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**Internal Oversight Service
Audit Section**

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**Audit of Financial Controls for
Administration of the Medical Benefits Fund**

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EXECUTIVE SUMMARY

Key Results of the Audit

Financial controls for administration of the Medical Benefits Fund need substantial improvement in order to ensure (i) full collection of participants' payments, (ii) reliable eligibility and enrolment records and (iii) effective administration of staff-share reimbursements. Priority should be given to ensuring the integrity of system data by automating certain processes and segregating incompatible duties, particularly at the enrolment stage. HRM should also periodically assess the third-party administrator's performance to ensure accuracy of the claims processed.

It is important to note that the HRM unit responsible for administering medical benefits is undergoing changes with the departure of key staff. This presents risks with regard to current administration of the Fund and also provides opportunities to improve workflows and control. A coordinated transition with clearly established roles, delegations, accountabilities and procedures is essential in this regard.

Background

1. The General Conference established at its third session in 1948 the Medical Benefits Fund (MBF) of UNESCO. The MBF provides medical insurance benefits to current and former staff members. It is part of the system of social security that the Director-General is to operate for the staff in accordance with Staff Regulation 6.2. The MBF operates as a mutually financed and autonomous health insurance scheme. UNESCO contributes the same amount as the participant into the fund. Participation to the MBF is mandatory for active employees and enrolment is on a voluntary basis for retired or separated staff. Participants can also affiliate their family members to the MBF as dependents.
2. At its 36th session, the General Conference requested the introduction of a new governance model with the creation of an Advisory Board. The Advisory Board will comprise three members and three alternates who represent participants (two members will represent active staff and one will represent the retirees).
3. The UNESCO Human Resource (HR) Manual defines the required conditions for enrolment in the MBF under HR Procedure 7.1 (see Annex) and provides the rules of the UNESCO MBF under HR Appendix 7A.
4. The Pension and Insurance section of the Bureau of Human Resource Management (HRM/SPI) currently administers the day-to-day operations of the MBF.
5. Since 2006 UNESCO has engaged a third-party administrator to process medical claims for the MBF. Vanbreda International (VBI) has been the service provider since January 2011. VBI makes reimbursements of medical claims as well as direct payments to hospitals. UNESCO provides VBI with working capital totaling EUR 750,000, estimated to cover approximately 15 days of claims expenditure. UNESCO replenishes the working capital twice a month based on an invoice that reflects the reimbursements and direct payments made by VBI. In the past three years, VBI processed on average \$22.2 million of reimbursement per year. Data related to the claims processing is presented in table 1.

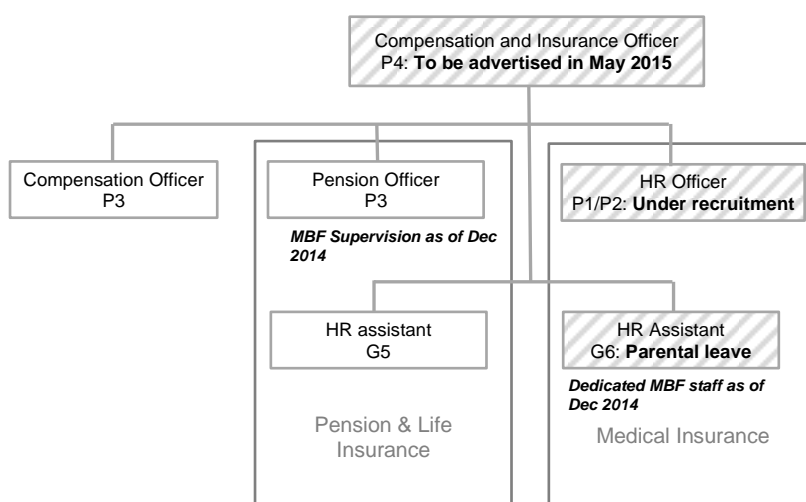
Table 1. Number of claims processed by VBI since 2011

| Year | No. of Participants Submitting Claims | No. of Claims Submitted | Total Amount Reimbursed (USD) | Total Contributions Received (USD) |
|------|---------------------------------------|-------------------------|-------------------------------|-------------------------------------|
| 2011 | 3,845 | 106,420 | 21,862,953 | 21,265,000 |
| 2012 | 4,108 | 138,647 | 23,241,831 | 25,814,597 |
| 2013 | 3,954 | 124,430 | 21,558,331 | 26,089,130 |

Source: VBI files and Financial Statements

6. The HRM/SPI is responsible for enrolling voluntary participants (i.e., former staff members upon their separation from the organization) in the MBF. HRM/SPI currently consists of five funded posts. One post is currently under recruitment, one is vacant with recruitment anticipated in May 2015 and a third is temporarily vacant.

Figure 1. Organizational chart



Objective, Scope and methodology

7. IOS conducted this audit in order to (i) assess the design and operation of controls in place and (ii) present recommendations where improvements are needed.

8. The scope of the audit covered all the processes related to the administration of the Medical Benefit Fund; in particular, the enrolment of participants, collection of contributions and reimbursement of medical claims. This exercise consisted of identifying and assessing the controls in place through interviews, examination of documentation, testing and data analysis. The audit was not designed to provide an opinion on the financial statements of the MBF.

9. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Principal Conclusions

10. Financial controls for the administration of the MBF need substantial improvement. More specifically, appropriate segregation of duties is needed to reduce risk of errors and irregularities in the enrolment process and in the collection of contributions.

11. While some compensating controls have been introduced in 2012 and 2013, controls over data integrity (accuracy, completeness and validity) in STEPS are deficient. Thus risks of unauthorized enrolment and unpaid contributions are not sufficiently mitigated. This can be efficiently addressed by creating a master variance data report that lists MBF-related input to STEPS, thereby facilitating HRM/SPI's review of enrolment creation and changes as well as associated contribution payments.

12. Regarding the medical reimbursements, HRM should more systematically monitor performance of the third-party administrator to ensure accuracy and timeliness.

13. Furthermore, job descriptions and administrative procedures associated with the MBF are obsolete. The specific roles, delegations and accountabilities for the MBF workflows need to be established and documented in order to ensure clear accountability, consistent understanding and effective implementation. This is an immediate priority as there are vacancies and ongoing recruitment of key posts.

Table of recommendations

Recommendation 1: HRM to (i) finalize the STEPS master data variance report for regular independent review; (ii) generate the eligibility file automatically from STEPS for upload onto to the third-party administrator's website by a person who does not have data-input duties and (iii) instruct the third-party administrator to systematically document any changes it makes to the eligibility file and submit these to HRM for verification. Actions (i) and (ii) above will require collaboration with KMI.

Recommendation 2: HRM to issue periodic (i) STEPS reports identifying participants with a status change (i.e., voluntary) in order to ensure completeness of the eligibility file and (ii) aging reports to monitor and follow up on outstanding contributions.

Recommendation 3: HRM, in consultation with the MBF Advisory Board, to establish standard criteria and procedures for responding to non-payment by participants. Particular attention should be given to payment disputes relevant to payments due prior to 2013, as MBF controls up to that point were less reliable.

Recommendation 4: HRM to ensure that reconciliations of staff shares due and received are regularly conducted and subject to supervisory review.

Recommendation 5: HRM to (i) periodically review a sample a medical claims and recover from VBI any incorrect amounts reimbursed and (ii) conduct a follow-up on the 2011 review of Vanbreda International's claim processing system.

Recommendation 6: The Chief Financial Officer to consider the benefits and costs of initiating periodic audits of the financial statements of the Medical Benefits Fund.

Recommendation 7: HRM to document administrative procedures together with the specific roles, delegations and accountabilities in the MBF workflows. Additionally, HRM should (i) update job descriptions in line with business needs; (ii) collect the overdue contributions from other UN agencies; (iii) in collaboration with KMI and BFM, automate the posting to the employer's customer account and; (iv) change the accounting posting for workers' compensation reimbursement received from the insurance.