



## INTERNAL AUDIT DIVISION

### REPORT 2016/136

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Audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund

While the procedures used by the Secretariat for managing its short-term liquidity requirements were adequate, some improvements were needed particularly in regard to reconciliations

15 November 2016  
Assignment No. AS2016/800/01

# **Audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund**

## **EXECUTIVE SUMMARY**

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over management of cash by the United Nations Joint Staff Pension Fund (UNJSPF) Secretariat. The audit covered the period from 1 January 2015 to 29 February 2016 and it included the management of the cash inflows and outflows that were mainly composed of contributions, benefits, operational expenses, and transfers to the Investment Management Division of UNJSPF.

Overall, the procedures used by the UNJSPF Secretariat for managing its short-term liquidity requirements were adequate. OIOS made two recommendations concerning the need for the UNJSPF Secretariat to:

- Update its procedures for reconciliation of monthly contributions and ensure that the reconciliation of contribution receipts and contribution statements are conducted on a monthly basis; and
- Remove the contract provision relating to offshore banking services in view of the special status of the United Nations.

The UNJSPF Secretariat accepted the recommendation on updating of procedures for reconciliations and initiated action to implement it. However, the UNJSPF Secretariat did not accept the second recommendation. OIOS maintains that the contract provision relating to offshore banking should be removed in view of the risk to the reputation of the United Nations. This unaccepted recommendation may be reported to the United Nations Joint Staff Pension Board and the General Assembly indicating management's acceptance of residual risks.

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# **Audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund).
2. The Fund comprises the Secretariat, with the responsibility for pension plan administration, and the Investment Management Division (IMD), with the responsibility for the investment of the Fund's assets.
3. At the end of 2015 the Fund had 126,892 active participants and it was processing 71,474 benefits. The expenditure for periodic and one-time benefits was about \$200 million per month. In 2015, the total value of contributions from 23 member organizations was about \$2.3 billion.
4. The Financial Servicing Section of the UNJSPF Secretariat was responsible for cash management functions. UNJSPF used 22 operating accounts in three different banks. The bulk of benefit payments (85 per cent of the total) were made through one major bank (hereafter referred to as "Bank A").
5. Comments provided by the UNJSPF Secretariat are incorporated in italics.

## **II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY**

6. The objective of the audit was to assess the adequacy and effectiveness of UNJSPF governance, risk management and control processes over the management of cash by the Fund Secretariat.
7. This audit was included in the 2016 OIOS risk-based work plan due to the risks associated with managing significant volume of cash flows and high amount of cash balances.
8. OIOS conducted the audit from February to June 2016. The audit covered the period from 1 January 2015 to 29 February 2016. The acquisition of the banking worldwide banking services (from 2012 to 2014) was also included in the scope as the contract was still valid at the time of the audit. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in cash management, which included management of the cash inflows and outflows that were mainly composed of contributions, payments of benefits, payments related to operational expenses, and transfers to IMD of UNJSPF.
9. The audit methodology included: (a) interviews of key staff; (b) walk-through of processes and systems established to manage cash; (c) review of payment of selected weekly and monthly benefits; (d) review of banking arrangements; (e) review of bank reconciliations, bank charges and fees; and (f) review of relevant reports, documentation and records relating to cash management.

## **III. OVERALL CONCLUSION**

10. Overall, the procedures used by the UNJSPF Secretariat for managing short-term liquidity requirements were adequate. However, the Secretariat needed to: (i) update its procedures for reconciliation of monthly contributions and ensure that the reconciliation of contribution receipts and

contribution statements are conducted on a monthly basis; and (ii) remove a contract provision relating to offshore banking services in view of the special status of the United Nations.

## **IV. AUDIT RESULTS**

### Cash flow management of weekly/monthly payments was satisfactory

11. Cash flow management is a key aspect of financial management that enables a business to plan its future cash requirements, ensure liquidity and manage its cash effectively.

12. The UNJSPF Secretariat's cash inflows consisted of contributions from member organizations, and cash outflows mainly involved monthly/weekly payments to beneficiaries and payments for other administrative services. The Fund Secretariat received contributions from 31 reporting organizations and after reserving about \$10 million for weekly and administrative expenses, transferred the surplus to custodian bank of IMD. At the middle of each month, the Cashier's Office received monthly payroll reports with details of benefit payments from the Payments Unit. Using a spreadsheet, the Cashier's Office determined the required amount of cash in United States dollars (USD) and foreign currencies, and then requested funding from IMD one week in advance of the value date of the payments. Overall, these tools were adequate for managing cash for weekly/monthly payments. The daily average balance of cash in the contributions account was \$39 million for the year 2015. Taking into account the low interest rate in the market, this balance was not deemed to be significant. OIOS therefore concluded that the procedures in place for managing the Fund's weekly/monthly payments were satisfactory.

### Need to improve monitoring of monthly contributions

13. The UNJSPF Secretariat received monthly contributions from 31 reporting entities on a monthly basis, totaling about \$180 million per month. Regular reconciliation of these contributions is required to prevent accumulation of discrepancies or errors.

14. These monthly contributions were sent to the Fund's account with Bank A. Member organizations also sent a contribution statement to the Fund Secretariat each month showing the amount of payment and other related details. The Accounts Unit, which was responsible for monitoring contributions, had developed a pension contribution remittance reconciliation file in a spreadsheet to record expected contributions (as indicated in the monthly contribution statements) and actual contributions received, and take action on discrepancies, if any. OIOS review of this file for 2015 showed that some data was missing, i.e., bank deposit dates for contributions from August 2015 onwards, and there were some erroneous figures in the file. This file was on the common drive of the Accounts Unit to which all Unit staff had access, making it vulnerable to error. Also, four organizations, (i.e., the United Nations Children's Emergency Fund, the Food and Agriculture Organization, the International Telecommunication Union and the World Intellectual Property Organization) did not send any monthly contribution statements in 2015; and some statements were missing for three organizations (i.e., the International Centre for the Study of the Preservation and Restoration of Cultural Property, the International Tribunal for the Law of the Sea, and the United Nations Relief and Works Agency for Palestine Refugees in the Near East).

15. The Accounts Unit attributed these shortcomings to a vacancy in the professional category; this position had the responsibility to monitor monthly contributions but was vacant for a long time. Additionally, the Fund Secretariat had changed its accounting system in August 2015 to the Integrated Pension Administration System (IPAS), which posed some challenges in collecting relevant data for monitoring of contributions. Further, other priorities of the Fund Secretariat in 2015 and 2016 affected

the allocation of resources to the Unit. OIOS noted that there were no updated procedures on monitoring of monthly contributions with defined responsibilities. This also contributed to the deficiencies noted.

16. In the absence of monthly contribution statements, the Secretariat may not be able to identify and take timely action on discrepancies until the year-end, when the Accounts Unit conducts its year-end reconciliation of contributions.

**(1) The UNJSPF Secretariat should update its procedures for reconciliation of monthly contributions and ensure that the reconciliation of contribution receipts and contribution statements are conducted on a monthly basis.**

*The UNJSPF Secretariat accepted recommendation 1 and stated that the Fund updated its procedures to ensure the reconciliation and monitoring of monthly contributions remittances. Recommendation 1 remains open pending receipt of the implementation of the first monthly reconciliation of contributions in accordance with the updated procedures.*

#### Bank reconciliations were reviewed by supervisors

17. Bank reconciliation was an essential control for safeguarding of assets. As part of four-eyes principle, or two-person rule, bank reconciliations in the UNJSPF Secretariat were reviewed by the supervisor of the staff, or another staff.

18. OIOS reviewed bank reconciliations for 22 accounts for the months of August and December 2015 and determined that reconciliations for 4 accounts were not reviewed by a staff other than the one who prepared the reconciliation. The Fund Secretariat explained that this was due to other operational priorities in the Fund, and later provided evidence showing that reconciliations for the identified accounts have been reviewed by the concerned supervisor. Therefore, no recommendation was made.

#### Segregation of duties in the payment of benefits was adequate

19. The Fund made payments of approximately \$200 million for weekly and monthly benefits each month. About 98.5 per cent of the total amount of benefit payments went through three banks, i.e., through direct deposit and electronic funds transfer, and the rest was distributed by the United Nations agencies in the field. The portion of payments made through cheques was less than 2 per cent (or 0.06 per cent of the total amount of benefit payments).

20. OIOS selected and reviewed weekly and monthly benefit payments for the months of August and December 2015. The Payments Unit of the Financial Services Section prepared the payroll (benefit) report; it was certified by the Chief of Payments and approved by the Chief Financial Officer before submission to the Cashier's Office. The payment batch was submitted to the banks through the bank interface system after authorization by two staff in the Cashier's Office. OIOS verified that the numbers and amounts of payments for the selected two months matched with those prepared by the Payments Unit.

21. For payments made by cheque, the cheques were printed in the Cashier's Office with two digital signatures and the cheque details were submitted to the bank to prevent fraud. OIOS reconciled the cheques issued by the Cashier's Office with the payroll report prepared by the Payments Unit for the months of August and December 2015 and found no discrepancies. OIOS therefore concluded that there was adequate segregation of duties in the payment of benefits.

Bank fees were monitored regularly

22. The Cashier's Office was in charge of reviewing bank fees and charges. During 2015, the Fund paid annual fees for banking services in the amounts of \$818,229, \$17,975 and \$36,846 to three banks. The Cashier's Office verified the accuracy of fees for major accounts every month and compared the total amount of fees with the figures of previous months to identify any significant variances. OIOS therefore concluded that the existing controls for monitoring bank fees and charges were adequate.

The contract provision on offshore investment services posed reputation risk

23. Section 7 of the Convention on the Privileges and Immunities of the United Nations provides that the United Nations and its subsidiary organs, including UNJSPF, were exempt from all direct taxes.

24. The banking services agreement with Bank A included a provision on offshore investment vehicles which stated that if the United Nations selects certain investment vehicles, the provision shall apply.

25. OIOS queried the need for such a provision because the United Nations is exempt from taxes. The Fund Secretariat stated that it never used this investment vehicle, and the contract was established between the Office of Legal Affairs and Bank A. The Office of Legal Affairs stated that the provision had been inserted by Bank A and it appeared to be generic for all their clients.

26. OIOS is of the view that such a provision, even though not exercised, exposes the Fund to legal or compliance risks due to the potentially conflicting interests of offshore accounts and those of the Fund. This also poses a significant risk to the reputation of the United Nations.

**(2) The UNJSPF Secretariat, in consultation with the Office of Legal Affairs, should remove the contract provision relating to offshore banking services.**

*The UNJSPF Secretariat did not accept recommendation 2 stating that although not urgent or needed, the Fund might consider removing this provision in a future revision of the contract. The Fund also stated that banking contracts included generic provisions that were standard in the industry and had no impact on the Fund as they were not exercised. Further, the Fund did not use offshore accounts and therefore, they were not exposed to legal or compliance risks. OIOS is of the view that even if the contract provision in question is an industry standard that may be routinely included in contracts with other parties/clients, it should not have a place in a contract signed by the United Nations in view of the latter's special status. The inclusion of such a provision poses a risk to the reputation of the Organization. OIOS therefore maintains that this contract provision should be removed. This unaccepted recommendation may be reported to the United Nations Joint Staff Pension Board and the General Assembly indicating management's acceptance of residual risks.*

The contract for banking services was not based on the 'best value for money' principle

27. UNJSPF used the services of the United Nations for procurement of goods and services. The United Nations Financial Regulations and Rules and the Procurement Manual provide guidance on procurement principles and procedures.

28. OIOS reviewed the procurement case file relating to the establishment of the worldwide banking services agreement signed in August 2014 between the United Nations (for and on behalf of UNJSPF) and Bank A and noted the following:

a. In its deliberations on 8 March 2012, the Headquarters Committee on Contracts (HCC) expressed concern that despite several attempts by the Procurement Division, the Fund's assertion that the proposal of the recommended vendor (Bank B) included "hidden fees" remained unclear. HCC noted that Bank B was technically capable of providing the services and was the winner based on the 'best value for money' principle. HCC also expressed particular concern that the Statement of Work was tailored to the current incumbent's (Bank A) banking agreement with the United Nations, which raised issues with regard to fairness to the other vendors in the solicitation exercise. In conclusion, HCC recommended approval of the Procurement Division's proposal to reject all proposals received and authorize the Procurement Division to enter into negotiations with Bank B on the basis that it received the highest 'best value for money' score and because of the \$1 million price difference between the offer of Bank B (at \$2.8 million for a three-year period) and that of Bank A (at \$3.8 million).

b. In response to the recommendation by HCC, the former Chief Executive Officer (CEO) of Fund stated that he could not agree with the recommendation due to: (i) potential (unseen) charges to retirees; (ii) failure of Bank B to pass the Federal Reserve Bank's stress test; and (iii) the lower credit rating of Bank B. He therefore decided to enter into contract with the incumbent service provider (Bank A).

29. There was no evidence of any hidden or unseen charges in the proposal submitted by Bank B. Additionally, the other concerns raised by the CEO about Bank B were not part of the technical evaluation criteria. Therefore, OIOS is of the view that the former CEO's decision to overrule the HCC recommendation and incur an additional expenditure of \$1 million over a three-year period was not adequately substantiated.

30. Since this issue relates to governance arrangements in the area of procurement, no recommendation is being made in the present report. OIOS will keep this matter under review and address it as appropriate when the governance arrangements for procurement of goods and services for the Fund are audited at a future date.

## **V. ACKNOWLEDGEMENT**

31. OIOS wishes to express its appreciation to the Management and staff of UNJSPF for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The UNJSPF Secretariat should update its procedures for reconciliation of monthly contributions and ensure that the reconciliation of contribution receipts and contribution statements are conducted on a monthly basis.	Important	O	Receipt of the first monthly reconciliation of contributions in accordance with the updated procedures.	31 December 2016
2	The UNJSPF Secretariat, in consultation with the Office of Legal Affairs, should remove the contract provision relating to offshore banking services.	Important	C	Closed without implementation based on management's acceptance of residual risk.	Not applicable

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by UNJSPF in response to recommendations.

# **APPENDIX I**

## **Management Response**



UNITED NATIONS JOINT STAFF PENSION FUND  
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## MEMORANDUM

Ref:

New York, 18 October 2016

To / A: Mr. Gurpur Kumar, Deputy Director, Internal Audit Division, OIOS From / De : Sergio B. Arvizú, Chief Executive Officer, United Nations Joint Staff Pension Fund

Subject / Objet: **UNJSPF secretariat response to draft report audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund (Assignment No. AS2016/800/01)**

1. This is in response to your memorandum dated 4 October 2016, which attached the draft report on the audit of cash management in Secretariat of the United Nations Joint Staff Pension Fund.
2. The Fund's management wishes to thank OIOS for its review of the governance, risk management and control processes in place for the management of cash by the Fund secretariat.
3. The Terms of Reference (ToR) of the audit of cash management which were shared with the Fund's management on 29 March 2016 specified the audit would cover "the period from 1 January 2015 to 29 February 2016" and that "the audit fieldwork may lead to changes in the scope of the audit and any such changes will be communicated to UNJSPF". The audit report reflects that OIOS expanded the scope of the audit to cover actions occurring in March 2012 and August 2014 related to "*acquisition of worldwide banking services*". However, during the audit fieldwork, OIOS omitted to communicate to the Fund's management these changes to the audit scope.
4. Further, as the Fund utilizes the UN procurement machinery for conducting its procurement processes, any audit examination or audit recommendations related to a procurement process should necessarily involve and be discussed with the UN Procurement Division. Neither UNJSPF nor the UN Procurement Division, were informed that OIOS would be conducting a procurement audit.
5. OIOS reflects in the report its observations related to the establishment of the world banking services agreement signed in August 2014. However, the report does not reflect the comments and clarifications provided by the Fund's management in a meeting maintained on 1 August 2016 and in memorandum dated 24 August 2016. The Fund secretariat does not consider appropriate to present in the report observations: i) related to aspects not included in the audit scope; ii) that were not discussed with the UN Procurement Division and the UN Office of Legal Affairs; and iii) that disclose details related to deliberations, decisions and documents that are legally privileged and strictly confidential to the UN and its authorized UN staff. In the same line, the Fund's management considers that by reflecting in the report details about the global banking services contract, OIOS may be exposing the Fund to serious reputational risks.
6. The Fund secretariat's responses to the audit recommendations are presented in Annex I. Additional comments and clarifications to the report are presented in Annex II.
7. Thank you for giving us the opportunity to provide our comments on the draft report.

cc. Mr. P. Dooley, Deputy CEO  
Mr. J. Pozenel, UN Office of Legal Affairs  
Mr. D. Liberatore, Chief Financial Officer *ad interim*  
Mr. J. Sareva, Chief Risk Management and Legal Services Section  
Ms. K. Manosalvas, Risk Officer, Fund secretariat

## AUDIT RECOMMENDATIONS

## Audit of cash management in the Secretariat of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	The UNJSPF Secretariat should update its procedures for reconciliation of monthly contributions and ensure that the reconciliation of contribution receipts and contribution statements are conducted on a monthly basis.	Important	Yes	Accounts Unit	31 December 2016	The Fund secretariat will update the procedures in place to ensure the reconciliation and monitoring of monthly contribution remittances.
2	The UNJSPF Secretariat should ensure that bank reconciliations are reviewed by staff other than the preparer of the reconciliations.	Important	Yes	Accounts Unit	Implemented	All bank reconciliations are reviewed by a staff other than the preparer of the reconciliations. Evidence implementation of this recommendation for the four accounts identified by OIOS, has been separately provided. <b>Based on the above, the Fund secretariat requests OIOS to close this recommendation prior to the issuance of the final report.</b>
3	The UNJSPF Secretariat, in consultation with the Office of Legal Affairs, should remove the contract provision relating to offshore banking services.	Important	No			The Fund secretariat does not accept the proposed audit recommendation as it relates to banking contract provisions and offshore accounts which are standard in industry contracts and have no impact on the Fund as these are not exercised nor utilized by the Fund and therefore, the recommendations intends to address risks that are nonexistent.

<sup>1</sup> "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.

<sup>2</sup> 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.

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
						<p>The Fund secretariat considers it is not exposed to “legal or compliance risks due to potentially conflicting interests of offshore accounts and those of the Fund” as identified by OIOS. The Fund does not use offshore accounts and to address possible any potential legal and compliance risks, the banking contract with JPMC was duly negotiated and reviewed by UN Office of Legal Affairs (OLA).</p> <p>Banking contracts include generic provisions that are standard in industry and have no impact on the Fund as these are not exercised. Further, as the banking contract and bank account details are not publicly divulged and the Fund does not use offshore accounts, the reputational risks identified by OIOS are being created by OIOS by considering the mentioned clause out of the proper context in which the contract was duly reviewed and negotiated by OLA and UN PD.</p> <p><b>Although this is not urgent or needed, the Fund may consider removing this provision in a future revision of the contract. However, the outcome is dependent on the contract negotiations conducted by the UN Office of Legal Affairs in which the Fund has no role. It should also be noted that as the</b></p>

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
						<p>contract is signed between two parties, any proposed amendment will be subject to the agreement of the other party. Accordingly, while the Fund secretariat might accept OIOS suggestion as an opportunity for improvement, the implementation is subject to the agreement of the bank.</p> <p>Nevertheless, the Fund emphasizes that considering this clause out of the proper context (and not as a generic industry provision of a standard banking contract duly reviewed by OLA) by OIOS may expose the Fund to reputational risks (created by this misinterpretation of the contract).</p>

**COMMENTS AND CLARIFICATIONS ON DRAFT REPORT  
AUDIT OF CASH MANAGEMENT IN UNJSPF**

1. The Fund secretariat's detailed comments and factual clarifications on specific paragraphs are presented below:

2. Paragraph 7 - Audit Objective: OIOS states that the audit was included in OIOS risk-based work plan due to "risks associated to managing significant amount of cash flows and high amount of cash balances". The Fund secretariat notes that: i) cash balances in the Fund secretariat accounted for less than 10% of the Fund's total cash and cash equivalents as of 31 December 2014 and 31 December 2015; and ii) the amount of cash flows managed by the Fund secretariat is relatively very low, as at the end of each month, the Fund secretariat transfers to IMD the contribution balance keeping in its accounts a minimum balance per week to cover weekly payments.

Procurement of worldwide banking services

3. The procurement of UNJSPF global banking services was conducted by the UN Procurement Division in accordance with UN Financial Regulations and Rules and the UN Procurement Manual. As per the direct procurement authority granted by the Pension Board in Report A/51/9, it is prerogative of the Fund's CEO to act on his own authority when he is unable to accept a particular recommendation made by the UN Headquarters' Committee on Contracts (HCC). OIOS is mistakenly interpreting the utilization of the procurement authority granted by the Pension Board regarding the establishment of the worldwide banking services agreement, as a deviation from established procurement procedures.

4. Regarding OIOS observation on the need to report to the Pension Board procurement actions as a measure of accountability, OIOS is requested to reflect in the final report that the Pension Board and Audit Committee have been previously consulted on whether the Board or the Audit Committee would like to receive reports from the Fund's CEO on the exercise of his direct procurement authority. In 1996, the Pension Board decided that it was not necessary for the CEO to submit to the Pension Board reports on procurement actions. Later in 2009, the Audit Committee concluded on a similar recommendation that no further clarification was required with respect to the CEO's procurement authority and informed the Board accordingly.

5. The decision taken by the Fund's former CEO in March 2012, which OIOS observes in the report, was fully documented, justified and reported in memorandums dated 29 March 2012, 27 April 2012 and other documents that form part of the procurement file. Further, prior to signing the contract with the current service provider in July 2014, the Pension Board was informed by the Chief Executive Officer of UNJSPF intention to finalize the contract under review and of the operational risks that a possible discontinuation of the service would create to the Fund. In its sessional report (A/69/9), the Pension Board noted the significant operational risks, financial costs and delays derived from a possible discontinuation of the banking services. The Board also noted management's intention to formalize the banking services contract for a period of three years.

6. Regarding OIOS comment that the contract was not based on the 'best value for money' principle, it is highlighted that UN Procurement Manual defines Best Value for Money as the "Optimization of whole -life costs and quality needed to meet the user's requirements, while taking into consideration potential risk factors and resources available". Based on the goal to achieve maximum benefit for the Organization and the potential risks alerted by the Fund's management and recognized by the Pension Board, OIOS conclusion that the "contract for banking services was not based on the 'best value for money' principle" seems to be totally unfounded.

7. Based on the above, the Fund secretariat emphasizes that there was not any deviation to procurement procedures. On the basis of the procurement authority granted by the Pension Board, the procurement case was conducted by the UN Procurement Division following the procedures established by the UN Financial Regulations and Rules and UN Procurement Manual and, the final procurement decision was taken by the former CEO, in consideration of the recommendation made by the Headquarters Committee on Contracts, with the goal of achieving the maximum benefit for the Fund. It is finally emphasized that the Pension Board has established accountability mechanisms to report on the results of

**management's individual decisions, including direct procurement decisions, at the appropriate instances and frequency.**

8. The Fund secretariat further notes OIOS comments in paragraphs 28 to 32 of the draft report are incomplete and do not accurately reflect the procurement case as well as the deliberations and recommendations of the Headquarters Committee on Contracts (HCC) in relation to the concerns expressed by HCC and UNJSPF. The Fund secretariat further highlights that the minutes of the HCC are **legally privileged and strictly confidential to the UN and its authorized UN staff**. By disclosing details about the procurement case in the final report, OIOS may be exposing the United Nations to potential legal and contractual risks. **In this respect, the Fund's management strongly recommends to OIOS that it evaluates and requests the opinion of the UN Office Legal of Affairs, UN Procurement Division and Headquarters Committee on Contracts, regarding the need to remove from the final report the section related to the establishment of the worldwide banking services agreement. Otherwise, OIOS should be aware of and take full responsibility for any possible confidentiality violation and reputational risks.**

9. Please find below specific comments to this section:

- **Paragraph 28:** OIOS is requested to note in the final report that UNJSPF utilizes the procurement services of the UN procurement machinery for the procurement of goods and services and to adhere to the UN Financial Regulations and Rules, subject to any decisions made by the General Assembly in respect of the Fund. Accordingly, UNJSPF procurement is conducted following the principles and guidelines of the UN Procurement Manual. Further, in paragraph 112 of its report A/51/9 of 1996, the Board authorized the CEO to act on his own authority in the following special situations:
  - a. *United Nations/PTD could not complete the process within the required time-frame;*
  - b. *The Secretary was unable to accept a particular recommendation made by the United Nations/OTD or by the Headquarters' Committee of Contracts; or*
  - c. *United Nations/PTD informed the Secretary that a particular contract or procurement could not be carried out by that Office.*
- **Paragraph 29:** As noted above, the minutes of the Headquarters Committee on Contracts (HCC) are **legally privileged and strictly confidential to the UN and its authorized UN staff**. As noted above, this information may need to be removed from the report. Specifically, the extract of the HCC minutes in relation to HCC's concerns about the SoW is incomplete as it does not reflect the assignment of accountability over the final version of SoW to be included in the bidding documents.
- **Paragraph 30:** The Fund secretariat kindly requests OIOS to amend its statement that *"there was no evidence of any hidden or unseen charges ... Additionally, the other concerns raised by the [former] CEO about Bank B were not part of the technical evaluation criteria"* as it is not accurate. As can be verified against the procurement file the concerns raised by the Fund's former CEO were part of the technical evaluation criteria. Further, the Fund secretariat disagrees with OIOS statement that *"the decision to overrule HCC's recommendation and incur an additional expenditure of \$1 million over a three-year period was not adequately supported"* and kindly requests it be adjusted. The Fund's former Chief Executive Officer extensively justified and documented the procurement decision in various memorandums addressed to the HCC and UN Procurement Division. It is not clear what are the criteria considered by OIOS to determine that the decision *"was not adequately supported"*. The Fund as process owner and requisitioner of the service is in the best position to determine and evaluate the technical requirements. This is recognized by the technical role assigned to management in the procurement process.

Further, the former CEO decision on the HCC recommendation does not only consider the technical evaluation criteria and in light of his overall authority and responsibility for the organization, he has to take into account a broader range of elements that have not been properly reflected by OIOS.

- **Paragraph 31:** Regarding OIOS statement that *"the Fund did not report procurement exceptions since then"*, the Fund secretariat kindly requests OIOS to adjust the report considering that there are no procurement exceptions that needed to be reported. As noted above, the Fund's CEO decision to overrule HCC's

recommendation is a management decision taken on the basis of the procurement authority granted by the Pension Board, and as such is not an exception. The Fund uses the UN machinery for its procurement processes.

- **Paragraph 32:** The Fund secretariat also kindly requests OIOS to revise its statement that *“there is a risk that deviations from established procurement procedures may not be brought to the attention of the Fund’s stakeholders in a systematic, timely manner”*, since as noted above the Fund’s uses of the UN procurement machinery to conduct UNJSPF procurement. **Accordingly, the Fund does not handle any procurement deviations that may need to be reported.**