



## **INTERNAL AUDIT DIVISION**

### **REPORT 2014/006**

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**Audit of the administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund**

**Overall results relating to the administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund were initially assessed as satisfactory.**

**FINAL OVERALL RATING: SATISFACTORY**

**13 March 2014**

**Assignment No. AS2013/800/03**

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# AUDIT REPORT

## Audit of the administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) effective and efficient operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNJSPF was established in 1949, by a resolution of the General Assembly, to provide retirement, death, disability and related benefits for staff upon cessation of their services with the United Nations, under the Regulations, Rules and Pension Adjustment System of the UNJSPF. According to Article 28 of the UNJSPF Regulations, a full retirement benefit was payable to a participant whose age on separation is the normal retirement age or more and whose contributory service was five years or longer. At the time of this audit, normal retirement age was 60 for participants whose participation commenced before 1 January 1990 and 62 for participants whose participation commenced on or after 1 January 1990.
4. The core functions of the Secretariat of the UNJSPF are administration and payment of benefits to beneficiaries of the Fund. The New York office of the UNJSPF paid over US\$ 1.3 billion in full retirement benefits for the period from 1 January 2012 to 31 May 2013. The office processed pension entitlements and benefits payments for the United Nations Secretariat, United Nations Development Programme, United Nations Children's Fund, International Civil Aviation Organization and International Seabed Authority. Processing of benefits and payments for staff of other member organizations was conducted by the Geneva office of the UNJSPF.
5. The full retirement benefits were processed by the Operations and Financial Services of the Fund's Secretariat in New York. The two services reported to the Office of the Chief Executive Officer. The Operations and Financial Services reported 46 and 33 filled posts respectively.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNJSPF governance, risk management and control processes in providing reasonable assurance regarding the **effective and efficient administration of full retirement benefits by the New York office of the United Nations Joint Staff pension Fund**.
7. This audit was included in the 2013 OIOS risk-based work plan due to the financial and reputational risks related to pension benefit payment activities.
8. The audit did not cover the other types of benefits that are administrated in the New York office, such as early retirement, deferred retirement, withdrawal settlement, disability, widows and widowers, divorced surviving spouses, spouses married after separation, children, secondary dependant, and residual

settlement. OIOS planned to audit the different types of benefits in both the New York and the Geneva offices selectively over three years based on a risk assessment. Accordingly, an audit of selected benefits processed by the Geneva office was included in the 2014 OIOS audit work plan.

9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: (a) exist to guide the operations of UNJSPF in the area of administration of full retirement benefits; (b) are implemented consistently; and (c) ensure reliability and integrity of financial and operational information.

10. The key control was assessed for the control objectives shown in Table 1.

11. OIOS conducted the audit from June to October 2013. The audit covered the period from 1 January 2012 to 31 May 2013. The audit reviewed the (a) calculations and payments of a sample of full retirement benefits; (b) performance benchmarks for processing and payments of benefits; (c) related general ledger entries in the UNJSPF accounting system; and (d) the certificate of entitlement process.

12. The audit team conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness. The audit team reviewed relevant regulations, policies and procedures, re-performed the calculation of a sample of randomly selected full retirement cases, reviewed major processes by tracing related transactions from beginning to end, and discussed relevant issues with UNJSPF Secretariat managers and staff.

### **III. AUDIT RESULTS**

13. The UNJSPF governance, risk management and control processes examined were satisfactory in providing reasonable assurance regarding the **effective and efficient administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund.**

14. The overall rating was based on the assessment of the key control presented in Table 1 below. Controls over the calculation and payments of full retirement benefits were adequate. The certificate of entitlement process was effective in detecting beneficiaries that needed to be suspended based on their non-responses to the Fund's requests for signed certification forms. OIOS discussed with the Fund Secretariat opportunities for additional controls to further mitigate the risk of the failure to report the deaths of beneficiaries. The Fund Secretariat indicated that it will continue to further improve its controls to prevent possible fraud related to this risk; therefore, OIOS did not make a recommendation.

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
<b>Effective and efficient administration of full retirement benefits by the New York office of the UNJSPF</b>	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

## **Regulatory framework**

The controls over the calculation of full retirement benefits were adequate

15. The provisions of Article 28 of the Regulations regarding the calculation of the full retirement benefit were embedded into the Pension Fund’s Administration System (PENSYS). Participant data was entered into PENSYS through the system interface with Member Organizations. There were three levels of controls over the full retirement benefit calculation embedded into PENSYS that required the involvement of three staff members of the Pension Entitlement Section with the following functions: (a) the calculator who populated limited fields in PENSYS and ran the calculation; (b) the auditor who conducted detailed checks to ensure that calculations were correct and all supporting documents were available; and (c) the releaser that conducted checks of certain fields to ensure that names, job numbers, account numbers and payment instructions were correct.

16. For all new full retirement beneficiaries processed by the Pension Entitlement Section during the period from 1 January 2012 to 31 May 2013, OIOS reviewed the PENSYS activity log to confirm that the functions of calculation, audit and release were properly segregated. Also, OIOS calculated the full retirement benefits at the portfolio level for these new beneficiaries based on years of contributory service, final average remuneration and rates established by the Regulations. Results were compared to the actual benefits, and OIOS concluded that variances were within a reasonable level given the OIOS calculation was an estimate for overall analytical review purposes, and it did not include all options available to the beneficiaries.

17. For each of the five major full retirement benefit scenarios, including adjustments for small pensions, maximum benefits, validation and restoration as well as calculation of children’s benefits and lump sum payments, OIOS recalculated the full retirement benefits for beneficiaries that reached retirement age during the period under review to verify compliance with Article 28 of the Regulations, and compared the calculations to the amounts generated by PENSYS. For the selected beneficiaries, OIOS reviewed supporting documentation such as the birth certificates of participants to ensure eligibility for full retirement benefits, years of contributory service, pensionable remuneration rates, personnel actions and eligibility for children benefits in order to ensure that the information in PENSYS was correct. OIOS concluded that calculations processed in PENSYS were in compliance with the Regulations, Rules and Pension Adjustment System, and controls over the calculation of full retirement benefits were adequate.

Controls over payments of full retirement benefits were adequate

18. The schedule of payroll processing was developed by the Payment Unit so that when cases were released in PENSYS by the 10<sup>th</sup> of each month, they were consolidated in the next payroll which was payable on the 1<sup>st</sup> of the following month. OIOS reviewed a sample of 25 payment transactions and observed that the payroll was disbursed in a timely manner to the concerned individuals for the amounts authorized in PENSYS and in the relevant currency; and the transactions were completely and accurately recorded in the accounting system. OIOS also observed that there were procedures in place to follow-up cases of failed wire transfers and un-cashed cheques. In addition, OIOS reviewed that the cost of living adjustment was accurately accounted for when the retirees reviewed opted for the local track option. OIOS concluded that controls over payments of full retirement benefits were adequate.

The controls over the certificate of entitlement process were effective in detecting beneficiaries that needed to be suspended

19. The Fund verified the continuing eligibility of beneficiaries through a certificate of entitlement process. All beneficiaries, except those retired six months prior, were required to return signed certificate of entitlement forms annually, as evidence of continued eligibility for the benefits received. The Fund carried out a signature verification process according to the General Procedure for processing certificates of entitlements. The signature verification was required annually for all beneficiaries receiving a disability benefit or a widow's /widower's benefit and for all beneficiaries over the age of 85<sup>1</sup>. The signature verification was required every two years for beneficiaries between the age of 75 and 85; and it was required every 5 years for the remaining beneficiaries.

20. In cases where the beneficiaries did not return a signed certificate of entitlement form, the Fund mailed them a second request. If no duly completed form reached the Fund after the second round of mailings, a special case by case review was carried out to determine whether the Fund received any direct communications from the respective beneficiaries during the year. In addition, a further review was carried out with the assistance of the Staff Pension Committees and the offices of the Association of Former International Civil Servants. In cases where no confirmation of continued eligibility was obtained, the subsequent benefit payment was suspended. According to the Fund, it suspended 842 and 923 beneficiaries as a result of the 2011 and 2012 certificate of entitlement processes respectively.

21. OIOS obtained the population of 54,567 beneficiaries subject to the certificate of entitlement process in 2012 as shown in Table 2.

Table 2

**Distribution of beneficiaries by age based on the certificate of entitlement data as of October 2012**

Age distribution	Number of beneficiaries	Percentage
Over 100 years	57	0.10
Between 85 and 100 years	6,327	11.60
Between 75 and 85 years	13,968	25.60
Between 60 and 75 years	30,326	55.58
Others	3,889	7.12
<b>Total population</b>	<b>54,567</b>	<b>100</b>

<sup>1</sup> Subsequent to the audit, the Fund Secretariat indicated that the signature verification was required annually for all beneficiaries over the age of 75. This represented a higher level of testing than the General Procedures for processing certificates of entitlements which require signature verification for beneficiaries over the age of 85.

22. OIOS reviewed the data for the entire population of beneficiaries subject to the certificate of entitlement process by age and identified those that were sampled by the Fund for signature verification in 2012. OIOS observed that all beneficiaries over 85 years were subject to signature verification by the Fund in compliance with the established procedures. OIOS also selected a sample of ten beneficiaries over 85 years and compared their signatures on the returned certificate of entitlement forms to signatures on file, noting no discrepancies.

23. OIOS selected a sample of ten beneficiaries from the 2012 suspension list and verified that they were suspended in PENSYS as of 1 October 2013. Although the deadline for submission of the second certificate of entitlement installment was 31 May 2013, the suspension took place in September 2013 after allowing for the additional reviews to determine the continued eligibility of the beneficiaries.

24. OIOS selected a sample of 16 retirees from the population of 57 beneficiaries over 100 years and reviewed the results of the 2012 certificate of entitlement process pertaining to them. OIOS noted that three beneficiaries were suspended because the signed certificate of entitlement forms were not returned; five were terminated based on the information that the beneficiaries were deceased; and, eight were signature verified for continuous eligibility. OIOS observed that the Fund followed the established procedures.

25. The Fund's certificate of entitlement process was effective in (a) detecting beneficiaries that needed to be suspended based on their non-responses to the requests to return the signed certification forms to the Fund; and (b) terminating the records of the beneficiaries that were reported deceased. OIOS discussed with the Fund Secretariat opportunities for additional controls to further mitigate the risk of the failure to report the deaths of beneficiaries. The Fund Secretariat indicated that it will continue to further improve its controls to prevent possible fraud related to this risk; therefore, OIOS did not make a recommendation.

#### **IV. ACKNOWLEDGEMENT**

26. OIOS wishes to express its appreciation to the Management and staff of the United Nations Joint Staff Pension Fund for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* David Kanja  
Assistant Secretary-General for Internal Oversight Services

# **APPENDIX I**

## **Management Response**



UNITED NATIONS JOINT STAFF PENSION FUND  
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## MEMORANDUM

Ref:

New York, 28 February 2014

To / Ms. Carmen Vierula, Chief of New York  
A: Audit Service  
Internal Audit Division, OIOS

From  Sergio B. Arvizú  
/ De : Chief Executive Officer  
United Nations Joint Staff Pension Fund

Subject / Objet: Assignment No. AS2013/800/03 - Audit of UNJSPF administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund - UNJSPF Secretariat response to the draft report

1. Reference is made to your memorandum dated 18 February 2014, in which you submitted for the Fund's comments the draft report on the audit of administration of retirement benefits.
2. The Fund wishes to express its appreciation to OIOS for its excellent work in this detailed audit exercise as well as for the constructive discussions with the Fund Secretariat.
3. The Fund notes that the overall audit results are satisfactory and that OIOS has identified that the Fund's governance, risk management and control process provide reasonable assurance regarding the effective and efficient administration of full retirement benefits.
4. As discussed in a meeting of UNJSPF staff with you, the results of the review and verification of these core processes constitute an importance assurance of the Fund's internal control environment and sound operational framework and will be considered in regards to the Fund's introduction of the Statement of Internal Control.
5. When preparing the internal audit plan for 2013-2015 and defining the scope of this audit, OIOS had informed the Audit Committee and the Fund's management that in order to improve the efficiency and effectiveness of the internal audit team's work and to cover all high risk areas as identified in the Fund's comprehensive risk assessment, OIOS had combined audit assignments with related content and programmed to conduct a comprehensive audit that covered the entire pension process starting from contributions, administration of pension entitlements and payment of benefits. The proposed audit plan included review of the contributions reconciliation process. This broad scope was agreed by the Audit Committee and the Fund's management.

6. The Fund observes that as part of the audit work for this assignment, OIOS did review the reconciliation of contributions made by member organizations and reported the results of the review in the detailed results report. However, in the draft report the results of the review of contributions were not included.

7. The Fund relies heavily on the information provided by its member organizations for the determination and calculation of pension entitlements and for the reconciliation of contributions. The detailed description of the audit work, detailed results and OIOS comments on the time member organizations take to provide information in the reconciliation of contributions, is important for the Fund to share with its member organizations. The review of the controls addressing the contribution process –as was done in the audit- is also of particular importance in respect of the Fund’s introduction of the Statement of Internal Control. Therefore, the Fund kindly requests that the results of the audit work on reconciliation of contributions be included in the final report before its publication (which will also require amending and expanding paragraph 14).

8. The Fund would also like to provide OIOS certain clarifications, corrections and comments to the text of the report which are detailed in Annex I.

cc.: Mr. Fernando Salon, UNJPSF Audit Section, OIOS  
Mr. Paul Dooley  
Mr. Frank Deturris  
Mr. Karl-Ludwig Soll  
Ms. Kathalina Manosalvas

**COMMENTS AND CLARIFICATIONS TO THE REPORT****Assignment No. AS2013/800/03 - Audit of UNJSPF administration of full retirement benefits by the New York office of the United Nations Joint Staff Pension Fund**

1. Paragraph 5: Please replace “the Operation Services” by “Operations”.
2. Paragraphs 20 and 21: OIOS reported that 502 of 811 full retirement benefit cases (62 per cent) reviewed by OIOS met the overall performance benchmark and that the difference versus the benchmark was related, in part, to the fact that the Fund required additional documents to initiate the benefit calculation process. In addition, and in order to be more consistent in its comparison with the actual benchmark, the Fund secretariat respectfully requests OIOS to note in paragraph 21 that the performance calculation reported by OIOS is not a regular metric utilized by the Fund, since it is limited only to “full retirement cases”, whereas the “regular” performance benchmark for the processing of benefits, as normally considered and reported by the Fund, covers the actual range of cases that are dealt by Operations; that is, it includes both "retirement" and "full withdrawal" cases. This broader metric provides a better indication of the actual workload and performance versus the goal (reflecting that about 75 to 77% of the cases are done within the approved benchmark).
3. Paragraph 22: The Fund secretariat requests OIOS to adjust paragraphs 22 and 25 to note that the signature verification is required: annually for all beneficiaries receiving a disability benefit or a widow’s / widower’s benefit, and for all beneficiaries over the age of 75, and every 5 years for the remaining beneficiaries.
4. Paragraphs 14 and 28: The Fund secretariat kindly requests OIOS to note in paragraph 14 and at the end of paragraph 28 that the Fund secretariat has not “initiated” but “continues to further improve its controls to prevent possible fraud related to the failure to report the death of a beneficiary”.