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OIOS AUDIT OF UNHCR PAYROLL

Auditor:

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EXECUTIVE SUMMARY

In August and September 2004, OIOS conducted an audit of UNHCR Payroll. The audit focused on interfaces of the UNHCR payroll system, especially those affected by the transfer of responsibility from UNOG to UNHCR as at the end of 2003. OIOS also reviewed the status and causes of overpayments to separated staff, with outstanding balance of nearly US\$ 330,000 as at 31 December 2003 when the payroll services were transferred to UNHCR. As of July 2004, the UNHCR Payroll serviced some 5,800 staff processing monthly gross salaries of some US\$ 31 million, resulting in monthly net payments of some US\$ 17 million.

Overall Assessment

- OIOS assessed the current UNHCR payroll system interfaces and procedures administering overpayments to separated staff as below average. In general internal controls related to salary payments were operational, nonetheless, full reliability of the system was undermined by delays in the receipt of payment instructions due to personnel status changes. Also, reporting and control procedures still needed adjustment after the transfer of the payroll services.

Payroll System Interfaces

- The timely processing of the Personnel Payroll Clearance Action form (P.35) continues to be a problem within UNHCR. Although the Personnel Administration Section has already taken the initiative to simplify the data entry process, more needs to be done. The establishment of key performance indicators to measure the timeliness of the completion of the document could serve as a good management tool to motivate staff. This would allow identifying those offices/personnel not performing to an acceptable level, establishing accountability and encouraging those involved to resolve matters faster. *DHRM concurred with OIOS' recommendation.*
- The monthly Duty Status Summary (DSS) reports to expedite action by the Payroll Section were not always submitted. There was no control in place to ensure their completeness and that the documentation supporting them was clear and comprehensive. The importance of the submission of the DSS reports should be re-emphasized and proper procedures established to ensure the completeness and accuracy of payroll amendments. *DHRM agreed with OIOS' recommendation and will assign responsibility to control DSS submissions.*
- The PIOUS and payroll systems are two independent systems. OIOS emphasized the need to perform reconciliation between the different data sources prior to migrating from the existing

payroll system to MSRP. Without this, there is no assurance that UNHCR is migrating complete and accurate data. *DHRM is currently exploring the ways and means to reconcile the data.*

- After the transfer of payroll responsibilities from UNOG to UNHCR and with the introduction of MSRP, the payroll and MSRP systems have not been able to provide sufficient reports for the Budget Section to correct payroll allotment account charges. Pending the development of new reports from MSRP, the accuracy of payroll related budgetary charges for 2004 cannot be assured. *The Budget Section indicated that additional reports were now available and they had started to make necessary adjustments.*

Overpayments to Separated Staff

- Sufficient attention had not been given to the clearance of overpayments to separated staff totalling nearly US\$ 330,000. Some of the overpayments dated back as far as 1998, and one case to 1993. While some research and follow-up was done on the repayment, the lack of effective procedures for write-offs led to incomplete action and the accumulation of overpayment balances. Also, in many cases the long processing time of P.35s, between six months to over one year, was one of the main reasons why UNHCR was unable to make a recovery. *DHRM initiated action to write-off non-recoverable overpayment balances.*
- For many of the overpayments, it is difficult to assign responsibility at this late stage. Also, to review them individually is a cumbersome exercise, and considering the age of the transactions and the materiality of the individual amounts involved, it would not be cost effective. OIOS would suggest that DHRM be selective in the cases chosen for an in-depth review with focus on the more current and material balances. Also, lessons need to be learned and procedures put in place to avoid future reoccurrence of overpayments. *DHRM will organise regular meetings to analyse overpayment causes and identify the required improvements.*
- The largest overpayment occurred in 2002 for some US\$ 68,800 to 38 (former) local staff at Sub-Office, Peshawar. The analysis of this case demonstrated that it occurred due to a number of unfortunate events including the lack of timely transmittal of important payroll information and the miscommunication of instructions between Field and Headquarters. The delays were unacceptable, particularly at Headquarters. Responsibility could not be assigned to one individual, Section or Field Office.
- The Finance Section has drafted an instruction (IOM/FOM) to reinforce the procedures to ensure the correct treatment of salary related transactions by field offices. OIOS considers that clear guidance could significantly improve the understanding of payroll related transactions, and should be expeditiously issued. OIOS suggests that the instruction be expanded to include reference to the DSS report processing, provide more practical examples and encourage more prudence when processing termination payments. *The draft IOM/FOM is currently undergoing a final review by DHRM.*

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I. INTRODUCTION

1. In August and September 2004, OIOS conducted an audit of UNHCR Payroll. The audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors and adopted by the Internal Audit Services of the United Nations Organizations.

2. As of July 2004, UNHCR Payroll serviced some 5,800 staff and processed monthly gross salaries of US\$ 31 million (resulting in monthly net payments to staff of some US\$ 17 million). The UNHCR payroll was transferred from UNOG to UNHCR as of 31 December 2003, and is now operated and managed by the Division of Human Resources Management (DHRM). The only changes to affect the payroll system since the transfer are the interfaces between the Payroll Section and other organizational units within UNHCR such as the Budget and Finance Sections. As part of the migration of the services, UNOG transferred the payroll balance sheet. As of 31 December 2003, it included overpayments (potential recoveries) to separated staff members (account number HA 3005000) totalling US\$ 327,711.

3. The findings and recommendations contained in this report have been discussed with the Chief, Personnel Administration Section and other DHRM officials during the meeting held on 15 September 2004. A draft of the report was shared with the Director of the Division of Human Resources Management and the Chiefs of the Personnel Administration, Payroll, Budget and Finance Sections. The comments made orally and in writing are reflected, as appropriate, in this final report.

II. AUDIT OBJECTIVES

4. The main objectives of the audit were to:

- Evaluate the adequacy, effectiveness and efficiency of the internal controls of the payroll systems and procedures;
- Review the status of overpayments made to separated staff and identify the reasons for them as well as any process and procedural weaknesses, which may have led to their occurrence.

II. AUDIT SCOPE AND METHODOLOGY

5. As requested by the Personnel Administration Section (PAS), DHRM, the audit focused on the system weaknesses as well as the responsibility for the year-end closure procedures relating to the hand-over of payroll services to UNHCR from UNOG. OIOS also reviewed the new interfaces between the different organizational units involved in the payroll systems and procedures. OIOS did not, however, conduct an in-depth review of the core elements of the payroll, as this had been done by OIOS in 2000 and by the Board of Auditors in 2002. OIOS examined, nonetheless, overpayments to separated staff listed in account HA 3005000 at the date of transfer and the movements of the account over the last year. With reference to this, OIOS also reviewed the progress of clearing the account, the procedures for the recovery of the balances and how accountability of the overpayments was established.

6. OIOS reviewed relevant documentation and interviewed a number of staff from the Payroll Section, PAS, the Finance, Budget and Treasury Sections and the Management System Renewal Project (MSRP). A sample of the overpayments to separated staff was reviewed to identify the reason for them to and to assess UNHCR's response to their occurrence.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Payroll System Interfaces

7. During the review OIOS analysed the interfaces existing between the core payroll system and other offices involved in the payroll cycle. The main payroll system has not changed since OIOS' previous audit, however, some of the interfaces were different due to the transfer of responsibilities from UNOG to UNHCR as well as the implementation of MSRP.

Personnel Administration Section

8. PAS is generally the main source of information for data input into the payroll system, and is responsible for channelling instructions initiated by field or Headquarter units to the Payroll Section. As noted in previous OIOS reports (UNHCR Payroll; Submission to United Nations Joint Staff Pension Fund of Separation Documents by UNHCR), the late receipt of completed Personal Action Instructions (PAIs) and Personnel Payroll Clearance Action forms (P.35) has been assessed as the cause of many of the problems. While PAS cannot control the full cycle of PAI and P.35 processing, it is OIOS' opinion that they could be more pro-active and assertive in advocating improvements to the process. OIOS appreciates that PAS has already taken the initiative to simplify the data entry process. Nonetheless, a system to identify 'problem' field offices, as well as methods to assist and resolve the reasons for the inherent delays that is a consistent obstacle to an efficient process need to be found. OIOS suggested that the development of key performance indicators for those involved in the process, as a measurement of the timeliness of the issuance of these important documents, could serve as a good management tool to motivate staff. This would allow to identify those offices/personnel that are not performing to an acceptable level, to establish accountability and to encourage those involved to resolve matters faster.

9. Currently data can be electronically uploaded to the payroll system for certain budgetary data changes (e.g. adjustment by data batches at the start of a new fiscal year). However, this needs to be further developed by the use of similar techniques for other data fields. According to the Chief, Payroll Section, the possibility of allocating resources for the development of a more comprehensive data upload system is currently being assessed. OIOS welcomes this, and would suggest that if resources are limited, it could be gradually phased-in by introducing different elements of the PAI information. Considering that the existing payroll system will continue for some time, attention should be given to automating certain elements of data input.

Recommendation:

- The UNHCR Division of Human Resources Management should reiterate the importance to field and Headquarter personnel of timely processing of the Personnel Payroll Clearance Action (P.35) forms and take action to streamline the process by electronic up-load of the Personal Action Instruction data. Key performance indicators should be established to measure the timeliness of their completion and submission to the Payroll Section. Offices/personnel not achieving the timelines established should be required to justify the reasons for the delays (Rec. 01).

10. *DHRM agreed with OIOS' recommendation and indicated that it has started to work on its implementation.* OIOS was pleased to note that DHRM has already initiated action, but will keep the recommendation open until the key performance indicators to monitor the processing of P.35 forms have been established and concrete steps have been taken to streamline the electronic up-load of PAI data.

11. OIOS noted that correct and timely Duty Status Summary (DSS) reports to expedite action by the Payroll Section were not always available. The importance of these reports was demonstrated in the Peshawar case (see below), whereby miscommunication and/or misunderstanding between the parties involved resulted in considerable overpayments to separated staff.

12. The submission of the completed DSS reports is currently controlled by the Secretary of the Payroll Section, who simply registers their receipt. No action is initiated if the report is not submitted, or if documentation attached is not clear or comprehensive. If a DSS report is not received, it is assumed that no action is required. This weakness in internal controls needs to be addressed, and exception reporting introduced to ensure adequate follow-up is initiated. The importance of the submission of the DSS report should be re-emphasized, and proper procedures established by PAS to ensure the completeness and accuracy of payroll amendments.

Recommendation:

- The UNHCR Personnel Administration Section should formalize the process of submission of the completed Duty Status Summary reports, and assign responsibility to oversee the process to ensure completeness and accuracy of payroll amendments (Rec. 02).

13. *DHRM in principal agreed with OIOS' recommendation suggesting assigning the responsibility to oversee DSS submission process on a geographical unit basis.* The office indicated that the related instructions would be released latest by the end of December. OIOS agrees that it may be practical to assign responsibilities on a geographical basis. OIOS keep the recommendation open until the proposed improvements in the process have been introduced.

14. The Personnel Information On-line Update System (PIOUS) and the payroll system are two independent systems. OIOS recommended that periodic reconciliation between different data sources be performed. A reconciliation has not been done since 2000. DHRM informed OIOS that as it took a significant effort to follow-up on matters and resolve the differences found, they cannot afford regular involvement of personnel in such a time consuming exercise. In their opinion, this was not a high priority, as it would ultimately result in a relatively low number of required corrections. OIOS appreciates that such an exercise requires resources, but would reiterate that to ensure UNHCR personnel and payroll data is complete and accurate, reconciliation between the different data sources is imperative prior to migrating from the existing payroll system to the new MSRP payroll. Without this, there is no assurance that UNHCR is migrating accurate data.

Recommendation:

- The UNHCR Personnel Administration Section should conduct a full data reconciliation between PIOUS and the payroll system databases to ensure the data to be migrated to MSRP is complete and accurate. Early planning is important so that appropriate resources are allocated for its timely completion (Rec. 03).

15. *DHRM agreed with OIOS' recommendation and informed us that the action has been taken to find the ways and means for further integration and reconciliation of data in the different systems. OIOS is pleased to note that DHRM agrees that there is a risk of data discrepancies and that appropriate action will be taken. We will keep this recommendation open until evidence is provided as to the integrity of the data to be migrated to MSRP.*

Budget Section

16. Since the conversion of FMIS at Headquarters to MSRP, insufficient reports, in comparison to those previously received, are being generated for the Budget Section. At the beginning of 2004 the Budget Section had requested the MSRP team to provide reports equivalent to those formerly available from FMIS, however, the first report (SITREP) was only received in July 2004. The report did not contain reliable data and needed further fine-tuning. As a result, budgetary changes in the management system could not be accurately or timely adjusted. Consequently, expenditure adjustments for the period from January 2004 onwards were still pending at the time of our audit. Hence, budgetary information on the distribution of costs by offices/Headquarter units was unreliable, and was not an effective basis for subsequent budgetary planning and/or expenditure analysis.

17. The existing payroll system cannot handle retroactive changes to allotment accounts. Therefore, retroactive changes need to be adjusted manually after the accounting for salaries is complete. According to the Payroll Section, system changes to make retroactive budgetary adjustments are too complex and it would not be feasible in light of the expected future changeover of the payroll system. Consequently, adjustments need to be made manually, which is cumbersome and prone to error. Thus, if timely and relevant reports were not presented, which identified the required amendments/corrections, the only changes made would be those noted by field offices. This is not sufficiently systematic to provide reliance that all the necessary amendments/corrections will be made.

18. *The Budget Section informed OIOS that in November 2004 it had submitted to the MSRP team a request for a further 14 specific expenditure reports, which are required to assist in reviewing expenditures. Also, the responsibility for all expenditure adjustments had been previously delegated to the Finance Section. The agreement to assign responsibility for the adjustments for salary related expenditure to the Budget Section was only finalized in October 2004. Since then the Section has started to make the necessary adjustments.*

19. OIOS notes that after August 2004 some improvements have been made to address the Budget Section's reporting requirements. The Budget Section had requested the Payroll Section to provide the electronic version of the "Dollar History File" instead of the hard copy of the

Earnings and Deductions Register to address the lack of comprehensive reporting from MSRP. The electronic Dollar History File was received starting August 2004. *The Payroll Section indicated that they would continue to furnish complementary reports to the Budget Section.* OIOS appreciates this, however, the quality of this and other Payroll Section reports still need some improvements.

Recommendations:

- The UNHCR Budget Section should ensure that a review of 2004 salary charges is completed and the related adjustments are processed before the closure of accounts for the year 2004 (Rec. 04).

Finance Section

20. The Finance Section performed various payroll related reconciliations to ensure that the data transferred from the payroll system to MSRP (MPO batch reconciliation) was accurate and complete, and that payments to staff at the field level (VF522 and VF523 accounts reconciliation) were made as instructed on the MPOs. As at the end of June 2004, there remained some 9,500 unreconciled (unmatched) field payment entries and payables on accounts VF522 and VF523, all relating to the financial periods prior to 31 December 2003. Efforts, however, are being made to reduce the number of unmatched items on these accounts. Monthly targets for clearing the entries have been set and the achievement of them is being monitored. Responsibility for reconciliations relating to entries in 2004 has been allocated to the relevant Finance Clerk. The MPO batch reconciliation was up-to-date and under control.

21. The Finance Section was also maintaining bank reconciliations for two newly opened bank accounts in Headquarters for the payments of salaries to Headquarter personnel and for professional staff based elsewhere. OIOS noticed that while the reconciliations for the two bank accounts were up-to-date at the time of audit they contained a high number of uncleared items that needed to be resolved urgently. If these items remain for a longer period, there is a high risk that errors or overpayments will not be cleared. It becomes more difficult to rectify errors and recover overpayments with the passage of time.

Recommendation:

- The UNHCR Finance Section, in coordination with UNHCR Treasury Section, should review and address the uncleared items listed in the reconciliation of the two payroll bank accounts. The responsibility of this task needs to be assigned, as well as a deadline for its completion (Rec. 05).

Treasury Section

22. Two bank accounts were opened in January 2004 to accommodate the transfer of the payroll services from UNOG to UNHCR. In addition, two Senior Treasury Clerks were allocated, on a full time basis, to service these accounts and to effect payments. Internal controls over the payments made were assessed as satisfactory. However, as noted above, extra efforts was

required to fully complete work on the reconciliation of the bank accounts.

B. Overpayments to Separated Staff

23. With the transfer of payroll services as of 31 December 2003, UNOG transferred the UNHCR payroll and general payment balance sheet. This included balances relating to payroll, travel and other staff receivables and payables. Most of the accounts were of an operational nature pending payment or clearance within a few months. It also included, however, overpayments to 151 separated staff members recorded in account HA 3005000 totalling US\$ 327,711.

24. As part of OIOS' audit, the data on account HA 3005000 was reviewed to better understand the dynamics of the account and the frequency and rate of clearance of overpayments. Comparatives over the last year are provided in the table below.

Date	31 August 2003	31 December 2003	30 June 2004
Total overpayment amount	331,759.96	327,710.77	355,215.38
Separated staff members listed	141	151	172

25. There was little change in the account in the period under review. There were some movements including recoveries and offsets, and some overpayments were added.

26. The account recorded overpayments to staff members who had been separated for more than one year, some separated as far back as 1998 and one overpayment related to a staff member separated in 1993. For each recorded overpayment a letter had been sent to the former staff member demanding its repayment. However, with very few exceptions, most of the letters were returned undelivered or simply not replied to. OIOS found that in many of the overpayment cases, the P.35 had only been received by the Payroll Section between six months to over one year after separation. It is evident, therefore, that the long processing time of P.35s is one of the main reasons why UNHCR was unable to recover these overpayments.

27. OIOS discussed the causes leading to the long processing time of P.35s, and the main conclusion reached with those staff interviewed was that personnel responsible at the field level and at Headquarters had limited processing capacity. If P.35s were not prioritized, their processing was postponed sometimes for an indefinite time. Other processing delays originated from field offices, where human resource personnel delayed the process due to its complexity and uncertainty on how the separation case should be handled. This problem area has already been addressed under paragraph 8.

Analysis of Overpayments

28. Sufficient efforts have not been made by UNHCR to clear account HA 3005000. The Finance Section did some work in August 2003 to identify potential problems for further follow-up. In the intervening period PAS and the Payroll Section have done periodic reviews and followed-up on some cases. These reviews, however, would have been more effective if the

outcomes had been properly communicated and discussed with the relevant parties involved. As this was not done, the recovery process has been further hindered. OIOS found that, in general, communication between the relevant parties was often lacking and needed to be considerably improved to ensure issues and concerns were properly and openly exchanged and steps were initiated to implement the proposed recommendations.

29. Moreover, with several offices/personnel involved in reviewing the reasons for the overpayments, the efforts invested were duplicated, sometimes without a satisfactory outcome. OIOS noted several cases where write-offs had not been requested, causes for overpayments were not properly established and responsibilities were not assigned within a reasonable timeframe. Despite the work done, UNHCR's attempts to recover many of the overpayments remained unsuccessful. In OIOS' opinion, the process of analysing causes for overpayments and requesting write-offs lacked coordination and leadership. None of the offices/Headquarter Units clearly knew who should be initiating the write-offs, and both the Finance Section and PAS expected the other to be the decision-maker. As already recommended by OIOS in the 2000 audit, the write-off process needs to be more clearly defined, with one office/unit held responsible for the decision.

30. The account still included four overpayments (some US\$ 13,700), which had already been identified in OIOS' 2000 Payroll audit. Yet, no appropriate action was taken. OIOS appreciates that one of the reasons for delaying the write-offs was due to an instruction issued by PAS to put on-hold further work on overpayments until completion of the (current) OIOS Payroll audit. DHRM had requested OIOS to assist in the establishment of responsibility(ies) for the overpayments and to determine what office/unit should absorb the losses.

31. In OIOS' view the cases yielding negative (or no) response should have been submitted for write-off. It is unrealistic to think that overpayments outstanding since 1998 and earlier would be recovered at this stage. Also to retain these balances as 'receivables' is contrary to the prudence principle of accounting. After exhaustive and unsuccessful follow up, the overpayments that did not yield recoveries should have been either written-off or fully provided for. For account HA 3005000, OIOS would assume that after a letter demanding repayment had been returned undelivered or was not replied to within a reasonable period, the corresponding balance should have been assumed as non-recoverable, and an appropriate provision made.

Recommendation:

- The UNHCR Division of Human Resources Management in conjunction with the UNHCR Division of Financial and Supply Management should ensure that appropriate steps are taken to write-off non-recoverable balances. A clear policy should be established to ensure after reasonable follow-up that overpayments not recovered are properly provided for and not continued to be recorded as a receivable for an indefinite period (Rec. 06).

32. *DHRM agreed with OIOS' recommendation and informed us that the action to write-off non-recoverable balances has already been initiated.* OIOS is pleased to note the initial action taken but will keep the recommendation open until the appropriate write-offs have been initiated and a policy for the policy for financial treatment of non-recoverable balances has been established.

33. OIOS attempted to categorize the overpayment balances by the office responsible for the overpayment or by reason of the overpayment. The exercise proved to be cumbersome and demanding and therefore, did not enable OIOS to conduct an in-depth review on a case-by-case basis. Considering the age of some of the cases and that documents and personnel involved were difficult to access, such an exercise was not cost effective, particularly considering the resources already invested by UNHCR staff without a positive outcome. For the future, however, it is important that UNHCR establish and disseminate procedures to ensure that timely action is taken to review cases and resolve them. OIOS suggested that inter-office meetings to share information and observations be held. A plan of action should be developed and a clear decision made on the common approach to be taken. Moreover, the cost effectiveness of continuing to review each and every individual case needs to be taken into account, and consideration given to the age and materiality of single cases to ensure efficient use of resources. OIOS believes that some of the older cases would not yield a positive outcome. *DHRM has accepted OIOS' recommendation to organize regular monthly meetings with participation of the Personnel Administration Section, Finance and Payroll Sections to jointly address problems and identify areas requiring improvements.*

34. In overall terms, OIOS' analysis of some of the larger overpayments taking into account the preliminary research conducted by the Finance Section highlighted specific risk areas. These included weaknesses in handling salary advances (both issued in Headquarters and in the field), payments of the lump sum of the hardship and mobility allowance, misunderstandings and miscommunication of instructions on the DSS reports, the general rate of the processing of PAIs and P.35s and, poor or lack of communication between various offices. OIOS is aware that some of these issues have already been addressed, but others need immediate attention to minimize the likelihood of mistakes recurring.

Peshawar Case

35. Included in the balance of overpayments to separated staff, was an amount of US\$ 68,600 relating to overpayment of emoluments made to 38 local staff at Sub-Office Peshawar, Pakistan (SOP) during 2002. These overpayments were made to local staff, mostly interpreters and clerks, hired in late 2001 on a short-term basis. The contracts were subsequently extended to 30 June 2002, which triggered their inclusion in the centralized payroll system from January 2002 onwards. Due to 'operational reasons' their contracts were discontinued as at 28 February 2002 giving rise to the 6 weeks termination indemnity. Most of these staff members were subsequently hired from 1 March 2002 as project staff under a local NGO for a period of between 6 to 10 months. The combination of these human resources management decisions resulted in unnecessary cost to UNHCR of some US\$ 16,000. At this stage, OIOS does not question the 'operational reasons', nonetheless, we would highlight the paramount importance of timely and accurate human resource planning.

36. Unfortunately, the payroll cycle starting from the input from the field level (human resources personnel) to DHRM and the Payroll Section does not work effectively for short-term arrangements. Specifically in this case, PAIs for inclusion of the listed staff reached the Payroll Section only in March, April and May 2002, after the staff member's separation. The Monthly Payment Order (MPO) for March 2002 therefore included some of the separated staff. Rightly,

SOP ignored the MPO instructions. Meanwhile “Dummy separation action” PAIs reached the Payroll Section before the April 2002 salary calculation, which triggered a ‘withheld’ status for salaries, blocking their appearance on the MPOs from April 2002 onwards. Nonetheless, the monthly DSS of August 2002 ‘released’ the payments on instructions from PAS. The Human Resource Officer and Assistant releasing the payments claimed that this decision would have been based on instructions from the field. However, documents supporting this decision could not be found in PAS. As a result, the payroll system retroactively calculated salaries for the former staff members for the period when they were on a withheld status. The August MPO received by SOP was assumed to represent the termination payment, whereas in fact it instructed SOP to pay the salaries for the five-month period from April to August 2002. Thus, payments equal to five months salary were retroactively made to the staff separated as at 28 February 2002. Apparently, in SOP neither the Finance Assistant preparing the salaries nor the Senior Administration/Finance Officer approving the payments questioned the size and validity of them.

37. After the August 2002 payment, the listed separated SOP staff members continued appearing on the following months’ MPOs, as their status for salary calculations was ‘released’. SOP did not make any more payments to the separated staff believing that their termination payments had been made.

38. In January 2003, the Payroll Section stopped the salaries for the separated staff on instructions from PAS requesting them to be placed on ‘withheld’ status. Finally, the completed P.35s, allowing full withdrawal of the former staff members from payroll system, were received by Payroll Section on 23 April 2003, almost fourteen months after the termination date and eleven months after their issue by SOP. This time period is unacceptable, particularly at the Headquarters end. SOP claimed that the initial delay was caused by the late submission of leave records by supervisors of separated staff. The Payroll Section finalized their records after receipt of the completed P.35s. The overpayment exceeded the annual leave balance and six weeks termination indemnity payable on separation.

39. The last action relating to this case was the issuance of official letters to staff members informing them of the overpayment and requesting recovery. Some of the letters were returned undelivered, others were not responded to. Thus recovery of these overpayments is highly unlikely. No further action has been taken to initiate write-off of these overpayments even though it is doubtful that a recovery will be forthcoming.

40. OIOS noted that if a proper review had been done earlier, UNHCR could have recovered overpayments totalling some US\$ 4,700 from the four local staff members who moved from the SO Peshawar to Kabul in early 2002. They were only separated in late 2003, reasonably long after realizing in mid-2003 that UNHCR had made overpayments.

41. In conclusion, OIOS has listed issues surfacing from this case, which in some way have contributed to or resulted in overpayments. OIOS’ review did not allow responsibility to be assigned to a single person or office, nor improve the chances of recovery of the overpayments already made. However, the following summarizes the main concerns and highlights the weak areas that need to be addressed by UNHCR to ensure non-recurrence, as follows:

- The unjustified issuance of 6 month contracts and/or their early termination when de facto

- staff remained in the office as project staff;
- The slow processing of PAIs and P.35s caused by either insufficient and/or untrained personnel in the field, PAS and the Finance Section;
 - Miscommunication of staff members' status on DSS reports;
 - The lack of follow-up on the receipt of unusual instructions received from another office (the Payroll Section did not question the PAS instructions to 'release' salaries; SOP did not question the Payroll Section's instruction (MPO) to pay salaries five times the usual size);
 - The postponement of in-depth reviews, which would have led to the recovery.
42. In response to the above listed issues certain measures have already been taken:
- PAS has started to develop simplified PAIs and P.35s. Timely development would have an impact on the overall processing time;
 - The Payroll Section, since July 2003, has introduced split MPOs to segregate regular and termination benefits. This change allows field offices to distinguish termination and regular payments;
 - The Finance Section has drafted an instruction (IOM/FOM) addressed to field offices to reiterate the procedures for salary related transactions, including the appropriate accounting entries, salary calculations and how to interpret the MPOs. The document has not yet been issued, as it still has to be validated by DHRM. OIOS highlights the importance of this document, thus would urge that its completion is expedited. In OIOS' view, the IOM/FOM should include some practical examples to assist field staff in accounting for and calculating salary payments. The instruction should reiterate the importance of accurate and complete DSS reporting, give instructions on its processing and re-emphasize the need to exercise prudence in processing termination and other unusual payments. *The draft IOM/FOM is currently being reviewed by DHRM.*

Recommendation:

- The UNHCR Finance Section in cooperation with the UNHCR Division of Human Resources Management should issue an instruction on payroll related activities for field offices including practical guidance in accounting for and calculating salary payments. The instruction should also highlight the importance of accurate and complete Duty Status Summary reporting (Rec. 07).

V. ACKNOWLEDGEMENT

43. I wish to express my appreciation for the assistance and cooperation extended to the auditor by the staff members of the UNHCR Payroll Section, Personnel Administration Section, Finance Section, Budget Section, Treasury Section and the MSRP team.

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