



INTERNAL AUDIT DIVISION

REPORT 2015/022

Audit of budgeting, performance reporting and management of selected administrative expenditures in the United Nations Joint Staff Pension Fund

Overall results relating to effective budgeting, performance reporting and management of selected administrative expenditures in 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

30 March 2015
Assignment No. AS2014/800/02

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AUDIT REPORT

Audit of budgeting, performance reporting and management of selected administrative expenditures in the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of budgeting, performance reporting and management of selected administrative expenditures in 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) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The UNJSPF was established by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and other international intergovernmental organizations admitted to membership of the Fund.
4. The UNJSPF adopted the logical framework of results-based budgeting (RBB) as requested by the Standing Committee and the Advisory Committee on Administrative and Budgetary Questions in 2005, and applied it with effect from the 2008-2009 biennium. The RBB is a budget process in which: (i) managers define objectives and expected accomplishments in a strategic framework prior to budget preparation; (ii) expected accomplishments justify the resource requirements; and (iii) performance is measured by indicators of achievement. The RBB cycle consists of a strategic framework, budget proposal and performance reporting.
5. For the 2012-2013 biennium, the General Assembly approved a budget for the administrative expenditure of the Fund of \$194 million: \$68 million for posts and other staff costs, \$96 million for contractual services, \$19 million for general operating expenses and \$11 million for other components such as consultant services, travel, supplies and equipment. The approved budget for the 2014-2015 biennium was \$178 million.
6. The actual administrative expenditure for the 2012-2013 biennium was \$163 million: \$63 million for posts and other staff costs, \$75 million for contractual services and \$16 million for general operating expenses and \$9 million for other components.
7. Comments provided by the UNJSPF are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The audit was conducted to assess the adequacy and effectiveness of the UNJSPF governance, risk management and control processes in providing reasonable assurance regarding **effective budgeting, performance reporting and management of selected administrative expenditures**.
9. This audit was included in the 2014 OIOS risk-based work plan due to the risk that ineffective budgeting, performance reporting and management of administrative expenditures could hinder effective and efficient operations of the Fund.

10. The key controls tested for the audit were: (a) regulatory framework; and (b) performance monitoring indicators and mechanisms. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide budgeting, performance reporting and management of administrative expenditures; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

(b) **Performance monitoring indicators and mechanisms** – controls that provide reasonable assurance that performance metrics are: (i) established and appropriate to measure the performance of various Services and Sections in the UNJSPF; (ii) prepared in compliance with rules and properly reported on; and (iii) used to manage operations appropriately.

11. The key controls were assessed for the control objectives shown in Table 1. One control objective (shown in Table 1 as “Not assessed”) was not relevant to the scope defined for this audit.

12. OIOS conducted this audit from 1 June to 30 September 2014. The audit covered budgeting for the 2012-2013 and 2014-2015 biennia and performance reporting and management of administrative expenditures for the 2012-2013 biennium. The audit selected for detailed review the expenditures on: (i) contractual services; (ii) other staff costs such as general temporary assistance, overtime and training; (iii) general operating expenses; and (iv) travel. The audit scope did not include expenditures on posts and asset management fees as OIOS will cover these areas in the audits of human resources management and procurement respectively.

13. 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.

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 **effective budgeting, performance reporting and management of selected administrative expenditures**. OIOS made two recommendations to address issues identified in the audit. The UNJSPF presented its budget in compliance with the format of the RBB. However, the management of certain administrative expenditures such as contractual services and overtime needed improvement. There was also no definition of the procedures and source data to measure indicators of achievements leading to inconsistent results being reported.

15. The initial overall rating was based on the assessment of key controls 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 controls

Business objective	Key controls	Control objectives			
		Effective and efficient operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective budgeting, performance reporting and management of administrative expenditures	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Performance monitoring indicators and mechanism	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

The Fund prepared its budget in the results-based budgeting format

16. The RBB process required programme managers to establish their objectives, expected accomplishments and indicators of achievement in the strategic framework prior to budget preparation and to request resources to achieve them. The budget instructions issued by the Chief Executive Officer guided the budget preparation process in the UNJSPF.

17. OIOS reviewed the Fund's budget preparation process, budget proposals, supplementary information and other underlying documents. In accordance with the budget instructions, the Fund requested resources in support of the objectives and expected accomplishments that were established by each of its Services and Sections in the strategic framework prior to budget preparation. Performance measures on indicators of achievement for the previous biennium were reported and targets for the current and next biennia estimated. OIOS concluded that the UNJSPF followed the RBB format of budget presentation for the 2012-2013 and 2014-2015 biennia.

The Fund's general operating expenses were supported by adequate documentation and were properly authorized

18. OIOS performed a detailed review of five payments relating to general operating expenses, four of which were for lease payments and accounted for 55 per cent of the total general operating expenses for the 2012-2013 biennium. The audit showed that they were supported by adequate documentation and were authorized as required by the United Nations Financial Rules and Regulations.

The management of certain administrative expenditures needed improvement

19. The United Nations Financial Rules and Regulations required all payments to be duly certified and approved by designated officials and made on the basis of supporting vouchers and other documents. It also stipulated that staff should be guided by the principles of effective and efficient financial management and the exercise of economy.

20. OIOS performed a detailed review of 25 payments: 10 relating to contractual services; and 15 relating to travel, which accounted for approximately 10 per cent of the total expenditures of the respective categories for the 2012-2013 biennium. The audit also reviewed the expenditures relating to

General Temporary Assistance and overtime which accounted for approximately 46 per cent of the total other staff costs during the biennium. OIOS observed the following:

- a) Contractual service costs: In the 2012-2013 budget proposals, the UNJSPF requested \$2.2 million to continue implementation of the project to interface the Fund's Integrated Pension Administration System (IPAS) with human resource and financial systems of the member organizations. The audit showed that the payments were properly authorized; however, while the service delivery agreement with the consultants provided an estimate of the annual cost of services, it did not indicate the basis of computation of actual fees. Quarterly invoices were based on one quarter of the annual estimated expenditure with no reference to actual consultancy hours worked or deliverables provided during the period. The audit further showed that although the budget documents justified the requirements as project implementation costs, approximately 75 per cent of resources were used for recurring system maintenance.

Inadequate support for payments might hamper effective management of expenditures. Moreover, inaccurate classification of project costs in the budget documents might affect the decision-making of the Pension Board and the General Assembly.

- b) Other staff costs: In the 2012-2013 budget proposal, the UNJSPF requested \$2 million for General Temporary Assistance "to provide additional capacity" to various Services and Sections of the Fund. The audit showed that the Fund used the resources as described in the budget proposals or formally redeployed the resources. The UNJSPF also requested \$511,500 for overtime "to perform tasks during the busiest period of the year." The overtime resources were used for 73 staff members in the General Service category mostly as described in the budget proposals. However, the Fund used \$236,162 (46 percent of the budget) for three staff members who routinely worked 40-80 hours of overtime per month throughout the years including weekends and holidays regardless of business periods. The use of overtime did not comply with the Staff Rules, which limited overtime per month to 40 hours per staff member.

The Fund explained that it was due to an unexpected surge of workload; however this situation lasted for several years. The high concentration of overtime by a few staff members posed the risks of reduced productivity, negative impact on safety and health of the staff and perceived unfairness of distributing opportunities to work overtime among staff members.

21. The Fund was not consistent in its application of the principles of effective and efficient financial management and the exercise of economy.

(1) The UNJSPF should enhance mechanisms to ensure more effective management of administrative expenditures, including adequate documentation for project costs with proper distinction between implementation and maintenance costs; and efficient use of overtime resources.

The UNJSPF accepted recommendation 1 and stated that it would allocate separate budgets to recurrent maintenance of systems and to any new projects or initiatives. The UNJSPF would also reduce overtime after IPAS go-live in the second quarter of 2015. To further reduce the use of overtime, helpdesk support would be discontinued on Saturdays and the United Nations International Computing Centre would provide system support to the Geneva Office starting 2016. Recommendation 1 remains open pending receipt of documentation providing evidence of the mechanisms introduced to enhance management of administrative expenditures.

B. Performance monitoring indicators and mechanisms

Need to define the procedures to determine performance measurements

22. According to RBB guidelines, performance indicators had to be measurable or observable, relevant, meaningful, valid and verifiable. The guidelines also required that a reliable system for collecting the data for measuring performance be developed, including an identification of the sources of information and the methods of collecting the data.

23. All the Services and Sections in the UNJSPF reported their indicators of achievements in the budget documents following the RBB format. However, the Fund did not establish formal procedures to measure performance and/or define the source data to be used for the measurement to ensure consistency in reporting the results. The Office of Chief Executive Officer verified accuracy of the actual performance reported by the Operations and Financial Service of the Fund Secretariat; however did not have the same process for other Sections.

24. In the absence of formally defined procedures and sources of data for compiling and reporting metrics, the credibility and reliability of performance measures and results might be compromised.

(2) The UNJSPF should define procedures and sources of data for compiling and reporting indicators of achievement.

The UNJSPF accepted recommendation 2 and stated that the Fund would continue to refine its procedures for data collection and calculation of its performance indicators. Recommendation 2 remains open pending receipt of written procedures for measuring performance indicators.

IV. ACKNOWLEDGEMENT

25. 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

STATUS OF AUDIT RECOMMENDATIONS

**Audit of budgeting, performance reporting and management of selected administrative expenditures
in 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 should enhance mechanisms to ensure more effective management of administrative expenditures, including adequate documentation for project costs with proper distinction between implementation and maintenance costs; and efficient use of overtime resources	Important	O	Receipt of documentation providing evidence of the mechanisms introduced to enhance management of administrative expenditures.	December 2015
2	The UNJSPF should define procedures and sources of data for compiling and reporting indicators of achievement.	Important	O	Receipt of written procedures for measuring performance indicators.	June 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 UNJSPF

APPENDIX I

Management Response

UNITED NATIONS JOINT STAFF PENSION FUND
CAISSE COMMUNE DES PENSIONS DU PERSONNEL DES NATIONS UNIES

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MEMORANDUM

Ref:

New York, 9 March 2015

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 / **UNJSPF secretariat response to draft report of audit of budgeting, performance reporting and management of selected administrative expenditures in the UNJSPF (Assignment No. AS2014/800/02)**
Objet:

1. This is in reference to your memorandum dated 17 February 2015, in which you submitted the draft report on the above-mentioned audit for the Fund's review and response.
2. The Fund secretariat wishes to thank OIOS for its comprehensive review of the processes implemented to ensure effective budgeting, performance reporting and management of selected administrative expenditures, which have been rated as "partially satisfactory".
3. The Fund secretariat appreciates the constructive exchanges with the audit team.
4. The Fund's response to the audit recommendations is included in Annex I fully detailing the actions taken by the Fund to continue ensuring an effective and efficient financial management and sound budget process.

cc.: Mr. F. Salon, UNJPSF Audit Section, OIOS
Ms C. Boykin
Mr. P. Dooley
Ms. C. Moysenko
Mr. D. Willey
Ms. K. Toomel
Ms. K. Manosalvas



UNITED NATIONS JOINT STAFF PENSION FUND
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ANNEX I

AUDIT RECOMMENDATIONS

Audit of budgeting, performance reporting and management of selected expenditures in the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNJSPF should enhance mechanisms to ensure more effective management of administrative expenditures, including: (a) adequate documentation for project costs with distinction between implementation and maintenance costs;	Important	Yes /	Deputy CEO	Dec-2015	(a) The Pension Interface Programme is a core activity of ICT support, therefore, to implement the recommendation in the budget proposal for 2016-2017, the Fund secretariat will allocate budget separately to the recurrent maintenance of the interfaces and to any new projects or initiatives. The activities, deliverables and resources for maintenance and new initiatives will be monitored and accounted separately. Correction to the report - The Fund secretariat kindly requests OIOS to amend its statement in paragraph 22, subparagraph a) that the payments related to the interface project “were

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.

Rec. no.	Recommendation	Critical ¹ / Important ₂	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	(b) rigorous application of travel policies; and		Clarification needed on			<p>properly authorized; however, they were not adequately supported". It should be noted that the United Nations Financial Rules and Regulations do not specify that timesheets are the only type of supporting documentation that is accepted to adequately support expenditures. In this case, the services were provided by UN International Computing Centre (UNICC), which is a registered and approved supplier for providing ICT services on a system-wide basis. The responsible manager verified the expenditures and authorized them based on the delivery of the particular service requested not based on actual hours spent. This was not a criterion established in the statement of work. The Fund secretariat extensively discussed with OIOS the mechanisms used by the Fund to track ICC contractual services and to monitor both project implementation and maintenance costs, and kindly requests that OIOS notes in the report that the payments were adequately supported with documentation that confirms the delivery of the agreed services.</p> <p>(b) UNJSPF already follows the United Nations administrative instruction on official travel. It should be noted that travel services</p>

Rec. no.	Recommendation	Critical ¹ / Important ₂	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
			how OIOS will determine that (b) is implemented			<p>are requested and controlled utilizing the “machinery” that has been established for this purpose by the UN. Therefore, to implement the recommendation, further clarification is required on what additional controls or procedures are expected by OIOS. It should also be clarified if budget reductions are expected.</p> <p>It should also be noted actual travel expenditures declined between the biennia 2010-2011 and 2012-2013.</p> <p>It is very important to recall that the Fund is composed of 23 member organizations and that its operations cover 190 countries. Given the global scope of the Fund and the diversification of its investments, it would not be practical or desirable for the Pension Fund to achieve very minor potential efficiency gains by limiting its responsibilities or reducing its scope through decreases in travel expenditure.</p> <p>Correction to the report - The Fund secretariat kindly requests OIOS to amend its statement in paragraph 22, subparagraph b) i. regarding OIOS conclusion that “the presence of some staff members was not fully justified for the entire duration” of the Pension Board. It should be noted that the Rules of Procedure of the</p>

Rec. no.	Recommendation	Critical ¹ / Important ₂	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	(c) Efficient use of overtime resources within the maximum hours established by the Staff Rules.					<p>United Nations Joint Staff Pension Fund establish that participation of Fund secretariat staff in the Pension Board meetings is authorized by the Secretary of the Board. In all cases, the Secretary of the Board approved participation of staff in the Pension Board meeting based on the roles and tasks requested of each staff member.</p> <p>(c) The need for overtime costs and IMSS support increased with IPAS implementation and due to the need to: i) support the Fund's systems and the Geneva Office (different timezone) outside regular working hours during weekdays and Saturdays; ii) support the legacy system environment as well as new requests (for example changes to systems to accommodate new disbursement methods in Central and West Africa); iii) perform IMD helpdesk activities; and iv) assume the role formerly performed by the United Nations for mailing certificates of entitlement and cost of living notification letters to pension beneficiaries.</p> <p>In order to reduce the use of overtime helpdesk support will be discontinued on Saturdays. UNICC will provide system support to the Geneva Office starting 2016. The Fund secretariat will be able to</p>

Rec. no.	Recommendation	Critical ¹ / Important ₂	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						reduce overtime after IPAS go-live (2Q2015).
2	The UNJSPF should define procedures and sources of data for compiling and reporting indicators of achievement, including processes for verifying the accuracy of the metrics.	Important	Yes	Chief Executive Officer / RSG or her designate	Jun-2015	<p>The Office of the CEO monitors and reports on the performance of the Fund secretariat's operations and financial services and has established a process for independent generation and verification of performance data for its substantive areas. As established in article 19 of the Fund's Regulations the investment of the assets of the Fund are decided by the Secretary-General. The Secretary-General is also in charge of maintaining detailed accounts of investments.</p> <p>To implement the recommendation, the Fund will continue to refine its procedures for the data collection and calculation of its performance indicators. However, clarification is need from OIOS regarding the recommendation of defining "processes verifying the accuracy of the metrics", since establishment of performance indicators, and reporting of actual performance should be independently monitored and reported by the Fund secretariat and IMD.</p>
3	The UNJSPF Secretariat should use "cost per participant" as indicator of achievement in the	Important	Yes – The Fund secretariat	Chief Executive Officer	Dec-2015	To implement the recommendation, the Fund secretariat will continue to utilize the "cost per participant" as

Rec. no.	Recommendation	Critical ¹ / Important ₂	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	results-based budget process, in order to monitor efficiency in the Fund's management of costs.		requests OIOS to review the recommendation			<p>one additional indicator in the preparation of the budget. This indicator will continue to be considered in the 2016-2017 budget proposal (as in the previous two budget requests).</p> <p>It is important to note that this indicator should be considered only for budget preparation and review purposes, understanding its limitations, the fixed costs, aging population, complex and multi-tiered governance and inflexibilities in the system as well as the impracticality, difficulty and risks of attempting to use such an indicator for industry or sector comparative purposes especially considering that:</p> <ul style="list-style-type: none"> • Given that the Fund has a global scope with operations in 190 countries and 15 currencies, bifurcated governance and complex plan design, it would be extremely difficult to define an objective comparator for this indicator. • The use of this metric as indicator "of achievement" would not be appropriate considering that it does not properly measure or account for costs associated with servicing an aging population, global dispersion, increase demand for services, changes in technology of member

Rec. no.	Recommendation	Critical/ Important 2	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						<p>organizations which affect information gathering, or economic cycles that affect need for <i>ad hoc</i> solutions, studies and travel, inherent complexity embedded in the plan design (e.g. two track), changes in legislations around the world such as changes in the definition of marriage (affecting operations, plan design, systems, client services, etc.). The metric does not consider also embedded administrative inflexibilities or fixed costs. Therefore, it would also be impractical and potentially misleading to utilize such a metric as an indicator of achievement, since it is based on a ratio where the numerator and denominator are affected by numerous externalities not under the control of management. The number of participants is another key variable that is not controlled by the Pension Fund and responds to varying circumstances of its 23 Member Organizations.</p>