The Office of the Inspector General (OIG) conducted an audit of the Medical Insurance Coverage for Supernumeraries (MCS/MCNS) Plans between March and May 2022. MCS is the medical insurance plan offered worldwide to Non-Staff Human Resources (NSHR) and short-term staff working with FAO. MCNS is the medical insurance plan covering other types of non-staff such as FAO interns, volunteers and fellowship holders, FAO Goodwill Ambassadors, members of the FAO Council, committees or similar bodies, etc.

Based on a risk assessment conducted at the audit planning stage, the audit focused on the MCS plan. Nevertheless, most observations and recommendations are equally applicable to the MCNS plan, as both plans are managed by the same service provider.

The MCS plan is underwritten by a commercial insurer. The current contractor took over the plan in 2021 following a procurement tender. During the period January 2015–December 2021, the MCS base premiums paid (including participants’ contributions for MCS) were approximately USD 15.1 million. The number of claims processed totalled 31,352 for medical expenses and 1,662 for compensation of days lost.

The main objective of the audit was to assess the adequacy and effectiveness of the governance, risk management and control processes over the management of the MCS/MCNS plans under the current contract (Audit objective 1). The audit covered the period January–December 2021; however, the audit took the opportunity to also assess the implementation of corrective actions in response to identified weaknesses and gaps in the previous contract. An additional audit objective was to assess the reconciliation made by CSH of payments advanced by FAO under the previous contract which were not settled by the participants, and the efforts made to settle or recover such advances (Audit objective 2).

Main audit observations

Audit objective 1: Governance, risk management and control processes over the management of the MCS/MCNS plans

OIG believes there has been a major qualitative leap from the management of the previous insurance contract. OIG commends the Social Security Unit (CSHS) for selecting a provider to digitalize the claims experience, which has brought the automation of many key controls.

Notwithstanding the above, OIG believes there is room to further improve the monitoring of service providers and plan performance. Specifically, OIG noted that the claim administrator did not completely adhere to contractual provisions regarding reporting schedules and content, and CSHS had not documented its procedure to analyse, document and disseminate the information received from the claim administrator. These actions should be implemented as a matter of priority.

There are also opportunities to enhance internal controls. For example, OIG observed the absence of any document relating to a USD 728,000 reserve deducted from NSHR and labelled “emergency fund”. Having a clear mandate and standard operating procedures on the use of this reserve would mitigate the risk of it being used for other unintended purposes.
Audit objective 2- Reconciliation of outstanding advances under the old contract

OIG notes that, under the old contract, due to a lack of adequate internal controls at the former Office of Human Resources (OHR (now CSH)), FAO paid approximately USD 1.8 million to participants as advances (for compensation of sick leave days) which were not settled. Most of the amount is irrecoverable as the payments were made before 2018. But even for the more recent advances, CSH has estimated that it may only be able to recover approximately USD 130,000.

OIG considers that the root cause for this issue was the general deterioration of governance processes for the management of medical insurance plans at that time, as already documented in OIG’s report AUD 0220 (Audit of the Management of the After Service Medical Coverage Plan).

OIG notes that the current contract arrangements do not foresee the advancement of any payments by FAO and therefore the same problem cannot happen.

Conclusion

In summary, OIG is of the opinion that the governance arrangements, procedures established and controls applied in the management of the MCS/MCNS plans in FAO Need Some Improvement to improve the effectiveness and efficiency of the plans and reduce the risk of fraud.

Agreed actions

This report contains four actions that management has agreed to undertake and committed to fully implement by December 2022. The priority action is that CSHS clarifies the purpose of the emergency fund and formalizes the management policy of that fund.

Mika Tapio
Inspector General

20 September 2022
ANNEX: DEFINITION OF AUDIT TERMS

AUDIT RATINGS

<table>
<thead>
<tr>
<th>Rating System</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Some Improvement Needed</td>
<td>A few specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; generally however, they are adequate and effective to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Major Improvement Needed</td>
<td>Numerous specific weaknesses in the assessed controls, governance arrangements, and management of opportunities and risks were noted; they are unlikely to provide reasonable assurance that objectives are met.</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>The assessed controls, governance arrangements, and management of opportunities and risks, are not adequate or effective to provide reasonable assurance that objectives are met.</td>
</tr>
</tbody>
</table>

1 FAO’s accountability policy, in an extension of the COSO internal control objectives, establishes five critical areas of performance relevant for assessing the adequacy of controls – effectiveness, economy and efficiency, compliance, reporting and protection.