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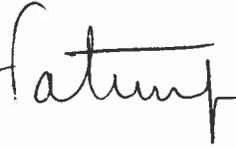
OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. Kai Eide  
A: Special Representative of the Secretary General  
United Nations Assistance Mission in Afghanistan

DATE: 26 May 2009

REFERENCE: IAD: 09- 02503

FROM: Fatoumata Ndiaye, Acting Director  
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AP2008/630/02 – Audit of cash management in UNAMA**

OBJET:

**Internal controls were not adequate, resulting in risk of errors**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 1, 2 and 3 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.

## **EXECUTIVE SUMMARY**

### **Cash management in UNAMA**

OIOS conducted an audit of cash management in the United Nations Assistance Mission in Afghanistan (UNAMA). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over the management of cash. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Generally, internal controls were in place and operating effectively. However, there were opportunities to strengthen controls, as follows:

- Surprise cash counts were not conducted on a regular basis;
- Disbursements from petty cash were not always adequately supported;
- A formal handover of the petty cash fund during the absence of the designated custodian was not done;
- Contrary to the UN Financial Regulations and Rules, recurring payments were made from petty cash; and
- Written records were not maintained on access to the cash vault.

OIOS made recommendations to address the issues identified during the audit to further improve internal controls over cash management.

## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of cash management in the United Nations Assistance Mission in Afghanistan (UNAMA). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UNAMA operates in twenty-five locations in Afghanistan, including various offices in Kabul, and provincial and liaison offices in Dubai, Islamabad and Teheran. These offices have been provided with cash to meet daily operational needs.
3. As of 31 March 2008, UNAMA's bank balance was \$453,609, and the petty cash and imprest fund balance was \$117,766, totaling \$571,375. UNAMA maintains various deposit accounts with local banks in Afghanistan, the United Arab Emirates and Pakistan. UNAMA also established petty cash and imprest funds for its administrative, provincial and liaison offices.
4. Cash management operations are guided by the UN Financial Regulations and Rules (UNFRR) and the Field Finance Procedure Guidelines (FFPG).
5. Comments made by UNAMA are shown in *italics*.

## II. AUDIT OBJECTIVES

6. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over cash management.

## III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered cash transactions, including the handling, custodianship, access and transfer of cash, during the period from March 2007 to March 2008. Field visits to 12 locations, covering the section offices in Kabul, the liaison office in Dubai and the regional offices in the Central Region, Mazar-Sharif and Herat, were conducted in April and May 2008.
8. The audit methodology consisted of a review of policies, procedures and other relevant instructions, interviews with key personnel and review of pertinent records.

## IV. AUDIT FINDINGS AND RECOMMENDATIONS

### A. Cash handling

#### Shortages and overages in surprise cash count

9. The internal controls over petty cash were weak, as follows:
  - Contrary to Rule 104.9 of the UNFRR and Section 3.4.1 of the FFPG, the Finance Section had not conducted regular surprise cash counts. When a surprise cash count was requested by OIOS of various units/sections, a number of

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discrepancies were found. Of the 12 units/sections checked, 7 had cash shortages which totaled \$2,009.

- All payments from petty cash funds were not supported by petty cash vouchers. Also, relevant receipts and invoices from vendors were not always attached. On discussion, OIOS found that the custodian was unaware of the need to maintain supporting documents for funds disbursed from the petty cash fund.

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

**The UNAMA Office of Mission Support should ensure that:**

- (1) Surprise cash counts are conducted on a regular basis and that the results are documented and reported to the Chief of Mission Support as required by Financial Rule 104.9 and Section 3.4.1 of the Field Finance Procedure Guidelines; and**
- (2) All petty cash disbursements are supported by approved petty cash vouchers and other relevant supporting documents such as vendors' receipts.**

10. *The UNAMA Office of Mission Support accepted recommendations 1 and 2 and stated that the Finance Section subsequently conducted surprise petty cash counts in all UNAMA's offices. Also, in January 2009 the Finance Section trained custodians on how to improve their handling of petty cash and ensure compliance with the relevant rules and procedures. Based on the action taken, recommendations 1 and 2 have been closed.*

#### **B. Cash custodianship**

##### Commingling of personal cash with petty cash

11. The petty cash custodians of the Movement and Control Unit and the Dubai Liaison Office were not able to present their petty cash funds amounting to \$487 and \$529, respectively, for OIOS' verification. It was subsequently found that the petty cash was commingled with the responsible custodian's personal funds. Commingling of personal funds with the petty cash funds represents an internal control weakness, increasing the risk of loss of funds through theft. Action has been taken and in Dubai a safe has now been procured and surprise cash counts are being conducted to verify the correctness of the petty cash balances.

##### Lack of fiduciary accountability

12. At the time of the audit, contrary to the terms of reference of United Nations Volunteers (UNVs), OIOS observed that one UNV was performing fiduciary responsibilities and was assigned as the petty cash custodian. When this was brought to the attention of management, these responsibilities were re-assigned to a UN staff member.

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Lack of handover of cash accountability

13. According to the FFPG, a new petty cash fund must be established during the absence of the designated custodian and a properly documented handover of the fund must be submitted to the Chief Finance Officer. This was not done by the custodian of the petty cash for the Communication and Information Technology Section. The custodian was on occupational recuperation break and therefore the petty cash was not presented for verification. The handover of petty cash to an alternate custodian ensures availability of funds for operations during the absence of the designated custodian.

**Recommendation 3**

**(3) The UNAMA Office of Mission Support should ensure formal handover of the petty cash fund during the absence of the designated custodian.**

14. *The UNAMA Office of Mission Support accepted recommendation 3 and stated the Finance Section always ensured that petty cash custodians are adequately informed of cash handover procedures. Subsequent to the audit, the Finance Section has emphasized the importance of the mandatory official handover of petty cash by custodians who are leaving the Mission on trips.* Based on the action taken, recommendation 3 has been closed.

Lack of proper segregation of duties

15. The petty cash custodian in Dubai approved and recorded petty cash transactions without supervisory review and independent reconciliation. This was primarily due to the lack of adequate staff in the Liaison Office. OIOS suggested that if segregation of duties is not possible, stronger supervisory controls need to be exercised. The Mission accepted this, and introduced a procedure where the staff member in Dubai submits requests for all expenditures related to the use of petty cash to the office in Kabul for approval.

**C. Cash remittance**

Use of Hawala system

16. Due to the lack of banking facilities in certain regions in Afghanistan, UNAMA used a system called "Hawala", in which funds are channeled through a third party. In accordance with this system, UNAMA instructs the Standard Chartered Bank (SCB) to transfer funds to offices in Chegcheran, Bagdhis and Maimana, and the SCB channels these remittances through the Hawala. SCB advises the head of the concerned office to collect the funds. OIOS notes that there are high risks associated with the use of the Hawala system including security risks associated with the practice of the head of office collecting and hand-carrying cash.

17. The Mission clarified that it does not have any direct dealings with the Hawaladars but deals only with the SCB who is responsible for the transfer and remittance of funds to UNAMA offices away from its headquarters. Based on the clarification, OIOS does not make a recommendation as the Mission does not assume the risks of loss associated with SBC's financial transactions with the Hawaladars. However, OIOS would re-emphasize the

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need to ensure adequate precautions are taken when UN staff members are hand-carrying cash.

#### **D. Management of petty cash fund**

##### Improper use of petty cash fund

18. According to the FRR, petty cash may be used to settle non-recurring expenses of a minor nature, up to the equivalent of \$200 per expenditure. Consecutive purchases of similar items to circumvent this threshold are prohibited. The Central and Herat Regional Offices regularly used petty cash funds (or \$3,000) each month to pay armed security and vehicle escorts, a major expense item. OIOS was informed that this procedure was used as the armed escorts required payment immediately after the services were provided.

##### **Recommendation 4**

**(4) The UNAMA Office of Mission Support should ensure that the petty cash fund is used to settle non-recurring expenses of a minor nature only.**

19. *The UNAMA Office of Mission Support accepted recommendation 4 and stated that effective 1 January 2009 no recurring expenses would be paid from petty cash funds. The Mission will establish miscellaneous obligation documents, based on estimated amounts that will be used to pay for escort services. Recommendation 4 remains open pending confirmation that adequate procedures have been implemented.*

#### **E. Access to cash safe and vault**

##### Non-recording of access to cash vault

20. According to the FFPG, written records must be kept regarding: (a) the names of persons entering and exiting the Cashier's Office; (b) the date and time of their entry and exit; and (c) the names of persons opening and closing the cash vault. OIOS found that the Cashier's Office did not maintain written records or a logbook of the opening and closing of the cash vault. Thus, there was the risk of loss of funds not being prevented or detected in a timely manner.

##### **Recommendation 5**

**(5) The UNAMA Office of Mission Support should ensure that a logbook or written record on access to the cash vault is maintained to enable accountability to be assigned if any discrepancies are found.**

21. *The UNAMA Office of Mission Support accepted recommendation 5 and stated that no written record was maintained, as it was only the Cashier or officer-in-charge that had access to the vault. However, effective 1 January 2009 a written record or logbook will be maintained. Recommendation 5 remains open pending verification of the logbook maintained for recording access to the vault.*

## V. ACKNOWLEDGEMENT

22. We wish to express our appreciation to the Management and staff of UNAMA for the assistance and cooperation extended to the auditors during this assignment.

cc: Mr. Peter Schmitz, Chief of Staff, UNAMA  
Ms. Neva Donalds, Chief of Mission Support, UNAMA  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat  
Mr. Seth Adza, Audit Response Team, Department of Field Support  
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management  
Mr. Byung-Kun Min, Programme Officer, OIOS  
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## STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/ O <sup>1</sup>	Actions needed to close recommendation	Implementation date <sup>2</sup>
1	The UNAMA Office of Mission Support should ensure surprise cash counts are conducted on a regular basis and that the results are documented and reported to the Chief of Mission Support as required by Financial Rule 104.9 and Section 3.4.1 of the Field Finance Procedure Guidelines.	Financial	Moderate	C	Action taken	Implemented
2	The UNAMA Office of Mission Support should ensure all petty cash disbursements are supported by approved petty cash vouchers and other relevant supporting documents such as vendors' receipts.	Financial	Moderate	C	Action taken	Implemented
3	The UNAMA Office of Mission Support should ensure formal handover of the petty cash fund during the absence of the designated custodian.	Compliance	Moderate	C	Action taken	Implemented
4	The UNAMA Office of Mission Support should ensure that the petty cash fund is used to settle non-recurring expenses of a minor nature only.	Financial	Moderate	O	Verification that adequate procedures have been implemented.	23 April 2009
5	The UNAMA Office of Mission Support should ensure that a logbook or written record on access to the cash vault is maintained to enable accountability to be assigned if any discrepancies are found.	Compliance	Moderate	O	Verification of the maintenance of a logbook for recording access to the vault.	23 April 2009

1. C = closed, O = open

2. Date provided by UNAMA in response to recommendations.