



INTERNAL AUDIT DIVISION

REPORT 2015/122

Review of the management of
implementing partners by the United
Nations Secretariat

14 October 2015
Assignment No. AG2015/511/01

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Review of the management of implementing partners by the United Nations Secretariat

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted a review of the management of implementing partners by the United Nations Secretariat.

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. Partnerships with public and non-public entities have become essential for the United Nations to achieve its mandated objectives. In many partnerships, the Organization assigns the implementation of programmes and projects to implementing partners and provides the financial resources required for the work. Implementing partners include: government agencies; non-governmental, inter-governmental and civil society organizations; and entities within the United Nations system.

4. The range of programmes and projects that involve implementing partners include peacekeeping, development, disarmament, human rights, mine action and disaster relief at the country, regional or global levels. The United Nations Secretariat entered into partnerships for providing better access to beneficiaries, delivering mandates more effectively, engaging in national capacity-building, improving efficiency through economies of scale, addressing operational constraints related to expertise, access and security, and leveraging additional resources. While there are many benefits in assigning the implementation of programmes or projects to external parties, the overall responsibility for outcomes and accountability for the use of resources rests with the United Nations. It is therefore imperative that a robust control framework is in place to manage the risks related to the engagement of implementing partners, including financial, operational, reputational and fraud risks.

5. During the 2012-2013 biennium, there were approximately 183 trust funds administered by the Secretariat with a total income of \$2.6 billion and expenditure of \$2.7 billion. However, at the time of the review, the Secretariat had no information on the amount of funds that had been disbursed to implementing partners.

6. As part of the initiative to implement enterprise risk management in the Organization, the Department of Management (DM) had prepared a risk register which was adopted in the joint meeting of the Policy and Management Committees in September 2014. One of the main risks identified related to extra-budgetary funding and management. A working group was established within the Office of Programme Planning, Budget and Accounts (OPPBA) to come up with an action plan to mitigate the identified risks and to develop a Secretariat-wide policy framework for management of implementing partners. It was envisaged that this framework will include aspects related to the management of implementing partners as well as grants management.

7. Comments provided by DM are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

8. The main objective of the review was to identify cross-cutting issues reported in previous OIOS audits of the management of implementing partners and to determine the further improvements that needed to be incorporated in the Secretariat-wide policy framework.

9. The review was included in the 2015 risk-based internal audit work plan due to risk that weaknesses in the management of implementing partners could adversely affect programme delivery, donor confidence as well as the reputation of the Organization.

10. OIOS conducted the review from 11 February 2015 to 31 May 2015. The review covered the period from 1 January 2014 to 31 May 2015.

11. The scope of the review included the management of implementing partners by the Department of Economic and Social Affairs (DESA), the Office for the Coordination of Humanitarian Affairs (OCHA), the United Nations Human Settlements Programme (UN-Habitat), the United Nations Environment Programme (UNEP), the Economic Commission for Africa (ECA), the United Nations Office at Vienna (UNOV)/the United Nations Office on Drugs and Crime (UNODC), the United Nations Mine Action Service (UNMAS), the Office of the United Nations High Commissioner for Human Rights (OHCHR), OPPBA, the Procurement Division and the Ethics Office.

12. The review methodology included the following:

- Review of available documentation, including prior OIOS and other oversight reports of departments and offices that use the implementing partner modality;
- Research of policies and guidelines used for implementing partnerships and interviews with responsible managers;
- Walk-through of the existing processes for implementing partnerships through a review of Memoranda of Understanding (MOU), agreements, capacity assessments, financial and narrative reports, and reports of field monitoring visits;
- Identification of risks and expected controls relating to the management of implementing partners; and
- Determining the improvements necessary for strengthening the management of implementing partners.

III. REVIEW RESULTS

13. OIOS concluded that while some progress had been made towards strengthening the internal controls pertaining to the management of implementing partners, further improvements were needed to: (i) assess and manage the risks pertaining to engagement with implementing partners; (ii) establish selection criteria and conduct due diligence assessments of implementing partners; (iii) develop minimum standard clauses for inclusion in all agreements signed with implementing partners; (iv) periodically monitor projects implemented by partners to ensure delivery in accordance with established outputs and outcomes; (v) assess and manage the risks associated with making large advance payments; (vi) adopt a risk-based approach for external audits of projects; (vii) establish clear guidelines on the use of United Nations system organizations as implementing partners; (viii) obtain and review detailed cost breakdowns

for projects that may be entrusted to United Nations system organizations to ensure transparency; (ix) strengthen the management of grants; and (ix) establish a requirement for registration and performance evaluation of implementing partners through a centralized electronic system to enable sharing of information between the Secretariat and United Nations system organizations.

14. OIOS made ten recommendations to address issues identified during the review. OPPBA accepted and is in the process of implementing the recommendations.

A. Risk assessment

There was no systematic approach for assessing risks relating to implementing partners across the Secretariat

15. An organization should identify and analyze risks related to achieving its objectives and develop appropriate controls to mitigate those risks.

16. Some departments and offices made it a requirement to conduct risk assessments for projects managed by implementing partners. For example, OCHA, in its operational handbook for country-based pooled funds (issued in February 2015), required each fund to develop a risk management framework at the fund level. Guidance issued by OCHA outlined the methodology for risk management, including proposed risk categories, risk drivers, risk evaluation and risk treatment.

17. UNOV/UNODC, in consultation with OIOS, had assessed the potential risks and mitigation action in the administration of implementing partners, which was included in its framework on engagement of external parties (issued in April 2014). Furthermore, UNOV/UNODC required that each project document contain a risk matrix that identified risk, its likelihood and impact, and mitigation strategy.

18. DESA and ECA mainly worked with governments and statutory bodies and therefore were not conducting risk assessments, including for projects implemented by non-governmental organizations (NGOs). ECA explained that it performed risk and capacity assessments by reviewing annual reports and audit reports, however, no examples of risk assessments were provided. UN-Habitat also did not have documented risk assessments pertaining to its programmes/projects with implementing partners.

(1) OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess risks pertaining to implementing partners and develop control activities to mitigate those risks accordingly.

DM accepted recommendation 1 and stated that OPPBA had issued new policy guidance and instructions on the changes that will take place and improvements expected as a result of the new functionalities of Umoja. Significant additional functionality relating to 'grants-out' or the management of implementing partner agreements will form part of Umoja Extension 2, which was being designed. Administration will leverage this opportunity to strengthen the design of controls. However, the implementation of some of these new controls will only take effect after the deployment of Umoja Extension 2. The Administration will therefore include the requirement for development of risk mitigation strategies and control activities in the policy guidance for implementing partners. Recommendation 1 remains open pending issuance of policy guidance that includes the requirement for departments/offices to conduct risk assessments and develop control activities for effective management of implementing partners.

B. Policies and procedures

Some offices had taken steps to address weaknesses pertaining to selection of implementing partners in their departmental policy guidelines

19. In the absence of a Secretariat-wide policy framework, individual departments and offices had developed their own policies for managing implementing partners. UNEP, OCHA, UNOV/UNODC, and UN-Habitat had policies and guidelines for management of implementing partners. DESA and ECA did not have written policies in place. UNMAS only had guidelines on grants. OHCHR also had guidelines on grants only, since it had very few engagements with implementing partners. At the time of the audit, OPPBA was revising the administrative instructions pertaining to procedures for administering and managing voluntary contributions and trust funds.

20. Implementing partners that receive funds from the United Nations should have adequate capacity to effectively and efficiently implement projects.

21. Previous OIOS reports noted weaknesses in the selection of implementing partners and assessment/verification of their technical, administrative and managerial capacity. In some cases, there was no documentation outlining the criteria for selecting implementing partners and there was no evidence that the implementing partners were subjected to a vetting process.

22. According to the UNOV/UNODC Framework on Engagement of External Parties, the selection of implementing partners required an assessment of the partners' technical capacity, organization structure, management experience, budgeting policies, and its human resources, procurement, and financial management policies. Depending on the project scope, site visits of implementing partners may be conducted through field offices or the United Nations Development Programme (UNDP). OIOS reviewed a sample of such capacity assessments in UNOV/UNODC and noted that the technical, administrative and micro assessments of implementing partners were performed satisfactorily.

23. The OCHA operational handbook required a capacity assessment of each NGO that sought funding to ensure that it had sufficient capacity in terms of institutional, managerial, financial and technical expertise. OIOS reviewed the capacity assessment tool and noted that the design of controls to assess the capacity of implementing partners was adequate.

24. UNEP partnership policy and procedures required assessments to determine the need, type, nature and category of partnership for projects approved by the Project Review Committee. The due diligence process for selection of organizations included confirmation of the legal status, financial, technical and strategic capacity as well as alignment with the values of the United Nations.

25. ECA stated that it had conducted due diligence of NGOs, research institutions, and civil society organizations prior to selection to assess their legal status, mandate and constituency, capacity to deliver, organizational structure and financial management capacity, including internal controls. ECA did not provide any documented examples of such capacity assessments.

26. DESA did not conduct capacity assessments as it worked mainly with United Nations system organizations and governmental and statutory bodies that were selected on a sole source basis. However, DESA worked with one NGO but did not provide evidence of a capacity assessment.

(2) OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to establish selection criteria and conduct due diligence assessments of implementing partners to ensure a consistent and transparent process.

DM accepted recommendation 2 and stated that the policy guidance, which is currently under preparation, will include requirements to establish selection criteria and conduct due diligence assessments of implementing partners. Recommendation 2 remains open pending issuance of policy guidance that includes a requirement for departments/offices to establish selection criteria and conduct due diligence assessments of implementing partners.

Implementing partner agreements needed to be standardized

27. Implementing partner agreements should contain specific provisions to ensure that the mutual obligations of the parties are clearly defined and consistently applied.

28. OIOS previously reported that the MOU/agreements signed with implementing partners were not consistent to ensure adequate accountability. Financial reporting requirements were inconsistent, responsibility for receiving certified financial reports was unclear, and main subcontractors were not disclosed.

29. The implementing partner agreements were not standardized as they were signed by various Secretariat entities under the delegation of authority from the Controller. OIOS reviewed six implementing partner agreements provided by DESA, OCHA, UN-Habitat, ECA, UNOV/UNODC and UNMAS and noted that the agreements did not always include key clauses such as monitoring and evaluation, use of assets after project completion, disclosure of other funding for the same project, prohibition of double funding for the same purpose, notification of unused funds, subcontracting by the partner, procurement by implementing partner, notification by implementing partner of fraud investigations, termination by force majeure, and confidentiality. Although there was an audit clause in all of the agreements reviewed, there was no blanket oversight clause that would allow the United Nations to conduct investigations of implementing partners.

30. In addition, one of the departments reviewed had two different MOU templates used for implementing partners. One template included a clause to withhold payment due to partner non-compliance while another did not. The lack of standard templates could lead to errors and/or omissions within the formal agreements which could compromise controls over the performance of the partner and result in financial loss to the Organization.

(3) OPPBA should include in the framework for management of implementing partners the minimum standard clauses that should form part of all implementing partner agreements entered into by departments/offices to ensure consistency throughout the Secretariat.

DM accepted recommendation 3 and stated that the policy guidance, which is currently under preparation, will include development of minimum standard clauses in all implementing partner agreements. Recommendation 3 remains open pending issuance of policy guidance on the minimum standard clauses for inclusion in all agreements with implementing partners.

Monitoring of projects implemented by partners required strengthening

31. Projects entrusted to implementing partners should be periodically monitored to ensure that they are implemented as intended.

32. In previous audit reports, OIOS noted weaknesses pertaining to performance and financial monitoring of projects implemented by partners.

33. OCHA, in its operational handbook, stipulated that minimum monitoring arrangements for projects implemented by NGOs would be determined based on the risk level assigned to the partner, the duration and size of the project. The following monitoring tools could be used: (i) field site monitoring conducted by OCHA to verify delivery of projects against targets; (ii) third party monitoring could be used when access was limited in countries and regions of operations; and (iii) remote call monitoring by call centres to collect statistics and record observations from beneficiaries on progress made.

34. The UNOV/UNODC implementing partners manual required the programme office to conduct: (i) planned or unplanned on-site visits to implementing partners by a United Nations staff or a consultant/audit firm to get first hand assessment of the implementation progress; and (ii) inspection visits/verification missions that are more thorough to provide a factual report on project implementation, use of project finances and the quality of the results achieved. Other monitoring mechanisms may include surveying or interviewing beneficiaries.

35. All departments reviewed required implementing partners to submit interim and final substantive and financial reports. Previous OIOS audits noted weaknesses in timely submission of reports by implementing partners. OCHA included a provision in its operational handbook that it would track and score partners' performance in relation to quality and timeliness of submission of project documents, quality of financial management, quality and timeliness of implementation against approved targets, quality and timeliness of reporting, and frequency and timeliness of project revision requests. The scores assigned to the partner in each of these areas would be summarized in a partner performance index. The average on the partner performance index for each project implemented during the year would give the annual partner's index.

(4) OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to periodically monitor projects implemented by partners to ensure delivery in accordance with agreed outputs and outcomes. Monitoring activities undertaken by departments and offices should be documented.

DM accepted recommendation 4 and stated that the policy guidance will include requirements to periodically monitor projects implemented by partners against agreed outputs and outcomes. It will also require the departments/offices to document periodic monitoring of projects. Recommendation 4 remains open pending issuance of policy guidance that includes a requirement for departments/offices to periodically monitor projects implemented by partners.

Large advance payments expose the Organization to misuse of resources

36. Advance payments to implementing partners should be reasonably limited to avoid possible misuse of resources.

37. Previous OIOS reports highlighted the risk of exposure to misuse of resources due to the practice of making advance payments to implementing partners, which in some instances was as high as 80 per cent.

38. The UNOV/UNODC policy stipulated that except the initial instalment, funds could only be provided to implementing partners on a quarterly basis according to agreed quarterly work plans. This

restriction was imposed to allow for monitoring the progress of work and obtaining from the implementing partner timely updates of substantive and financial information. Similarly, the UNEP partnership policy and procedures stipulated that other than the initial instalment, other payments should be adequately supported with evidence of implementation.

39. The OCHA policy stated that a combination of partner risk level, duration and project budget determined the operational modalities for payments. The implementing partner would receive a first instalment at the beginning of the project and be entitled to request the next disbursement(s), by submitting a financial statement, as soon as the implementing partner had spent 70 per cent of the funds previously received.

40. The UN-Habitat implementing partners management policy stated that payments to implementing entities should be disbursed in a minimum of three instalments with the initial advance not to exceed 30 per cent, and the last instalment not less than 10 per cent of the total value of the agreement.

41. ECA generally followed a 70-30 per cent disbursement schedule. However, ECA determined the most appropriate disbursement schedule depending on the volume of the project fund, duration, and validity period of grant agreements with funding partners and assessments of annual reports and audit reports of the implementing partners. A sample letter of agreement reviewed by OIOS showed the schedule of payment in three instalments.

42. The MOU with one implementing partner stipulated that 100 per cent instalment could be made available for projects of less than \$1 million, and a 60 per cent first instalment for projects with duration over one year. In one case, UNMAS made disbursements to this partner based on the schedule of payment stipulated in the financial agreement without adjusting the payment for unutilized amounts, contrary to the provision in the MOU.

(5) OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess the risk pertaining to large advance payments to implementing partners in order to reduce exposure to misuse of resources.

DM accepted recommendation 5 and stated that the policy guidance will include a requirement to assess the risk pertaining to large advance payments to implementing partners. Recommendation 5 remains open pending issuance of policy guidance that includes the requirement for departments/offices to manage the risks associated with making large advance payments to implementing partners.

There was no anti-fraud policy in the Secretariat

43. An organization should consider the potential for fraud and develop appropriate policies to address them.

44. Previous OIOS reports highlighted the need to address fraud risks and also enhance fraud awareness among staff to strengthen the controls to prevent or deter fraud by implementing partners.

45. On 5 June 2015, the Under-Secretary-General for Management established a working group to prepare an anti-fraud policy for the United Nations Secretariat in order to address the deficiencies related to the way the Organization handles fraud and presumptive fraud. In view of the action taken by DM, OIOS did not make a recommendation.

Administrative instruction on programme support costs was under revision

46. The United Nations Secretariat charged three types of programme support costs: (a) 13 per cent on all voluntary contributions where the United Nations retains primary and overarching programmatic responsibility and is the first or primary recipient of the funds; (b) 7 per cent on all voluntary contributions in support of inter-agency programmes and collaboration with other multilateral institutions where valid inter-agency arrangements apply; and (c) 3 per cent on all voluntary contributions for projects that are entirely implemented by other United Nations system organizations, NGOs or government agencies. According to the memorandum from the Controller's Office to the Chiefs of Administration dated 30 January 2015, programme support charges would be credited to a central account for each volume of the financial statements. The Controller's Office retained the authority to approve, administer and allot programme support budgets.

47. OIOS noted that there were differences in the treatment of programme support costs among the Secretariat's departments and offices. However, at the time of the review, the administrative instruction on programme support accounts was under revision. Therefore, OIOS did not make a recommendation.

C. Audit and oversight

The requirement for external audits of projects implemented by partners was based on project budgets rather than risk

48. Arrangements for external audit of projects implemented by partners should be based on risk assessments in order to maximize cost efficiency.

49. Previous OIOS audit reports noted that the audit strategy adopted for projects implemented by NGOs was not risk-based and did not ensure that project audits were consistently carried out in a timely manner to determine whether project funds were appropriately spent for the intended purposes. Furthermore, during interviews conducted by OIOS, some offices expressed concern over the selection of audit firms by implementing partners and the varying degree of quality and consistency of audit reports.

50. ECA and UN-Habitat required all projects to be audited. UNOV/UNODC, UNEP and OHCHR established financial thresholds to determine the requirement for audit. UNOV/UNODC exempted inter-governmental organizations from the audit requirement when their internal audit function was found to be adequate. OCHA was moving from a project-based approach (where 100 per cent of projects were audited by external auditors) towards a risk-based approach. OCHA required all NGOs that received funding to be audited at least once within a three-year period.

(6) OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to adopt a risk-based approach to selecting projects for external audit to ensure appropriate oversight for high and medium risk projects.

DM accepted recommendation 6 and stated that the policy guidance will include a requirement to adopt a risk-based approach to selecting projects for external audit. Recommendation 6 remains open pending issuance of policy guidance on the adoption of a risk-based approach for external audit of projects implemented by partners.

D. Engagement of United Nations system organizations

There were no Secretariat-wide guidelines on the use of United Nations system organizations as implementing partners

51. Appropriate guidelines should be in place to ensure a consistent approach while engaging United Nations system organizations as implementing partners. However, no such guidelines had been established by the Secretariat.

52. In January 2014, the Office of Legal Affairs (OLA) clarified that the Secretariat's engagement of a United Nations system organization (hereafter referred to as "Entity A") for project support for implementing programmes and activities constituted an internal arrangement between United Nations organs for cooperation and therefore was not an acquisition of services within the United Nations Financial Regulations and Rules which governed the procurement function of the Secretariat. OLA also noted that the Controller may wish to clarify or establish clear policy guidelines for the Secretariat's appropriate engagement of Entity A for project support. OLA stressed that the responsible departments and offices and the Controller need to ensure that the use of Entity A for implementation of programme activities would not be duplicative of resources already available in the Secretariat, for which Member States have made budgetary appropriations. These Secretariat services include procurement, staffing, and facilities in support of programme activities.

53. UNMAS estimated that 90 per cent of its budget was implemented through Entity A. In accordance with the MOU between the United Nations Secretariat and Entity A, UNMAS projects implemented by Entity A were subject to an indirect cost fee of 5 per cent and a direct cost charge of 3 per cent. The direct costs were incurred by Entity A in New York to maintain an office that: (a) provided standardized central control and direction for all UNMAS projects; (b) established and maintained cross-cutting project initiatives; and (c) served as an information hub for project reporting and documentation.

54. According to the supplementary guidance to the MOU with Entity A, the Controller shall establish a review committee at United Nations Headquarters that will provide oversight of the financial agreements signed with Entity A through a periodic and selective review. The review committee was yet to be established.

(7) OPPBA should establish clear guidelines for the engagement of United Nations system organizations for project implementation, including periodic review and oversight.

DM accepted recommendation 7 and stated that the policy guidance will address the engagement of United Nations system organizations for project implementation. Recommendation 7 remains open pending issuance of policy guidance on the engagement of United Nations system organizations for project implementation, including periodic review and oversight.

Proposals received from United Nations system organizations needed to include detailed cost breakdowns to enhance transparency

55. Proposals presented by United Nations system organizations for projects that may be entrusted to them must provide detailed cost breakdowns to ensure that the amounts charged are fair and reasonable.

56. Prior to 2014, acquisition of some services from the United Nations system organizations went through the procurement review process and cases were submitted to the Headquarters Committee on Contracts for review. According to the Procurement Division, it processed 24 service delivery agreements in the amount of \$20.5 million for a United Nations system organization (“Entity B”) and \$47.3 million for Entity A for the provision of information technology-related services to the Department of Field Support (DFS) and Office of Information and Communication Technology (OICT) for the period 2013 to 2015.

57. OIOS reviewed documentation pertaining to service delivery agreements in the amount of \$19.3 million and \$9.6 million relating to Entity B and Entity A, respectively. Proposals from these entities did not include detailed cost breakdowns that would allow benchmarking of costs; awards were made on a sole source basis. Most of these agreements expired on 31 March 2015, but were automatically extended. At the time of the review, the Procurement Division, DFS, and OICT were finalizing the scope of works for one of the services in order to initiate a commercial solicitation process.

58. UNMAS required Entity A to provide a project budget that included acquisition of services and equipment, hiring of staff and other direct and indirect costs. Entity A was responsible for procurement of goods and services, contract management, and hiring of project staff. According to UNMAS, it attended the technical and financial evaluations of proposals conducted by Entity A in an observer capacity. The supplementary guidance to the MOU between the United Nations Secretariat and Entity A required project managers to consult with the Chief Procurement Officer or the Procurement Division to support development of a reasonable budget estimate in any procurement activities of the project. However, UNMAS did not have any formal documentation regarding consultation with the Procurement Division. UNMAS stated that it took into account the current/historical procurement contracts with Entity A, relevant consumer price and product price indices, and other factors.

59. The Under-Secretary-General for DFS had delegation of authority to enter into financial agreements with Entity A up to \$3 million per agreement. It was subsequently decided that DFS would not engage Entity A for: (a) development and purchase of information technology applications, licenses and hardware; (b) purchase of air charter, fuel and vehicles; and (c) construction and infrastructure development exceeding a cost of \$1 million. For construction requirements, DFS was required to request the Procurement Division to determine whether such projects could be sourced commercially within the requested timeline. There was one case referred to the Procurement Division in 2015 for the provision of design and construction of roads in South Sudan. Entity A had submitted a proposal that was twice the price of a comparable commercial option. The Procurement Division had recommended against the award to Entity A.

60. OCHA stated that funding decisions for country-based pooled funds were based on the best projects that meet humanitarian needs and save lives. OCHA required projects to provide itemized costs and OCHA finance staff reviewed these budget submissions.

(8) OPPBA should include in the framework for management of implementing partners a requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations to ensure value for money and enhance transparency.

DM accepted recommendation 8 and stated that the policy guidance will include a requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations to ensure value for money and enhance transparency. Recommendation 8 remains open pending issuance of policy guidance that includes the requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations.

E. Grants management

There was no clear definition of grants and accountability structure for grants

61. It is important to clearly define grants versus implementing partner engagements due to different level of controls and different accounting treatments. According to the International Public Sector Accounting Standards, disbursement of funds under grant agreements is expensed in full upon authorization of the grant while funds under implementing partner agreements are expensed based on delivery as evidenced in the reports from implementing partners.

62. All entities reviewed had issued grant agreements, but some of them used them interchangeably with implementing partner agreements.

63. UNOV/UNODC defined grants as small scale, non-repayable and non-recurrent awards of funds to a recipient entity given on a competitive basis for the purpose of undertaking activities that contributed to the achievement of United Nations mandates and were defined by the grantee based on a set of broadly defined terms of reference advertised through a call for proposal. UNOV/UNODC threshold for grants was not to exceed \$60,000 per single grant award. UNOV/UNODC had established a committee on grants and external engagements that made recommendations to approve or reject grant proposals.

64. A similar approach was used by OHCHR that defined grants as financial support to national or international institutions, NGOs and partner organizations who had been working in the area of human rights within the mandate of OHCHR. OHCHR had different thresholds for different trust funds under its management that were small scale. There were two Boards of Trustees, whose members were appointed by the Secretary-General, which selected grants for two humanitarian trust funds. OHCHR had several grants committees that reviewed and recommended grants for approval for other trust funds. OHCHR, under its internal guide on monitoring visits funded by the United Nations Voluntary Fund for Victims of Torture, required that no grant was awarded to a first-time applicant unless a positive prescreening visit to a grantee organization had taken place. Furthermore, regular monitoring visits were to be undertaken to monitor the implementation of projects. These visits aimed to verify the day-to-day work, the project's impact, as well as the administrative and financial management in general.

65. UNMAS issued grants that were usually below \$200,000 per grant. UNMAS provided grants to NGOs and stated that it conducted capacity assessments prior to the selection of grantees. However, UNMAS did not provide sufficient evidence for such capacity assessments. Grantees were sole sourced or submitted proposals to perform activities which were in line with the mine action mandate; these proposals were reviewed by the grants committee for recommendation of an award. According to UNMAS, the grants committee reviewed each application against eligibility criteria set out in the terms of reference for the UNMAS grants committee, and guidelines and procedures for allocation of grants. The grants committee only reviewed cases that were not considered as acquisition of goods and services, after receiving a waiver from the Procurement Division.

66. ECA, UN-Habitat and DESA did not have a grants committee, although it awarded grants.

(9) OPPBA should: (a) establish a clear definition of grants and an appropriate accountability framework to ensure that grant and implementing partner agreements are treated distinctly; and (b) include in the framework for management of implementing partners a requirement for selection of grantees and management of grants.

DM accepted recommendation 9 and stated that the policy guidance will include clear definitions of grants and accountability framework and requirement for selection of grantees and management of grants. It should be noted however that the definitions will not be too stringent and restrictive for small grantees such as grassroots non-governmental organizations. Recommendation 9 remains open pending issuance of policy guidance on the management of grants.

F. Centralized electronic system for management of implementing partners

67. Information on registered implementing partners and their performance should be shared within the United Nations Secretariat and United Nations system organizations to identify non-performing and black listed implementing partners.

68. The roll-out of Umoja Grants Management module in June 2015 for Cluster 3 entities included UNEP, UN-Habitat, UNON, and OCHA. In Umoja, a grant is used to maintain the terms and conditions of the donor's contributions and also the terms and conditions of funding agreements with implementing partners. The grants management solution would enable the management of the entire life cycle of grants from creation to closing, including billing, budgeting, financial posting, calculation of programme support costs, financial reports to donors, tracking of financial reports submitted by implementing partners, and attachment of scanned agreements with donors and implementing partners. According to the Umoja deployment schedule, the full grants management module is scheduled for implementation in Extension 2 in 2017.

69. OCHA had developed a Grants Management System (GMS) that was being gradually rolled out to its field offices during 2015. According to OCHA, GMS would not duplicate the Umoja Grants Management module but would serve as a repository of all documentation pertaining to management of implementing partners. GMS was a web-based platform that supported the management of the entire grant life cycle for all country-based pooled funds and included risk management, submission and evaluation of project proposals, fund allocation, reporting and monitoring, and performance management of implementing partners.

70. GMS allowed implementing partners to register with OCHA, get pre-qualified and submit proposals. At the same time, the Procurement Division registered commercial entities on the United Nations Global Market Place (UNGM) that consolidated United Nations system organizations vendor rosters into one common vendor database. The advantage of UNGM was that it facilitated the interchange of vendor information within the United Nations system, as information was made available to all United Nations system organizations. The centralized electronic registration of NGO implementing partners would also allow sharing of performance information, as well as information on suspended or removed NGOs.

(10) OPPBA, in consultation with the Procurement Division, should develop a requirement for registration and performance evaluation of implementing partners through a

centralized electronic system to ensure sharing of information between the United Nations Secretariat and United Nations system organizations.

DM accepted recommendation 10 and stated that OPPBA will consult both internally and also with other United Nations system organizations on the feasibility and benefits of such registration. A final decision will only be made after evaluating the resource requirements as well as the feasibility of mandating such a requirement. Recommendation 10 remains open pending receipt of evidence showing that a centralized electronic system has been established for registration and performance evaluation of NGO implementing partners.

IV. ACKNOWLEDGEMENT

71. OIOS wishes to express its appreciation to the Management and staff of the United Nations Secretariat for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General, Acting Head
Office of Internal Oversight Services

STATUS OF RECOMMENDATIONS

Review of the management of implementing partners by the United Nations Secretariat

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess risks pertaining to implementing partners and develop control activities to mitigate those risks accordingly.	Important	O	Receipt of policy guidance that includes the requirement for departments/offices to conduct risk assessments and develop control activities for effective management of implementing partners.	31 March 2016
2	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to establish selection criteria and conduct due diligence assessments of implementing partners to ensure a consistent and transparent process.	Important	O	Receipt of policy guidance that includes a requirement for departments/offices to establish selection criteria and conduct due diligence assessments of implementing partners.	31 March 2016
3	OPPBA should include in the framework for management of implementing partners the minimum standard clauses that should form part of all implementing partner agreements entered into by departments/offices to ensure consistency throughout the Secretariat.	Important	O	Receipt of policy guidance on the minimum standard clauses for inclusion in all agreements with implementing partners.	31 March 2016
4	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to periodically monitor projects implemented by partners to ensure delivery in accordance with agreed outputs and outcomes. Monitoring activities undertaken by departments and offices should be documented.	Important	O	Receipt of policy guidance that includes a requirement for departments/offices to periodically monitor projects implemented by partners.	31 March 2016

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies 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.

³ C = closed, O = open

⁴ Date provided by DM in response to recommendations.

STATUS OF RECOMMENDATIONS

Review of the management of implementing partners by the United Nations Secretariat

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
5	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess the risk pertaining to large advance payments to implementing partners in order to reduce exposure to misuse of resources.	Important	O	Receipt of policy guidance that includes the requirement for departments/offices to manage the risks associated with making large advance payments to implementing partners.	31 March 2016
6	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to adopt a risk-based approach to selecting projects for external audit to ensure appropriate oversight for high and medium risk projects.	Important	O	Receipt of policy guidance on the adoption of a risk-based approach for external audit of projects implemented by partners.	31 March 2016
7	OPPBA should establish clear guidelines for the engagement of United Nations system organizations for project implementation, including periodic review and oversight.	Important	O	Receipt of policy guidance on the engagement of United Nations system organizations for project implementation, including periodic review and oversight.	31 March 2016
8	OPPBA should include in the framework for management of implementing partners a requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations to ensure value for money and enhance transparency.	Important	O	Receipt of policy guidance that includes the requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations.	31 March 2016
9	OPPBA should: (a) establish a clear definition of grants and an appropriate accountability framework to ensure that grant and implementing partner agreements are treated distinctly; and (b) include in the framework for management of implementing partners a requirement for selection of grantees and management of grants.	Important	O	Receipt of policy guidance on the management of grants.	31 March 2016
10	OPPBA, in consultation with the Procurement Division, should develop a requirement for registration and performance evaluation of implementing partners through a centralized	Important	O	Receipt of evidence showing that a centralized electronic system has been established for registration and performance evaluation of NGO implementing partners.	31 December 2016

STATUS OF RECOMMENDATIONS

Review of the management of implementing partners by the United Nations Secretariat

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	electronic system to ensure sharing of information between the United Nations Secretariat and United Nations system organizations.				

APPENDIX I

Management Response

United Nations  Nations Unies
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Mr. Gurpur Kumar, Deputy Director, Internal Audit Division DATE 5 October 2015
A: Office of Internal Oversight Services

THROUGH: Christian Saunders, Director
S/C DE: Office of the Under-Secretary-General for Management

FROM: Mario Baez, Chief, Policy and Oversight Coordination Service
DE: Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on a review of the management of implementing partners by the
United Nations Secretariat (AG2015/511/01)**

1. With reference to your memorandum dated 15 September 2015, please find the comments of the Department of Management on the recommendations for the above subject draft report in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

15-02540
5 Oct 2015

Management Response

Review of the management of implementing partners by the United Nations Secretariat

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess risks pertaining to implementing partners and develop control activities to mitigate those risks accordingly.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	OPPBA has issued new policy guidance and instructions on the change that will take place and improvements expected as a result of the new functionalities of Umoja. Significant additional functionality relating to 'grants-out' (the management of implementing partner agreements) will form part of Umoja Extension 2, which is being designed. The Administration will leverage this opportunity to strengthen the design of controls. However, the implementation of some of the new controls will only take effect after the deployment of Umoja Extension 2. The Administration will therefore include the requirement for development of risk mitigation strategies and control activities in the policy guidance for implementing partners. The preparation of the policy instructions and guidelines for implementing partners is taking place in the context of the Enterprise Risk Management Working Group on management of extra-budgetary resources led by OPPBA that includes a wide range of United Nations Secretariat entities. Further related discussions will also take place in the context of the anti-fraud policy and the system-wide effort towards harmonization and coordination.

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.

Management Response

Review of the management of implementing partners by the United Nations Secretariat

Rec. no.	Recommendation	Critical/ ¹ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
2	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to establish selection criteria and conduct due diligence assessments of implementing partners to ensure a consistent and transparent process.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance, which is currently under preparation, will include requirements to establish selection criteria and conduct of due diligence assessments of implementing partners.
3	OPPBA should include in the framework for management of implementing partners the minimum standard clauses that should form part of all implementing partner agreements entered into by departments/offices to ensure consistency throughout the Secretariat.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance, which is currently under preparation, will include development of minimum standard clauses in all implementing partner agreements.
4	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to periodically monitor projects implemented by partners to ensure delivery in accordance with agreed outputs and outcomes. Monitoring activities undertaken by departments and offices should be documented.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will include requirements to periodically monitor projects implemented by partners against agreed outputs and outcomes. It will also require the departments/offices to document periodic monitoring of projects.
5	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to assess the risk pertaining to large advance payments to implementing partners in order to reduce exposure to misuse of resources.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will include a requirement to assess the risk pertaining to large advance payments to implementing partners.

Management Response

Review of the management of implementing partners by the United Nations Secretariat

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
6	OPPBA should include in the framework for management of implementing partners a requirement for the responsible department/office to adopt a risk-based approach to selecting projects for external audit to ensure appropriate oversight for high and medium risk projects.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will include a requirement to adopt a risk-based approach to selecting projects for external audit.
7	OPPBA should establish clear guidelines for the engagement of United Nations system organizations for project implementation, including periodic review and oversight.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will address the engagement of United Nations system organizations for project implementation.
8	OPPBA should include in the framework for management of implementing partners a requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations to ensure value for money and enhance transparency.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will include a requirement for the responsible departments/offices to obtain and review detailed cost breakdowns for projects that may be entrusted to United Nations system organizations to ensure value for money and enhance transparency.
9	OPPBA should: (a) establish a clear definition of grants and an appropriate accountability framework to ensure that grant and implementing partner agreements are treated distinctly; and (b) include in the framework for management of implementing partners a requirement for selection of grantees and management of grants.	Important	Yes	Director, Accounts Division, OPPBA	31 March 2016	The policy guidance will include clear definitions of grants and accountability framework and requirement for selection of grantees and management of grants. It should be noted however that the definitions will not be too stringent and restrictive for small grantees such as grassroots non-governmental organizations.

Management Response

Review of the management of implementing partners by the United Nations Secretariat

Rec. no.	Recommendation	Critical/ Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
10	OPPBA, in consultation with the Procurement Division, should develop a requirement for registration and performance evaluation of implementing partners through a centralized electronic system to ensure sharing of information between the United Nations Secretariat and United Nations system organizations.	Important	Yes	Director, Accounts Division, OPPBA	31 December 2016	OPPBA accepts this recommendation and will consult both internally and also with other United Nations system organizations on the feasibility and benefits of such registration. A final decision will only be made after evaluating the resource requirements as well as the feasibility of mandating such a requirement.