



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

# **AUDIT REPORT**

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### **Financial management in UNMIT**

**Internal controls are generally adequate but improvements needed in key areas such as recovering receivables, direct purchasing and contingency planning**

**18 August 2008**

**Assignment No. AP2008/682/01**

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United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE

TO: Mr Atul Khare  
A: Special Representative of the Secretary-General  
United Nations Integrated Mission in Timor-Leste

DATE: 18 August 2008

REFERENCE: IAD: 08- 01670

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



SUBJECT: **Assignment No. AP2008/682/02 -- Audit of financial management in UNMIT**

OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 4, 6 and 8 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.

cc: Mr. Hubert Price, Chief of Mission Support, UNMIT  
Mr. Wilberforce Tengey, Chief Finance Officer, UNMIT  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat  
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management  
Mr. Seth Adza, Operations Review Officer, Department of Field Support  
Mr. Byung-Kun Min, Programme Officer, OIOS

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## INTERNAL AUDIT DIVISION

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### 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).*

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## **EXECUTIVE SUMMARY**

### **Financial management in UNMIT**

The Office of Internal Oversight Services (OIOS) conducted an audit of financial management in the United Nations Integrated Mission in Timor-Leste. The overall objective of the audit was to assess the adequacy and effectiveness of controls relating to financial management, and more specifically to: (a) assess compliance with the United Nations Financial Regulations and Rules and the Field Finance Procedure Guidelines; and (b) determine whether there were adequate contingency plans on financial matters to effectively deal with an emergency. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The audit concluded that satisfactory internal controls were in place, and financial management support services were generally adequate. However, OIOS noted opportunities to strengthen internal controls in a number of areas including the recovery of receivables such as staff member telephone charges. In some instances there were delays of up to four months in recovering amounts due.

With regard to direct purchasing, OIOS found that some purchases were made without comparing quotations from vendors or checking to see if the items were in stock or previously ordered.

A review of obligating documents raised in June 2007 showed that about 34 per cent of them were raised on 30 June, which placed undue pressure on the Finance and Procurement sections. The Mission has since established an earlier deadline for raising requisitions that have to be obligated during the current financial year.

The audit also showed that improvements were needed in other areas such as the review and approval of medical claim forms, contingency planning and controlling financial documents.

The Mission agreed to address all of the issues highlighted by OIOS in the current report.

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## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial management in the United Nations Integrated Mission in Timor-Leste (UNMIT) from February to April 2008. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The UNMIT Finance Section, which is responsible for financial management, is headed by the Chief Finance Officer (CFO) under the direct supervision of the Chief of Administrative Services. The Finance Section is comprised of the Accounts Unit, the Payroll Unit, the Payments Unit and the Cashier's Office. The General Assembly appropriated \$184.8 million for the period from 25 August 2006 to 30 June 2007 and \$153.1 million for the financial year 2007/08.

3. At the time of the audit, the Finance Section was staffed with 23 staff as shown below:

Units	Number of Staff	Grade
Office of the CFO	2	1 Professional and 1 National Staff
Accounts Unit	4	1 Professional, 2 Field Service and 1 UNV
Payroll Unit	7	2 Field Service, 2 UNVs and 3 National Staff
Payments Unit	5	1 Field Service, 2 UNV's and 2 National Staff
Cashier's Office	4	3 Field Service and 1 National Staff
Finance Archives	1	1 National Staff
	23	

4. The main systems used by the Finance Section include Sun, ProGen (specifically for payroll processing) and INSIGHT, an electronic funds transfer system.

5. Comments made by UNMIT are shown in *italics*.

## II. AUDIT OBJECTIVES

6. The overall objective of the audit was to assess the adequacy and effectiveness of controls relating to financial management, and more specifically to:

- (a) Assess compliance with the United Nations Financial Regulations and Rules (FRR) and the Field Finance Procedure Guidelines; and
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- (b) Determine whether there were adequate contingency plans on financial matters to effectively deal with an emergency.

### **III. AUDIT SCOPE AND METHODOLOGY**

7. The audit covered financial management activities from the start of UNMIT (25 August 2006) to 31 December 2007. It included a review of: (a) the management of cash and selected accounts; (b) outstanding obligations; (c) receivables and payables; and (d) contingency plans.

8. The audit methodology comprised a review of documents, examination of vouchers, analytical tests and interviews of responsible Mission personnel.

### **IV. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **A. Recovery of receivables**

##### Lack of timely recovery of staff members' telephone charges

9. UNMIT's telephone bill recovery policy requires staff to submit an acceptance of monthly telephone charges within 10 business days after receipt of the relevant report from the Communications and Information Technology Section (CITS). Failure to submit the acceptance to CITS will result in full recovery of the charges incurred, except when CITS has been notified that the staff member is on leave or on official business. All undisputed telephone charges should be recovered monthly by the payroll unit during the month following the one in which the actual charges were incurred.

10. OIOS found that there were some instances of delays of three to four months in recovery of amounts due. For example, a staff member's final telephone charges report was submitted to the Finance Section four months after the staff member had checked out of the Mission. At that time the final MSA payment had already been released. The Finance Section is now in the process of recovering the telephone charges.

11. In another instance, a staff member's telephone pin code and mobile phone were still connected four months after the staff member had separated from the Mission. The telephone pin code continued to be used, and charges of \$184 were incurred. While only one such case was identified, it highlights a procedural weakness that needs to be addressed. This staff member had left the Mission without checking out, though travel arrangements had been authorized. This matter has been referred to the Office of Mission Support for further action.

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### Recommendations 1 to 3

#### The UNMIT Office of Mission Support should:

- (1) Ensure that the telephone bill recovery policy is fully implemented through complete recovery of charges which have not been accepted by staff and submitted in a timely manner;**
- (2) Ensure that final telephone charges for all staff members are submitted to the Finance Section in a timely manner in order to recover telephone charges before final Mission Subsistence Allowance payments are released; and**
- (3) Strengthen the check-out process to ensure proper sign-off and follow up from all relevant sections including the Telephone Billing Unit.**

12. *The UNMIT Office of Mission Support accepted recommendation 1 and stated that it is addressing existing delays. The present electronic telephone billing system will be upgraded by August 2008 allowing access to records by staff members in a timely manner. Recommendation 1 remains open pending confirmation of the implementation of the upgraded telephone billing system.*

13. *The UNMIT Office of Mission Support accepted recommendations 2 and 3 and stated that a centralized Check-In/Check-Out (CICO) Unit will be established. Prior to endorsing check-out, evidence will be provided from the Telephone Billing Unit that pin numbers have been disconnected. At the same time, the Finance Section will be notified of pending telephone charges in order to recover the telephone charges before the final payments are released. The CICO will also ensure UNMIT personnel have been cleared by all relevant sections/units. Recommendations 2 and 3 remain open pending confirmation of the establishment of the centralized Check-In/Check-Out Unit.*

#### Medical Expenses for United Nations Volunteers

14. In accordance with Section 11.2.5 of the Conditions of Service for International United Nations Volunteers (UNV), advance/direct payments for large medical expenditures can be made directly by the Mission to a hospital or care provider, on behalf of the UNV. Expenditures will then be recovered by the Mission upon settlement of the claim by Van Breda International (Van Breda).

15. OIOS' review of the aged receivables report as of 31 December 2007 identified an outstanding receivable of \$4,003 from Van Breda. This amount represented a medical expenses paid by the Mission on behalf of a staff member. On finishing treatment, the staff member completed the medical reimbursement forms, which were duly certified by the UNV Finance Officer. As the staff member's banking details were included on the medical claim, Van Breda reimbursed the staff member directly. At the time of reimbursement in December 2007, the staff member had been separated. OIOS' follow-up with the Finance



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Section later revealed that due to an error in the transmission, the refund was not credited to the staff member's bank account. Van Breda has now been able to recall the wire transfer and re-direct the payment to the Mission. By chance therefore, no overpayment to the staff member has been made.

16. Considering this weakness in internal control, OIOS reviewed a further twelve completed medical claim forms. Four erroneously included the banking details of staff members even though the medical expenses were originally paid by the Mission. In these cases, reimbursements were correctly remitted to the Mission by Van Breda as the covering memorandum clarified the procedures. Nonetheless, for payments to be made directly to the Mission and to avoid any errors or misunderstandings, claim forms should include the Mission bank account details and not the staff members.

#### **Recommendation 4**

**(4) The UNMIT Office of Mission support should ensure internal controls over the review and approval of reimbursement claims for medical expenses are strengthened and submissions to Van Breda are only made after a detailed review of the claim forms has been performed by the Finance Officer.**

17. *The UNMIT Office of Mission Support accepted recommendation 4 and stated that reimbursement requests in the past went directly to Van Breda from the UNV Office. However, as an additional internal control mechanism, prior to issuance, the UNV Office will forward all reimbursement medical claims to the Finance Section for review and sign-off on the accuracy of the bank details. Based on the action taken, recommendation 4 has been closed.*

## **B. Internal Controls in the Finance Section**

### Obligating Documents

18. In accordance with Section 2.32 of the Field Finance Procedure Guidelines, the recording of obligations for the sole purpose of encumbering available funds to avoid reporting savings at the end of the fiscal period is prohibited. This Section also provides that one of the valid criteria for raising an obligating document at the end of the financial year where the delivery of goods and services did not commence within the financial period, is that "the goods or services present expenditures of a non-recurring nature and can be easily construed as a charge against the current financial period".

19. OIOS selected 22 items from the outstanding obligations report as of 30 June 2007 and identified 17 purchases raised in June for items that could be easily construed as a charge for the next financial period.

20. Of the 368 obligating documents raised in June 2007, 126 (34 per cent) were obligated on 30 June 2007; the end of the 2006-2007 financial period.

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21. Raising large numbers of obligating documents at the end of the financial period due to late submissions of requisitions for goods and services places undue pressure on both the Procurement Section and the Finance Section during the closing of the financial year-end. This could potentially lead to misstatements in the year-end financial reporting.

22. For the 2007-2008 financial year-end, the Procurement Section in coordination with the Finance Section established a cut-off of 31 March for raising requisitions that are to be obligated before the end of the respective financial period. Also regular reports on outstanding obligations and available budget allotments are forwarded to Section Chiefs as a tool for monitoring unencumbered funds throughout the financial period. Due to these improved procedures, OIOS is not issuing a recommendation.

#### Missing Invoices

23. OIOS selected 86 disbursement vouchers to determine whether there were adequate payment controls and timely processing of invoices. Although the audit noted no internal control weaknesses concerning the invoices reviewed, five of the invoices selected for testing were missing. The payments unit did not maintain a log for signing documents in and out, and therefore the whereabouts of these invoices could not be located. The inability to locate supporting documents highlights a serious weakness in internal controls.

#### **Recommendation 5**

**(5) The UNMIT Office of Mission Support, to ensure adequate control of documents leaving the Finance Office, should implement a log and require that all documents be signed for and follow-up if not returned within a reasonable time period to prevent misplacement. Efforts to find the missing invoices should also continue.**

24. *The UNMIT Office of Mission Support accepted recommendation 5 and stated that this recommendation has been implemented since March 2008 for disbursement, journal and check receipt vouchers with associated invoices. All documents are recorded in a register when they are taken out of finance files and when they are replaced. Generally, documents are to be returned to the finance files within three days after collection. If documents are needed are needed longer, permission is sought from the Chief of Accounts Unit. OIOS acknowledges the positive steps being taken by UNMIT, and will close Recommendation 5 upon receipt of information concerning efforts to locate the missing invoices.*

#### **C. Direct Purchasing Controls**

25. OIOS selected a sample of 17 cases that were processed as direct expenditures and noted the following instances of non-compliance with Financial Rule 105.7:

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- Staff members were provided cash advances to procure goods/services and the journal voucher was posted as receivables against the respective staff members without the final posting to specific vendor accounts being recorded;
  - Payments were made for goods/services without completed and approved direct purchase forms. Payments were also made based on vendor quotations as original invoices were not always available;
  - Purchases were not always endorsed by the Budget Section to signify sufficiency of budget;
  - Purchases were made without comparing quotations from various vendors and there was no evidence that a check was performed to ensure that items to be purchased were not in stock or in the pipeline for delivery; and
  - Several recurring purchases could have been procured by raising a purchase order.

26. As at the date of the audit, the Finance Section had no mechanism in place to monitor the use of direct expenditures by the various sections. The lack of a monitoring system to ensure compliance with Financial Rule 105.7 exposes the Mission to unauthorized purchases and potential fraudulent activities.

#### **Recommendation 6**

**(6) The UNMIT Office of Mission Support should ensure compliance with Financial Rule 105.7 and the provisions of Section 3.2.2 of the Field Finance Procedure Guidelines particularly as they relate to the use of purchase orders for recurrent expenditures, posting of payments and invoices to vendor accounts, and the approval of direct purchases.**

27. *The UNMIT Office of Mission Support accepted recommendation 6 and noted the issue of posting to vendors account. Previously, most vendors in Timor-Leste would not supply goods/services unless payment was made in advance. UNMIT normally gave staff members an advance to pay for and collect the goods with R & I certifying receipt. UNMIT would then clear the advances from the receivables and debit the expenditure. UNMIT will now make a memorandum entry in the vendor account to reflect that the transaction. To further strengthen control of direct expenditures, the Chief of Mission Support issued "Procedures and Guidelines for Direct Expenditure" on 30 June 2008 covering the areas cited by the auditors on the approval of direct purchases; direct purchase forms and original invoices, obtaining 3 pro-forma invoices, ensuring items are not in stock or in the delivery pipeline before direct purchases can be initiated and other relevant guidelines. Based on the action taken by UNMIT, recommendation 6 has been closed.*

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## **D. Contingency Planning**

### Inadequate emergency Planning

28. The Mission has a contingency plan that addresses the payment of advances by the Finance Section to staff members in the event of evacuation. However, OIOS noted that there were no emergency/contingency plans for the Finance Section in the event of emergencies such as robbery and fire that addresses the various risks that may interrupt the Finance Section's operations. A formal disaster recovery plan that addresses how back-up processes will be implemented should be developed

#### **Recommendation 7**

**(7) The UNMIT Office of Mission Support should put in place a business continuity plan that addresses the various risks that may interrupt the operations of the Finance Section and outline an alternative plan for making payments in case cash delivery is curtailed for security or operational reasons.**

29. *The UNMIT Office of Mission Support accepted recommendation 7 and stated that the mission has a contingency plan that ensures the operation of all mission support functions. Regarding financial management, the Mission has a bank account in Darwin, Australia in case cash delivery is curtailed. A plan to also include a cash delivery system for payments, addressing fire and robbery risk and measures to address manual processing if required will be formulated. Recommendation 7 remains open pending confirmation by UNMIT that the contingency plan addresses cash delivery for payments, fire and robbery risk and contains measures for manual processing if required.*

## **D. Other matters**

### Cash counts

30. OIOS' review of a sample of daily cash counts and the surprise cash counts performed by the Finance Section did not identify any evidence of independent periodic surprise cash counts of the following accounts: Cashier's Imprest (Darwin); Cashier's Imprest (Baucau); Cashier's Imprest (Maliana); and the Cashier's Imprest (Oecussi). Some of the cash counts were performed during the audit, and OIOS witnessed the surprise counts of the main Cashier's Imprest (Dili) and the Cashier's Imprest (Darwin). OIOS also conducted surprise cash counts of Transport Section and Supply Section petty cash. No discrepancies were noted in the OIOS surprise cash counts.

31. Section 3.41(k) of the Field Finance Procedure Guidelines requires that the results of the surprise cash counts conducted by the Finance Section of various petty cash accounts should be reported to the Chief of Mission Support. There was no evidence that the Finance Section had met this requirement.

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### **Recommendation 8**

**(8) The UNMIT Office of Mission Support should ensure that the Mission complies with the Field Finance Procedure Guidelines as it relates to the conduct of surprise cash counts.**

32. *The UNMIT Office of Mission Support accepted recommendation 8 and stated that surprise cash counts were conducted for the period under review but not at all locations. As of May 2008, all petty cash and imprests accounts had received at least one surprise cash check. The cash counts were submitted to the Chief of Mission Support on 23 May and will be transmitted bi-annually. Based on the information provided and the action taken by UNMIT, recommendation 8 has been closed.*

## **V. ACKNOWLEDGEMENT**

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

## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	The UNMIT Office of Mission Support should ensure that the telephone bill recovery policy is fully implemented through complete recovery of charges which have not been accepted by staff and submitted in a timely manner.	Financial	Medium	O	Confirmation by UNMIT of the full implementation of the upgraded telephone billing system	31 August 2008
2	The UNMIT Office of Mission Support should ensure that final telephone charges for all staff members are submitted to the Finance Section in a timely manner in order to recover telephone charges before final Mission Subsistence Allowance payments are released.	Operational	Medium	O	Confirmation by UNMIT of the launch of the centralized Check-In / Check-Out Unit	Not provided
3	The UNMIT Office of Mission Support should strengthen the check-out process to ensure proper sign-off and follow up from all relevant sections including the Telephone Billing Unit.	Operational	Medium	O	Confirmation by UNMIT of the launch of the centralized Check-In / Check-Out Unit	Not provided
4	The UNMIT Office of Mission support should ensure internal controls over the review and approval of reimbursement claims for medical expenses are strengthened and submissions to Van Breda are only made after a detailed review of the claim forms has been performed by the Finance Officer.	Operational	Medium	C	Action complete	Implemented
5	The UNMIT Office of Mission Support, to ensure adequate control of documents leaving the Finance Office, should implement a log and require that all documents be signed for and follow-up if not returned within a reasonable time	Operational	Medium	O	Provision of information concerning attempts to locate missing invoices	Not provided



Recom. no.	Recommendation	Risk category	Risk rating	C/O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
6	<p>period to prevent misplacement. Efforts to find the missing invoices should also continue.</p> <p>The UNMIT Office of Mission Support should ensure compliance with Financial Rule 105.7 and the provisions of Section 3.2.2 of the Field Finance Procedure Guidelines particularly as they relate to the use of purchase orders for recurrent expenditures, posting of payments and invoices to vendor accounts, and the approval of direct purchases.</p>	Compliance	Medium	C	Action complete	Implemented
7	<p>The UNMIT Office of Mission Support should put in place a business continuity plan that addresses the various risks that may interrupt the operations of the Finance Section and outline an alternative plan for making payments in case cash delivery is curtailed for security or operational reasons.</p>	Strategy	Medium	O	Confirmation by UNMIT that the contingency plan now addresses a cash delivery system for making payments, fire and robbery risk and measures to address manual processing if required	29 August 2008
8	<p>The UNMIT Office of Mission Support should ensure that the Mission complies with the Field Finance Procedure Guidelines as it relates to the conduct of surprise cash counts.</p>	Compliance	Medium	C	Action complete	Implemented

<sup>1</sup> C = closed, O = open

<sup>2</sup> Date provided by UNMIT in response to recommendations