



INTERNAL AUDIT DIVISION

REPORT 2017/033

Audit of the management of selected trust funds in the Departments of Peacekeeping Operations and Field Support

There was need to strengthen internal controls relating to the management of the trust fund in support of the Department of Peacekeeping Operations

15 May 2017
Assignment No. AG2016/600/06

Audit of the management of selected trust funds in the Departments of Peacekeeping Operations and Field Support

EXECUTIVE SUMMARY

The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over management of selected trust funds in the Departments of Peacekeeping Operations (DPKO) and Field Support (DFS). The audit covered the period from 1 January 2014 to 31 December 2016 and included a review of governance and oversight mechanisms, management of the trust fund in support of DPKO, and closure of inactive trust funds.

The audit showed that DPKO/DFS activities were generally performed in accordance with applicable guidelines to meet the primary purpose of the trust fund. However, there was need to strengthen internal controls relating to the management of the trust fund in support of DPKO.

OIOS made 12 recommendations to address issues identified in the audit, as follows:

- DPKO should develop a resource mobilization strategy which adequately covers important areas such as: (a) resource mobilization methodology; (b) responsibility and accountability of programme officers at Headquarters; and (c) fundraising targets and timelines.
- DPKO should finalize and issue standard operating procedures for the management of trust funds at Headquarters.
- The DPKO/DFS Executive Office should take corrective measures to improve compliance with the 16-day rule for official travel to minimize the cost of travel and any deviations are adequately justified.
- The DPKO/DFS Executive Office should take appropriate action to clear the outstanding travel advances.
- The Department of Management (DM) should recover outstanding travel advances pending for more than one month.
- The DPKO/DFS Executive Office should take appropriate measures to ensure that reporting requirements specified in the donor agreements/letters are complied with.
- DPKO should review unspent balances in respect of closed projects relating to the trust fund in support of DPKO and process the unspent balances in accordance with donor agreements.
- DFS should take necessary steps to finalize the project initiation document for the “Rapid Deployment of Engineering Capabilities in Africa” (RDECA) project with defined project activities, outcomes and clear timelines and obtain the approval of the donor as required.
- DFS should constitute a Project Board comprising senior users, project executive and senior member from the implementing partner to strengthen governance over the RDECA project.
- DFS, in consultation with DM, should finalize the strategic direction and acquire the required heavy engineering equipment in a timely manner to expedite the progress of the RDECA project.
- DFS should take necessary measures to recover balances due from the agency implementing the RDECA project prior to signing new financial agreements with the agency.
- DM, in coordination with DFS, should take appropriate measures to close the inactive trust funds.

DPKO, DFS and DM accepted the recommendations and have initiated action to implement them.

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Audit of the management of selected trust funds in the Departments of Peacekeeping Operations and Field Support

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of selected trust funds in the Departments of Peacekeeping Operations (DPKO) and Field Support (DFS).
2. DPKO was responsible for managing two trust funds, namely: (i) the trust fund in support of DPKO; and (ii) the voluntary trust fund for assistance in Mine Action. The present audit only covered the trust fund in support of DPKO, which was established in April 2005 to support the Department's mandated activities, particularly those related to planning, establishment, conduct and direction of all United Nations operations. This trust fund did not include activities relating to Mine Action and those covered by peacekeeping and other mission-related trust funds. The trust fund received contributions from Member States for projects managed at Headquarters. During the period 2014-2016, there were 112 trust fund projects amounting to \$72 million, funded by 22 donors. Out of 112 projects, 96 related to DPKO and 16 to DFS. The Under-Secretary-General for DPKO was the programme manager and the Executive Officer of DPKO/DFS was the certifying officer for this trust fund.
3. The total income and expenditure of the trust fund in support of DPKO for the years 2014-2016 according to interim financial statements are shown in Table 1. The surge in income in 2015 was attributable to a contribution of \$38 million from a donor to support the "Rapid Deployment of Engineering Capabilities in Africa" (RDECA) project. DFS was responsible for managing this project.

Table 1: Summary of total income and expenditure for the trust fund in support of DPKO

Particulars	(000s of US Dollars)		
	2016	2015	2014
Revenue	19,668	45,098	7,501
Expenditure	13,992	7,975	6,339
Excess (Surplus)	5,676	37,123	1,162

4. DFS also oversaw 13 active trust funds amounting to \$114 million managed by 12 field missions, which had generally established their own trust fund units to manage the funds locally. Four staff members from the Field Budget and Finance Division in DFS were focal points for various trust funds in field missions. In addition, they served as desk officers responsible for overseeing the activities of day to day operations of the concerned field missions.
5. DPKO and DFS received approximately \$264 million as voluntary contributions from Member States during the period 1 January 2014 to 31 December 2015 to supplement the Support Account budget for peacekeeping operations.
6. Comments provided by DPKO, DFS and the Department of Management (DM) are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of trust funds at DPKO and DFS.

8. This audit was included in the OIOS 2016 risk-based work plan due to the risk that potential weaknesses in the management of trust funds in DPKO and DFS could adversely affect donor confidence, achievement of objectives, as well as the reputation of the Organization.

9. OIOS conducted this audit from September 2016 to January 2017. The audit covered the period 1 January 2014 to 31 December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the management of trust funds by DPKO and DFS. The audit focused on the trust fund activities managed by DPKO and DFS at Headquarters and covered three areas, namely: (i) governance and oversight mechanisms; (ii) the trust fund in support of DPKO; and (iii) closure of inactive trust funds in DPKO and DFS. The audit did not include the voluntary trust fund for assistance in Mine Action which was covered in a separate OIOS audit (Report 2015/041).

10. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing. Using the stratified sampling method, the audit team selected for detailed review a representative sample of 40 projects relating to the trust fund in support of DPKO amounting to \$56 million out of 112 projects during the period 2014-2016 amounting to \$72 million.

III. OVERALL CONCLUSION

11. The audit showed that DPKO/DFS activities were generally performed in accordance with applicable guidelines to meet the primary purpose of the trust fund. However, there was need to strengthen internal controls relating to the management of the trust fund in support of DPKO by, *inter alia*: (a) developing a resource mobilization strategy; (b) improving compliance with 16-day rule on official travel and following up on outstanding travel advances; (c) obtaining the donor's approval for the project initiation document relating to the RDECA project and establishing a Project Board to provide strategic direction to the project; (d) following up on the unspent balance due from a United Nations agency implementing the RDECA project; and (e) taking necessary action for the closure of inactive trust funds.

IV. AUDIT RESULTS

A. Governance and oversight mechanisms

DPKO needed to develop a resource mobilization strategy

12. Substantive divisions in DPKO and DFS independently conducted resource mobilization activities by approaching Member States directly for contributions to support their mandated activities. DPKO and DFS did not have a resource mobilization strategy aligned to the departments' goals and objectives to increase overall visibility, strategic direction, accountability and coordination of resource mobilization activities. DPKO stated that it was working to ensure that all project proposals were approved by senior management prior to approaching donors for contributions. DPKO and DFS sent a joint pilot appeal to 20 donors in August 2016 to solicit contributions for the implementation of the High Level Independent Panel's recommendations, related projects and work streams for 2016-2017 covering seven priority areas. However, this was a one-time appeal limited to 2016-2017 and did not provide strategic direction for resource mobilization activities in the future.

13. DPKO stated that the voluntary contributions prior to 2015 were not significant when compared to its overall budget of \$8 billion. Therefore, development of a comprehensive resource mobilization strategy was not given priority. However, with the increase in voluntary contributions from \$7 million in

2014 to \$45 million in 2015, DPKO was in the process of developing guidelines on resource mobilization activities. DPKO stated that these guidelines would also be applicable to DFS in relation to trust funds managed at DFS Headquarters.

14. In the absence of an overarching resource mobilization strategy, substantive offices may focus on their own priorities instead of the department's priorities and compete for funding from the same donors. The lack of a formal policy also made it difficult for DPKO to systematically identify, assess and manage risks relating to the resource mobilization and effectively mobilize voluntary contributions.

(1) DPKO should develop a resource mobilization strategy which adequately covers important areas such as: (a) resource mobilization methodology; (b) responsibility and accountability of programme officers at Headquarters; and (c) fundraising targets and timelines.

DPKO accepted recommendation 1 and stated that DPKO and DFS are developing standard operating procedures (SOPs) that will include a process for agreeing, on a yearly basis, to a mobilization strategy for voluntary resources for the year. The strategy will include fundraising targets and timelines. The SOPs will also include responsibilities and accountability for all relevant actors in the fundraising, management and reporting of voluntary resources. Recommendation 1 remains open pending receipt of the resource mobilization strategy which adequately covers areas such as methodology, responsibility and accountability of programme officers, and fundraising targets and timelines.

DPKO needed to finalize the SOPs for trust funds managed at Headquarters

15. DPKO was yet to finalize the SOPs for trust funds managed at Headquarters, which were being developed. OIOS review of 40 projects relating to the trust fund in support of DPKO showed inconsistencies in project management. There were no standardized templates for project documents, progress and final narrative reports. Risk assessments were not conducted in 27 out of 40 projects. Eight projects were delayed; for example, a project that received funds amounting to \$47,059 in 2014 was yet to start at the time of the audit. There were also delays in filling of posts; recruitment action for three posts was initiated six months after receipt of funds.

16. DPKO needed to finalize the SOPs to ensure effective management of trust funds at Headquarters.

(2) DPKO should finalize and issue standard operating procedures for the management of trust funds at Headquarters.

DPKO accepted recommendation 2 and stated that DPKO and DFS are in the process of approving SOPs for fundraising, managing and reporting voluntary resources for its main Headquarters trust fund. The scope of the SOPs will not include the Mine Action trust fund and the newly created Sexual Exploitation and Abuse trust fund. Recommendation 2 remains open pending receipt of SOPs for the management of trust funds at Headquarters.

B. Management of the trust fund in support of DPKO

Substantive activities and priorities were in accordance with the terms of reference of the trust fund

17. According to the terms of reference of the trust fund in support of DPKO, the purpose of the trust fund was to support the mandated activities of DPKO, particularly those related to planning,

establishment, conduct and direction of all United Nations peacekeeping operations. Donor contributions were earmarked for specific projects in the trust fund.

18. OIOS review of the planned activities of 40 selected projects showed that the project objectives generally matched the primary purpose of the trust fund and fell under one of the seven thematic areas, namely: (i) policy evaluation and training; (ii) field administrative support; (iii) rule of law; (iv) security institutions; (v) logistics support; (vi) information and communications technology and operations; and (vii) military affairs. OIOS reviewed narrative reports and evaluation reports prepared after project implementation to determine whether the outputs and outcomes were in line with the project documents.

19. Based on the review, OIOS concluded that projects were generally aligned to the vision and primary purpose of the trust fund and were in accordance its terms of reference.

Need to ensure compliance with the 16-day rule on official travel

20. The administrative instruction on official travel (ST/AI/2013/3) states that all travel arrangements for individuals travelling on behalf of the United Nations, including advance booking and purchase of tickets, should be finalized 16 calendar days in advance of commencement of the travel. Programme managers are required to provide justification for all official travel arrangements that could not be finalized 16 calendar days in advance of the commencement of travel.

21. During the review period, there were 912 travel transactions amounting to \$2.5 million relating to the trust fund in support of DPKO. While travel authorizations were generally present, the audit noted the following:

- (a) 471 travel requests amounting to approximately \$1.4 million (46 per cent of the total travel expenditure) did not comply with the 16-day rule.
- (b) A review of a sample of 70 travel transactions which did not comply with the 16-day rule showed that there was no documented justification in 21 cases. An analysis of the travel purpose indicated that 45 out of 70 cases were related to workshops and conferences, 10 were for meetings, 9 were related to training, 5 were related to field visits, and 1 was related to recruitment.
- (c) All non-compliant travel request forms required explanation of preventive measures to ensure compliance with the 16-day rule going forward; however, only 8 out of 70 non-compliant travel requests indicated preventive measures. There was no evidence of any corrective action taken to address the issue.

22. DPKO/ DFS stated that the nature of their work resulted in several last-minute changes to staff and dates making it difficult to comply with the 16-day rule. While OIOS acknowledges that travel may sometimes be required at short notice, efforts should be made to improve compliance with the 16-day rule and ensure that deviations are adequately justified in writing.

(3) The DPKO/DFS Executive Office should take corrective measures to improve compliance with the 16-day rule for official travel to minimize the cost of travel and any deviations are justified.

The DPKO/DFS Executive Office accepted recommendation 3 and stated that it will remind programme managers on a quarterly basis to comply with the rule and will ensure that justification is provided in the electronic travel request. Recommendation 3 remains open pending receipt of

evidence that: (i) compliance with the 16-day rule has improved; and (ii) any deviations have been appropriately justified.

Outstanding travel advances needed to be followed up and cleared

23. ST/AI/2013/3 on official travel states that recovery of travel advances through payroll deduction should be initiated if a staff member fails to submit a duly completed claims form, together with the supporting documentation, within two calendar weeks after completion of travel. The Controller’s memorandum dated 30 June 2015 emphasized that outstanding official travel claims older than one month should be automatically recovered.

24. OIOS review of travel expenditures relating to the trust fund in support of DPKO showed that travel advances amounting to \$125,048 were outstanding as of 31 December 2016 due to non-submission of self-certification/claims by staff members after completion of travel. DPKO stated that the outstanding travel advances mainly related to non-staff (consultants and contractors) who did not submit travel claims despite repeated reminders. OIOS noted that outstanding travel advances relating to non-staff were only \$14,816 whereas the outstanding travel advances relating to staff amounted to \$110,233 as shown in Table 2.

Table 2: Outstanding travel advances for the trust fund in support of DPKO as of 31 December 2016

Days	Transactions	Staff transactions	Non-staff transactions	Staff amount (\$)	Non-staff amount (\$)	Total amount (\$)
0 - 90	50	31	19	47,754	14,816	62,569
91 - 365	23	21	0	29,837	0	29,837
More than 365 days	34	34	0	32,642	0	32,642
Total	107	86	19	110,233	14,816	125,048

25. DPKO stated that there were technical issues relating to the recovery of outstanding travel advances after the introduction of new enterprise resource planning system (Umoja). Hence, good practices such as development of alerts to follow up on the submission of travel self-certification/claims with travelers and automatic recovery of advances from travelers after a specified period were not adopted. In the absence of the travel self-certification/claim, there was no assurance that the travels had taken place for the approved purposes.

(4) The DPKO/DFS Executive Office should take appropriate action to clear the outstanding travel advances.

The DPKO/DFS Executive Office accepted recommendation 4 and stated that staff members and Travel Administrators (on behalf of non-staff) directly input their request for travel advance into Umoja. ST/AI/2013/3 requires staff members to submit their travel expense reports within two calendar weeks upon completion of travel. The responsibility of the Executive Office is to certify the travel advance and the expense claim. In the absence of any system-built alerts, the Executive Office has a very limited capacity to monitor the outstanding travel advances. On a quarterly basis, the Executive Office agrees to provide programme managers with the Business Intelligence travel report for review and clearance of the outstanding travel advances. As stated in paragraph 13.3 of the above ST/AI/2013/3, the “recovery of travel advances through payroll deduction shall be initiated if a staff member fails to submit a duly completed F.10 form, together with the supporting documentation, within two calendar weeks after completion of travel”. The responsibility of the

Executive Office stays with certification of the travel claim expenses. The Executive Office does not have an authority and process ownership to institute any automatic recovery mechanism. Recommendation 4 remains open pending receipt of evidence of action taken by the DPKO/DFS Executive Office to clear the outstanding travel advances.

(5) DM should recover outstanding travel advances pending for more than one month.

DM accepted recommendation 5 and clarified that the recovery of overdue travel advances is automated in Umoja. A recovery programme runs regularly, checking for advances that are past due and, in the case of staff members, recovers that amount from the next payroll. The automated recovery programme also picks up overdue advances for travel for non-staff, and a credit memo is posted to the travellers' vendor accounts. Any accounts payable payments to the traveller will be held back until the credit memo is cleared. Travellers and Travel and Shipment Administrators are made aware of their obligations regarding expense report submission when they create trip requests. Recommendation 5 remains open pending receipt of evidence that all the outstanding travel advances pending for more than one month have been recovered.

Need to ensure compliance with donor reporting requirements

26. Out of 40 projects reviewed, DPKO and DFS were required to submit interim and final narrative, and/or certified financial reports to donors for 29 projects. However, the required reports had not been submitted for 22 projects.

27. Failure to comply with the requirements agreed to between the United Nations and the donor increased the risk of a negative impact on future funding, which could adversely affect the implementation of projects and prevent the Organization from fully achieving its objectives.

(6) The DPKO/DFS Executive Office should take appropriate measures to ensure that reporting requirements specified in the donor agreements/letters are complied with.

The DPKO/DFS Executive Office accepted recommendation 6 and stated that SOPs on fundraising, managing and reporting voluntary contributions will include a process for monitoring the compliance by programme managers of the donor agreements, including reporting requirements. The oversight of the projects will be led by a Senior Extra-Budgetary Group composed of the main DPKO and DFS Divisions/Sections' directors, the Executive Officer and led by the Chief of Staff, DPKO and DFS. The Office of the Chief of Staff, DPKO and DFS will provide secretariat support to such group. In addition, the Executive Office will use the business intelligence reports as reminders for upcoming reporting deadlines to ensure timely reporting to donors. Recommendation 6 remains open pending receipt of evidence that the donor reporting requirements have been complied with.

Unspent balances relating to completed projects needed to be returned to donors

28. As of 31 December 2016, 13 projects relating to the trust fund in support of DPKO had been operationally completed with a total unspent balance of \$583,593 (see details in Table 3).

Table 3: Unspent balances relating completed projects

Completion date	Number of projects	Unspent amount (\$)	Number of days from the completion date
31 March 2015	6	306,062	640
31 July 2015	1	30,596	518
31 December 2015	1	106,540	365
31 March 2016	5	140,395	274
TOTAL	13	583,593	468

29. Three donor agreements relating to completed projects stipulated that unspent balances would be returned. However, DPKO had not take action to return the unspent balances in a timely manner. Unspent balances were outstanding for an average of 468 days after project completion. DPKO stated that it could not act on the unspent balances because obligations relating to non-staff were outstanding and unspent balances could not be processed until all obligations were cleared. During the audit, DPKO initiated action to process the unspent balances in accordance with the donor agreements.

30. Failure to return unspent balances in a timely manner increased the risk of a negative impact on future funding.

(7) DPKO should review unspent balances in respect of completed projects relating to the trust fund in support of DPKO and process the unspent balances in accordance with donor agreements.

DPKO accepted recommendation 7 and stated that upon issuance of a final financial report, DPKO will contact the donor with regard to disposition of the unspent grant balance. In case of a refund, the donor needs to provide the banking information and in case of re-programming, the donor needs to request for the transfer to be made to a specific project. Recommendation 7 remains open pending receipt of evidence that DPKO has taken necessary action to clear any outstanding obligations and followed up with donors on the treatment of unspent balances.

The RDECA project

31. The High Level Independent Panel on United Nations Peace Operations recommended that Member States support new arrangements for mobilizing the requisite capabilities and strengthening the systems to deliver in order to improve support to peacekeeping operations. The “Triangular Partnership” between a troop contributing country, the Secretariat and Member States was one of such new arrangements to provide specialist equipment or resources to peacekeeping missions. To support this new arrangement, a donor contributed \$38,641,292 in March 2015 to the trust fund in support of DPKO, earmarked for the execution of the RDECA project. DFS managed this project from Headquarters.

32. The concept note on the RDECA project of 16 September 2014 from the Under-Secretary-General, DFS to the donor did not indicate the financial resources required for this project. DFS could not provide evidence for the basis on which the donor determined the contribution amount. The objective of this project was to develop a trained engineering contingent that can deploy with strong horizontal engineering capabilities and a full set of heavy machinery to rapidly engage in high priority engineering tasks in the East African Region. The contribution letter from the donor stated that the contribution can only be used after the approval of a detailed project document. DFS engaged the services of multiple partners, including a United Nations agency, to implement this project.

33. The project team was headed by a Project Manager at the P-5 level and supported by three Professional staff and one General Service staff in DFS. The project team leader reported to the Director, Logistics Support Division in DFS who was the programme manager for the project.

Governance arrangements over the RDECA project needed to be strengthened

34. According to the “Projects in Controlled Environments” (PRINCE2) project management methodology, the purpose of the project initiation document is to define the project in order to form a basis for its management and assessment of its overall success. The project initiation document and its subsequent versions are required to be duly approved/authorized. In addition, a Project Board is required to be constituted to provide overall guidance and direction for the project and to ensure that it is executed in accordance with the approved project initiation document.

35. At the time of the audit, the project initiation document for the RDECA project was still in draft form without specific timelines for project completion. DFS had not established a Project Board to ensure effective oversight over the project. DFS explained that it could not finalize the project initiation document because the complex nature and dependencies of this partnership project along with the need to deliver results early necessitated iterative planning as the project developed. DFS also stated that the project initiation document was revised seven times since project commencement.

36. In the absence of an approved the project initiation document, DFS resorted to a piecemeal approach to requesting funds from the donor. DFS requested the donor on 24 June 2015 for an advance allotment of \$3.4 million to conduct the trial training from 7 September to 16 October 2015 and to procure equipment for training. The donor approved the request on 30 June 2015. DFS submitted a second request for an advance allotment of \$9.7 million on 9 May 2016 to carry out project activities from July 2016 to June 2017 to conduct two basic plant operator training courses and a pilot ‘training of trainers’ course. The donor approved the request on 23 May 2016 and requested DFS to provide a detailed breakdown of expenditure. OIOS noted that the donor was prompt in approving the total advance allotment of \$13 million. Table 4 shows the activities undertaken as part of the RDECA project as of 31 December 2016.

Table 4: RDECA project activities as of 31 December 2016

Activity	Date	Number of participants
Plant operator training - Trial phase	7 July-16 October 2015	10
Plant Operator Training – Phase 1	6 June-29 July 2016	31
Training of Trainer	18 July -26 August 2016	8
Plant Operator Training – Phase 2	22 August-14 October 2016	29

37. DFS had spent only \$3.2 million (24 per cent) out of \$13 million total advance allotment received from the donor. The donor contribution letter dated 24 February 2015 stated that DFS was required to submit progress reports and effect of the contribution. However, there was no evidence to show that DFS submitted progress reports to the donor. DFS stated that the project team had regular consultations with the donor and provided informal updates on the project progress on a regular basis.

38. In the absence of an approved project initiation document with defined project activities, outcomes and timelines and a Project Board with overall responsibility for governance, the project could not be effectively monitored to assure the achievement of intended objectives in a timely manner.

(8) DFS should take necessary steps to: (i) finalize the project initiation document for the “Rapid Deployment of Engineering Capabilities in Africa” project with defined project activities, outcomes and clear timelines; and (ii) obtain the approval of the donor as required.

DFS accepted recommendation 8 and stated that the project initiation document is being updated by the Project Team, and it is planned to be sent to the donor member state for finalization by 31 March 2017. Recommendation 8 remains open pending receipt of the project initiation document for the RDECA project, duly approved by the donor.

(9) DFS should constitute a Project Board comprising senior users, project executive and senior member from the implementing partner to strengthen governance over the “Rapid Deployment of Engineering Capabilities in Africa” project.

DFS accepted recommendation 9 and stated that the Project Board will be constituted as part of the project initiation document mentioned above by 31 March 2017. Recommendation 9 remains open pending receipt of evidence that a Project Board has been constituted for the RDECA project.

Delays in the procurement of heavy engineering equipment needed to be addressed

39. The donor contribution letter dated 24 February 2015 stated that the contribution will be used appropriately and exclusively for the project in accordance with United Nations Financial Regulations and Rules. According to the concept note dated 16 September 2014, two sets of standard composite engineering equipment were required for this project. One set was used for training and the other operational set was to be sent to the mission that was being established. DFS estimated an amount of \$20 million for procurement of heavy engineering equipment for this project.

40. At the time of the audit, DFS was yet to initiate procurement action for the engineering equipment. DFS rented the heavy engineering equipment amounting to \$1.7 million and used it for training courses. On 18 August 2016 (i.e., 15 months after receipt of the donor’s contribution), DFS requested DM’s concurrence to proceed with the procurement of heavy engineering equipment for the project with limited competition. DM had referred the matter to the Office of Legal Affairs (OLA) for their opinion. *DM stated that OLA’s advice was received and incorporated into the memorandum sent by DM to DFS dated 7 March 2017. In this memorandum, DM advised DFS that the procurement of engineering equipment should be open to any brand of equipment with similar functionality to that used in Phases I and II of the project through a competitive international solicitation exercise.*

41. DFS stated that discussions were ongoing with the donor on the strategic direction on how much equipment to rent and how much to buy but no final decision had been made at the time of the audit. The latest draft version of the project initiation document did not provide any information in this regard.

(10) DFS, in consultation with DM, should finalize the strategic direction and acquire the required heavy engineering equipment in a timely manner to expedite the progress of the “Rapid Deployment of Engineering Capabilities in Africa” project.

DFS accepted recommendation 10 and stated that DM considers that the recommendation is implemented, since strategic direction has been clarified and agreed. DM will continue supporting DFS to finalize the solicitation process. Recommendation 10 remains open pending receipt of evidence that the required heavy engineering equipment has been procured for the RDECA project.

Unspent balances due from an implementing agency needed to be followed up

42. At the time of the audit, DFS signed three financial agreements with a United Nations agency amounting to approximately \$3 million to implement several phases of the RDECA project. These agreements were governed by the umbrella memorandum of understanding (MOU) signed between the United Nations and the United Nations agency. According to the umbrella MOU, any unspent balances shall be refunded to the Secretariat upon financial closure of the project.

43. OIOS reviewed two financial agreements signed in 2015 for the Engineering Support Planning and Development project (93952) and Triangular Partnership project (96373) amounting to \$280,800 and \$411,645 respectively and noted that outstanding balances of \$77,562 and \$150,946 respectively were yet to be refunded by the agency for more than a year. DFS subsequently signed a new agreement dated 13 May 2016 for a project amount of \$2.3 million but the new agreement had not taken into consideration the outstanding balances due from the agency.

44. DFS stated that it had followed up on the balances with the agency by email and by phone. OIOS reviewed an email dated 7 December 2016 from DFS enquiring about the refund. At the time of the audit, the amounts due from the implementing agency had not yet been recovered. OIOS is of the opinion that DFS needed to take action to recover the unspent balances without further delay.

(11) DFS should take necessary measures to recover unspent balances due from the agency implementing the “Rapid Deployment of Engineering Capabilities in Africa” project prior to signing new financial agreements with the agency.

DFS accepted recommendation 11 and stated that the implementing agency refunded the balance of \$77,562 to the trust fund account on 20 February 2017. The process for the refund of the \$150,964 is ongoing and is expected to be completed by the end of April 2017. The Project Team had requested a rollover of the balances to the subsequent ongoing Financial Agreement, but due to administrative challenges, the refund is being processed instead. Recommendation 11 remains open pending receipt of evidence that unspent balances due from the implementing agency have been recovered.

C. Closure of inactive trust funds

Inactive trust funds needed to be appropriately processed and closed

45. The Controller’s memorandum dated 31 August 2015 on policy guidance to facilitate closure of trust funds stipulated that Departments/Offices should inform donors about the Secretary-General’s intention to close inactive trust funds. The first communication to donors should indicate a reasonable deadline of 60 days for their response and request donors to provide instructions on the treatment of residual balances. If no response is received by the deadline, the Organization should send a second communication to the donor, informing its intention to transfer the fund balance to another fund if the donor does not respond by the second deadline of 30 days. In the absence of instructions from donors, the residual balances should be transferred to an active fund with similar purpose.

46. At the time of the audit, DPKO did not have inactive trust funds but DFS had 16 inactive trust funds with a total balance of \$7.4 million. Out of 16 inactive trust funds, eight trust funds amounting to \$4.5 million could not be closed pending the General Assembly’s decision on the treatment of closed missions. The remaining eight inactive trust funds amounted to \$2.9 million. DFS had sent a memorandum on 28 July 2015 to the Office of Programme Planning, Budget and Accounts (OPPBA) to

close the inactive trust funds. This memorandum was prior to issuance of the Controller's memorandum dated 31 August 2015 on policy guidance for the closure of inactive trust funds.

47. During the audit, staff from DFS and OPPBA held a meeting in which it was agreed that the concerned Department/Office/Mission responsible should review each inactive trust fund, collect all the necessary information including communication with donors on the treatment of any unspent balances, terms of reference, financial statements, and donor reports for inactive trust funds prior to submitting them to OPPBA for closure. At the time of finalizing the present report, these inactive trust funds were yet to be closed.

(12) DM, in coordination with DFS, should take appropriate measures to close the inactive trust funds.

DM accepted recommendation 12 and stated that it will take the necessary action to close the inactive trust funds. Recommendation 12 remains open pending receipt of evidence that the inactive trust funds have been closed.

V. ACKNOWLEDGEMENT

48. OIOS wishes to express its appreciation to the management and staff of DPKO, DFS and DM for the assistance and cooperation extended to the auditors during this assignment.

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STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of trust funds in the Departments of Peacekeeping Operations and Field Support

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	DPKO should develop a resource mobilization strategy which adequately covers important areas such as: (a) resource mobilization methodology; (b) responsibility and accountability of programme officers at Headquarters; and (c) fundraising targets and timelines.	Important	O	Receipt of the resource mobilization strategy which adequately covers areas such as methodology, responsibility and accountability of programme officers, and fundraising targets and timelines.	31 March 2018
2	DPKO should finalize and issue standard operating procedures for the management of trust funds at Headquarters.	Important	O	Receipt of standard operating procedures for the management of trust funds at Headquarters.	31 March 2018
3	The DPKO/DFS Executive Office should take corrective measures to improve compliance with the 16-day rule for official travel to minimize the cost of travel and any deviations are justified.	Important	O	Receipt of evidence that: (i) compliance with the 16-day rule has improved; and (ii) any deviations have been appropriately justified.	30 June 2017
4	The DPKO/DFS Executive Office should take appropriate action to clear the outstanding travel advances.	Important	O	Receipt of evidence of action taken by the DPKO/DFS Executive Office to clear the outstanding travel advances.	30 June 2017
5	DM should recover outstanding travel advances pending for more than one month.	Important	O	Receipt of evidence that all the outstanding travel advances pending for more than one month have been recovered.	Not provided
6	The DPKO/DFS Executive Office should take appropriate measures to ensure that reporting requirements specified in the donor agreements/letters are complied with.	Important	O	Receipt of evidence that the donor reporting requirements have been complied with.	30 June 2017

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 DPKO, DFS and DM in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of trust funds in the Departments of Peacekeeping Operations and Field Support

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	C/ O ⁷	Actions needed to close recommendation	Implementation date ⁸
7	DPKO should review unspent balances in respect of closed projects relating to the trust fund in support of DPKO and process the unspent balances in accordance with donor agreements.	Important	O	Receipt of evidence that DPKO has taken necessary action to clear any outstanding obligations and followed up with donors on the treatment of unspent balances.	30 June 2017
8	DFS should take necessary steps to: (i) finalize the project initiation document for the “Rapid Deployment of Engineering Capabilities in Africa” project with defined project activities, outcomes and clear timelines; and (ii) obtain the approval of the donor as required.	Important	O	Receipt of the project initiation document for the RDECA project, duly approved by the donor.	30 June 2017
9	DFS should constitute a Project Board comprising senior users, project executive and senior member from the implementing partner to strengthen governance over the “Rapid Deployment of Engineering Capabilities in Africa” project.	Important	O	Receipt of evidence that a Project Board has been constituted for the RDECA project.	30 June 2017
10	DFS, in consultation with DM, should finalize the strategic direction and acquire the required heavy engineering equipment in a timely manner to expedite the progress of the “Rapid Deployment of Engineering Capabilities in Africa” project.	Important	O	Receipt of evidence that the required heavy engineering equipment has been procured for the RDECA project.	Not provided
11	DFS should take necessary measures to recover balances due from the agency implementing the “Rapid Deployment of Engineering Capabilities in Africa” project prior to signing new financial agreements with the agency.	Important	O	Receipt of evidence that unspent balances due from the implementing agency have been recovered.	30 June 2017
12	DM, in coordination with DFS, should take appropriate measures to close the inactive trust funds.	Important	O	Receipt of evidence that the inactive trust funds have been closed.	31 March 2018

⁵ 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.

⁶ 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.

⁷ C = closed, O = open

⁸ Date provided by DPKO, DFS and DM in response to recommendations.

APPENDIX I

Management Response



CONFIDENTIAL

Immediate

TO: Mr. Gurpur Kumar, Deputy Director,
A: Internal Audit Division, OIOS

DATE: MAY 05 2017

THROUGH:
S/C DE:

REFERENCE: UNHQ-AR-BOI-Memo-2-
2017-10346

FROM: Lisa Buttenheim, Assistant Secretary-General
DE: for Field Support

A handwritten signature in black ink, appearing to be 'L. Buttenheim', written over the 'DE:' line of the 'FROM:' field.

SUBJECT: **Comments requested on the Draft report on an audit of the
management of the selected trust funds in the Departments of
Peacekeeping Operations and Field Support (Assignment No.
AG2016/600/06)**

1. I refer to your memorandum, dated 31 March 2017, regarding the above-mentioned audit. Please find attached our comments on the findings and recommendations contained in the draft report as Annexes I and II. Kindly note that the response was coordinated with the Department of Management.
2. Thank you for the opportunity to comment on the draft report. We stand ready to provide any further information that may be required.

cc: Ms. Avena-Castillo

Comments on Report of an audit of the management of the selected trust in the Departments of Peacekeeping Operations and Field Support (Assignment No. AG2016/600/06).

Audit results

Paragraph 35

1. Reference is made to the ultimate sentence, which reads: “*DFS engaged the services of a United Nations Agency to implement the project.*” DFS requests that the sentence be deleted from the report or amended to read: “DFS engaged support from multiple partners to implement the project.”

Paragraph 40

2. Reference is made to Item 4 of Table 4. DFS wishes to clarify that there were 29 participants, and not 30 as stated in the draft report. DFS requests that the report be amended accordingly.

Paragraph 41

3. Reference is made to the first sentence, which reads: “*The audit showed that the progress of RDECA project was slow.*” It is inaccurate to conclude from the low level of spending that progress has been slow. To the contrary, the project has progressed exceptionally fast. Details of the progress made were provided to OIOS under a separate cover.

Paragraph 44

4. Reference is made to the third sentence, which reads: “*DFS submitted a proposal to DM for procurement of heavy engineering equipment...*” DM wishes to clarify that, what DFS submitted to DM is not “*...a proposal [for] heavy engineering equipment...*”, but a request for DM's concurrence to proceed with the procurement of the engineering equipment under limited competition.

5. Reference is made to the fourth sentence, which reads: “*DM stated that the donor was keen that the United Nations procure the engineering equipment from them without resorting to competitive process.*” DM wishes to clarify that, as a DFS-led activity, it is DFS (not DM) that is directly engaged with the donor for the RDECA project. DM is only made aware by DFS of the project's requirements, including requests for limited competition, whenever procurement action is required. In fact, DM also sought clarification from DFS if such request for limited competition is part of any agreement with the donor. DM, thus, requests that this statement should be corrected.

6. Reference is made to the ultimate sentence, which reads: “*DM had referred the matter to the Office of Legal Affairs for advice*”. DM wishes to clarify that the Office of Legal Affairs' advice was received and consequently incorporated into the memorandum sent by DM to DFS dated 7 March 2017, which was provided to OIOS under a separate cover. In this

memorandum, DM advised DFS that the procurement of engineering equipment should be open to any brand of equipment with similar functionality to that used in Phases I and II of the project through a competitive international solicitation exercise.

Management Response

Audit of the management of trust funds in the Departments of Peacekeeping Operations and Field Support

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	DPKO should develop a resource mobilization strategy which adequately covers important areas such as: (a) resource mobilization methodology; (b) responsibility and accountability of programme officers at Headquarters; and (c) fundraising targets and timelines.	Important	Yes	Chief of Staff, DPKO/DFS	First quarter of 2018	DPKO's comments are reflected in the report.
2	DPKO should finalize and issue standard operating procedures for the management of trust funds at Headquarters.	Important	Yes	Chief of Staff, DPKO/DFS	First quarter of 2018	DPKO's comments are reflected in the report.
3	The DPKO/DFS Executive Office should take corrective measures to improve compliance with the 16-day rule for official travel to minimize the cost of travel and ensure that reasons for non-compliance are documented.	Important	Yes	Executive Officer, DPKO/DFS	Second quarter of 2017	DM wishes to clarify that the Umoja Travel module provides travellers a free text field to record justification for travel requests that are raised for travel dates which will not be in compliance with the Organization's policy. The DPKO/DFS Executive Office will remind Programme Managers on a quarterly basis to comply with the 21-day rule for official travel and will ensure that justification is provided in the electronic travel request.
4	The DPKO/DFS Executive Office should take appropriate action to clear the outstanding travel advances.	Important	Yes	Executive Officer, DPKO/DFS	Second quarter of 2017	DPKO's comments are reflected in the report.

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.

Management Response

Audit of the management of trust funds in the Departments of Peacekeeping Operations and Field Support

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
5	DM should recover outstanding travel advances pending for more than one month.	Important	Yes	Controller, OPPBA, DM	Implemented	DM wishes to clarify that the recovery of overdue travel advances is automated in Umoja. A recovery programme runs regularly, checking for advances that are past due and, in the case of staff members, recovers that amount from the next payroll. The automated recovery programme also picks up overdue advances for travel for non-staff, and a credit memo is posted to the travellers' vendor accounts. Any accounts payable payments to the traveller will be held back until the credit memo is cleared. Travellers and Travel and Shipment Administrators are made aware of their obligations regarding expense report submission when they create trip requests.
6	The DPKO/DFS Executive Office should take appropriate measures to ensure that reporting requirements specified in the donor agreements/letters are complied with.	Important	Yes	Executive Officer, DPKO/DFS	Second quarter of 2017	DPKO's comments are reflected in the report. In addition, the Executive Office will use the business intelligence reports as reminders for upcoming reporting deadlines to ensure timely reporting to donors.
7	DPKO should review the unspent balances pertaining to completed projects of the trust fund in support of DPKO and initiate action in consultation with the Controller to liquidate the unspent balances in accordance with donor agreement.	Important	Yes	Executive Officer, DPKO/DFS	Second quarter of 2017	Upon issuance of a final financial report, DPKO will contact the donor with regard to disposition of the unspent grant balance. In case of a refund, the donor needs to provide the banking information and in case of re-programming, the donor needs to request for the transfer to be made to a specific project.

Management Response

Audit of the management of trust funds in the Departments of Peacekeeping Operations and Field Support

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
8	DFS should take necessary steps to: (i) finalize the project initiation document for the “Rapid Deployment of Engineering Capabilities in Africa” project with clearly defined project activities, outcomes and timelines; and (ii) obtain the approval of the donor as required.	Important	Yes	Director, LSD	Second quarter of 2017	DFS’ comments are reflected in the report.
9	DFS should constitute a Project Board comprising senior users, project executive and senior member from the implementing partner to strengthen governance over the “Rapid Deployment of Engineering Capabilities in Africa” project.	Important	Yes	Director, LSD	Second quarter of 2017	DFS’ comments are reflected in the report.
10	DFS, in consultation with DM, should finalize the strategic direction and acquire the required heavy engineering equipment for the “Rapid Deployment of Engineering Capabilities in Africa” project.	Important	Yes	Director, LSD	Implemented	In view of DM’s comments on paragraph 44, DM considers that the recommendation is implemented, since strategic direction has been clarified and agreed. DM will continue supporting DFS to finalize the solicitation process.
11	DFS should take necessary measures to recover the unspent balances due from the agency implementing the “Rapid Deployment of Engineering Capabilities in Africa” project before signing any new financial agreements with the agency.	Important	Yes	Director, LSD	Second quarter of 2017	DFS’ comments are reflected in the report.
12	DM, in coordination with DFS, should take appropriate measures to close the inactive trust funds.	Important	Yes	Controller, OPPBA, DM	First quarter of 2018	DM, in coordination with DPKO, DFS and DPA, will take the necessary action to close the inactive trust funds.