

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP STAFF PAYROLL, ALLOWANCES AND BENEFITS

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Report on the Audit of UNDP Staff Payroll, Allowances and Benefits Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP staff payroll, allowances and benefits from 27 February to 13 April 2017. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) Governance including organizational structure, roles and responsibilities, policies and procedures, and monitoring and oversight.
- (b) Payroll processing, including salary advances and overtime.
- (c) Allowances and benefits, including education grant, hardship allowance, non-hardship allowance/non-family service allowance, mobility incentive, non-removal, rental subsidy, dependent child or spouse allowance, and representation allowance.

The audit covered the activities of the Office from 1 January 2015 to 31 December 2016. In 2016, UNDP paid an amount of \$781 million towards salaries, allowances and benefits of UNDP staff. The last audit of payroll, allowances and benefits was conducted by OAI in 2010.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory / some improvement needed**, which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to inadequate monitoring arrangements for allowances and benefits.

Key recommendations: Total = 6, high priority = 1

The six recommendations aim to ensure the following.

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1	High
	2, 3	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 6	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Inadequate monitoring arrangements for allowances and benefits (Issue 1)

The monitoring mechanism for the validation of the monthly payroll cycle did not extend to all allowances and benefits. For example, there was no evidence of any checks being performed during the audit period for review of supporting documentation that staff members were required to keep for secondary dependant allowances, repatriation grant, and home leave. Further, there was no evidence of checks performed to confirm that the self-reporting done by staff members was correct and that any changes had been reported by staff members on a timely basis.

There was no document defining the monitoring roles and responsibilities in relation to monitoring allowances and benefits. A service level agreement between the GSSU, OFRM and OHR was signed during the course of the audit fieldwork, on 10 April 2017; however, it did not cover monitoring roles for allowances and benefits, although it did set out an oversight and monitoring role for payroll for the Global Payroll Services team.

Recommendation: The Office of Human Resources in coordination with the Office of Operations, Legal & Technology Services and the Office of Financial Resources Management should improve the monitoring process for allowances and benefits by: (a) updating the service level agreement to clearly define the roles and responsibilities for the monitoring of allowances and benefits; and (b) defining a clear follow-up procedure for actions to be taken for all issues identified through the monitoring or review activities in relation to allowances or benefits in the 'UNDP Programme and Operations Policies and Procedures'. This should set out clear accountability, escalation and recovery processes.

Management comments and action plan

The Director of the Office of Human Resources, and the Deputy Assistant Administrator, Deputy Director & Chief Finance Officer accepted all the recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.



Helge S. Osttveiten
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I. About payroll, allowances and benefits

UNDP salaries, allowances and benefits are governed by the principles of the United Nations Common System as promulgated in the Staff Rules and Staff Regulations of the United Nations. Within UNDP, the Office of Human Resources (OHR) is the process owner for payroll, allowances and benefits. The payroll, allowances and benefits for all international staff are processed at the Global Shared Services Unit (GSSU) in Copenhagen. Policies are set at Headquarters in New York. The Office of Financial Resources Management (OFRM) has an oversight function over the payroll, including checking the payroll files for any issues, running exception reports and carrying out payroll reconciliations. The payroll oversight team is based at the GSSU in Malaysia. Country Offices and business units are responsible for ensuring that the information required for processing payroll and sent to Copenhagen is accurate and complies with UNDP policies and procedures.

II. Audit results

OAI made one recommendation ranked high (critical) and five recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendation:

- (a) Improve the monitoring process for allowances and benefits (Recommendation 1).

Medium priority recommendations, arranged according to significance:

- (a) Strengthen the management of payments made through the payroll (Recommendation 2).
- (b) Improve the management of rental subsidy allowances (Recommendation 5).
- (c) Update the representational allowance rate list (Recommendation 3).
- (d) Improve the management of overtime claims submitted by offices (Recommendation 4).
- (e) Require staff members to submit proof before dependent benefits are processed (Recommendation 6).

The detailed assessment is presented below, per audit area:

A. Governance

1. Monitoring and oversight

Issue 1 Inadequate monitoring arrangements for allowances and benefits

Per the UNDP Accountability Framework, responsibilities and accountabilities should be consistent, clearly defined, and formally delegated. This includes ensuring segregation of key duties and responsibilities in authorizing, processing, recording, and reviewing official transactions among staff. The processing of payroll and benefits (for international staff and local staff based in New York) involves a number of teams, mainly OFRM, OHR and the GSSU, which is part of the Office of Operations, Legal & Technology Services.

Interviews with staff in OFRM, OHR and GSSU as well as the review of documentation such as monitoring reports produced by the Payroll Finance Unit and Payroll Finance Oversight teams in the GSSU in Kuala Lumpur showed that even though there was an oversight mechanism to check and validate the monthly payroll cycle, these

checks did not extend to all allowances and benefits as far as the eligibility and validity of allowances and benefits were concerned. More specifically:

- The human resources management section of the 'UNDP Programme and Operations Policies and Procedures' has provisions regarding the review of supporting documentation that staff members were required to keep for secondary dependant allowances, repatriation grant, and home leave. However, there was no evidence of any checks being performed during the audit period. The GSSU/Payroll Finance Unit in Kuala Lumpur ran, on a monthly basis, reports to monitor abnormal leave balances, but there was no evidence of checks to verify whether staff members had taken their home leave per the provisions of the policy.
- GSSU was relying on self-reporting and self-certification for any changes in staff members' dependant information, such as changes in marital status, changes in spouses' earnings, termination of secondary dependant support, etc. Other than the requirement for staff to self-report any such changes, there was no evidence of checks performed to confirm that the information on staff members' dependants was correct and that any changes had been reported by staff on a timely basis.

The inadequacies noted in the monitoring arrangements were due to the lack of a document defining the monitoring roles and responsibilities in relation to monitoring allowances and benefits. A service level agreement between the GSSU, OFRM and OHR was signed during the course of the audit fieldwork, on 10 April 2017. The audit reviewed the service level agreement and noted that it did not cover monitoring roles for allowances and benefits, although it did set out an oversight and monitoring role for payroll for the Global Payroll Services team. OHR management indicated that the service level agreement would be reviewed at the end of 2017.

Inadequate monitoring arrangements may result in errors in the payment of benefits not being identified in a timely manner, such as, for example, incorrect amounts being paid or ineligible staff receiving these benefits.

Priority	High (Critical)
Recommendation 1:	
The Office of Human Resources in coordination with the Office of Operations, Legal & Technology Services and the Office of Financial Resources Management should improve the monitoring process for allowances and benefits by:	
<ul style="list-style-type: none"> (a) updating the service level agreement to clearly define the roles and responsibilities for the monitoring of allowances and benefits; and (b) defining a clear follow-up procedure for actions to be taken for all issues identified through the monitoring or review activities in relation to allowances or benefits in the 'UNDP Programme and Operations Policies and Procedures'. This should set out clear accountability, escalation and recovery processes. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The service level agreement will be updated to include the Benefits and Entitlements Services Unit's monitoring role in relation to benefits and entitlements. (b) The Office of Human Resources agrees to review the policy on recovery of overpayments for clarity. The policy already includes accountability, escalation and recovery principles. The review must be conducted 	

jointly with the Office of Financial Resources Management and Legal Office to integrate the agreed to procedure into the Asset Recovery Framework. The Office of Human Resources also agrees to:

- revising the UNDP policy on home leave to clarify the language concerning the requirement to upload or keep documentary evidence of travel for two years;
- including a non-exclusive list of acceptable documentary evidence; and
- including a provision that failure to produce documentary evidence upon request may result in a recovery of the home leave lump sum.

Estimated completion date: January 2018

Issue 2 Incomplete policy information for certain allowances and benefits

According to the UNDP Accountability Framework, organization policies and standards should ensure compliance is grounded in regulatory frameworks. The 'UNDP Programme and Operations Policies and Procedures' provide for the operational standards and procedural guidance on core business processes and are the basis for all aspects of UNDP operations. These include a section on allowances and benefits, which stipulates the policies and accompanying procedures for each established benefit.

The audit noted cases where payments had been made to staff based in various Country Offices for benefits and allowances not stipulated within the 'UNDP Programme and Operations Policies and Procedures', as highlighted below:

- Ad hoc telephone allowances of \$41,000 in 2016 had been granted to 358 personnel. This benefit was paid to staff in Pakistan, Bangladesh, Iraq and China.
- Transportation allowances of \$81,228 in 2015 for 53 personnel and \$83,820 in 2016 for 58 personnel were paid in Afghanistan, Iraq, Samoa and the Syrian Arab Republic. These cases were approved at the corresponding Country Office level. Payments were provided for after-hours transportation in Samoa and the Syrian Arab Republic, while in Iraq and in Afghanistan, payments were provided to drivers due to the prevailing security situation.
- Temporary relocation payments of \$188,000 were made in 2015. This was considered a one-off measure for the Syrian Arab Republic.

Furthermore, for representational allowances, the list of rates had not been updated since 1995. At the time of the audit, the policy was owned by OFRM, although the administration and payment of the allowances was undertaken by the GSSU. Representational allowances were paid to UNDP staff who had extensive external representation functions. Out of a sample of 10 cases tested, 2 cases related to payments that did not correspond to the representational allowance rate sheet. In the first case, the rate table showed a rate of zero for the particular duty station; however, GSSU staff explained that the staff member kept receiving the rate their predecessor received, and there was no evidence showing how their predecessor's rate had been determined and whether there was approval from OFRM or OHR. In the second case, the rate sheet only included a rate for a P4 staff member in the particular duty station. However, the incumbent was a D1 staff and although they were receiving a higher rate the rate sheet did not include a rate for that level. In addition, the rate sheet continued to refer to countries that did not exist, such as Yugoslavia, and it did not show existing countries like South Sudan or Timor-Leste. During the audit period, UNDP paid \$1.1 million for representational allowances. The GSSU explained that many of the rates, in addition to those relating to the two exceptions noted in the audit sample testing, were in place before GSSU took over the administration of representational allowances. The GSSU

continued the payments at the rate they were paid when the GSSU took over for the cases without a rate in the rate sheet.

If policy information is incomplete or unclear, it may create difficulties in the monitoring and consistent application of the corresponding benefits.

Priority	Medium (Important)
Recommendation 2:	
The Office of Human Resources should strengthen the management of the various types of payments made through payroll by developing guidance on non-benefit payments identifying the required submission, approval, and oversight processes.	
Management action plan:	
The Office of Human Resources agrees with the recommendation.	
Estimated completion date: June 2018	

Priority	Medium (Important)
Recommendation 3:	
The Office of Financial Resources Management should update the representational allowance list of rates to ensure that it reflects all countries where it is paid and the current rates.	
Management action plan:	
The Office of Financial Resources Management agrees with the recommendation.	
Estimated completion date: June 2018	

B. Payroll

1. Salary advances and overtime

Issue 3 Weaknesses in overtime claims management

The overtime compensation policy in the human resources management section of the 'UNDP Programme and Operations Policies and Procedures' sets out the conditions for staff requesting overtime, as well as the process for authorizing, calculating, and processing relevant payments. The policy sets out the requirements for advance authorization of the overtime, budget checks and offices maintaining records of actual overtime worked. The policy also sets out that overtime should be 'an exceptional occurrence'.

The audit team reviewed a sample of 10 overtime claims for New York-based staff (relating to overtime payments of \$28,926). The total amount paid for overtime over the audit period was \$4.1 million (net of staff assessment) to staff and \$3.3 million to service contract holders. The GSSU performed limited checks, such as whether the sum of hours claimed was correct, but substantive checks were left to the supervisor / approver of the overtime. As such, issues relating to incomplete forms or non-compliance procedures had not been flagged by the GSSU. These included:

- Lack of advance approval of the overtime by the staff member's supervisor in all 10 cases reviewed.
- No evidence of budget availability checks for the overtime (to be included in the advance approval form) in 7 out of 10 cases.
- Approval signatures were not dated in 3 out of 10 cases.
- Inconsistencies in the number of standard working hours above which overtime was claimed within the same office in 5 out of 10 cases.
- Inconsistencies in the approval and reporting forms used across offices.
- Recurring overtime by the same staff, against the provisions of the policy that overtime should only be worked on an exceptional basis.

The GSSU explained that several of the overtime claims related to staff that may be expected to work overtime regularly.

Weaknesses in the overtime claim process may result in staff burn-out and financial losses to the organization, where ineligible overtime is claimed or where claims are not calculated correctly.

Priority	Medium (Important)
Recommendation 4: The Office of Human Resources should improve the management of overtime claims submitted by offices by: <ul style="list-style-type: none"> (a) introducing a mechanism to monitor compliance with the UNDP overtime policy – this could include spot checks of overtime claims, and following up with relevant offices as required; and (b) providing offices with a standard template for both overtime pre-approval and overtime reporting (once overtime has been taken) and consider whether an Atlas workflow would be possible, to replace the process that uses paper forms for the pre-approval and reporting. 	
Management action plan: The Office of Human Resources agrees to provide a standard template, and if possible, integrate a monitoring mechanism linked to E-services.	
Estimated completion date: January 2018	

C. Allowances and benefits

Issue 4 Weaknesses in rental subsidy calculation mechanism

The purpose of the rental subsidy scheme is to facilitate the settlement of new staff members and to encourage mobility within the United Nations Common System. It subsidizes the rental costs of eligible staff members. The reasonable maximum rent levels for duty stations in Europe and North America are established by the Secretary-General. The reasonable maximum rent levels for duty stations outside of Europe and North America are determined by the authorized official at the duty station, subject to local market conditions and in accordance with the criteria set out in the Annex to ST/AI/2013/2. The rent amount does not include other additional recurring expenses or other utilities paid in addition to the rent.

The total rental subsidy paid to international staff during the audit period was \$18.8 million. The certification on the reasonableness of the rent for staff located in the field is done by UNDP Country Offices. The audit noted that there was no set process for checking the maximum rent levels for these duty stations. GSSU accepted any rent that was approved by senior management in Country Offices, without additional checks being completed, as Country Offices were not required to share the limits with the GSSU.

The audit also noted that there was no guidance on the amount to be deducted if any additional recurring expenses or other utilities paid in addition to rent (such as electricity, internet service, etc.) were built into the rent price, except for electricity fees for Europe and the United States.

By not setting maximum rent limits for duty stations outside of Europe and North America, the GSSU cannot properly perform a monitoring role, which may result in the wrong amounts being processed.

Priority	Medium (Important)
Recommendation 5:	
The Office of Human Resources should improve the management of rental subsidy allowances by:	
<ul style="list-style-type: none"> (a) requiring Country Offices to submit rental subsidy limits agreed by the UN Country Team to the GSSU where available – on processing of any rental subsidy request, GSSU should check the amount against the agreed country limits; and (b) preparing guidance on amounts to be deducted for additional recurring expenses. 	
Management action plan:	
Where limits have been established by the UN Country Team, these can be recorded and kept as a reference by GSSU.	
A guidance note reflecting the established policy of only considering rental amounts as admissible will be prepared for use by Benefits and Entitlements Services Unit.	
In addition, the Office of Human Resources will review the rental subsidy policy and procedures to clarify that only rent related fees will be included in the calculation.	
Estimated completion date: January 2018	

Issue 5 Inconsistencies in implementation of language allowance

The 'UNDP Programme and Operations Policies and Procedures' require that to qualify for language allowance, a General Service staff member must be proficient in two official UN languages and must pass a UN Language Proficiency Examination in at least one of them.

The total language allowance paid during the audit period was \$1.2 million. In a review of a sample of 10 General Service staff who received the language allowance, the audit noted one instance where a staff member was receiving the allowance for speaking two additional UN languages when the payment should have been for one. This led to an approximate overpayment of \$22,680 over 19 years (of which \$2,268 related to the audit period). GSSU reviewed the case and confirmed the error, and indicated that a detailed review would be completed to confirm if other cases existed. At the time of drafting this report, GSSU had already initiated the recovery process by contacting the staff member and requesting a reimbursement of the over-payment.

Paying staff an incorrect amount for language allowance is against UNDP policies and may result in unnecessary payments by the organization.

Comment

OAI is not raising a recommendation as GSSU has already initiated action for the recovery of the over-payment.

Issue 6 Lack of supporting documents for dependency status

According to the 'UNDP Programme and Operations Policies and Procedures', UNDP staff are entitled to three different dependency allowances: (i) dependent child allowance; (ii) dependent spouse allowance; and (iii) secondary dependent allowance. A dependent child can be: (a) a staff member's natural child; (b) a staff member's legally adopted child; or (c) a staff member's stepchild, if residing with the staff member. Dependent children should be under the age of 18, or up to the age of 21 if the child is in full-time attendance at a school or university (or similar educational institution) and the staff member provides main and continuing support. UNDP recognizes as a staff member's spouse any person who is lawfully married to him or her under the law to which the staff member is subject or a legally recognized domestic partnership contracted by a staff member under the law of the country of his or her nationality.

The total amount paid for dependent child allowance during the audit period was \$22.6 million and \$1 million for spouse allowance. OAI reviewed supporting documents for a sample of 32 staff receiving dependent child and spouse allowances. In six of the cases reviewed, there were no birth certificates or other substantiating documentation to verify the relationship of the dependent children to the staff members (only passports that did not show the names of the parents). According to GSSU, it was not a requirement for staff members to submit birth certificates for dependent children. The questionnaire on dependency status completed by staff in order to receive the allowance did not specify the documentation required for dependent children – it only stated that staff should attach substantiating documentation. None of the staff or children concerned were from countries in crisis situations, where obtaining this documentation might have been difficult. In one case, there was no marriage certificate or proof of partnership even though the staff member was receiving a spouse allowance.

Without birth certificates and/or proof of marriage there is a risk that staff members can claim dependency allowances for children who are not their biological or adopted children, and for ineligible partners.

Priority	Medium (Important)
Recommendation 6: The Office of Human Resources should require staff members to submit birth certificates, or proof of adoption for child dependents, and marriage certificates before dependent benefits are processed for the first time or following a change in circumstance. Where proof of marriage, birth certificates, or proof of adoption are not submitted, the allowances should not be processed.	
Management action plan: The GSSU will ensure that required documents are submitted as recommended above and allowances are processed only upon submission. Standard operating procedures and templates will be updated accordingly.	
Estimated completion date: October 2017	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.