



INTERNAL AUDIT DIVISION

REPORT 2017/083

Audit of the management of trust funds at the Department of Economic and Social Affairs

While the trust funds were generally managed in accordance with established procedures, there was need to strengthen the monitoring of project activities

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Audit of the management of trust funds at the Department of Economic and Social Affairs

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of trust funds at the Department of Economic and Social Affairs (DESA). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the effective management of trust funds at DESA. The audit covered the period from 1 January 2015 to 31 December 2016 and included a review of risk areas relating to: (i) management of trust funds; and (ii) inactive trust funds in DESA.

Substantive activities of the projects relating to the trust funds managed at DESA were generally aligned to the Department's mandate and strategic vision. While the trust funds were generally managed in accordance with established procedures, there was need to strengthen the monitoring of project activities.

OIOS made five recommendations. To address issues identified in the audit, DESA needed to:

- Issue appropriate instructions to its divisional directors to closely monitor the performance of individual projects and ensure that donor contributions are effectively utilized;
- Institute a mechanism to regularly follow-up on the unspent balances relating to completed projects and address the unspent balances in accordance with donor agreements in a timely manner;
- Establish a mechanism to ensure that due diligence checks are performed and documented before accepting contributions from non-traditional donors;
- Formalize the terms of reference for the grants committee and include guidance on its membership, rotation, frequency of meetings and responsibilities; and
- Review the trust funds with low contributions and/or no activity and determine whether they can be closed, and update the terms of reference of trust funds to reflect the Department's strategic vision and mandates, as necessary.

DESA accepted the recommendations and has undertaken to implement them.

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Audit of the management of trust funds at the Department of Economic and Social Affairs

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of trust funds at the Department of Economic and Social Affairs (DESA).
2. DESA provided advice and support to the Secretary-General in the discharge of his global responsibilities relating to economic and social issues. DESA comprised of nine substantive divisions which were responsible for delivering its mandated programme of work under nine subprogrammes. The nine divisions were: Development Policy and Analysis Division; Financing for Development Office; Division for Social Policy and Development; Division for Sustainable Development; Population Division; Statistics Division; United Nations Forum on Forests; Office for Economic and Social Council (ECOSOC) Support and Coordination; and the Division for Public Administration and Development Management. DESA oversaw 14 general trust funds with a total income of \$10.2 million during 2015-2016 (see Table 1). These divisions were responsible for managing the trust funds relating to them. Four staff members in the DESA Executive Office provided administrative support to the 14 trust funds.
3. DESA projects were categorized into three areas: norm-setting (facilitating major global conferences and summits); data and analysis (generate, analyze and compile a wide range of economic, social and environmental data); and capacity-building (advising Member States/governments on implementing the policies and programmes developed at United Nations conferences).
4. Table 1 shows the trust funds managed at DESA and their related income and expenditure during the biennium 2015-2016.

Table 1: DESA trust funds: Summary of total income and expenditure for the biennium 2015-2016

	Number	Trust Fund Name	Division	Income (\$)		Expenditure (\$)	
				2015	2016	2015	2016
1	32DVA	Trust Fund for Development Planning and Projections	Capacity Development Office	0	0	1,000	0
2	32WAA	Trust Fund for Aging	Division for Social Policy and Development	10,000	0	5,000	4,529
3	32IEA	United Nations Youth Fund	Division for Social Policy and Development	10,000	0	3,000	14,270
4	32IDA	United Nations Voluntary Fund on Disability	Division for Social Policy and Development	79,000	49,478	278,000	186,038
5	32GBA	Trust Fund for Statistical Development and Capacity Building	Statistics Division	160,000	24,299	162,000	37,815
6	32CSA	Trust Fund for Case Studies on the Functioning of the Operational Activities for Development of the United Nations System	Office for ECOSOC Support and Coordination	500,000	201,323	211,000	396,525
7	32FYA	United Nations Trust Fund on Family Activities	Division for Social Policy and Development	0	0	1,000	7,991
8	32PGA	Trust Fund for Population and Development	Population Division	48,000	1,461,854	501,000	1,109,556

9	32WOA	Trust Fund for the Follow-up to the World Summit for Social Development	Division for Social Policy and Development	0	0	27,000	75,805
10	32WKA	Trust Fund for Support of the Work of the Commission on Sustainable Development	Division for Sustainable Development	2,418,000	1,031,065	1,009,000	651,529
11	32HIA	Trust Fund to Support Activities for the Follow-up to the International Conference on Financing for Development	Financing for Development Office	1,451,000	15,091	871,000	266,740
12	32KSA	Trust Fund in Support of the United Nations Forum on Forests	United Nations Forum on Forests	1,221,000	754,734	1,591,000	870,968
13	32FII	Trust Fund on Indigenous Issues	Division for Social Policy and Development	74,435	84,884	343,000	120,744
14	32AMR	Trust Fund for the Annual Ministerial Review and the Development Cooperation Forum Trust Fund in support of Non-Governmental and Civil Society Organizations	Office for ECOSOC Support and Coordination	15,000	592,034	529,000	291,644
		Total		5,986,360	4,214,762	5,532,000	4,034,154

Source: Certified financial statements and DESA documents

5. Comments provided by DESA are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

6. 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 DESA.

7. This audit was included in the 2017 risk-based work plan of OIOS due to the risk that potential weaknesses in the management of trust funds at DESA could adversely affect donor confidence, achievement of objectives, as well as the Organization's reputation.

8. OIOS conducted this audit from March to May 2017. The audit covered the period from 1 January 2015 to 31 December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risks areas which included: (i) management of trust funds; and (ii) closing of inactive trust funds.

9. 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, OIOS selected for detailed review a representative sample of 28 projects relating to 14 general trust funds amounting to \$10.6 million out of a total 73 projects in 2015-2016 amounting to \$11 million. The audit also reviewed the activities performed by 42 consultants out of 88 engaged during 2015-2016 with a total expenditure amounting to \$1.8 million.

10. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Management of trust funds

Project activities were in accordance with the mandate and strategic framework of DESA

11. According to the mandate and strategic framework of DESA, work activities were primarily to: facilitate major global conferences and summits; generate, analyze and compile a wide range of economic, social and environmental data; and advise Member States/governments on implementing the policies and programmes developed at United Nations conferences.

12. OIOS review of the planned, ongoing and completed activities of a sample of 28 projects showed that project objectives generally matched the mandate and strategic framework of DESA. Following the adoption of the Sustainable Development Goals (SDGs) by Member States in September 2015, the activities relating to 26 projects reviewed were directly or indirectly linked to one or more of the SDGs; 2 projects had not started at the time of the audit.

13. Based on the review, OIOS concluded that trust fund projects were generally aligned to the strategic vision and were in accordance with the mandate of DESA.

Need for effective utilization of donor contributions

14. At DESA, trust fund activities were managed by the divisional directors. Oversight responsibility rested with the Office of the Under-Secretary-General. OIOS noted the following which indicated a need for further strengthening of monitoring of trust fund projects and utilization of donor contributions.

15. In July 2015, a donor contributed \$1 million to a project to support the negotiations on the Post-2015 development agenda and implementation of its outcome. However, activities under this project were initiated only in April 2017 with the preparation of a project document, 21 months after receipt of the voluntary contribution. During the audit, in a memo to the DESA Executive Office dated 25 April 2017, the Division for Sustainable Development stated that the project was not started because it was deemed prudent to await the outcome of the 2015 Summit and intergovernmental negotiations on the report of the Secretary-General on supporting the implementation of the 2030 Agenda for Sustainable Development.

16. DESA stated that in supporting the implementation of the 2030 Agenda for Sustainable Development at the global level, including its follow-up and review, the execution of project activities by the Department in this respect was subject to ongoing intergovernmental deliberations by Member States. These deliberations included the development system reform called for in the Quadrennial Comprehensive Policy Review, as well as ongoing intergovernmental discussions on aligning the agendas of the General Assembly, ECOSOC and its subsidiary bodies, which will also have an impact on how DESA provides integrated support to those processes. While taking note of these factors which may influence the implementation of projects, OIOS is of the view that closer monitoring is required to ensure effective utilization of donor contributions.

(1) DESA should issue appropriate instructions to its divisional directors to closely monitor the performance of projects and ensure that donor contributions are effectively utilized.

DESA accepted recommendation 1 and stated that it will issue appropriate instructions to the divisional directors to closely monitor the performance of individual projects and ensure that donors contributions are effectively utilized. Instructions will be sent by 31 December 2017.

Recommendation 1 remains open pending receipt of the appropriate instructions issued to the divisional directors.

Need to regularly follow-up on unspent balances relating to completed projects

17. As of 5 May 2017, there were 19 operationally completed projects in seven general trust funds managed by DESA with a total unspent balance of \$1.9 million. For 6 out of these 19 completed projects, donor agreements stipulated that unspent balances must be returned. In other cases, donor agreements did not indicate how the unspent balances should be treated. Unspent balances were outstanding for an average of 376 days after completion of projects. DESA stated that the follow-up with donors on unspent balances was in various stages. For six projects, substantive offices had communicated with donors to determine whether the unspent balances could be reprogrammed. OIOS noted that the follow-up with donors was either delayed or not performed on a regular basis. DESA explained that following the completion of conferences and meetings, some non-staff travelers did not submit the travel claims. Therefore, it could not act on the unspent balances until the travel claims were settled. Another case involving payment to a consultant was still under review due to an ongoing dispute.

18. OIOS is of the view that follow-up with donors should be performed more regularly and action should be taken to clear the outstanding obligations without inordinate delays. Failure to dispose of unspent balances in a timely manner could impact future funding, which could in turn affect the implementation of future projects.

(2) DESA should institute a mechanism to regularly follow-up on the unspent balances relating to completed projects and dispose of the unspent balances in accordance with donor agreements in a timely manner.

DESA accepted recommendation 2 and stated that it will undertake a biannual review of unspent balances for both completed and ongoing projects, particularly paying close attention to completed projects, and ensure proper follow-up on outstanding obligations. The first review will be undertaken in the fourth quarter of 2017. Recommendation 2 remains open pending receipt of evidence that a mechanism has been instituted to conduct regular follow-up on unspent balances.

Outstanding travel advances were being followed-up and cleared

19. OIOS review of travel expenditures relating to DESA trust funds showed that travel advances amounting to \$51,691 were outstanding as of 31 December 2016 due to non-submission of final claims by non-staff meeting participants after completion of travel. DESA stated that non-staff meeting participants had not submitted travel claims despite repeated reminders. During the audit, DESA took steps to reduce the outstanding advances from \$51,691 to \$18,534. In view of the progress made in clearing the outstanding travel advances, OIOS did not make a recommendation in this regard.

Need to establish due diligence checks relating to non-traditional donors

20. Guidelines issued by the Secretary-General on a principle-based approach to cooperation between the United Nations and the business sector stipulate that the concerned United Nations entity should ensure the integrity of the partnership through a robust due diligence process for selecting partners.

21. DESA received \$2.4 million from a non-traditional donor during the period 1 December 2014 to 31 December 2016 for a project and also approached other potential non-traditional donors for voluntary funding. However, there was no evidence that DESA conducted due diligence checks before accepting the contribution or approaching non-traditional donors. DESA stated that it considered available information

before accepting contributions from the non-traditional donor, such as information on the donor’s website, and performed background checks. But these checks were not documented.

22. While it is important to engage with non-traditional donors to contribute to the realization of goals, there is a risk that the Organization could be exposed to non-traditional donors whose interests may not align with those of the United Nations, particularly its integrity and objectivity. It is therefore essential that due diligence checks are conducted and documented before accepting contributions from non-traditional donors.

(3) DESA should establish a mechanism to ensure that due diligence checks are performed and documented before accepting contributions from non-traditional donors.

DESA accepted recommendation 3 and stated that it has been guided by the “Guidelines on principle-based approach to the Cooperation between the United Nations and the business sector” and the advice from the Controller’s Office. OPPBA is currently formulating Secretariat-wide guidance on receiving contributions from non-traditional donors. DESA will develop its internal guidelines in consultation with OPPBA. Recommendation 3 remains open pending receipt of evidence that due diligence checks are performed and documented before accepting contributions from non-traditional donors.

Terms of reference for the grants committee needed to be developed

23. During the review period, DESA issued grants to two not-for-profit organizations amounting to \$77,856. These grants were reviewed by the grants committee which recommended their approval. However, there were no terms of reference (TOR) for the grants committee which comprised members from the nine divisions of DESA. There was also no guidance on rotation of its members.

24. The Capacity Development Office at DESA prepared interim guidelines for the grants committee in 2015 which provided guidance on procedural matters and grant review criteria. However, the interim guidelines were not comprehensive. For example, they did not provide guidance on the purpose of the grants committee, rotation of members, frequency of meetings and responsibilities of its members. OIOS is of the view that DESA needs to issue a TOR for the grants committee to enhance transparency and consistency of its decisions.

(4) DESA should formalize the terms of reference for the grants committee and include guidance on its membership, rotation, frequency of meetings and responsibilities.

DESA accepted recommendation 4 and stated that pending issuance of corporate guidance by the Department of Management on grantees and implementing partners, DESA will develop TOR and guidance documents that will guide the work of the committee in the interim. Taking into account current management reforms that may impact these guidelines, a projected implementation date of 31 December 2018 is proposed. Recommendation 4 remains open pending receipt of the TOR for the grants committee.

B. Closing of inactive trust funds

Need to review trust funds with little or no activity

25. During the review period, out of 14 trust funds, only four trust funds had income over \$1 million and one had an income of \$500,000. Three trust funds did not have any income. The remaining six trust

funds had income ranging from \$10,000 to \$150,000. For example, two trust funds in the Division for Social Policy and Development did not receive contributions in 2015 and 2016 and two other trust funds in the same division received contributions of \$10,000 each in 2015. DESA stated that it needed these trust funds for future activities. However, OIOS is of the view that managing trust funds with low voluntary contributions is administratively inefficient and DESA needs to consider merging or closing them. Moreover, for 10 of the 14 trust funds which were established some decades ago, their TORs were outdated and did not reflect the current mandate of DESA.

(5) DESA should: (i) review the trust funds with low contributions and/or no activity and determine whether they can be closed; and (ii) update the terms of reference of trust funds to reflect the Department's strategic vision and mandates, as necessary.

DESA accepted recommendation 5 and stated that it will review the trust funds with low contributions and/or no activity and determine by 31 December 2017 whether they can be closed or consolidated. Should some of them can be consolidated, the consolidation process will be done in 2018. DESA will review TORs and determine by 31 December 2017 which TORs need to be updated to reflect the Department's strategic vision and mandates. For the TOR that need to be updated, DESA will liaise with OPPBA and the update is projected to be finalized in 2018. Recommendation 5 remains open pending receipt of evidence that DESA has reviewed the trust funds with low contributions and/or no activity and updated their TOR.

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the management and staff of DESA 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 the management of trust funds at the Department of Economic and Social Affairs

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	DESA should issue appropriate instructions to its divisional directors to closely monitor the performance of projects and ensure that donor contributions are effectively utilized.	Important	O	Receipt of the appropriate instructions issued to the divisional directors.	31 December 2017
2	DESA should institute a mechanism to regularly follow-up on the unspent balances relating to completed projects and dispose of the unspent balances in accordance with donor agreements in a timely manner.	Important	O	Receipt of evidence that a mechanism has been instituted to conduct regular follow-up on unspent balances.	31 December 2017
3	DESA should establish a mechanism to ensure that due diligence checks are performed and documented before accepting contributions from non-traditional donors.	Important	O	Receipt of evidence that due diligence checks are performed and documented before accepting contributions from non-traditional donors.	31 December 2018
4	DESA should formalize the terms of reference for the grants committee and include guidance on its membership, rotation, frequency of meetings and responsibilities.	Important	O	Receipt of the TOR for the grants committee.	31 December 2018
5	DESA should: (i) review the trust funds with low contributions and/or no activity and determine whether they can be closed; and (ii) update the terms of reference of trust funds to reflect the Department's strategic vision and mandates, as necessary.	Important	O	Receipt of evidence that DESA has reviewed the trust funds with low contributions and/or no activity and updated their TOR.	31 December 2018

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 DESA in response to recommendations.

APPENDIX I

Management Response

Management Response

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Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	DESA should issue appropriate instructions to its divisional directors to closely monitor the performance of projects and ensure that donor contributions are effectively utilized.	Important	Yes	Executive Officer	31 December 2017	DESA will issue appropriate instructions to the divisional directors to closely monitor the performance of individual projects and ensure that donor contributions are effectively utilized. Instructions will be sent by 31 December 2017.
2	DESA should institute a mechanism to regularly follow-up on the unspent balances relating to completed projects and dispose of the unspent balances in accordance with donor agreements in a timely manner.	Important	Yes	Executive Officer	31 December 2017	DESA will undertake a biannual review of unspent balances for both completed and ongoing projects, particularly paying close attention to the completed projects, and ensure proper follow-up on outstanding obligations. The first review will be undertaken in the 4 th quarter of 2017.
3	DESA should establish a mechanism to ensure that due diligence checks are performed and documented before accepting contributions from non-traditional donors.	Important	Yes	Executive Officer	31 December 2018	DESA has been guided by the “Guidelines on principle-based approach to the Cooperation between the United Nations and the business sector” and the advice from the Controller’s Office. OPPBA is currently formulating the UN Secretariat-wide guidance on receiving contributions from non-traditional donors. Based on this corporate guidance, DESA will

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.

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						develop its internal guidelines in consultation with OPPBA.
4	DESA should formalize the terms of reference for the grants committee and include guidance on its membership, rotation, frequency of meetings and responsibilities.	Important	Yes	Chief Capacity Development Office	31 December 2018	Pending issuance by Department of Management of corporate guidance on grantees and implementing partners, DESA will develop terms of reference and guidance documents that will guide the work of the committee in the interim. Taking into account current management reforms that may impact these guidelines, a projected implementation date of 31 December 2018 is proposed.
5	DESA should: (i) review the trust funds with low contributions and/or no activity and determine whether they can be closed; and (ii) update the terms of reference of trust funds to reflect the department's strategic vision and mandates, as necessary.	Important	Yes	Executive Officer	31 December 2018	(i) DESA will review the trust funds with low contributions and/or no activity and determine by 31 December 2017 whether they can be closed or consolidated. Should some of them can be consolidated, the consolidation process will be done in 2018. (ii) DESA will review the terms of reference (TORs) and determine by 31 December 2017 which TORs need to be updated to reflect the Department's strategic vision and mandates. For the TORs that need to be updated, DESA will liaise with OPPBA/Controller's Office and the update is projected to be finalized in 2018.