



INTERNAL AUDIT DIVISION

REPORT 2014/147

Audit of administration of selected pension benefits by the Geneva Office of the United Nations Joint Staff Pension Fund

Overall results relating to the effective and efficient administration of pension benefits by the Geneva Office of the United Nations Joint Staff Pension Fund were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

19 December 2014
Assignment No. AS2014/800/01

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AUDIT REPORT

Audit of administration of selected pension benefits by the Geneva Office of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of administration of selected pension benefits by the Geneva Office of the United Nations Joint Staff Pension Fund (UNJSPF).
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 resolution 248 (III) 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. The Geneva Office was established in 1975 and was responsible for administering services to 23 member organizations. Geographical proximity and language commonality of the member organizations were the main considerations in setting up the Office and assigning the client organizations to the Office. In 2013, the Geneva Office awarded 4,673 benefits, corresponding to 40 per cent of total benefits awarded by the Fund for the year.
4. The Geneva Office was headed by the Chief of Office who reported directly to the Chief Executive Officer of the UNJSPF. The Office also had: a Participation and Entitlements Section; a Finance, Client Services and Records Management Section; a Legal Officer; and an Information Systems Officer. Thirty posts were approved for the biennium 2014-2015.
5. Pension benefits were processed through the Pension Fund's Administration System (PENSYS) and the supporting documents were stored in Content Manager, the Fund's document imaging system.
6. Comments provided by the UNJSPF Secretariat are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the UNJSPF Secretariat's governance, risk management and control processes in providing reasonable assurance regarding **effective and efficient administration of pension benefits by the Geneva office of the UNJSPF**.
8. This audit was included in the 2014 OIOS risk-based work plan due to the financial and reputational risks related to determining the eligibility of beneficiaries and the calculation of pension benefits.
9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (a) exist to guide the operations of the Fund in processing pension 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 March to May 2014. The audit covered the period from 1 January to 31 December 2013. The audit reviewed the following: (i) verification of the eligibility of beneficiaries; (ii) accuracy of calculation of selected benefits; and (iii) UNJSPF policy and procedures for fraud prevention and detection.

12. OIOS 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.

13. OIOS reviewed controls using a sample of 50 cases processed in 2013 with total payments of \$2.9 million. The selected cases comprised retirements, early retirements, disabilities, withdrawal settlements, residual settlements, validations and restorations. The audit involved: (i) review of policy, procedures and guidelines on pension benefits; (ii) interviews with key staff in Geneva and New York; (iii) re-performance of the calculation of the 50 selected benefit cases; (iv) verification of the eligibility of beneficiaries/participants for the 50 selected cases; (v) walk-through of the PENSYS benefit processing system; (vi) walk-through of the Content Manager records management system; (vii) review of the measurement of the performance benchmark for processing benefits; and (viii) data mining for sampling and analysis purposes.

III. AUDIT RESULTS

14. The UNJSPF governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effective and efficient administration of pension benefits by the Geneva office of the UNJSPF**.

15. OIOS made two recommendations to address issues identified in this audit. Controls for establishing the eligibility of beneficiaries and calculating pension benefits were adequate. The Fund maintained three levels of control in Pension Fund's Administration System for processing benefits and this configuration ensured appropriate segregation of duties. Also, a complete set of supporting documents, used for verification and calculation of benefits purposes, was stored in the Fund's document imaging system. However, updating the Fund's Administration Manual needed to be prioritized to consolidate guidance on administering benefits. The fraud risk assessment also needed to be updated by fully mapping existing controls to potential fraud schemes and addressing any significant gaps.

16. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress.

¹ A rating of "**partially satisfactory**" means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Table 1: Assessment of key control

Business objective	Key control	Control objectives			
		Effective and efficient operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective and efficient administration of pension benefits by the Geneva Office of the UNJSPF	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Controls over pension benefit calculations were adequate

17. The Regulations, Rules and Pension Adjustment System of the UNJSPF set out the criteria for the calculation of benefits and eligibility of beneficiaries. The provisions regarding the calculation of benefits were embedded into PENSYS. The 1987 UNJSPF Administration Manual and 2007 Geneva Reference Manual required that a participant’s basic data be verified, pensionable remuneration report checked and contributions reconciled in PENSYS before the benefit calculation module was run in PENSYS and the reports forwarded to supervisors for review and approval.

18. OIOS selected and reviewed 50 benefit cases comprising 11 retirements, 5 early retirements, 5 disabilities, 13 withdrawal settlements, 4 residual settlements, 8 validations and restorations, and 4 other cases. OIOS reviewed the relevant documents in case files showing the steps followed by the benefit processors and established that all selected cases were verified, reviewed and approved as per the procedures. The audit also verified the accuracy of beneficiary basic data in the system by matching the information with the source documents, e.g. separation notification, payment instruction, etc. Further, OIOS manually recalculated the benefits as outlined in the regulations and rules following the calculation criteria and compared the results with the amounts generated by PENSYS. Based on the reviews and recalculations of benefits OIOS concluded that controls over pension benefit calculations were adequate.

Controls over establishing eligibility of beneficiaries were adequate

19. Eligibility criteria for benefits were defined in the Regulations, Rules and Pension Adjustment System of the UNJSPF and stipulated, *inter alia*, the normal retirement age, number of years of contributory service to qualify for a pension and conditions for receiving a disability benefit.

20. For the same 50 cases selected, OIOS checked all required information in the Participant Basic Data master in PENSYS and reviewed supporting documentation to establish eligibility of beneficiaries such as separation notification, birth certificate and disability report. The review showed that all required information was complete and up-to-date, and supporting documents were available in the beneficiary’s folder maintained in the Content Manager system. The audit team also examined selected original documents in the archives and concluded that they were adequately safeguarded in a restricted area with standard security measures against risks of fire and water. Based on these reviews, OIOS concluded that controls for establishing the eligibility of beneficiaries were adequate.

The Fund maintained three levels of control in Pension Fund's Administration System for benefit processing

21. Responsibilities for certain functions were required to be assigned to different staff members to ensure proper segregation of duties.

22. UNJSPF configured PENSYS with three levels of controls with the following functions: (i) the calculator; (ii) the auditor; and (iii) the releaser. The calculator ensured that all required information was available, made necessary adjustments if required, and ran the calculation. The auditor verified the accuracy of calculations, and checked that all supporting documents were available. The releaser conducted checks of certain fields to ensure that names, account numbers and payment instructions were correct, and supporting documents were available. The releaser, after the review, forwarded the case to the certifying officer. OIOS verified that all reviewed cases were processed by the three separate roles, in accordance with the established procedures. Based on the reviews, OIOS concluded that controls over segregation of duties relating to benefit processing were adequate.

Need to update the Fund's Administration Manual

23. Annex I to the Administrative Rules of UNJSPF stated that the Chief Executive Officer was empowered to issue and revise from time to time as may be necessary, an Administration Manual, which prescribed the procedures and forms to be used for the administration of the Fund.

24. The Fund's Administration Manual was first promulgated in 1971 and last updated in 1987. It therefore did not reflect changes to regulations, rules and operational procedures made since then to provide additional guidance on the administration of benefits. These changes covered subjects such as rates used in calculations of benefits; codes that were created for each work type used in PENSYS; recovery of overpayments; processing of retroactive participants; non-receipt and reissuance of cheques; procedures for issuing certificates of entitlement; contributions from member organizations; failure to submit payment instructions; and beneficiaries in receipt of two or more benefits under the regulations. All of these updates were circulated in the form of individual documents, but were not consolidated in a revised manual for ease of reference and to ensure that the correct version of the guidance was being used. OIOS, nevertheless, noted that tables with the latest rates and figures were uploaded in PENSYS to ensure that the system-generated calculations were accurate.

25. UNJSPF management had not prioritized updating the Administration Manual. Lack of unified guidance may result in inefficient practices and the possibility of making errors.

(1) The UNJSPF Secretariat should update the Administration Manual to ensure that it provides reliable and complete guidance on the administration of benefits.

The UNJSPF Secretariat accepted recommendation 1 and stated that as part of its planned project activities for the Integrated Pension Administration System, the Fund Secretariat would develop a system manual and update/amend the entitlements checklist that would guide the processing of benefits. Recommendation 1 remains open pending receipt of the updated Administration Manual.

Need to update fraud risk assessment

26. A fraud risk assessment is often a critical component of an organization's larger enterprise risk management program. Such an assessment generally includes the following five key steps: (i) identifying relevant fraud risk factors; (ii) identifying potential fraud schemes and prioritizing them based on risk;

(iii) mapping existing controls to potential fraud schemes and identifying gaps; (iv) testing operating effectiveness of fraud prevention and detection controls; and (v) documenting and reporting the fraud risk assessment.

27. Following the Audit Committee's request in its November 2012 and February 2013 meetings that UNJSPF management identify and consider fraud scenarios to ensure that controls were in place, the Fund analyzed its potential exposure to fraud cases that had been perpetrated on other pension funds. The analysis also covered additional scenarios for the UNJSPF Secretariat, which reflected the Fund's unique plan design and global scope. The Fund partly mapped existing controls to the potential fraud schemes and thus did not fully identify all the related gaps. The Fund also did not take further steps to translate the identified gaps into additional pension specific anti-fraud controls.

28. The UNJSPF management had prepared guidance on fraud awareness, reporting and escalation procedures, but this did not provide assurance that adequate controls were in place to address all the potential fraud schemes identified. Without this assurance, management may not be able to effectively manage residual fraud risks.

(2) The UNJSPF Secretariat should update its identification and prioritization of potential fraud schemes, and map existing controls to these schemes as a means of identifying and addressing any significant gaps.

The UNJSPF Secretariat accepted recommendation 2 and stated that the Fund Secretariat would re-assess its exposure to fraud risk scenarios as part of its periodic risk assessments, including the mapping of existing controls. Recommendation 2 remains open pending receipt of an updated fraud risk assessment that maps existing controls to potential fraud schemes and indicates how significant gaps would be addressed.

IV. ACKNOWLEDGEMENT

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

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

STATUS OF AUDIT RECOMMENDATIONS

Audit of administration of selected pension benefits by the Geneva Office of the United Nations Joint Staff Pension Fund

Recom. no.	Recommendation	Critical ² / Important ³	C/ O ⁴	Actions needed to close recommendation	Implementation date ⁵
1	The UNJSPF Secretariat should update the Administration Manual to ensure that it provides reliable and complete guidance on the administration of benefits.	Important	O	Submission of the updated Administration Manual.	December 2016
2	The UNJSPF Secretariat should update its identification and prioritization of potential fraud schemes, and map existing controls to these schemes as a means of identifying and addressing any significant gaps.	Important	O	Submission of an updated fraud risk assessment that maps existing controls to potential fraud schemes and indicates how significant gaps would be addressed.	December 2015

² Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

³ Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

⁴ C = closed, O = open

⁵ Date provided by the UNJSPF in response to recommendations.

APPENDIX I

Management Response

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MEMORANDUM

Ref: New York, 17 December 2014

To / A: Ms. Muriette Lawrence-Hume,
Officer-in-Charge, New York Audit
Service, Internal Audit Division,
OIOS

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

Subject / Objet: **Response to revised draft report on audit of administration of selected pension benefits by the Geneva office of the United Nations Joint Staff Pension Fund**

1. This is in reference to your memorandum dated 11 December 2014, in which you submitted for the Fund's review the revised draft report on the above mentioned audit.
2. The Fund secretariat wishes to thank OIOS for its comprehensive review of the processing, calculations and supporting documentation of the administration of selected pension benefits by the Geneva office of the UNJSPF.
3. The Fund secretariat notes that OIOS conducted a comprehensive examination of 50 benefits cases processed by the Geneva Office and verified that:
 - i) the controls for establishing the eligibility of beneficiaries were adequate;
 - ii) the benefit calculations using the built-in formula in PENSYS produced accurate results;
 - iii) the Fund maintained appropriate segregation of duties with three levels of control (calculator, auditor and releaser) configured in the system for the processing of benefits (Pensys);
 - iv) complete supporting documents used for benefits verification and calculation were stored in the document imaging system; and
 - v) original documents were adequately safeguarded in a restricted area with standard security measures.
4. The Fund secretariat appreciates OIOS acknowledgment that the controls implemented by the UNJSPF for establishing the eligibility of beneficiaries and calculating pension benefits in the Geneva office were adequate, with accurate calculations, appropriate segregation of duties, and complete and safeguarded supporting documentation in accordance with established procedures. The audit results reflect the effective and controlled operation of the Fund and that adequate processes, systems and controls are in place.

5. It is important to note that over the years, with the adoption of continuous process and system improvements, many of the *manual* procedures and forms included in the original Administration Manual became obsolete or were replaced by automated tools, making it unnecessary to update the original guidance which was designed mostly for *manual* processes. The Fund secretariat has always prioritized the preparation and distribution of comprehensive and clear information for the use of the Secretaries of the Staff Pension Committees and others responsible of the administration of the Fund. Therefore, instead of updating the Administration Manual which was designed to guide mostly the *manual* processing of cases, the Fund has made available extensive documentation and automated tools such as the 2007 Geneva Reference Manual, a benefit estimate calculator (available in the Fund's website) and the UNJSPF secure portal for use of participants, beneficiaries, Staff Pension Committees /United Nations Focal Points, FAFICS and Pension Board members.

6. Additionally and as part of IPAS project plan, the Fund secretariat will prepare a system manual and guidance for the administration of benefits, and after a reasonable stabilization period, the Fund secretariat will incorporate further refinements to its process documentation.

7. Regarding fully identifying and translating existing gaps in internal controls into anti-fraud controls, it is important to note that the Fund's fraud prevention analysis as well as OIOS audits of the administration of pension entitlements and review of controls have confirmed that the UNJSPF pension fraud risk is extremely "low" even compared with the best industry ratios. It is important to note that the UNJSPF Enterprise-wide Risk Management Policy contemplates the implementation of risk management strategies for "high level" risks only. Notwithstanding, the Fund secretariat monitors its fraud risk exposure through its periodic reviews of risks and internal controls.

8. The Fund secretariat response to the audit recommendations is included in Annex I.

cc.: Mr. F. Salon, UNJPSF Audit Section, OIOS
Mr. P. Dooley
Mr. F. Deturris
Mr. A. Blythe
Mr. D. Liberatore
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Annex I

Management Response
Draft report on an audit of administration of selected pension benefits by the Geneva Office of the UNJSPF

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	The UNJSPF Secretariat should update the Administration Manual to ensure that it provides reliable and complete guidance on the administration of benefits.	Important	Yes	Chief of Operations and Chief Financial Officer	December 2016	As part of its planned IPAS project activities, the Fund secretariat will develop a system manual and will update/amend the entitlement checklist that guides the processing of benefits. Also, as part of the deployment of the system, the Fund will prepare the required training materials that would complement system documentation. After allowing for a reasonable period of time for stabilization, further refinements to the process documentation will be incorporated.
2	The UNJSPF Secretariat should update its identification and prioritization of potential fraud schemes, and map existing controls to these schemes as a means of identifying and addressing any significant gaps.	Important	Yes	Chief of Risk Management and Legal Services Section	December 2015	The Fund secretariat will re-assess its exposure to fraud risk scenarios as part of its periodic risk assessments, including the mapping of existing controls. The results of the risk assessment exercise will be reported to the UNJSPF Enterprise-wide Risk Management Working Group.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.