few cases, and found that in the same instances related to instalments distributed during 2000-2002, the respective banks overpaid the claimants. However, many cases indicated distribution reports errors, the distributed award instalments were correctly translated in local currency, or the processing costs were correctly applied.

69. Given the imminent phasing-out of the Commission, OIOS is of the view that a consolidated discrepancy report including all outstanding individual claims case files might provide a readily available audit trail. Considering the number of files to be monitored, a consolidated report summarizing all outstanding individual claims cases in the CPMS would provide a useful monitoring tool for the post-liquidation period.

Recommendation 8

(8) Considering the imminent phasing-out of the Commission, the UNCC secretariat should prepare a consolidated discrepancy report comprising all outstanding individual claim cases.

70. *UNCC accepted recommendation 8 and stated that it will continue to follow up on all outstanding individual claim cases at the country level, the details of which will be contained in each country file of pending issues. Given*

that the secretariat tracks and follows up on such discrepancies country by country, it sees little utility in preparing a separate consolidated discrepancy report that repeats this information. However, for ease of reference, the secretariat will maintain this information, on a country-by-country basis, in a separate directory. Recommendation 8 remains open pending receipt of evidence showing all discrepancies related to the individual claims on a country-by-country basis.

V. ACKNOWLEDGEMENT

71. 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.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Evidence that follow-ups/reminders are sent to the Governments to obtain a full accounting on the distribution of funds.	Ongoing
2	O	Evidence that IMIS balance of Accounts Receivables are updated to reflect the total refunds outstanding.	Ongoing
3	O	Evidence of the Controller's office guidance on the resolution of long-outstanding receivables from Governments.	Ongoing
4	O	Evidence that an official reply from the Government of Liberia is received and that further appropriate action taken.	Ongoing
5	C	Action Completed	Implemented
6	C	Action Completed	Implemented
7	O	Evidence that follow-ups are sent to the international organizations to submit the audit certificates.	Ongoing
8	O	Evidence of the separate directory showing all discrepancies related to the individual claims on a country-by-country basis.	31 December 2007

1. C = closed, O = open

2. Date provided by UNCC in response to recommendations.

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Audit of Claims Payments at UNCC

(AF2006/820/02)

	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:
 Director, Internal Audit Division-1, OIOS
 By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA
 By fax : (212) 963-3388*