

STRICTLY CONFIDENTIAL

UNITED NATIONS

*Investigation Task Force
Kosovo*

**REDACTED
REPORT OF INVESTIGATION**

CASE NO. 0049-04



Investigation Task Force

17 December 2004

Case 0049/04

I. INTRODUCTION

1. The Investigation Task Force (ITF) Kosovo, conducted an investigation into the circumstances surrounding frequent cash withdrawals made from the bank account of Air Traffic Control Services (ATCS), Prishtina International Airport. This investigation was triggered by a forensic audit report of Public Enterprise Airport Prishtina (PEAP) and ATCS that was released in February 2003 by the Chartered Accountants. The activities of the Prishtina Airport fall under the control of the Kosovo Trust Agency and UNMIK Pillar IV, which is administered by the European Union. Investigations into allegations of fraud and corruption involving UNMIK, its pillars and other organizational structures as well as the Provisional Institutions of Self-Government (PISG) and independent bodies and offices established pursuant to the Constitutional Framework for Provisional Self-Government in Kosovo fall within the purview of ITF as laid out by the Executive Decision on the Establishment of the Investigation Task Force UNMIK/ED/2003/16, dated 21 October 2003.

II. APPLICABLE LAWS

2. Pursuant to the authority given to The Special Representative of the Secretary-General, under United Nations Security Council [resolution 1244 \(1999\)](#) of 10 June 1999, taking into account United Nations Interim Administration Mission in Kosovo (UNMIK) [Regulation No. 1999/1](#) of 25 July 1999 on the Authority of the Interim Administration in Kosovo, for the purpose of defining the law applicable in Kosovo, the SRSG promulgated that the law applicable in Kosovo shall be:

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- a) The regulations promulgated by the Special Representative of the Secretary-General and subsidiary instruments issued there under; and

- b) The law in force in Kosovo on 22 March 1989.
3. With regards to performance and conduct of the employees of KTA, the following UNMIK Regulation shall apply:

UNMIK Regulation No. 2001/27, Dated 8 October 2001- On Essential Labour Law In Kosovo - Section 11- Termination of a Labour Contract, states the following (*extract*):

11.3. Serious misconduct shall include the following:

- (a) unjustified refusal to perform the obligations set out in the labour contract;
- (b) theft, destruction, damage or unauthorized use of the employer's assets;
- (c) disclosure of business secrets;
- (d) consumption of drugs or alcohol at work; and
- (e) behavior of such a serious nature that it would be unreasonable to expect the employment relationship to continue.

11.4. Unsatisfactory performance shall include the following:

- (a) unjustified absence from work; and
- (b) repeated mistakes not sufficient in themselves to justify a dismissal, but which given their frequency and seriousness disrupt the normal course of the employment relationship.

III. BACKGROUND INFORMATION

4. A review of the airport's bank accounts and documents related to airport operations, contracts, and financial matters revealed a number of cash withdrawals from the ATCS bank account, many of them in €10.000 increments. Between July 2002 and November 2003, an amount of €642.000 was withdrawn in cash. The majority of the withdrawals were identified as being for air travel and related expenses for the then the ATCS Official; similarly for other ATCS employees; and also for the so-called 'petty cash' purposes. The forensic audit report of February 2003 highlighted that the ATCS Official travelled frequently and questioned whether the trips were necessary, or were approved.

5. It was established that on 01 July 2002, the new Division Manager, Airport Sector UNMIK Pillar 4 was appointed with overall responsibility for Prishtina Airport. The ATCS Official was in charge of the Department, which included day-to-day management of the ATCS Finance Office. Finance Officer 1 and Finance Officer 2 were employed as ATCS Finance Officers, both of them directly supervised by the ATCS Official. It should be also mentioned that the ATCS Official, Finance

Officer 1 and Finance Officer 2 were working at ATCS prior to the arrival of the Division Manager.

IV. INVESTIGATIVE DETAILS

6. The ITF investigation was focused on the examination of two main areas; a) travel arrangements and cash expenses related to the official travel of ATCS staff and b) handling of the so-called ATCS petty cash. During this investigation the ITF Investigators:

- Reviewed existing procedures related to the cash withdrawals in 2002 and 2003 in view of establishing whether those procedures were properly followed and enforced by the management of ATCS;
- Examined ATCS bank account and related records;
- Examined the cash withdrawal requests, supporting documentation, and receipts including airline tickets, hotel bills, and other receipts;
- Reviewed the so-called petty cash files and related documentation;
- Cross-checked the staff details on record and their employment roles during the time period in question, including their official right to authorize cash withdrawals from ATCS bank account;
- Compared signatures found on the examined documents against the signatures on the staff files;
- Cross-checked specific sums against the airport "excel" cash spreadsheets and the master bank account. (Note: the "excel" spreadsheet system has been in place since mid-2002 and is used to maintain a "cashbook");
- Interviewed ATCS staff, in particular the Division Manager; the ATCS Officials; and Finance Officers 1 and 2. ITF Investigators also interviewed Official 1 at Prishtina Airport, and the Official 2 at Prishtina Airport.

7. During the review of available documentation, the ITF investigators identified a number of problems related to the existing procedures and practices at ATCS Finance Office. Having finalized the document review they interviewed available ATCS staff that was directly involved in approving the cash withdrawals and subsequently ATCS staff that handled the cash and related documentation at

the ATCS Finance Office, or that travelled on training to Italy and the United Kingdom.

8. The ITF interviewed Finance Officer 1, working at ATCS Finance Office during the period September 2000 to December 2003. Finance Officer 1 described the procedures that were in place during 2002 and 2003 and identified Employee 1, Employee 2 and the Division Manager as "A" class signatories and Employee 3, Employee 4, Employee 5 and the ATCS Official as "B" class signatories for the UNMIK Aviation Transport and Airport Prishtina bank accounts. Those listed "A" class signatories were the only people authorized to withdraw cash from the ATCS bank accounts.

9. Finance Officer 1 also confirmed that the Division Manager and the ATCS Official supervised the work of the ATCS Finance Office. He/she further indicated that whenever there was a requirement for a larger cash payment, (for example, an official travel), Finance Officer 1 or Finance Officer 2 would prepare a "request for cash withdrawal" that would be signed by the ATCS Official and subsequently assessed and approved by the Division Manager.

10. Finance Officer 1 was given the opportunity to review documentation related to the travel of ATCS staff in 2002 prior to the takeover of the ATCS by UNMIK Pillar 4 - KTA on 1 July 2002. During this exercise, Finance Officer 1 established that "requests for cash" 46/2002; 49/2002; 55/2002 and 59/2002 had proper justification sufficient for the authorization of cash allocation, but all lacked documentation that would indicate how those funds were spent. Finance Officer 1 was not able to provide satisfactory explanations for the identified irregularities and had no recollection that the ATCS Official ever made any checks of the financial files at ATCS Finance Office.

11. The ITF interviewed Finance Officer 2, working at the ATCS Finance Office, who stated he/she has been employed by the ATCS since 01 April 2002. Finance Officer 2 provided detailed information with regard to the financial procedures and practices at the ATCS Finance Office and indicated that based on his/her previous experience in dealing with finances for a number of companies (local and international), he/she found the ATCS Finance Office to be "quite" disorganized. For example, the office did not have in place proper structures and computer software to deal with the financial issues including cash, even though the amounts of money they were processing were quite high. Finance Officer 2 allegedly tried to suggest some improvements, but the ATCS Official told him/her that it was the way the UNMIK wanted to deal with money and that he/she should follow his/her instructions. Since Finance Officer 2 was concerned that he/she might lose his/her job if he/she raised any further objections, he/she decided to work as instructed by the ATCS Official.

12. Finance Officer 2 was given the opportunity to review the files related to the ATCS Official travel, where he/she also identified requests 46, 49, 55 and 59 of 2002 as lacking basic documentation on how the allocated funds were spent. He/She was not able to give satisfactory explanations to those identified irregularities.

13. Finance Officer 2 was shown documentation related to the travel of the ATCS staff after 01 July 2002, when the ATCS was taken over by the UNMIK Pillar 4 - KTA. Finance Officer 2 identified that the lack of documentation that was obvious during the time period when UNMIK Pillar 2 handled Prishtina Airport, remained the same under KTA management. Requests for cash 01/2002; 05/2002; 06/2002; 07/2002 and 08/2002 all lacked the required documentation of expenses. Finance Officer 2 stated that the ATCS Official often claimed reimbursement for bills for food and restaurants and he/she knew that such expenses were included in the per-diem and that without authorisation, should not have been included in the claim for reimbursement. In some cases, the expenses exceeded several hundred Euros per travel. The ATCS Official instructed Finance Officer 2 to file those bills and he/she authorised them as his/her own expenditure for 'representation'.

14. Finance Officer 2 provided qualified insight with regard to handling of the so-called petty cash at the ATCS Finance Office. Finance Officer 2 said that he/she found it very strange that there was no need for any authorization or justification for cash expenses of less than €500 and that ATCS staff were regularly bringing invoices and bills requesting reimbursement. He/She explained that his/her role was to check the bill/invoice and if it was deemed to comply (date, sum, stamp) he/she would reimburse the ATCS employee. Most of the so-called petty cash during 2002 and 2003 was spent in that fashion and it was an exception if the Division Manager or the ATCS Official asked for justifications. The sums per invoice/bill paid from the so-called petty cash were anywhere between several Euro to over €500.

15. Finance Officer 2 was also given the opportunity to review available files related to the so-called ATCS petty cash for any irregularities. These bills were in particular, €525,00 "Present for International Staff"; €410,00 "Present for Official 3 (Nokia 8850)"; €918,00 "Palm organizer for the ATCS Official and Official 3" and €1.176,00 "Recharging scratch cards VALA 900 (20*23.52) + (12*58.8)"; €960,00 "Payment for mobile phone" and €940,00 "Rent a car for the ATCS Official". Finance Officer 2 acknowledged that there should have been justification reports filed with those invoices/bills, however, no such reports were found in the available documentation. He/She further pointed out that the ATCS Official signed the spreadsheet and therefore he assumed responsibility for those expenditures.

16. The ITF interviewed Official 4 at the Pristina Airport. Official 4 was requested to review several files related to business travel of ATCS staff during 2002 and was

shown documents: 46/2002; 49/2002; 55/2002 and 59/2002. He/She concluded that all four might contain sufficient information to justify allocation of funds for the planned travel of ATCS staff, however, none had sufficient information that would document how those allocated funds were spent. Information contained in the file 46/2002 suggests that this document might have been created after-the-fact, as had this request been submitted for approval on 25 May 2002 (as indicated), it would be impossible for the approval dates written on the document to be 21 May 2002 and 22 May 2002 respectively. Also, documents attached to request 55/2002 were printouts indicating flight reservations, but they do not prove that the travel was executed. None of the four files contained original flight tickets, boarding passes or original bills, nor do they contain sufficient proof that all the funds allocated to the travellers were provided to them by the ATCS Official, as the travellers did not sign for them. Without flight tickets and boarding passes it is not sufficiently documented that the ATCS personnel travelled on those missions.

17. Official 4 was also requested to review the files dated after 01 July 2002, in particular files 01/2002; 05/2002; 06/2002; 07/2002 and 08/2002. Having studied those files, he/she concluded that the files revealed the same absence of required documentation as the other cases identified in paragraph 16 above.

18. Official 4 was asked to review several files related to the so-called petty cash transactions and see whether there were any irregularities. He/She concluded that significant efforts were made by the ATCS Official to justify the cash withdrawals, however while the cash appeared to have been provided, there was very little effort to properly document how those funds were spent.

19 ITF Investigators interviewed the Division Manager on two occasions and he/she explained that staff travel expenses were high because of the necessity to train nineteen air traffic controllers, seven meteorological forecasters and six aeronautical information service officers. All of the above staff received classroom and on-the-job training around the world and that Pristina Airport was responsible for expenses incurred. He/she said that the airport has no rules or regulations regarding travel and that there are no forms to complete requesting authorization for travel or documentation authorizing travel. The Division Manager was aware that the ATCS Official, as the supervisor of many of those who travelled, would frequently visit staff whilst undertaking their respective courses.

20. The Division Manager said that the ATCS Official would bring to him/her a request in which he/she would detail the need for cash and that when the Division Manager found the justification sufficient and in line with needs of the Airport, he /she would approve it. The ATCS Official would then be responsible for the proper use of these funds and keeping the financial records of the expenditure. In fact, the ATCS Official had to sign for the bank check before it could be cashed at the bank

and therefore he/she had the cash in his/her "custody". The Division Manager indicated that it was not possible for him/her to check every bill and invoice; therefore he /she delegated the authority for financial management to the ATCS Official.

21. The ITF interviewed Official 1 at Prishtina Airport. He/She stated that in May 2002 he/she travelled with the ATCS Official and Official 3 to the UK in order to negotiate conditions and fine-tune the training arrangements for the ATCS staff (request 46/2002). During this mission they all received free accommodation, all meals were provided as well as transport from Shinfield Park to London upon their return. When he/she returned to Prishtina he/she was not requested to return any of the per-diem, adding that he/she knew that the ATCS Official and Official 3 also did not return any of the allocated funds (€1158).

22. The ITF interviewed the ATCS Official on two occasions and he/she acknowledged that cases 46/2002; 49/2002; 55/2002 and 59/2002 (the time period up to 30 June 2002) all show numerous irregularities. He/she studied those files in detail and concluded that all four contained sufficient information to justify the allocation of money for the planned travel of the ATCS staff, but that the documentation of the expenses was very poor.

23. The ATCS Official also acknowledged that cases 01/2002; 05/2002; 06/2002; 07/2002 and 08/2002 (the time period after 01 July 2002) also showed numerous irregularities such as missing bills to prove payments, missing signatures of ATCS staff proving that they had received the per-diem, missing flight ticket and boarding passes proving that the travel was in fact executed. The ITF concluded that it is very likely that those funds were paid to the ATCS employees on per-diem or salaries, however sufficient documentation to prove those payments was not available to the ITF investigators despite numerous attempts made in order to secure such documentation. As a matter of practice, the ATCS Official was formally certifying his/her own expenses during the business trips. The ATCS Official could not provide any acceptable explanations to those irregularities.

24. The ATCS Official further indicated that his/her superiors approved all the bills that were in the petty cash binders, including, for example: €525,00 "Present for International Staff"; €410,00 "Present for Official 3 (Nokia 8850)"; €918,00 "Palm organizer for the ATCS Official and Official 3"; €1.176,00 "Recharging scratch cards VALA 900 (20*23.52) + (12*58.8)"; €960,00 "Payment for mobile phone" and €940,00 "Rent a car for Head of Department". The ATCS Official stated that all the presents purchased from petty cash were also approved, however, he/she could not support this claim with any documentation. The ATCS Official added that had those bills not been authorized, the ATCS would have not been able to get further cash as the approval for further cash withdrawals was conditioned by proper documentation

and certification of previous spending. He/she insisted that the sums paid for refreshments/food/restaurant bills from the petty cash fund (hundreds of Euros) were all authorized by his/her superiors, but that they did not request written justifications from him/her; the bill was allegedly sufficient proof of expenditure.

25. The ATCS Official stated that in 2002, he/she was not sufficiently experienced in financial management, therefore he/she hired Finance Officer 1 and Finance Officer 2 who both had educational background and professional experience in this field. He/she said that he/she was sure that the ATCS money was spent in line with the requests, but he/she accepted that the documentation was very poor and unacceptable, even for the minimal standards required.

26. The ATCS Official agreed that he/she and his/her staff were diligent in requesting funds for ATCS operations, however, were generally deficient when addressing the need for proper documentation of the actual expenditures.

27. The ATCS Official indicated that he/she trusted his/her staff; that they were professional; and it was only very recently that he/she realized that he/she should have devoted more effort to their supervision.

V. FINDINGS

28. It was established during the ITF investigation that ATCS management effectively ignored the potential for fraud highlighted in the forensic audit in 2001/02. The airport was, and continues to be, exposed to financial wrongdoing.

29. The ITF investigation also clearly established that the oversight and internal controls at the Prishtina Airport were and still remains inadequate for satisfactory monitoring and approval of expenditure. There is no written documentation for authorizing travel and no standard forms for tracking travel-related expenses, which are vulnerable to fraud and should be approved and monitored more closely by management.

30. Throughout 2002 and clearly up to February 2004, the ATCS Management, in particular the ATCS Official, and the Division Manager failed to provide effective oversight of the financial operations, especially those related to cash at the ATCS Finance Office.

31. Documentation obtained by the ITF from the Prishtina Airport clearly shows that ATCS management failed to introduce, or enforce, rules and regulations that would guarantee proper use of the allocated funds and provided transparent documentation of this process.

32. A significant amount of the cash withdrawals by the ATCS was used for training opportunities for employees of the ATCS, who attended courses in a number of countries including Italy, Canada and the United Kingdom. Therefore, the cash advances were not all related to the ATCS Official's travel, rather for a significant number of Employees. The necessity of the frequent travel of the ATCS Official remains questionable, as the available documentation does not provide clear proof that the ATCS Official's travel was business related or justified.

33. By way of example, ITF Investigators examined available files related to travel in 2002, which included details of staff attending courses. This examination was related to the situation before and also after 01 July 2002 (*Note: On 01 July 2002 the Pristina Airport was handed over by UNMIK Pillar 2 to UNMIK Pillar 4 – KTA*). It was established that at least in nine cases (46/2002; 49/2002/55/2002; 59/2002 and 01/2002; 05/2002; 06/2002; 07/2002; 08/2002) there were significant irregularities related to distribution of funds, documentation and filings of those financial records. Having examined those listed files it was clearly established that in cases: 49/2002; 55/2002; 06/2002 and 07/2002 spending of € 64435 was not properly documented. It is possible that those funds were, in fact, used for what they had been initially allocated. However, the documentation that was available to the ITF does not support this assumption. In case 59/2002 an overpayment of €1810 was made without explanation as to where the additional funds were drawn. These findings clearly demonstrate the disarray at the ATCS Finance Office in 2002.

34. The ATCS financial documentation revealed that the ATCS Official was certifying his/her own expenses for official travel. It was clearly established by the ITF investigation that the ATCS Official made a number of reimbursement claims for food and restaurant bills or refreshments that were not properly authorized. He/she also, at least in one case, did not repay €99 to the petty cash fund from request No. 01/2002. Additionally, the ATCS Official, Official 3 and Official 1 retained a sum of €1158 of their DSA/per-diem for a business trip to the United Kingdom in May 2002, even though they had been provided with free transport, food and accommodation (request 46/2002).

35. In June 2002, the ATCS Official certified per-diem of € 6975 for nine Department 1 trainees that were supposed to participate in meteorology training in the UK. Two Department 1 staff failed their initial examination and prematurely returned to Prishtina. The remaining seven trainees signed for their per-diem, in total €5425. The ITF investigation established that request 59/2002 does not contain any documentation with regards to what was done with a sum of €1550 initially allocated by the ATCS Official for per-diem of those two ATCS employees.

36. It was established that the ATCS Finance Office used an "excel" spreadsheet and had no alternative computerized system to deal with financial documentation.

The procedure used required manual inputting of details of individual bank accounts into the spreadsheet before reconciling expenditure and income against the bank account. The system was open to abuse and was heavily reliant on individual staff integrity.

37. The so-called 'petty cash' files were reviewed and it was established that the receipts were properly filed and the figures input into the spreadsheet in most of the cases. However, it was clearly established by the ITF investigation that during 2002, various items were paid out of the so-called petty cash reserve without necessary written approvals. Those items included "presents" for international and local staff valued at several hundreds of Euros - €525,00 "Present for International Staff"; €410,00 "Present for Official 3 (Nokia 8850)"; €918,00 "Palm organizer for the ATCS Official and Official 3"; €1.176,00 "Recharging scratch cards VALA 900 (20*23.52) + (12*58.8)"; €960,00 "Payment for mobile phone" and €940,00 "Rent a car for the ATCS Official". Additionally bills for fuel, oil, car spare-parts often did not contain enough information, so that there was no evidence whether these payments were done for official business purposes. Since early 2004, no cash withdrawal over €100 has been permitted, as all sums greater than that amount have to be effected by bank transfer and formally justified.

38. The KTA, on Official 4's behalf, is currently undertaking a procurement process in order to identify and purchase a comprehensive automated financial software system to replace the outdated and inadequate "excel" spreadsheet currently in use. The new system will have the capacity to link all the financial centres at the airport, including Customs. A significant delay has been experienced within the KTA in initially progressing this procurement, which has now, albeit belatedly, been addressed.

39. In addition Official 4 has submitted to the KTA Board a suggested "authority list" that identifies authority levels for approving all aspects of expenditure. This document was placed before the Airport Steering Committee on 16 July 2004 and awaits ratification. Official 4 has taken active steps to ensure that sound financial management practices were initiated and monitored since her/his recruitment in February 2004.

VI. CONCLUSION

40. UNMIK Regulation No.: 2001/27 - Essential Labour Law in Kosovo in paragraph 9.3. states that employees shall perform his/her obligations and may exercise his/her rights, in accordance with the applicable law, labour contract and where applicable collective agreement. Paragraph 11 of the same regulation states that: *quote* "11.3. Serious misconduct shall include the following: ... (b) theft, destruction, damage or unauthorized use of the employer's assets; and in 11.4. Unsatisfactory performance shall include: ... (b) repeated mistakes not sufficient in

themselves to justify a dismissal, but which given their frequency and seriousness disrupt the normal course of the employment relationship”.

41. The investigation conducted by the ITF clearly documented that Prishtina Airport management failed to perform their duties in accordance with the general principles outlined above. In particular, the use of the assets allocated to the ATCS by the KTA in 2002 was inadequately documented and the performance of the ATCS Finance Office in that respect was unsatisfactory. This poor performance even caused financial damage to the UNMIK Pillar 4 – KTA, as demonstrated in this report. The work of the ATCS Finance Office was under direct supervision of the ATCS Official and the oversight responsibility was in the hands of the Division Manager. Both of them in their respectful capacity failed to perform their duties according to expected standards and they failed to promote the best interest of UNMIK Pillar 4 –KTA, as their employer.

VII. RECOMMENDATIONS

Recommendation 1: In light of the established irregularities and lack of oversight at Prishtina Airport, UNMIK Pillar 4 – KTA should take appropriate action against the ATCS Official and the Division Manager for mismanagement of the ATCS finances. (IV04/049/01)

Recommendation 2: UNMIK Pillar 4 – KTA should ensure that senior management of Prishtina Airport comply with observations and recommendations provided by external auditors. Written responses and implementation plans should be produced and the management team be shown how to implement changes. (IV04/049/02)

Recommendation 3: UNMIK Pillar 4 – KTA should ensure that all airport management personnel share ownership and responsibility for effective financial probity and should be reminded of this obligation. (IV04/049/03)

Recommendation 4: UNMIK Pillar 4 – KTA should ensure that written travel policies and procedures should be prepared and issued without further delay and should include the requirement for written approval for all travel, including that undertaken by senior management. This system of travel approvals should not permit airport senior staff to authorise their own travel request and requests for reimbursement of expenses that occurred during said business travel. This matter should also be brought to the attention of the airport’s steering committee for their review. (IV04/049/04)

Recommendation 5: UNMIK Pillar 4 – KTA should ensure that the travel policies should include the need for documentation to be submitted by those staff on official travel, such as “boarding passes”, “ticket stubs” and “hotel bills” to demonstrate evidence that travel occurred as per the approval. (IV04/049/05)

Recommendation 6: UNMIK Pillar 4 - KTA should ensure that the introduction of new financial software should be implemented without further delay. The finalisation of this project should be monitored by the airport steering committee. (IV04/049/06)

Recommendation 7: UNMIK Pillar 4 - KTA, in collaboration with the Airport Management team, shall re-evaluate all travel claims and the funds that were not properly accounted for the period 01 July 2002 to date to identify any claims without sufficient documentation and determine what action could be taken to recover monies involved. (IV04/049/07)

Recommendation 8: The Office for Coordination of Oversight of Publicly-owned Enterprises should monitor the implementation of the ITF recommendations. (IV 04/049/08)