UNITED NATIONS

Office of Internal Oversight Services
UNHCR Audit Service

Assignment AR2004/166/03 20 April 2005
Audit Report R05/R004

POST-IMPLEMENTATION REVIEW OF UNHCR's MANAGEMENT SYSTEM RENEWAL PROJECT - FINANCE MODULES

Auditors

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POST-IMPLEMENTATION REVIEW OF UNHCR's MANAGEMENT SYSTEM RENEWAL PROJECT – FINANCE MODULES (AR2004/166/03)

EXECUTIVE SUMMARY

In October and November 2004, OIOS conducted a Post-Implementation Review of UNHCR's Management System Renewal Project (MSRP) at Geneva Headquarters. This report covers the implementation of the MSRP finance modules (General Ledger, Accounts Payable, Accounts Receivable and Cash Management) and related functional issues. A separate report is being issued dealing with General Project Management and with the MSRP Post-Implementation of the Supply Chain components.

Overall Assessment

OIOS assessed the implementation of the MSRP finance modules as average. Although the system was declared operational for serving the users as from 5 January 2004, various unsettled matters and preliminary problems remained for some time and users showed some dissatisfaction towards the new system. Various interim measures, particularly on data uploads to MSRP, are required until the rollout to the field and the implementation of the Human Resource/Payroll module are complete.

A. Implementation of MSRP Finance

Reconciliation of open items

- The introduction of MSRP has made the reconciliation of cash-in-transit, miscellaneous receivables and outstanding commitments a cumbersome process, pending the delivery of other MSRP components, such as Travel and expenses and HR/Payroll. What had been an automated routine task under the legacy system FMIS, now requires considerable manual intervention and absorbs staff resources needed elsewhere. As of 23 December 2004, over 100,000 items with an aggregate value of more than US$ 25 million remained as 'open items' pending reconciliation. *FRS had requested the MSRP Team to customise such accounting reconciliation tasks within MSRP. However, manual processes will continue for some time* as *customisation was considered very costly and technical staff had been engaged on the field rollout*.

Reports

- Certain reports, which are essential for managing UNHCR activities and which were available under the legacy system FMIS (such as; statutory reports, ageing analysis of receivables and project budget and expenditure variances) had not been fully developed in MSRP. In OIOS' view, this is limiting UNHCR's ability to effectively manage its resources and monitor their use.

Implementing Partner Coding and Mapping

- The initial coding and mapping of implementing partners in MSRP was deficient. As a result, in numerous cases, instalments paid to implementing partners and budgets established for those partners could not be matched. OIOS noted that about US$ 10 million was paid in instalments during 2004 to implementing partners either without budget or in excess of approved budget. While such inconsistencies cannot be fully eliminated until the MSRP rollout to the field is completed, a mechanism should be established in the interim period to monitor, detect and rectify them.

Project Monitoring System

- MSRP lacks the functionality to facilitate project closure and track information on projects, forcing the Bureaux to develop different spreadsheet solutions. Although a Project Monitoring System (PMS) was developed to fill the gap, the application has no links to the MSRP finance modules and can only deal with 2003 and earlier project closure. *Out of over 60 projects (with over 400 sub-projects) implemented between 2001 and 2003 and approved for closure by the Bureaux, due to other priorities, the Finance Section could only close 25 projects (with over 150 sub-projects) in 2004*. Project closure has become complex and due to limitations with PMS, UNHCR needs to formalise a strategy to track and monitor the closure of 2004 and later projects.

B. Other accounting and financial issues

Expenditure Recording

- At present MSRP is used comprehensively only at UNHCR Headquarters, whereas field offices and payroll continue using legacy systems, FMIS Field and "UNOG Payroll." Data files generated from these systems are uploaded to the MSRP General Ledger, which involves considerable work, conservatively estimated for uploading of 5,500 text files per annum (FOAS, FOBS, IPRs and Payroll data). Generally, such text files were uploaded upon receipt. However, no validation or verification of the data integrity was performed prior to the upload in MSRP. For example, validation for FMIS should be performed at least twice a year.

- An in-depth review of a sample of five country operations (six per cent of the population) disclosed some variances between the figures uploaded to MSRP and that recorded on the field cashbooks for Kenya and Sierra Leone. Though these variances were not material, they highlight the risks and vulnerabilities existing in the stand-alone systems and the need for compensating controls to mitigate them. Some more information on this matter is being gathered by UNHCR.

- The electronic data provided by Payroll to Finance was received, processed and posted to the General Ledger without comprehensive verification or reconciliation to ensure their completeness and accuracy. OIOS noted that basic controls relating to electronic data receipt and upload, like; the number of records/lines, the hash totals of various numeric columns for the payroll data files were not available before the upload into MSRP. Considering that payroll costs account for over US$ 300 million or 33 per cent of the total UNHCR expenditure, the reconciliation process needs to be strengthened to improve transparency and provide assurance on the completeness and accuracy of payroll expenditure.

- OIOS also noted inconsistencies in the recording of payroll data in the MSRP General Ledger. A test on certain entitlements showed that some payroll elements were not correctly stated in the GL but were lumped under common staff costs. Such costs in 2004 (including repatriation grant and mobility/hardship to staff under "temporary assistance") amounted to over US$ 77 million, or 20 per cent of the payroll expenditure. It appears that these are payroll costs related to staff members who were not charged against established posts.

- Due to implementation problems with UNDP's new Atlas system, UNHCR had not yet received from UNDP by the end of 2004, expenditure reports to substantiate some US$ 4.5 million paid to UNDP. *UNHCR continues to follow-up with UNDP to retrieve the reports, UNDP senior management has been contacted.*

- The method of processing travel related costs was found to be convoluted and involved constant flow /exchange of data. Also, at the end of November 2004, US$ 11 million in understated expenditure existed due to technical difficulties. *The technical issues were later resolved and the outstanding amount was reduced to an acceptable level*.

- Some US$ 85 million was established as outstanding obligations for 2003, and as of November 2004, about US$ 19 million still remained unliquidated. *By year-end 2004, the Finance Section has retained US$ 5 million and has liquidated the balance.* However, although the unspent funds can be reallocated in 2005, the US$ 14 million could have been identified much earlier for re-allocation in 2004.

Pledges

- Due to the limitations of the legacy FMIS system, pledges received during a fiscal year but relating to future operations were in the past neither recorded in the General Ledger nor disclosed in the notes to the Financial Statements. Similarly, reserved pledges were not recorded as income until the donors provided the earmarking. OIOS highlighted that the method of accounting and disclosure of pledges was not in accordance with the stated accounting policies of UNHCR. *Action has been taken by UNHCR to correct this.*

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I. INTRODUCTION

1. In October and November 2004, OIOS conducted a Post-Implementation Review of UNHCR's Management System Renewal Project (MSRP). This report covers the implementation of the MSRP finance modules and also other issues related to MSRP Finance. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and was largely based on Information Systems Audit and Control Association (ISACA) guidelines.

2. The finance modules of MSRP (General Ledger, Accounts Payable, Accounts Receivable and Cash Management) have been operational at UNHCR Headquarters since January 2004 and constitute one of the two components of Phase I of MSRP. The main objective of MSRP is to enhance UNHCR's operational and business management capability through real-time access to information, faster processing of transactions, and timely decision-making. This should allow UNHCR to increase the effectiveness of their service delivery. As MSRP is initially operational only at Headquarters, various temporary interfaces and arrangements were needed for compiling and processing data; of particular concern is data from UNHCR field locations and payroll. Due to this situation, the post-implementation review was not limited to a pure "PeopleSoft system review" but included a review of the interfaces with and the data upload from various legacy systems. These legacy systems will continue to be in use until MSRP has been fully rolled out to the field and the HR/payroll components are completed.

3. It should be stated that UNHCR embarked initially on a very ambitious project, to establish its ERP system within a relatively short time frame, and with limited resources. A decision was taken in 2002 to use the PeopleSoft "vanilla" version within the finance area and to limit customisation to only the necessary minimum; workarounds and process changes were expected to provide sufficient solutions. Therefore, some gaps between wishes/expectations and final product were inevitable.

4. The findings and recommendations contained in this report were discussed with the Head, Financial Resources Service during a meeting held on 23 November 2004. The related comments are reflected in the draft report. The audit results were further discussed in a meeting on 11 February 2005 with the Head, FRS and the Director MSRP.

II. AUDIT OBJECTIVES

5. The main objectives of the review were to:

- Assess whether the MSRP project objectives have been achieved;
- Assess the adequacy of procedures and controls over the input, processing and output of data;
- Determine if information processing complies with established business rules and is accurate, reliable and generated timely.

III. AUDIT SCOPE AND METHODOLOGY

6. OIOS conducted a detailed review of UNHCR's 2004 General Ledger as well as the subsidiary systems that feed-in the data. This included mainly the FMIS Field, a stand-alone budgeting and accounting system used by UNHCR field offices for recording budgets and expenditure of over US$ 500 million. The second major data input came from UNOG's legacy systems, used for UNHCR payroll and Headquarters travel processing with total annual expenditure of over US$ 300 million.

7. OIOS reviewed relevant documentation and interviewed a number of staff from the Finance, Budget, Treasury, Payroll, MSRP team, Donor Relations Service and staff from selected Desks. OIOS performed data integrity tests to examine the accuracy, completeness, consistency and authorization of data recorded on MSRP for the period from January to October 2004. Most of our tests focused on the processes at Headquarters.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Implementation of MSRP Finance

(a) Reconciliation of open items

8. MSRP made the reconciliation of cash-in-transit, miscellaneous receivables and outstanding commitments a cumbersome process. What had been automated routine tasks in the legacy FMIS system, now requires considerable manual intervention and the processing of additional journals and absorbs considerable staff resources. As a result, over 100,000 items with an aggregate value of more than US$ 25 million remained as 'open items' pending reconciliation as of 23 December 2004. It is accepted that the number of open items would drop considerably and the reconciliation process would be greatly simplified once MSRP has been rolled-out to the field and after the Travel and Expenses and HR/Payroll modules have been delivered. However, as these additional activities will not be fully completed for almost two more years, there is a need to address this issue now. OIOS understands that steps were taken to customise some of these tasks in MSRP.

9. OIOS is aware that implementation of this matter is in progress involving both DFSM and the MSRP team. *UNHCR explained that additional training had been provided to users. They added that the cost of customisation for the interim period would greatly exceed the cost or additional manual work. And would the limited MSRP technical resources at the expense of the field rollout. The Finance and Treasury Section would therefore continue to require temporary staff to deal with the exceptional level of manual work.* OIOS trusts that the required staff resources will be made available, as long as extensive manual reconciliation is required. As the issue is being dealt with, no recommendation is raised.

(b) Reports

10. A number of essential reports, which had been available from FMIS, had not yet been made available in MSRP. Examples include, the statutory reports of UNHCR, ageing of receivables for DRRMS, the cashbook report for Treasury, and project budget and expenditure variance reports at the account (sub-item) level. Such reports are essential for

managing UNHCR activities and should have been developed at the very beginning. OIOS noted that one year after going live, these reports are still not available, limiting UNHCR's ability to effectively manage its resources and monitor their use.

Recommendation:

➢ The UNHCR Management System Renewal Project Team in cooperation with the Division of Financial and Supply Management should develop certain key reports, required to effectively manage UNHCR resources and monitor their use (Rec. 01)

11. *UNHCR stated that implementation was underway and that emphasis was placed on the development of a set of standardized integrated reports, particularly as all users may not feel comfortable in mastering the PeopleSoft reporting tools. OIOS appreciates the clarification provided and will close the recommendation upon receipt of a list of standardized integrated reports available for monitoring, control and decision-making.*

(c) Implementing Partner Coding and Mapping

12. UNHCR programme implementation is decentralised. Until the complete rollout of MSRP to the field, field offices will continue to use FMIS Field (FOBS) and send the programme documents to DFSM and the Bureaux. Once the Director of the Bureau approves the LOIs, they are issued to Representatives who are empowered to enter into Sub-Project Agreements or change the implementing partners locally without seeking additional approval from Headquarters.

13. The introduction of MSRP has added restrictions to this process. As and when new Sub-Project Agreements are entered into with partners, which were not included in the initial LOIs, or Supplementary Agreements are concluded with budgetary revisions, this information needs to be forwarded to Headquarters to update MSRP to ensure that field and Headquarters budget information match. Such process required that the Budget Section created the Implementing Partner codes and mapped them to the relevant projects. OIOS reviewed instalments paid to implementing partners and related project costs, and noted the following:

- Implementing partners that were paid instalments, but had no budget recorded in MSRP. Total payments in this category amounted to US$ 5.8 million;

- Implementing partners that had budgets but were paid instalments in excess of the budgets recorded in MSRP. Total excess payments amounted to US$ 4.4 million;

- Implementing partners that had budgets aggregating to US$ 6.7 million, but did not receive any instalments.

14. Significant cases of budget/expenditure mismatch included the implementing partners Qandil Iraq – expenditure US$ 2.4 million, The Salvation Army, UK – expenditure US$ 1.4 million and the Ministry of Health, Eritrea – expenditure US$ 1.2 million. There was no FOBS budget recorded for these implementing partners. *The Budget Section explained that*

the MSRP Team carried out the mapping exercise in early 2004 and pointed out that Qandil Iraq (1125000) and Qandil Sweden (1245011) were one and the same though they have two codes. The Budget Section also explained that in this case, instalment payments of US$ 2.4 million were recorded against one code while the IPR data had been recorded against another. According to the Budget Section the same scenario would hold good for another implementing partner, The Salvation Army, who received an instalment of US$ 1.4 million. .

15. Consequently, there is a risk that some of the implementing partners have more than one code. It also appears that MSRP lacked sufficient validation controls that would prevent IPRs from implementing partners being uploaded without matching outstanding instalments. OIOS appreciates that such inconsistencies cannot be fully eliminated until MSRP rollout to the field is complete and the "stand alone" legacy systems have been discontinued.

16. In the transitional period, it is important that DFSM and the Division of Operational Support (DOS) establish procedures to ensure budgets and other financial data agree, whether they originate from the field level or Headquarters. Moreover, the development of exception reports to easily identify such differences in MSRP data would be beneficial and should ensure that corrective action is initiated timely.

Recommendation:

- The UNHCR Division of Financial and Supply Management and the Division of Operational Support should establish procedures for the transitional period for the recording of programme budgets to ensure matching of budgets and other financial data at the field level and Headquarters (Rec. 02)

17. *UNHCR confirmed that the problems with IP payments without budgets, with budgets and no instalments and instalments in excess of budgets had been addressed. They stated that due to procedural changes, such situations were unlikely to recur in 2005. Further, UNHCR considers that existing project related policies and procedures were, but required greater compliance.* OIOS appreciates the clarifications provided and will close the recommendation upon receipt of information, how compliance in this area will be monitored.

(d) Project Monitoring System

18. So far, MSRP lacks the functionality to facilitate project closure and track information on Sub-Project Agreements including amendments (Supplementary Agreements), status reports and audit certification. Such functionality was available within FMIS. To work around this problem, some Desks developed ad-hoc lists (Excel) to ensure that information on 2004 sub-projects was kept up-to-date.

19. Also, to continue tracking the project documents relating to 2003 and earlier as well as to facilitate their closure, the Division of Information Services and Telecommunications (DIST) developed a separate web-based application called Project Monitoring System (PMS). The software was available from mid-2004, but it has not been extensively used, as the application has no links to the MSRP finance module, therefore the closure exercise has become more complex than it was under the legacy system FMIS.

20. For example, over 1,400 sub-projects initiated in 2002 were still open at the end of 2004. In addition, OIOS noted that another 3,900 sub-projects relating to 2001 and earlier years remained open. In the past, there was a dedicated team in the Finance Section to handle project related transactions, clearance of X21 and project closure. This team was dissolved, when MSRP was introduced in January 2004 and the responsibility for all project related transactions, including project closure was moved to each accountant to streamline accounting responsibilities. *The Finance Section staff indicated that the project closure exercise was long and time-consuming coupled with various other difficulties linked with the introduction of MSRP and other priorities in the Finance Section during 2004. During 2004, Finance Section only closed some 25 projects with 154 sub-projects from the period from 2001 to 2003 (of the 61 Projects with 433 sub-projects approved for closure by Desks).*

21. Missing data or outstanding balances may explain the relatively few project closures in 2004, as well as the absence of logical link between the financial data (outstanding instalments in MSRP) and the status of reports in PMS. Hence project closure activities did not have the necessary impetus and this may become a serious issue if not properly addressed.

22. On a test basis OIOS matched the instalments paid in FMIS for three sub-projects implemented in 2003 in Azerbaijan, Burundi and Afghanistan with the IPR data and the refunds received, as recorded within MSRP. Such an exercise was time-consuming and cumbersome as data from three different systems had to be compared (MSRP, PMS and FMIS Archives). However, similar data comparison failed on 2002 sub-projects in Guinea and needed intervention from DIST. *To avoid different interpretations of the data and to avoid confusion, DIST has recommended some modifications to the PMS.*

Recommendation:

- The UNHCR Division of Financial and Supply Management should address the high number of unclosed projects from 2003 and prior years, identify bottlenecks and adjust its project closure policies until MSRP is fully operational and capable of handling smoothly such closure. (Rec. 03).

23. *UNHCR has confirmed the need to close the numerous 2003 and prior years' projects, which required temporary staff to deal with the backlog.* OIOS will keep this recommendation open until a reasonable level of project closure for 2003 and prior years has been achieved.

24. As PMS only provides data to assist with closure of projects from 2003 and earlier years, DFSM needs to plan and formulate a strategy for 2004 and later project closure, until the completion of the field rollout.

Recommendation:

- The UNHCR Division of Financial and Supply Management should formulate and put into motion a strategy for closing 2004 and later projects, until MSRP is fully operational (Rec. 04).

25. *UNHCR stated that DFSM was working with the MSRP team on a solution to deal with the 2004 and future project closure.* OIOS appreciates that the issue is being dealt with and will close the recommendation upon confirmation that that the new Implementing Partner Recording functionality has been released and is operational.

B. Various Accounting and Financial Issues subsequent to MSRP implementation

(e) FMIS Field Data Upload

26. The Finance Section receives monthly data extracts in text files (financial transactions processed by the field offices) from over 170 field locations by email. This information alone, results in the need to upload nearly 3,000 text files per year. It is a very cumbersome task and open to the risk of error. OIOS was concerned that there were insufficient internal controls over the receipt and upload process of data to MSRP to ensure the validity and integrity of UNHCR's financial data.

27. The text files received from the field offices are stored in a shared folder with the original E-mail submission. The shared folder can be accessed by a number of persons. While text files are the most portable format and are compatible with nearly all computer applications, they can be easily opened and there is a risk that the data could be accidentally changed. It is important, therefore, that sufficient compensating controls are established. Further, although a register was maintained to record the receipt of monthly extract files, the date of receipt was not documented. *FRS explained that as the original E-mail submission was kept separately the risk of loosing data was minimized.*

28. From the five UNHCR country offices selected by OIOS for an in-depth review (Sierra Leone, Kenya, Burundi, Yemen and Italy) OIOS found some variances between the figures uploaded to MSRP and the information recorded on the cashbooks. A review of a small part of the population (six per cent) resulted in the following issues:

- A balance of US$ 39,131 with a bank in Burundi was shown in the Burundi FMIS records, but not in the MSRP General Ledger (GL). Upon further inquiry, it turned out that the balance had been considered doubtful and a provision in the accounts had to be made. However, rather than recording the bank balance and the corresponding provision separately in the GL, the balance was only recorded as a Miscellaneous Receivable. OIOS considers this accounting treatment as incorrect. Furthermore, while the variance turned out to be an accounting issue, the absence of a proper reconciliation left this issue unnoticed. *The Finance Section explained that it had transferred this balance to accounts receivable, as it did not have a reasonable expectation of recovery.*

- A bank account in Kenema Sub-Office (Cash book SL1L) in Sierra Leone showed a difference of Leones 5.3 million (US$ 2,000) between MSRP GL and the FOAS cash book balance in the field. *The Finance Section explained that this difference had surfaced due to a FOAS system problem,* *and it continued to follow up on this matter since 2003.*

- The FOAS cashbook at the Kakuma Sub-Office in Kenya was overdrawn by KSh 245,000 (US$ 3.400) in 2003. The corresponding MSRP upload showed a nil balance in the General Ledger. *The Finance Section explained that they had reviewed this matter and accordingly cleared the overdraft and closed the cashbook.*

29. Field offices also forward hard copies of the approved cashbooks, bank reconciliation statements and other support documents to the Finance Section for review. These are normally received several days after the monthly data extract files have been posted to the MSRP GL. *Finance Section staff explained that the monthly accounts processing could not be considerably delayed for the reason of waiting for the hard-copy cashbook arrivals at Headquarters and subsequent verifications, particularly after the decentralization of accounting functions to field offices.* OIOS tends to agree that a monthly validation of the data uploaded from FMIS field would not be feasible, without incurring significant delays in accounts processing. However, given the risks identified and pending the MSRP field rollout, data should be validated periodically, preferably twice a year, before the account closures in June and December.

Recommendation:

➢ The UNHCR Finance Section should verify periodically, preferably twice a year, the completeness and accuracy of data files from field offices that are uploaded to MSRP. This exercise should ensure that the MSRP General Ledger data matches with the approved cashbooks and bank reconciliation statements (Rec. 05).

30. *DFSM explained that the proposed bi-annual verification calendar corresponded to the routine checks by Finance Section. The added that a special MSRP report had been requested to compare FMIS field and MSRP data posted.* OIOS appreciates the steps taken to address this issue and will close the recommendation upon confirmation that the new report has become available and is used for the bi-annual verification.

31. Some of the UNHCR's ongoing emergency and special operations (Afghanistan for example) operate solely on cash basis. There is a risk, due to the delay in receiving the hard copies of cashbooks that the month-end cash balance is not correctly recorded in the consolidated MSRP GL. There is no independent control to verify the balance such as the bank reconciliation statement. OIOS would suggest that in such situations, DFSM request Heads of Offices to confirm and certify the monthly closing cash balance. Such a verification will provide confidence that the MSRP GL month-end balances are not understated / overstated.

Recommendation:

➢ The UNHCR Division of Financial and Supply Management should ensure that for UNHCR offices that operate on cash basis conduct a physical count of the cash-on-hand at the month-end and that a certificate is signed by a responsible officer. The certificate should be forwarded to DFSM to verify the month-end cash balance to ensure it is not understated/overstated (Rec. 06).

32. *UNHCR accepted the recommendation and stated that they would request cash balance certificates from relevant Field Offices starting with the April 2005 accounts.* OIOS appreciates the positive response and will close the recommendation upon receipt of the instructions to Field Offices requesting cash balance certificates.

(f) Payroll Data Upload

33. The UNHCR Payroll serviced close to 6,000 staff in 2004, with expenditure of well over US$ 300 million. There were two sets of payroll data: (a) regular payroll comprising of Headquarter staff and all professional staff; and (b) field staff (national staff in different countries). The UNHCR Payroll Section uses legacy software to process payroll transactions. The monthly payroll data is transmitted to the Finance Section in four text files for upload to MSRP. The Payroll Section informed OIOS that no major discrepancies or problems in the data they provided had been communicated to them

34. On receipt of the data from Payroll, the Finance Section carries out coding checks and performs budget validations prior to posting it to the General Ledger. OIOS noted that the Finance Section accepted the electronic files from the Payroll Section and assumed the data to be correct, apart from reconciling regularly the salaries payable / clearing account. However, there was no confirmation that a global reconciliation was performed on the payroll data.

35. OIOS noted that normal data upload procedures were not followed. *The Finance Section and the MSRP Project Team explained that no particular upload controls existed in the past, and the payroll data upload process to MSRP was simply continued as before*. As the existing Human Resources and Payroll legacy systems will continue to be used until 2006 at least, and considering the significant expenditure recording, normal data upload controls should be performed. The Payroll Section should at least provide to the Finance Section, along with the electronic data, basic control totals, like the; number of records/lines; hash totals of various columns; value totals etc. for the data in the electronic files.

Recommendation:

- The UNHCR Division of Financial and Supply Management should ensure that the Payroll Section provides for the electronic file transfers, a summary report on the contents of the data to the Finance Section to facilitate data comparison and reconciliation (Rec. 07).

36. *DFSM accepted the recommendation and will specify additional reporting in collaboration with the Payroll Section.* OIOS appreciates the positive response and will close the recommendation upon receipt of confirmation that Payroll Section provides a summary report to facilitate the comparison and reconciliation for electronic file transfers.

37. OIOS noted inconsistencies in the payroll data in the MSRP GL system. A test on certain entitlements showed different results between totals from the payroll calculations in the Earning and Deduction Register (EDR), which is accounted within the GAS legacy system and the MSRP GL data. For example, a difference of as much as US$ 3.7 million existed between the 2004 mobility and hardship allowances (object code 621140) calculated by payroll and the totals in the corresponding object of expenditure codes in MSRP GL. Similar differences also existed on other allowances/entitlements such as repatriation grant (code 621630) and commutation of accumulated annual leave (code 621620). *Finance Section could not explain these differences but indicated that the MSRP GL should be compared to the GAS trial balance and not with the EDR.*

38. Upon further research to explain the above variances, OIOS noted that substantial amounts were not recorded under the various entitlement object codes, but were lumped under a global object code 620320, which is for common staff costs, "temporary assistance" (previous code "032" under FMIS). OIOS assumed that such accounting treatment resulted from the great number of staff costs not covered under established posts, such as SIBA. During 2004, as much as US$ 77 million (over 20 per cent of annual payroll) was recorded as Temporary Assistance under object codes 620310 and 620320. Therefore, any queries or management information extracted from the MSRP object codes for common staff costs, (allowances and entitlements) provided inaccurate results. Also, the real cost of temporary assistance remained invisible and was not easy to extract. UNHCR managers who may need relevant information from the related object codes should be aware of this lapse.

39. DFSM may want to take advantage of the MSRP capacity and create new object codes for SIBA costs and others that are lumped with the temporary assistance codes, so that more accurate information will be available on expenditure patterns and related total costs.

Recommendation:

- The UNHCR Division of Financial and Supply Management should initiate modifications to the code mapping between the GAS and MSRP GL systems to ensure that reports on certain payroll elements recorded in MSRP GL provide a fair picture of the actual expenses (Rec. 08).

- The UNHCR Division of Financial and Supply Management should request the MSRP team to create additional object codes to be able to account more accurately for salaries and common staff costs (Rec. 09).

40. *UNHCR generally agreed with the recommendations and stated that a more workable interim solution required the combined efforts of the various offices involved. In the longer term, the MSRP HR/Payroll Module was envisaged to provide fully integrated real-time reporting.* OIOS appreciates that efforts will be made to find a more workable interim solution and will close the recommendation upon receipt of information on the interim measures taken.

41. The Budget Section is responsible for correcting payroll related posting errors in the General Ledger like for example correcting expenditure charged to incorrect cost centres. The Budget Section made the adjustments, based on the data in the Dollar History, to adjust salaries and entitlements that were incorrectly charged to different cost centres. The Budget Section assumed that the data in the Dollar History / EDR file was correct. Further, there was no adequate audit trail of changes/adjustments made, as the vouchers processed by the Budget Section had no unique identifiers. OIOS suggested that the MSRP team address this issue to ensure there is a facility to track the adjustments made by Budget Section in the MSRP GL.

Recommendations:

- The UNHCR Management System Renewal Project Team should assign distinct identifiers to the adjustment journals processed by the Budget Section to facilitate the tracking of adjustments (Rec.10).

42. *UNHCR explained that this functionality had been progressively activated since the last quarter of 2004.* OIOS appreciates the measures already taken and will close the recommendation upon confirmation that the new functionality, assigning distinct identifiers to the adjustment journals, has been fully implemented.

(g) UNDP/UNV Account Reconciliation

43. UNHCR records in three ledger accounts transactions relating to Service Clearing Accounts (SCA – previously known as IOVs) of UNDP New York and UNV Bonn. For 2004, total UNHCR payments through UNDP amounted to about US$ 18 million. The normal procedures were that UNDP field offices record the expenses of UN Volunteers (working for UNHCR) with UNDP Headquarters extracting the related global financial information to provide a monthly expenditure report to UNHCR. From the information received, the Finance Section records the transactions in suspense accounts, and provides details of the cost to each field location. Only when the field office concerned has confirmed the charge to be correct, it is recorded as expenditure in the local FMIS system.

44. Due to difficulties with the implementation of UNDP's new Atlas system, the reports received by UNHCR included a number of errors. Also, as of November 2004, UNDP had only provided details for US$ 8 million paid in advances. Due to this discrepancy, UNHCR was unable to forward timely and proper information to field offices for subsequent FMIS recording. Consequently, the expenditure recording by UNHCR was delayed and remained incomplete.

45. *UNHCR informed that by year-end US$ 13.5 million out of US$ 18 million had been verified and recorded as expenditure, reducing the outstanding balance to some US$ 4.5 million. UNHCR also stated that UNDP had yet to provide the final global Service Clearing Accounts file for 2004, incorporating any missing 2004 expenditure. UNHCR has and is continues following up with UNDP both at the working and at the senior management level.*

OIOS understands that this situation arose from problems with the implementation of UNDP's Atlas system. Given the significant reduction of the outstanding balance at year-end and in view of the ongoing follow-up, OIOS does not raise a recommendation at this stage.

(h) Travel expenditure

46. UNHCR Headquarters staff travel transactions continued to be processed through the UNOG legacy system during 2004, with data subsequently uploaded to MSRP. Commitments were frequently liquidated by payment of advances to staff or the payment of other authorized expenses, sometimes from field offices. Field offices recorded transactions in FMIS and when the details were submitted to Headquarters in the monthly text files they were posted to suspense accounts and subsequently transferred to the UNHCR Travel Unit for processing.

47. Due to cumbersome transmissions of data between MSRP, FMIS field and the UNOG legacy system, transactions in transit accumulated. This had resulted in an understatement of travel expenditure by some US$ 11 million at the end of November 2004. *A special effort by Finance Section had brought this balance down to some US$ 130,000 before the year-end closure*. OIOS is satisfied with those results and considers them to be at an acceptable level. Further, as from January 2005 travel related payments are made from MSRP.

(i) Outstanding Commitments

48. As a special preparation for MSRP all UNHCR offices were requested to establish a list of valid outstanding commitments by 31 December 2003, which amounted to some US$ 85 million. The related liquidations were rather slow in 2004, by November some US$ 19 million (22 per cent) were still outstanding. By year-end, five Purchase Orders amounting to some US$ 5 million had to be retained; therefore they were re-obligated to be still valid in 2005.

49. A major part of such year-end commitments is normally liquidated through direct payments during the first three months of the following year. Finance Section had set 30 June 2004 as a target date to review and liquidate obligations that were still listed but no longer needed. *The Finance Section explained that due to various other priorities, particularly the MSRP implementation, the review and clearing of obligations no longer needed were only completed just before the 2004 account closure.* The effect of the late liquidation of these obligations was that US$ 14 million was blocked during 2004 and was temporarily not available for other operations.

(j) Implementing Partner Reporting

50. Financial information received from implementing partners is recorded in FMIS Field (FOBS) – Implementing Partner Reporting (IPR). This data is periodically forwarded to Finance Section for upload to MSRP. OIOS estimates that this includes between 2,500 and 3,000 text files per year.

51. IPR data was centrally incorporated with GL data without any detailed checking with the source documentation (SPMRs). Although this had been the case before the MSRP

implementation, OIOS considers that there is a risk that information on outstanding instalments and financial obligations recorded in MSRP is not accurate. *The Budget Section had acknowledged that IPR data from Qandil Iraq was uploaded against Qandil Sweden.* From the past experience, OIOS noted that the final SPMRs were not always available with the concerned Bureaux though their IPR data was received and already available in MSRP (FMIS in the past). As final SPMRs are required for closing sub-projects and to support IPR data entered in MSRP, they need to be available with the relevant desks.

Recommendation:

- The UNHCR Division of Finance and Supply Management should request the Bureaux to ensure that copies of final SPMRs are available at Headquarters. (Rec. 11).

52. *DFSM agreed with the recommendation. To ensure compliance, DFSM will send a reminder to all Bureaux and actively follow-up during 2005.* OIOS will close the recommendation upon receipt of a copy of the reminder to all Bureaux.

(k) Pledges for future periods

53. According to the accounting policies of UNHCR, voluntary contributions received from Member States and other donors are recorded as income on receipt, or on the basis of a written pledge. A pledge from a Government is recognised as income at the time of its acceptance. If cash contributions were received for a future operation, those amounts were recorded as income received in advance and duly reported in the financial statements. Until the end of 2003, the Donor Relations and Resource Mobilisation Service (DRRMS) used a stand-alone system to record contributions. As far as contributions received in cash (for future operations) are concerned, OIOS has no objection in UNHCR's present accounting policy of recording and disclosing them as income received in advance.

54. As far as pledges received for future periods are concerned, FMIS, which was not capable of opening General Ledgers for multiple years, could not handle such pledges. They were therefore recorded only by DRRMS, on their stand-alone system, and not reflected in the General Ledger nor disclosed in the UNHCR's financial statements. Since the amounts involved could be material (for 2005 activities the total amount pledged at the Donor Conference in December 2004 was US$ 400 million), they should be appropriately disclosed in the financial statements.

55. MSRP offers a facility to open General Ledgers for multiple years and hence, record pledges for future years. *UNHCR has agreed to disclose pledges for future operations received during the fiscal year in the notes to the financial statements*. Since the issue is already being dealt with, OIOS does not raise a recommendation.

(l) Reserved Pledges

56. Until 2003, UNHCR accepted reserved pledges (without definitive earmarking), but they were not recorded as income in FMIS until the donors provided the earmarking. The

treatment of such pledges highlighted a risk of incomplete recording of future income. According to the prevailing accounting policy, a reserved pledge should be accounted as income upon its acceptance. In MSRP, a reserved pledge is not recorded as income in the General Ledger, but is retained in the Accounts Receivable module. *UNHCR has agreed that all reserved pledges will be allocated to either Annual Budget or Supplementary Budget funds according to DRRMS' best assessment at the time of the initial recording of the Contributions Advice Form. DRRMS will reclassify the pledges accordingly, if required.* Since the issue is already being dealt with, OIOS does not raise a recommendation.

V. ACKNOWLEDGEMENT

57. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the staff and managers of DFSM, the MSRP Project Team and other UNHCR Units involved.

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