



ORGANISATION DE L'AVIATION
CIVILE INTERNATIONALE

INTERNATIONAL CIVIL
AVIATION ORGANIZATION

Internal Audit Report on Education Grant Entitlement

IA/2021/7

Office of Internal Oversight

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EXECUTIVE SUMMARY

1. As part of its annual work plan for 2021 (C-WP/15114), the Office of Internal Oversight (OIO) carried out an audit of education grant entitlement. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing¹. The objective of the audit was to assess compliance with existing rules and procedures as well as the design and effectiveness of internal controls relating to the education grant process, including the accuracy and completeness of documentation.
2. In ICAO, internationally recruited staff members who acquired permanent resident status of the country of duty station continue to benefit from expatriate benefits including education grant. Indicatively, for the three academic years 2017 through 2020, ICAO paid about CAD 189K for eight ICAO staff members with permanent resident status in Canada. This is not in alignment with the general good practice adopted by the United Nations and also supported by the results of an OIO benchmarking survey in which 10 out of 15 organizations (66%) confirmed that staff with permanent residency of the country of duty station lose expatriate benefits. ICAO would benefit from cost benefit analysis to assess its alignment with the UN good practice.
3. In the period 2017-19, there were significant delays in the submission of claims by nine staff members out of 162 (5.5%) eligible staff members who were given education grant advances totalling CAD 142,163. In the case of one staff member, an advance of CAD 62,723 was given in November 2019 in respect of two dependents, and this was still not settled as of September 2021, despite lapse of more than one year since the end of the concerned academic year. In the case of two staff members, the excess of the advance over the final settlement of the claims, amounting to CAD 20,917, was recovered in several monthly instalments. This practice is neither allowed by ICAO's financial rules nor is it in the best interests of the Organization.
4. The Staff Employment and Administration Section (SEA) within ADB regularly checks on inadmissible expenses from education grant claims. However, proper scrutiny of education grant claims was hindered at times by incomplete information and practical difficulties in verifying the information with the academic institution. In two cases out of the 20 cases sampled (10%), inadmissible expenses were reimbursed. It is therefore crucial to have controls to identify any inadmissible charges such as lunch and transport by having a clear breakdown of all expenses in certificates provided by the academic institutions.
5. A new workflow application was introduced in August 2021 facilitating the online submission of claims by staff members. While the newly introduced workflow application enhances the internal controls and increases efficiency, validation checks are missing in the current application increasing the risk of errors in processing of claims. The application was launched recently and SEA staff already identified many bugs needing rectifications.
6. Based on the results of the audit, OIO has given an audit rating of some improvement needed. In particular, management's attention is drawn to recommendations made in respect of granting expatriate benefits including education grant to those staff members who acquired permanent resident status in the country of duty station, timely submission of education grant claims by staff members to settle previous advances, immediate recovery of advances in cases where final claims

¹ IIA Standard 1321

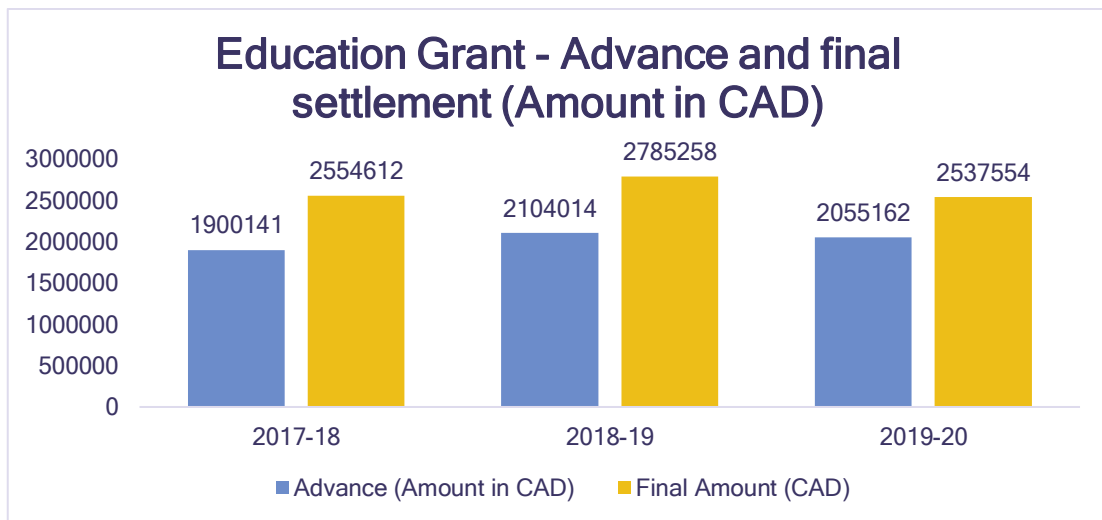
have not been submitted on time, corrective action in case of inadmissible expenses, and thorough testing of the workflow application. All the recommendations were accepted by the Management.

7. OIO wishes to thank management and staff for their assistance and cooperation during the audit.

RESULTS OF THE AUDIT

Background

8. The management of education grant entitlements is covered by ICAO's Staff Regulations 3.18, 3.19; and Staff Rules 103.18, 103.19. Personnel Instruction 3.18 sets out the rules and procedures for submitting and processing education grant claims and requests for advances. The SEA (Staff Employment and Administration) section is responsible for the administration of education grant entitlements in ICAO.
9. Education grant is payable to an internationally recruited staff member holding a fixed-term appointment or continuing appointment, and serving and living outside the recognized home country. The grant is provided in respect of each dependent child in full-time attendance at an educational institution. The grant is payable up to the end of the school year in which the child completes four years of post-secondary education or is awarded the first recognized post-secondary degree, whichever is earlier, subject to an upper age limit of 25 years. Special education grant is payable to staff members who have children with special educational needs. The maximum amount of education grant is USD 30,566 per academic year.
10. As at 31 July 2021 there were 162 staff members eligible to receive education grant for a total of 301 dependents. As per data extracted from Unit4 ERP, there were 1129 transactions related to final settlement of claims for the three academic years: 2017-18, 2018-19 and 2019-20. ICAO paid out CAD 7.87 million in education grant for these three academic years. The value of education grant advances and final claim settlements for each academic year is as follows:



Audit Objectives and Scope

11. The objectives of the audit were to assess compliance with existing rules and procedures as well as the design and effectiveness of internal controls relating to the education grant process, including accuracy and completeness of documentation.
12. Audit work performed included: (i) verification of the staff member's eligibility and the accuracy of education grant payments based on the expense claim submitted; (ii) verification of eligibility for reimbursement of the different expense components included in the education grant claims; (iii) online searches to assess the reasonableness of the tuition fees claimed as compared to the

amounts published by the schools on their online portals; and (iv) verification of the timeliness of claims processing. The audit covered three academic years from 2017-18 to 2019-20.

13. The audit methodology included (i) interviews of key personnel in SEA, (ii) reviews of relevant documentation, (iii) analytical reviews of financial data, and (iv) compliance testing of a sample of claims and payments.

Audit Findings and Recommendations

I. Admissibility of Education Grant and other expatriate benefits to permanent residents of the country of duty station

14. As of September 2021, 23 internationally recruited staff members out of 260 (8.8%) at the Headquarters duty station have permanent resident status in Canada². These staff members continue to benefit from all expatriate entitlements (education grant, home leave, repatriation benefits at the time of separation, etc.) under ICAO regulations and rules even after acquiring the permanent resident status in Canada. The total amount of education grant received by eight staff members with permanent resident status in Canada amounted to CAD 188,813 for academic years 2017-18, 2018-19 and 2019-20.
15. In ICAO, expatriate benefits including education grant are entitled to those staff members who are serving and living outside their recognized home country. Staff Regulation 5.14 defines an internationally recruited staff member's recognized home as ordinarily the place with which the staff member has the closest ties in the country of the staff member's nationality. Unlike ICAO where nationality criterion is applied to determine home country, United Nations apply the permanent residency status to determine whether a staff member is entitled to expatriate benefits or not. In United Nations³, staff members who acquire permanent resident status of the country of the duty station lose their international entitlements.
16. OIO also conducted a survey with the United Nations common system organizations on the eligibility of expatriate benefits to staff members who acquired permanent residency of the country of duty station. Ten out of 15 respondent organizations (66%) confirmed that staff members having permanent residence status of the country of duty station are not eligible for expatriate benefits including education grant while five organizations replied that expatriate benefits are allowed to staff members with permanent residency.
17. As the purpose of expatriate benefits is to facilitate the maintenance of the staff member's relationship with their home country, granting such entitlements to staff members who acquired permanent residency of the duty station is not only contradicting the spirit of the rule but also

² "Permanent resident of Canada" means a person admitted to Canada for permanent residence in accordance with applicable Canadian immigration legislation.

³ United Nations Staff Rule 4.5 (d): A staff member who has changed his or her residential status in such a way that he or she may, in the opinion of the Secretary-General, be deemed to be a permanent resident of any country other than that of his or her nationality may lose entitlement to home leave, education grant, repatriation grant and payment of travel expenses upon separation for the staff member and his or her spouse and dependent children and relocation shipment, based upon place of home leave, if the Secretary-General considers that the continuation of such entitlement would be contrary to the purposes for which the allowance or benefit was created. Conditions governing entitlement to benefits for internationally recruited staff in the light of residential status shall be set by the Secretary-General as applicable to each duty station.

creates a financial burden for the Organization. ICAO could achieve savings if aligned with the practice of the vast majority of UN system Organizations.

Recommendation 1	Admissibility of expatriate benefits to permanent residents of the country of duty station
Priority	High
ADB should conduct a cost benefit analysis to assess whether the expatriate benefits to staff members who acquired permanent residence status, need to be aligned with the prevalent UN practice, considering financial materiality and any future cost savings. Any amendment should ensure that the staff members currently benefiting from these entitlements are not adversely impacted.	
Closing criteria:	
Cost benefit analysis of granting expatriate benefits to permanent residents and consideration of amending the staff regulation and rules on the basis of such analysis.	

II. Monitoring of the timely submission of claims and recovery of advances

18. Advances are given to assist staff members since many institutions require the upfront payment of fees at the start of the academic year. Instructions provide⁴ that the amount of the advance authorized will be lower than the total amount of the grant due for the school year. As per the adopted practice, 90% of the total amount is paid as advance at the beginning of the academic year. A residual reimbursement is settled when final claims are submitted at the end of the academic year. Although this is a good control and encourages timely submission of claims by the staff members, this practice has yet to be formalized as part of Standard Operating Procedures.
19. The timely submission of claims is the responsibility and obligation of staff. However, significant delays were identified in the submission of claims in respect of nine out of 162 (5.5%) eligible staff members. Nine staff members, who received education grant advances of CAD 142,163 in the period 2017-2019, submitted their final claims with delays ranging from seven to 27 months beyond the established timeline. ICAO's instructions⁵ to staff on education grant advances clearly stipulate that staff members in receipt of an advance payment against their education grant entitlement must ensure that their claims are submitted on time, but not later than three months from the end of the academic year.
20. Although repeated reminders were sent by SEA, nine staff members failed to comply with the provisions of Staff Notice 5406 without any valid reason and appropriate action for recovery of unsettled education grant advances was not initiated in a timely manner. As a consequence, lack of timely recovery of education grants without any legitimate reason by staff members leads to lax control environment and increases the risk of financial loss.
21. One staff member was granted an advance of CAD 62,723 in November 2019 in respect of his two dependents enrolled in the academic year 2019-20. Final claims have not yet been submitted as of September 2021 despite the lapse of more than one year since the end of the academic year 2019-20.

⁴ Personnel Instructions (PI) 3.18

⁵ Staff Notice No. 5406 dated 28 November 2011 which states "if an advance is not cleared, it will be automatically recovered from the staff member's salary three months after the end of the academic year and no further advance will be authorized for subsequent school years until previous education grant advances have been cleared"

22. Furthermore, in two cases, the excess of advance over the final settlement claim was recovered from the staff member's salary in several instalments. In one case, an excess advance of CAD 10,160 was recovered in 10 instalments and in another case, an excess advance of CAD 10,757 was recovered in 12 instalments.
23. In cases where there is a change of circumstances, or a change of academic institution during the academic year, any difference in fees will be well known to the staff member. In such cases any advance which has already been received over and above the new requirements should be paid back by the staff member immediately. However, two staff members submitted their final claims after more than a year and were allowed by FIN to repay the recoverable advance in 10-12 instalments. This practice of recovering education grant advances in several instalments is neither provided for in ICAO's financial rules nor it's in the best interests of the Organization. Such a practice increases the risk of financial loss and misuse of organizational resources for personal gain and for purposes other than education grant.

Recommendation 2	Recovery of advances
Priority	High
ADB, in coordination with FIN, should ensure that:	
<ol style="list-style-type: none"> (a) education grant advances are immediately recovered in full if staff members fail to submit their claims within three months of the end of the academic year without any legitimate reason; (b) SEA to provide a statement to FIN on the recovery of all advances not settled and for which a recovery must be made; and no further advances should be payable to staff who have failed to settle their previous claim(s); (c) the procedures on education grant process need to be revised to include steps explaining the handling of advance payments and final settlement of grant amount 	
Closing criteria:	
<ol style="list-style-type: none"> (a) Regular reporting on unsettled advances and information sharing with FIN for timely recovery of unsettled advances. (b) SEA to advise the Office of the Secretary General of any cases which might require a formal investigation, in order to establish whether there may have been a misuse of the education grant entitlement. (c) Updating of HR procedures relating to education grant payments. 	

III. Processing of education grant claims

Difficulties in identifying inadmissible expenses

24. In accordance with Staff Rule 103.18, admissible expenses for reimbursement under the global sliding scale shall be tuition, mother tongue tuition and enrolment-related fees. Capital assessment fee, if charged, is reimbursed at 100% in addition to the tuition fee. Other expenses such as fees for meals and lunchtime supervision, transportation, textbooks, insurance, private tuition (other than for the mother tongue), external activities, and school equipment and supplies, even if compulsory and billed by the school, shall not be considered as admissible expenses.
25. Although SEA strives to exercise due diligence in verifying and processing education grant claims and generally exclude all inadmissible expenses, it faces difficulties in identifying any inadmissible expenses in a timely manner as academic institutions often do not provide a breakdown of their

charges. Also, proper scrutiny of education grant claims was at times hindered by incomplete information and practical difficulties in verifying the information with the academic institutions. The identified weaknesses increase the risks of financial losses and frauds as inadmissible charges like lunch and transport etc. are sometimes included together with the tuition fee without a clear indication in Form 135-1⁶. In order to mitigate such risks, SEA revised the Form 135-1 in July 2021 to explicitly request clarification on whether inadmissible expenses are included in the tuition fee or not.

26. A sample of 20 cases was selected for detailed testing of the education grant processing. In two cases out of 20 (10%), while lunch expense was charged by the school and included in the tuition fee, this inadmissible expense was not excluded from tuition fee at the time of final settlement of the claims. At the time of the writing of this report, recovery of inadmissible expenses was already initiated by SEA.

Recommendation 3	Corrective action in respect of inadmissible expenses
Priority	Medium
ADB should follow up on the discrepancies identified in education grant process, taking appropriate action including recovery as needed from the staff member and implement additional controls to ensure inadmissible expenses are identified.	
Closing criteria:	
Corrective action in respect of discrepancies and recoveries, as needed.	

Cases of special education grant

27. There were eight cases of special education grant. We verified that all eight cases were medically certified by the ICAO medical doctor as required by the provisions of Staff Rule 103.19.

IV. Work flow application for claims processing

28. SEA introduced a new workflow application in August 2021 to facilitate the online submission of all the relevant documentation by staff members for processing of their education grant claims. This application was developed in-house by ICT. The newly introduced workflow application facilitates (i) recording of dates of submission and final settlement, (ii) linking of advances with final settlement claims, and (iii) automatic generation of notifications if a staff member has not submitted a claim to settle previous advances on time. Functionality also includes the automatic calculation of education grant allowances.

29. Testing of the workflow application indicated the following:

- The workflow application does not allow for a staff member to withdraw an already submitted application which may be necessary in case of errors in the submitted information.
- The workflow application allows the submission of duplicate claims.
- The workflow application prompts users to enter the date of birth of the dependent. This field should be automatically filled from data already entered in Unit4 ERP and which has been validated by HR.

⁶ Certificate of attendance and costs and receipts for payments, which is provided by academic institutions

30. We understand that the workflow application is still being tested and requires some changes based on feedback from SEA staff and experience of end-users. SEA informed that all the issues highlighted in this report will be informed to ICT in the list of required upcoming changes.

Recommendation 4	Testing of education grant workflow application
Priority	Medium
In close cooperation with the ICT, the workflow application should be thoroughly tested and all discrepancies should be rectified to increase the effectiveness of automated controls.	
Closing criteria:	
Documented results of testing of education grant workflow application and rectification of errors in the workflow application	

ANNEX 1: DEFINITION OF AUDIT TERMS

Audit Ratings

In providing an overall assessment of the results of the audit, EAO uses the following standardized audit rating definitions:

Audit Assessment	Definition
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses or areas for improvement were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Several key control weaknesses were noted and/or several areas of strategic/high importance were identified where significant improvements can be made to increase efficiency and effectiveness.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Internal control is defined as a process effected by senior management and staff, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance objectives. Whilst internal control provides reasonable (but not absolute) assurance of achieving organizational objectives, limitations may result from:

- suitability of objectives established as a precondition to internal control;
- reality that human judgment in decision making can be faulty and subject to bias;
- breakdowns can occur because of human failures such as simple errors;
- ability of management to override internal control;
- ability of management, other staff, and/or third parties to circumvent controls through collusion;
- external events beyond the organization's control.

Priority of Audit Recommendations

The audit recommendations in this report are categorized according to priority as a guide to management in addressing the issues raised. The following categories are used:

High: recommendations which address significant and/or pervasive deficiencies or control weaknesses, or areas where significant improvements can be made.

Medium: recommendations which address important deficiencies or control weaknesses, or areas where some improvements can be made.

Low: suggestions which represent best practice, or general opportunities for improvement.

ANNEX 2: MANAGEMENT ACTION PLAN

Ref	Recommendation	Priority Rating	Accepted (Y/N)	Management Comments	Agreed Actions	Office/ Section Responsible	Target Date
1.	ADB should conduct a cost benefit analysis to assess whether the expatriate benefits to staff members who acquired permanent residence status, need to be aligned with the prevalent UN practice, considering financial materiality and any future cost savings. Any amendment should ensure that the staff members currently benefiting from these entitlements are not adversely impacted.	High	Yes	Expatriate benefits are intended for internationally recruited professional staff and not for staff who have acquired PR status at the duty station. However, for unknown reasons the Organisation has deviated from the UN Common system practice and accorded staff with expatriate benefits even though they have acquired the PR status of the duty station.	Review the legality and appropriateness of granting internationally recruited staff with expatriate benefits when they have acquired the PR status of the duty station. Further as recommended a cost benefit analysis of possible future course of action would also be conducted.	SEA	December 2022
2.	ADB, in coordination with FIN, should ensure that (a) education grant advances are immediately recovered in full if staff members fail to submit their claims within three months of the end of the academic year without any legitimate reason; (b) SEA to provide a statement to FIN on the recovery of all advances not settled and for which a recovery must be made; and no further advances should be payable to staff who have failed to settle their previous claim(s); and (c) the procedures on education grant need to be revised to include steps explaining the handling of advance payments and final settlement of grant amount.	High	Yes	Agreed to address the recovery of advances not settled and to examine the need to revise the Staff Rule on Education Grant.	Agreed to address the recovery of advances not settled and to examine the need to revise the Staff Rule on Education Grant.	SEA & POD	September 2022

Ref	Recommendation	Priority Rating	Accepted (Y/N)	Management Comments	Agreed Actions	Office/ Section Responsible	Target Date
3.	ADB should follow up on the discrepancies identified in education grant process, taking appropriate action including recovery as needed from the staff member and implement additional controls to ensure inadmissible expenses are identified.	Medium	Yes	<p>Due diligence will be exercised and should there be any overpayment as a result of any administrative errors this would result in a recovery as permissible under Staff Regulations 12.6.</p> <p>Administrative errors can occur and when this is detected corrective action and recovery, as might be required would be implemented.</p>	<p>This is done on a routine basis and recommendation can be closed.</p> <p>OIO Note: Prior to finalization of the audit report, OIO verified that recovery of inadmissible expenses were already initiated by SEA and as such this recommendation is considered Implemented.</p>	SEA	Implemented
4.	In close cooperation with the ICT, the workflow application should be thoroughly tested and all discrepancies should be rectified to increase the effectiveness of automated controls.	Medium	Yes	<p>The online system is still in its infant stages and is undergoing development while in use. It is nor normal for a tool to be audited while under development. However, it is standard operating procedures for fixes to be made to the system for effectiveness. Even the already established Agresso system undergoes enhancements from time to time.</p>	<p>The online system is still in a developmental stage and would undergo fixes and enhancements that might be required to workflows.</p>	SEA	September 2022