



INTERNAL AUDIT DIVISION I  
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Rolf G. Knutsson, Executive Secretary  
A: United Nations Compensation Commission

DATE: 21 JULY 2005

REFERENCE: :AUD-  
7-7:7(00015/05)

FROM: Patricia Azarias, Director  
DE: Internal Audit Division I, OIOS

A handwritten signature in cursive script that reads "P. Azarias".

SUBJECT: **OIOS Audit No. AF2005/820/02: Compensation award payments in**  
OBJET: **United Nations Compensation Commission**

1. I am pleased to present herewith our final report on the audit of the above subject, which was conducted during March and April 2005.

2. Based on your response, we have closed recommendations 4, 5, 6, 7, 8, 9, 11, 12, 13, and 14 in the OIOS recommendations database. In order to close recommendation 10, we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. OIOS is reiterating recommendations 1, 2 and 3, and requests that you reconsider your initial response concerning these recommendations. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e. recommendations 1, 2, 3, 7, and 13) in its annual report to the General Assembly and semi-annual report to the Secretary-General.

3. I take this opportunity to thank the management and staff of UNCC for the assistance and cooperation provided to the auditor in connection with this assignment.

Copy to: Mr. Burnham  
Mr. Warren Sach  
Board of Auditors  
Mr. Bendapudi  
Mr. Tapio

# Office of Internal Oversight Services

## Internal Audit Division I



### Audit of Compensation award payments in United Nations Compensation Commission

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**Audit no:** AF2005/820/02  
**Report date:** 21 JULY 2005  
**Audit team:** Tilchand Acharya, Auditor-in-Charge

**EXECUTIVE SUMMARY**  
**Audit of Compensation award payments**

OIOS carried out an audit of compensation award payments covering all categories during March and April 2005. The objectives of the audit were to: (a) review the efficiency and effectiveness of internal control processes exercised in compensation awards payments; (b) examine systems used in recording award payments against approved awards; and (c) assess mechanisms to oversee the distribution of payments made to governments and international organizations, including the refund of undistributed payments, repayments and duplicate payments returned. The audit was carried out in accordance with generally accepted auditing standards applicable to international organizations.

OIOS found that the existing compensation award payment procedures had been generally adhered to, and that the Claims Payment Section has a dedicated staff. However, the procedures themselves do not meet the control objectives intended in Financial Regulation 5.8(b). As a result, there is no reasonable assurance of the effectiveness of controls used in the certification and approval of \$18.8 billion of award payments as of 31 December 2004. Furthermore, too much reliance was placed on the governments and international organizations for the distribution of award payments without adequate monitoring and oversight by UNCC. As of 31 December 2004, approximately \$38.8 million was outstanding as refunds against compensation award payments. Of this amount, approximately \$4.1 million has been outstanding for over two years.

In addition, repayments under the Governing Council decision 48 (c) were made without analyzing the need for the balances of the Compensation Fund. Although refunds of undistributed funds after the application of decision 48 (b) reverted to the Compensation Fund, such refunds were also maintained as accounts payable for write backs, which totaled \$115,384,198 as of 31 December 2003. These write backs are used for repayments under decision 48 (c). The payables under write backs date from 1998. Approximately \$175.4 million was repaid, and \$92.4 million is yet to be repaid as of 31 December 2004.

Of the 32 governments and international organizations that received award payments of approximately \$197.3 million on 16 October 2003, 14 or 44% of them did not support their distribution reports for \$156 million or 79% of award payments with audit certificates. An amount of \$22,573,477 was shown as refunds received on duplicate payments as of 4 April 2005. There were variances between the Claims Payment Management System and the Governing Council reports on reported distributions, refunds outstanding and undistributed refunds returned as of 31 October 2004.

## TABLE OF CONTENTS

	Chapter	Paragraphs
I.	INTRODUCTION	1-7
II.	AUDIT OBJECTIVES	8
III.	AUDIT SCOPE AND METHODOLOGY	9-10
IV.	OVERALL ASSESSMENT	11
V.	AUDIT FINDINGS AND RECOMMENDATIONS	
	A. Award Payment Procedures	12-26
	B. Award Distribution Procedures	27-57
	C. Support Services	58-61
	D. Duplicate Claims	62-66
VI.	ACKNOWLEDGEMENT	67

## I. INTRODUCTION

1. Pursuant to its resolution 692 (1991), the Security Council established the UN Compensation Commission (UNCC) and the UN Compensation Fund (Fund) in accordance with Part I of the Secretary-General's report S/22559. As a subsidiary organ of the United Nations Security Council, UNCC was established to process claims and pay compensation for losses resulting from Iraq's invasion and occupation of Kuwait.

2. The revenue derived from the oil sales authorized by Security Council resolution 986 (1995), which came into effect in December 1996, was deposited in a specially created UN escrow account. The funds in the escrow account were used to meet the humanitarian needs of the Iraqi population, and to provide income into the Compensation Fund. The operating costs of the Commission are also paid from the Fund. The exact amount coming into the Compensation Fund each month depended on the quantity of oil sold by Iraq and the price of oil.

3. Compensation is payable to successful claimants from the Fund that originally received 30 per cent of the proceeds from sales of Iraqi oil, and the amount was revised to 5 per cent in 2003 under Security Council resolution 1483. In its resolution 687, the Security Council established Iraq's legal responsibility for such losses:

"Iraq...is liable under international law for any direct loss, damage, including environmental damage and the depletion of natural resources, or injury to foreign Governments, nationals and corporations, as a result of Iraq's unlawful invasion and occupation of Kuwait".

4. As shown in Table 1, the Compensation Fund Balance as of 31 December 2004 amounted to \$173,556,142 as compared with \$293,440,872 as of 31 December 2003.

**Table 1: Funds Availability for Compensation Awards**

Particulars	Amount in US dollars	
	31/12/2004	31/12/2003
Total funds available for allotment	1,320,575,985	4,763,401,829
Less: Operating reserves	- 74,349,800	- 135,000,000
:Cumulative allotment for the biennium	-1,072,670,039	- 4,334,960,957
<b>Net funds available for allotment</b>	<b>173,556,146</b>	<b>293,440,872</b>

5. As of 7 April 2005, UNCC received 2.7 million claims seeking a total of approximately \$367.8 billion in compensation. Over \$302.8 billion of the asserted claims have been resolved, and 1.5 million of the resolved claims have been awarded for compensation in the amount of \$52.1 billion. So far approximately \$19.2 billion have been paid to the claimants. Table 2 summarizes the receipt, resolution, awards and payments as of 7 April 2005.

**Table 2: Summary of Compensation Claims as of 7 April 2005**

Category	Claims Processing				Claims awarded		Claims paid
	Claims received		Claims resolved		Total	Value (\$)	Value (\$)
	Total	Value (\$)	Total	Value (\$)			
A	923,158	3,455,088,000	922,997	3,454,634,000	859,258	3,212,600,000	3,202,591,638
B	5,734	20,100,000	5,734	20,100,000	3,941	13,450,000	13,450,000
C	1,736,265	11,504,564,653	1,704,200	11,400,654,653	640,918	5,121,222,180	5,114,302,767
D	13,876	16,555,170,488	13,449	15,669,170,488	10,041	3,317,362,266	2,651,810,816
E	6,692	84,877,949,769	6,692	84,877,949,769	4,104	26,607,724,602	5,197,984,826
F	393	251,430,840,289	374	187,430,840,289	277	13,827,296,754	2,986,598,939
<b>Total</b>	<b>2,686,118</b>	<b>367,843,713,199</b>	<b>2,653,446</b>	<b>302,853,349,199</b>	<b>1,518,539</b>	<b>52,099,655,802</b>	<b>19,166,738,986</b>

**Source: UNCC Website**

6. The Claims Payment Section (CPS) is responsible for processing compensation award payments in accordance with the United Nations Financial Regulations and Rules. The Section has a total of nine staff comprising three professional and six general service staff. UNCC has adopted Claims Payment Procedures Manual, which provides for systems, processes and controls that are used in the compensation award payments. CPS uses Claims Payment Management System (CPMS) and Integrated Management Information System (IMIS) to record, process and report payments.

7. UNCC's response to audit recommendations are shown by the use of italics.

## II. AUDIT OBJECTIVES

8. The audit objectives included:

(a) A review of the efficiency and effectiveness of internal control processes used in recording compensation award payments;

(b) An examination of systems used in recording award payments against approved awards; and

(c) An assessment of mechanisms to oversee the distribution of payments made to the individual claimants by the recipient governments, including the refund of undistributed payments, repayments and duplicate payments returned.

## III. AUDIT SCOPE AND METHODOLOGY

9. The audit included a general review of award payments made for the period from January 1994 to 31 December 2004. Award payments of \$794.4 million made in 2004 were examined to test the recording, processing and reporting of award payments, and to trace the status of payments against relevant award decisions. Furthermore, payment distribution reports from governments and international organizations were assessed as to their timeliness and compliance.

10. Test transactions were selected from seven governments and international organizations

that received \$724.7 million award payments during the period from 1 January to 31 December 2004. In addition, information as of the run-date has been used when it could not be generated as of a cut-off date. Information published in the UNCC website and interviews with officials of the Claims Payment Section and the United Nations Office at Geneva (UNOG) Finance Section were used to gain an understanding of the operation.

#### **IV. OVERALL ASSESSMENT**

11. OIOS found that compensation award payments were generally made in compliance with the Claims Payment Procedures Manual. However, although UNCC's unique operational circumstances called for alternative compensating internal control procedures in certifying and approving award payments, they were not established. Furthermore, monitoring and oversight mechanisms over the distribution of award payments needed improvements in order that successful claimants are located and paid in a timely manner. Some governments and international organizations were non-compliant with the reporting requirements established under Governing Council decisions 18 and 48. The refunds against undistributed award payments were not reviewed by the Claims Processing Division to examine unlocated claimants and duplicate claims.

#### **V. AUDIT FINDINGS AND RECOMMENDATIONS**

##### **A. Award payment procedures**

12. OIOS reviewed \$794,413,559 of award payments that UNCC made during the period from 1 January to 31 December 2004 and examined compliance with payment procedures outlined in UNCC's Claims Payment Procedures Manual (the Manual), and with payment mechanisms established by Governing Council decisions 17, 73, 100, 100 Rev.1, 197, and 227 (extension).

13. In accordance with the Manual, the Office of Programme Planning, Budget and Accounts (OPPBA) issues award payment allotment advices against UNCC's request for allotment under the United Nations Compensation Fund (CWA). Award payment allotments are issued in six IMIS object codes, which correspond to claims categories A, B, C, D, E and F. The Governing Council of the United Nations Compensation Commission (UNCC) issues compensation award decisions on recommendations from the Panel of Commissioners.

14. The Claims Payment Section (CPS) uses these decisions as a basis to process award payments in accordance with the applicable payment mechanisms. The Information Support Services (ISS) implements these decisions in the database in close coordination with the Legal Services Branch (LSB). CPS prepares payment simulations using the Outstanding Payable Balances Schedule that the ISS and LSB generate in the Oracle Discoverer. The Outstanding Payable Balances Schedule provides award amounts with current awards, cumulative payments and outstanding payable balances. Payment simulations are done to determine the payment method by applying the relevant payment decisions in order to ensure that similarly situated claims are given equal priority in the order those awards were approved. The Claims Payment Section then initiates "Prepare Payment" action in the Claims Payment Management System

(CPMS), and the action “locks” the claims for payment in CPMS.

15. CPS raises pre-encumbrance documents in IMIS at the level of each recipient country or international organization to certify award payment funds allotted for each claim category supported by a list of individual claimants. It also raises and reviews obligations and payment request documents and the Finance Section in the United Nations Office at Geneva (UNOG) approves them. Given the sheer volume of claims payment processing, the obligation and payment request documents are supported with lists of individual claimants but those lists are not sent to the Finance Section in UNOG.

16. UNOG's Finance Section issues award payment advises to UNOG's Treasury Unit with information to CPS. The UNCC Secretariat informs each recipient government and international organization in a Note Verbale on the award payments being released, and provides the list of individual claimants for distributing payments to each claimant. The recipient governments and international organizations are allowed 12 months to distribute payments, and to refund any undistributed payments. CPS establishes accounts receivables for unlocated claimants after the expiration of the due date, and in accordance with the Governing Council decision 48, it records refunded amounts as payables and retains them for 12 months to allow for repayments to any claimants located after the payments are refunded.

Certifying and approving functions

17. As of 31 December 2004, UNCC made \$18.8 billion in award payments against the approved awards of \$52.1 billion in compliance with the payment procedures described in the above paragraphs. Table 3 provides a summary of claims awarded and payments made under each of the six claim categories.

**Table 3: Summary of award payments**

Categories	Award Payments					
	Governments		Others		Total	
	No. of claims	Amount (\$)	No. of claims	Amount (\$)	No. of claims	Amount (\$)
A	862,248	3,201,614,985	615	3,178,500	862,863	3,204,793,485
B	3,939	13,472,500	12	45,000	3,951	13,517,500
C	409,897	4,997,958,417	2,471	42,730,396	412,368	5,040,688,813
D	9,658	2,537,695,494	66	6,774,551	9,724	2,544,470,045
E	3,678	4,968,918,831	4	39,860,601	3,682	5,008,779,432
F	270	2,973,723,861	6	12,423,006	276	2,986,146,867
<b>Total:</b>	<b>1,289,690</b>	<b>18,693,384,088</b>	<b>3,174</b>	<b>105,012,054</b>	<b>1,292,864</b>	<b>18,798,396,142</b>

**Source: P\_P0053 and P\_0053b**

18. Recipient governments and international organizations returned approximately \$99.3 million in undistributed payments and \$22.3 million in duplicate claims as of 31 January 2005. Although the amounts are small relative to the total amount of award payments, they reflect a measure of control effectiveness exercised in the claims processing as well as in the distribution of award payments.

19. Paragraph 3 of the Secretary-General's report S/22559 pursuant to Security Council



resolution 687 (1991) provides that the United Nations Compensation Fund “will be operated in accordance with the United Nations Financial Regulations and Rules”. Financial Regulation 5.8(b) provides that the Secretary-General shall “...Cause all payments to be made on the basis of supporting vouchers and other documents which ensure that the services or goods have been received and that payments have not previously been made”. Under the delegated authority, certifying and approving officers carry out this responsibility under financial rules 105.5 and 105.6.

20. OIOS found that CPS has meticulously complied with the existing award payment procedures. However, the procedures themselves do not appear to meet the control objectives intended under Financial Regulation 5.8 (b) in that CPS takes amounts of approved awards as given without subjecting them to any validation or verification as these amounts have been approved by the Governing Council. Similarly, the approving officers take certified IMIS pre-encumbrances by CPS as given and the supporting documents at the claim level are not verified or validated. Given the mass claim processing, OIOS understands that the application of financial regulation 5.8(b) may not have been practicable and would require the establishment of appropriate alternative procedures to comply with it. However, no alternative procedures were put in place to adapt to the operational requirements of UNCC and to meet the control objective intended under the financial regulation. There was also no evidence that UNCC obtained an exemption from the Controller. Therefore, there is no reasonable assurance that UNCC complies with the Financial Regulation 5.8(b) related to the certifying and approving functions under financial rules 105.5 and 105.6 in the payment of compensation awards.

21. Moreover, the continuing debate over whether the scope of OIOS audits extends to claims processing has implications on the internal control measures exercised in award payments. In this regard, UNCC sought the opinion of the Office of Legal Affairs, which advised UNCC that OIOS’ audits have no scope over the following four aspects: (a) identification by the panels of the applicable law and their application of that law to claims pursuant to Article 31 of the Provisional Rules for Claims Procedure; (b) the manner in which panels have organized their work pursuant to Articles 29 36(b) 38(a) and (b) of the Provisional Rules for Claims Procedure; (c) determinations by the panels regarding the sufficiency of evidence, including determinations relating to the relevance, materiality and weight of evidence pursuant to Article 35(1) of the Rules; and (d) substantive assistance which the Secretariat gives to the panels in conducting these three aspects of their work.

22. With reference to the audit of claims processing, the Memorandum of Understanding (MOU) between UNCC and OIOS provides that “OIOS will take into consideration the opinion prepared by the Office of Legal Affairs (OLA) dated 27 November 2002 concerning the appropriate scope of such audits”. The objective of the MOU was not to restrict OIOS’ operational independence granted under General Assembly resolutions 48/218 B and 54/244. Therefore, OIOS has consistently been of the view that the claims processing is subject to internal audit, and this view is strongly supported by the Board of Auditors in its 20 March 2002 Management Letter to UNCC (paras. 12-15).

23. Furthermore, the General Assembly in its resolution 59/270 dated 7 February 2005, “...Requests the Secretary-General to ensure that the Office of Internal Oversight Services

continues to provide internal oversight of the entire claims process of the United Nations Compensation Commission and to report regularly thereon in the context of the annual reports of the Office”.

24. OIOS understands that it is not practical to subject all claims to verification and validation given the mass processing of award payments and that claims processing is a function separate from the functions related to award payments. Nevertheless, it is OIOS' view that the Governing Council and the Controller should be made aware of UNCC's unique operational circumstances. OIOS noted that on 11 May 1994, UNCC proposed to the Controller award payments procedures for B claims, which however did not elaborate on UNCC's circumstances requiring mass claims processing and the certification of award payments in such control environment. While it is important that UNCC promptly seeks guidance from the Controller for all future payments, it would have been desirable that he was consulted at the initial set-up of the payment procedures. More importantly, as certifying officer, the Chief of Claims Payment Section should have drawn the Controller's attention to the duplicate claims when such claims were first identified in 1994.

#### **Recommendations 1 and 2**

OIOS recommends that UNCC Secretariat:

- (i) Apprise the Governing Council and the Controller on the UNCC's unique operational circumstances which has resulted in non-compliance with Financial Regulation 5.8(b) for payment of compensation awards without establishing alternative compensating internal control procedures (AF2005/820/02/01); and
- (ii) Seek guidance from the Controller to establish appropriate alternative procedures to comply with Financial Regulation 5.8(b) for all pending award payments in order to strengthen the internal controls (AF2005/820/02/02).

25. *Management rejected recommendations 01 and 02 stating that “during the UNCC's 14 years of existence, over 600 UNCC staff members and 58 Commissioners appointed by the Secretary-General contributed years of service reviewing a considerable volume of supporting documents to determine if the claims for compensation submitted to the Compensation Commission should receive awards”. UNCC further elaborated that “once the Commissioners' recommendations have been reviewed and approved by the UNCC Governing Council and the Governing Council has decided on the awards to be paid in accordance with its decisions on the priority of payments the Certifying Officers and Approving Officers then have these decisions as supporting documents for effecting the payment of claims”.*

26. The reasons given for non-compliance with the Financial Regulation 5.8(b) are not acceptable because the Claims Processing Division has no certifying and approving authority under the Financial Regulation 5.8(b). The Panel of Commissioners make recommendations to

the Governing Council, which decides on compensation awards, and therefore, neither carries out certifying and approving functions delegated from the Controller. Nevertheless, as stated in paragraph 24 above, OIOS understands it impractical to subject all claims to verification and validation by the Certifying and Approving Officers in accordance with Financial Regulation 5.8(b). This was precisely the circumstance OIOS considered appropriate for UNCC to seek an exception from the Controller or to establish alternative procedures. The number of UNCC staff and expertise involved in reviewing the claims does not substitute the requirement by the Certifying and Approving Officers to fulfill their responsibility under Financial Regulation 5.8 (b). The fact that OIOS did not raise this issue in its previous audit does not absolve Certifying and Approving Officers from the requirement to comply with the UN Regulations and Rules. It is also up to the UNCC official responsible for payments to ensure that financial regulations and rules are complied with. OIOS, therefore, reiterates its recommendations and they will remain open in its database until they have been implemented.

## **B. Distribution of award payments**

### Monitoring and oversight on the distribution of award payments

27. In accordance with paragraph 2 of Governing Council decisions 17 and 18, governments, exercising their responsibility for the distribution of compensation payments for direct losses to successful claimants, shall establish their own mechanisms to distribute payments in a fair, efficient and timely manner, subject to the provision that prior to or immediately following the receipt of the first payment from the Compensation Commission each government shall provide information in writing through the Executive Secretary to the Governing Council on the arrangements that it has made for the distribution of funds to claimants and subsequently promptly report any changes to these arrangements.

28. UNCC had, however, noted that most governments only provided description of banking arrangements to the Commission while certain other countries have provided a more elaborate description of payment procedures. UNCC envisaged no monitoring and oversight responsibility on its part on the mechanisms for distribution of payments. Instead, twelve months following the release of award payments, the provisions of decision 18, required the governments and international organizations to report on: (a) the amounts of payments distributed indicating the installment payment received from UNCC; and (b) the reasons for non-payment of claims, and explanation on any fees deducted. Furthermore, Governing Council decision 48 calls on governments to report on: (a) refunds of undistributed funds with a list of claimants who have not received payments; and (b) the amount of money due to each claimant who has not been paid. For unlocated claimants, accounts receivables are established after the expiration of three months following the deadline for distribution of payments and submission of reports.

29. A review of sample of distribution reports submitted in 2004 showed that those reports were generally in compliance with the reporting procedures set out under decision 18. However, the procedures established were not sufficiently effective to assure transparency and accountability with documentary evidence that the individual claimants actually received their award payments. Furthermore, the Governing Council adopted OIOS' recommendation to submit audit certificates only in September 2003 for payments made after the forty-ninth session.

30. Distribution reports routinely included refunds for unlocated claimants and duplicate claims. The refunds on undistributed payments for unlocated claimants suggest bottlenecks in the distribution mechanisms with deficiencies in proper identification of individual claimants at the time of filing their claims. UNCC Secretariat explained that the cause of bottlenecks included civil strife, administrative bureaucracy and distance in countries that account for most of the unlocated claimants.

31. Table 4 is an extract of the Governing Council report S/AC.26/2004/R.34 dated February 2005 (Table 23), which details cumulative status on undistributed funds returned and duplicate payments returned as of 31 January 2005.

**Table 4: Cumulative report on the status of payments and distribution**

Category	Amount Transferred	Reported Distribution	Undistributed funds returned	Duplicate Payments returned	Repayment distribution report not yet due
A	3,204,797,485	3,123,932,649	57,117,099	22,127,485	1,165,000
B	13,450,000	13,360,000	50,000	40,000	-
C	5,040,688,813	4,952,857,810	31,773,771	124,120	1,187,754
D	2,687,680,980	2,248,897,538	4,142,928	-	207,310
E	5,048,599,156	4,954,538,232	6,255,145	-	-
F	2,996,997,886	2,874,143,255	-	-	-
<b>Total:</b>	<b>18,992,214,320</b>	<b>18,167,729,484</b>	<b>99,338,943</b>	<b>22,291,605</b>	<b>2,560,064</b>

32. In addition, the Governing Council regularly issues corrections to awards under article 41 of the Provisional Rules for Claims Procedure. As of 31 December 2004, 28 such reports have been issued with steady increase in the number of corrections to awards for duplicate claims.

33. Since the compensation claims was a new experience, it would have been reasonable for UNCC to envisage the issue of guidelines to governments and international organizations to ensure proper identification of claimants. Such guidelines would have helped to streamline the claim filing process in light of the difficulties consistently being experienced in locating successful claimants during distribution of payments.

34. In this regard, UNCC undertook field visits to Jordan, Bangladesh, Philippines, Sri Lanka and India to provide assistance to these governments in reporting the distribution of payments. A review of mission reports for these visits showed, with some exceptions, general appreciation from the governments, and the visits resulted in resolving a number of non-compliance and procedural matters. OIOS welcomes these efforts of UNCC which should be presented to the governments requesting cooperation to further strengthen and to institutionalize such visits. UNCC could also utilize such visits to assist governments to streamline procedures on payment distribution to ensure accountability and transparency in distribution mechanisms.

### Recommendations 3

OIOS recommends that UNCC Secretariat formalize periodic missions to governments and international organizations in order to assist them in setting up effective procedures in reporting distribution of award payments (AF2005/820/02/03).

35. *Management has disagreed with recommendation 03 stating that "UNCC is winding down its operations and expects all individual claims to be paid by mid-2007 at the latest". The Commission explained that the UNCC Secretariat visited five countries "based on their earlier poor performance in meeting their reporting obligations". However, "all Governments have by now considerable experience in payments distribution and most are also winding down their claims payment distribution programmes since nearly all of their claims have been paid in full".*

36. OIOS is not convinced with the explanation particularly because the difficulty in locating claimants and poor performance in meeting reporting obligations continue to recur. These issues need to be successfully addressed with the Governments and international organization before UNCC winds down its operation in mid-2007. Furthermore, UNCC management has offered to revisit India and Sri Lanka should the Governments consider such missions helpful in locating claimants who have not yet received their payments. The management has also recognized that other missions may be envisaged and suggested to Governments as the need arises. Therefore, OIOS reiterates the recommendation and will keep it open in the database until it is implemented.

#### Compliance with the requirement to submit audit certificates

37. In its 2000 audit of award payments, OIOS had recommended that UNCC request recipient governments and international organizations to provide audit certificates that comply with national accounting standards on the distribution of award payments. Although the recommendation was then rejected, the Governing Council reconsidered the recommendation in September 2003 on the reiteration by the Board of Auditors in its 2002 audit of UNCC.

38. In September 2003, the Governing Council adopted at its forty-ninth session the recommendation of its Working Group that "Governments are requested to provide an audit certificate, either with its submission of each payment distribution report or annually, within three months of end of the calendar year. The Working Group notes that the audit certificate will apply to reports on payments made to Governments after the current (forty-ninth) session of the Governing Council and will not apply to previous payments. The Working Group recommends that the secretariat be requested to inform Governments and international organizations of the above information, to encourage Governments to provide information, on a voluntary basis, on the administrative, financial, legal and institutional arrangements made by the Governments".

39. Following this requirement, distribution reports supported by audit certificates were due by 31 March 2005 on the award payments of \$197.3 million made on 16 October 2003. A total of 29 governments and three international organizations received award payments on 16 October 2003, and as of the date of this audit 30 governments and international organizations submitted

distribution reports. Audit certificates had not been submitted by 14 of these 30 governments and international organizations along with their distribution reports covering approximately \$156 million. One government had submitted audit certificate for one category of claims and did not submit for the other. OIOS noted that first reminder was only sent on 7 February 2005.

#### **Recommendations 4 and 5**

OIOS recommends that the UNCC Secretariat:

- (i) Strongly pursue the submission of audit certificates by governments and international organizations for award payments made on 16 October 2003 in accordance with the decisions of the Governing Council (AF2005/820/02/04); and
- (ii) Ensure that audit certificates are received for all payments made after September 2003 from audit authorities concerned (AF2005/820/02/05).

40. *Management has agreed with these recommendations.* OIOS will close them in its database.

#### Review of distribution reports within the UNCC Secretariat

41. Governments are responsible for establishing procedures in filing compensation claims and distributing award payments. The Claims Processing Division (CPD) within the UNCC Secretariat processes compensation claims. The Panel of Commissioners oversees the claims processing and makes recommendations to the Governing Council for compensation awards. The Claims Payment Section makes payments against approved awards to the Governments, which then are responsible for distributing those payments to individual claimants.

42. Under the Governing Council decisions 18 and 48, Governments are required to submit award payment distribution reports in compliance with relevant provisions. The Claims Payment Section receives such reports, reviews them, seeks clarification from Governments on any deviation from established reporting arrangements, and uploads the reports to the Claims Payment Management System. The distribution reports contained refunds of award payments for unlocated claimants and duplicate claims. Although the Claims Payment Section routinely copied the CPD its correspondence to Governments on award payment distribution reports, there is no evidence of CPD's reviewing refunds on undistributed payments, particularly those related to unlocated claimants. However, CPD officials expressed their support and willingness to review undistributed refunds at any time if their attention was drawn and that they would now like to receive details of all undistributed refunds from the Claims Payment Section on a regular basis. The CPD urged the Claims Payment Section to regularly send reports on undistributed refunds so that the Division could review them when it still has personnel resources.

43. In OIOS' opinion, the lack of review of the refunds on undistributed award payments by the CPD constituted a breakdown in internal controls. Both UNCC and Governments have a

common objective in claims processing and award payment process: to compensate successful claimants who suffered loss or injury. Governments bear responsibility in properly identifying their citizens as claimants when filing their claims and in locating them when distributing award payments. It is in UNCC's best interest that the CPD reviewed unlocated claimants identified by governments and international organizations in their distribution reports. When UNCC was still receiving compensation claims for processing, the CPD could also have used the review of award payment distribution reports as an opportunity to fine-tune their procedures with the view to assisting governments in filing subsequent claims with enhanced ability to locate them.

### **Recommendations 6 and 7**

OIOS recommends that the UNCC Secretariat ensure that:

(i) The Claims Payment Section sends reports on all undistributed refunds with details of corresponding claimants to the Claims Processing Division on a regular basis for review (AF2005/820/02/06); and

(ii) The Claims Processing Division reviews refunds of all undistributed award payments in order to analyze the continued validity of claims that have received award payments but which have been refunded for unlocated claimants (AF2005/820/02/07).

44. *Management has agreed with the recommendations.* OIOS will close these recommendations in its database upon receipt of evidence that: (a) the Claims Payment Section has started to send reports on all undistributed refunds with details of corresponding claimants to the Claims Processing Division regularly; and (b) the Claims Processing Division reviewed such refunds in an effort to locate claimants.

### Refunds outstanding from governments and international organizations

45. The UNCC Claims Payment Procedures Manual documents the stipulations of the Governing Council's decision 18, which provides that the recipient governments and international organizations are required to refund to UNCC any undistributed funds to the claimants due to inability to locate such claimants. Furthermore, in its subsequent decision 48, the Governing Council decided that 12 months after a government has received each payment for distribution, any undistributed funds shall be returned to UNCC with a list of claimants who have not received payments and the amount of payment due to each claimant who has not been paid. At its thirty-first session, the Governing Council decided that all future payments to governments not in compliance with the provisions of decisions 18 and 48 shall be withheld pending full compliance.

46. The Governing Council reports provide details of refunds outstanding from governments and international organizations. OIOS' analysis of refunds outstanding for the past three years is summarized in Table 5.

**Table 5: Refunds Outstanding**

Duration of non-compliance	Refunds Outstanding as of					
	31-Jan-05		31-Jan-04		31-Jan-03	
	Govts/ Int'l orgns	Amount (\$)	Govts/ Int'l orgns	Amount (\$)	Govts/ Int'l orgns	Amount (\$)
Less than 3 months	8	22,517,811	8	5,186,799	9	40894421
3 to 12 months	4	12,084,485	3	383,064	14	20079925
1 to 2 years	2	154,377	6	3,401,672	7	1028411
More than 2 years	6	4,081,564	3	724,668	2	3369
<b>Total:</b>		<b>38,838,237</b>		<b>9,696,203</b>		<b>62,006,126</b>
<b>Source: Governing Council reports</b>						

47. As of 31 January 2005, approximately \$11.7 million of award payments were withheld from governments not in compliance with decisions 18 and 48. The decisions, however, do not provide for withholding repayments. However, the fact that repayments are routinely made against refunds, punitive measures to withhold repayments from non-compliant governments and international organizations should be used as an additional measure of enforcing compliance. OIOS noted that UNCC has reviewed repayments and proposed to the Governing Council to cease them after 2006. However, there was no proposal to the Governing Council to withhold repayments to non-compliant governments and international organizations.

48. As pointed out in the Board of Auditor's 2002 Management Letter, OIOS also found that the mechanism to withhold all future payments is not effective for those governments and international organizations that have no claims for future award payments. The BOA had also recommended to set procedures to secure prompt reporting and/or recovery of undistributed funds UNCC has not established such procedures. OIOS found that UNCC has sent regular reminders to governments to submit reports on distribution of compensation payments. These efforts, however, have not been entirely successful in the case of three governments.

49. During 2004 and 2005, the Governing Council invited representatives from those governments for discussion. The Working Group, which considered the cases recommended that the UNCC Secretariat to continue its consultations with the Governments involved. Given the impending draw down and closure of UNCC operations, it is critical for the Secretariat to seek guidance from the Governing Council and the Controller in resolving these cases and others that have remained outstanding for more than one year.

### **Recommendations 8-10**

OIOS recommends that UNCC Secretariat:

- (i) Seek guidance from the Governing Council and the Controller, at an appropriate time, to address what action needs to be taken on refunds outstanding from governments for more than one year and particularly from the three governments whose refunds are long overdue (AF2005/820/02/08);



(ii) Continue to exert efforts to remind defaulting governments and international organizations to account for all outstanding refunds (AF2005/820/02/09); and

(iii) Propose that the Governing Council make a decision to withhold all future repayments to governments and international organizations in default (AF2005/820/02/10).

50. *Management has agreed with the recommendations 08 and 09.* OIOS accepts the explanations provided and will close recommendation 09 in its database. However, recommendation 08 will be closed upon receipt of evidence that the UNCC Secretariat has sought appropriate guidance from the Governing Council and the Controller on refunds outstanding. *With regard to recommendation 10, management informed OIOS that the UNCC Secretariat will call the attention of the Governing Council to the OIOS recommendation that it should decide to withhold all future repayments to Governments and international organizations in default.* OIOS will keep recommendation 10 open until OIOS is informed of the Governing Council's decision on it in September 2005.

#### Repayment of compensation awards

51. Section 3.02 B of the Claims Payment Procedures Manual sets out procedures for establishing accounts payables in accordance with paragraph (b) of the Governing Council's decision 48. The decision calls for holding the returned payments from governments and international organizations for 12 months from the date the receipt is due of returned payments in order to allow repayments of unlocated claims if they are located within the one-year period. Accordingly, the CPS simultaneously establishes in IMIS an "accounts payable of an equal amount to the "accounts receivable".

52. Furthermore, paragraph (c) of decision 48 also provides that "after the twelve month period...any undistributed funds will not be held in reserve for payment to those claimants who have not been located for payment. However, payment shall be made to such claimants, as soon as they have been located, through their governments from any balances in the Compensation Fund that are not needed for the Commission's administrative budget or for operating reserve or for scheduled payments of claims awards approved by the Governing Council".

53. Report R002 of the Claims Payment System showed \$175,432,294 as amounts repaid under the above-mentioned provision as of 4 April 2005. However, there was no evidence of analyses to verify whether "...any balances in the Compensation Fund are not needed for the Commission's administrative budget or for operating reserve or for scheduled payments of claims awards approved by the Governing Council". Refund balances of unlocated claimants after 12 months as provided under decision 48 (b) revert to the Compensation Fund but are also recorded as "refunds in accounts payable as write backs" and all repayments under decision 48 (c) are made from these accounts payable write backs.

54. Report A004 of the Claims Management System shows a total of \$115,384,198 as refunds in accounts payable for write backs for the period from 1 January 1994 to 31 December

2003. The payable write backs dated from 1998. As of 10 November 2004, 45 governments and seven international organizations have yet to be repaid in the amount of approximately \$92.6 million covering 24,122 claim payments.

55. In OIOS' opinion, all repayments under decision 48 (c) should be supported by an analysis to establish the need of balances in the Compensation Fund. Given that approximately \$30 billion remain as outstanding award payments against the approved awards of \$52 billion as of 31 December 2004, the balances in the Compensation Fund are much lower than the requirements to pay the approved awards. However, although UNCC maintained that the funds for scheduled payments have been consistently adequate, OIOS is of the view that an analysis of the need of balances in the Compensation Fund is necessary to justify the use of the available resources for repayments of award payments. While it is reasonable to give priority to compensating unlocated claimants, the continued blockage of funds unnecessarily penalized other successful claimants that could have been compensated had there been resources available in the Compensation Fund.

56. The Governing Council has set 30 September 2006 as the indicative cut-off date for repayments under decision 48 (b) and 48 (c), and that UNCC expects the date to be confirmed in the June 2005 session. This cut-off date was formally transmitted to governments and international organizations in December 2004.

### Recommendation 11

OIOS recommends that UNCC Secretariat document the need for balances in the Compensation Fund before future repayments under decision 48 (c) (AF2005/820/02/11).

57. *Management has accepted the recommendation.* OIOS will close it in its database.

### C. Support services

#### Claims payment management system reports

58. The Claims Payment Management System (CPMS) is used to record and monitor award payments. The system generates 58 reports covering seven categories. As shown in Table 6, OIOS found some variances between the CPMS reports and the Governing Council report as of 31 October 2004.

**Table 6: Variances in awards distribution between CPMS and Governing Council reports**

Items	CPMS: 31/10/04			GC Report: 31/10/04 (Table 23)	Variances
	Report No	Claim Category	Amount	Amount	
Reported Distribution	P_GC001	All	17,815,207,852	17,817,201,844	- 1,993,992
Refunds Outstanding	P_GC001	All	28,331,704	28,635,711	- 304,007
Undistributed funds returned	P_GC001	All	99,678,491	99,690,108	- 11,617
<b>Total:</b>			<b>17,943,218,047</b>	<b>17,945,527,663</b>	<b>- 2,309,616</b>

59. The variances were attributed to a number of factors, including: (a) some line items in CMPS GC reports do not generate information as of a cut-off date but cumulate information as of the run date; and (b) Time lag in uploading distribution reports in CPMS due to adjustments and clarifications required for lack of necessary details and delay from governments and international organizations.

60. OIOS reviewed manual adjustments made to the CPMS reports to arrive at the amounts in GC reports. The reconciling items under the reported distribution, refunds outstanding and undistributed funds returned were supported by excel tables that traced to the factors responsible for variances. However, such adjustments call for documenting steps used to reconcile information between CPMS and the Governing Council reports given their sensitivity to Member States, and appending them as part of the Claims Payment Procedures Manual. OIOS believes that these steps would also benefit new staff in the event of any turnover in CPS staff responsible for preparing the Governing Council reports.

**Recommendation 12**

OIOS recommends that UNCC Secretariat document steps used in manually reconciling the variances between the CPMS reports and the Governing Council reports and append these steps as part of the Claims Payment Procedures Manual (AF2005/820/02/12).

61. *Management accepted the recommendation.* OIOS will close it in its database upon receipt of confirmation that UNCC Secretariat has documented steps used in manually reconciling the variances between the CPMS reports and the Governing Council reports and appended these steps as part of the Claims Payment Procedures Manual.

**D. Duplicate claims**

62. According to UNCC records in the Claims Payment Management System, an amount of \$22,573,477 are shown as refunds received on duplicate payments as of 4 April 2005. Table 7 provides the breakdown of the payments.

**Table 7: Breakdown of confirmed duplicate payments**

Types	Claims	
	Number	Amount(\$)
Confirmed duplicates	10,575	22,451,105
Potential duplicates	31	122,372
<b>Total:</b>	<b>10,606</b>	<b>22,573,477</b>

Source: CPMS/Claims Query/Refunds

63. A review of corrections under Article 41 of the Provisional Rules for Claims Procedure shows that duplicate claims, as early as 1998, are among common correction items. Quarterly Governing Council reports regularly reported on duplicate claims. However, the extent of such

claims became apparent only when some governments began to report the possibility of duplicate claims in the undistributed refunds. The use of sampling techniques in mass claims processing and too much reliance on governments for the distribution of payments without any monitoring and oversight mechanisms are some of the factors causing duplicate claims.

64. Only when one of the recipient governments recently initiated efforts to match duplicate claims at the national level was attention drawn to the issue of duplicate claims. Alerted with the revelation that the extent of duplicate claims may extend not only to outstanding award payments but also to payments that have already been made, UNCC visited those countries to test the methodology used in matching claims and to explore the possibility of its applicability to other countries to identify any potential duplicate claims.

65. In December 2004, UNCC has developed a software to match potential duplicate claims. OIOS has been informed that that UNCC has used the software to match all returned refunds to identify the possibility of duplicate claims covering A and C claim categories. In this regard, OIOS has also been requested to identify the cause and the extent of duplicate claims.

#### **Recommendations 13 and 14**

OIOS recommends that UNCC Secretariat:

(i) Continue to review its records with the newly developed software to facilitate the investigation of duplicate claims so that reasons and extent of such claims could be identified in a timely manner (AF2005/820/02/13); and

(ii) Use the software to match all payments and repayments for which distribution reports have not been received or are not due in order to identify the possibility of duplicate claims (AF2005/820/02/14).

66. *Management has accepted these recommendations.* OIOS will close these recommendations in its database.

#### **VI. ACKNOWLEDGEMENT**

67. We wish to express our appreciation to the Management and staff of UNCC for the assistance and cooperation extended to the auditor during this assignment.