



INTERNAL AUDIT DIVISION

REPORT 2021/061

Audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

**The Pension Administration needs to improve
its processes relating to the two-track system**

10 December 2021

Assignment No. AS2021-800-02

Audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund (UNJSPF). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes in ensuring effective administration of the two-track system in UNJSPF. The audit covered the period from 1 January 2018 to 30 June 2021 and included a review of risk areas relating to: (i) policies and procedures governing the two-track system; (ii) processing of benefits under the two-track system; and (iii) continued eligibility for two-track benefits.

The audit indicated that the Pension Administration needs to improve its processes relating to the two-track system.

OIOS made seven recommendations. To address the issues identified in the audit, the Pension Administration needed to:

- Analyze and present to the Pension Board the implications of establishing a ceiling for local-track benefits and/or adopting an average exchange rate over a period longer than the current 36 months for establishing the initial base amount to offset the effects of unusual short-term exchange rate fluctuations;
- Post samples of acceptable proof of residence on its website and update it regularly to promote a better client experience and improve the efficiency in processing of two-track cases;
- Formalize the membership and terms of reference of the two-track working group; and ensure adequate representation of subject matter experts on the working group to enhance its effectiveness;
- Develop clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states;
- Streamline the procedures for processing of workflows pertaining to two-track benefits, including effective performance monitoring; and develop an action plan to suitably prioritize the long-pended open workflows to minimize overpayments and write-offs;
- Review the existing resources/tools available to beneficiaries on the two-track system and provide additional tools/resources on its website to assist in achieving its strategic objective of a simplified client experience; and
- Revisit the Procedures-General for suspension and reinstatement of the two-track feature in order to define the criteria adequately, and also establish a timeframe for monitoring the economic situation of countries for suspension and reinstatement of the two-track feature.

The Pension Administration accepted the recommendations and has initiated action to implement them.

CONTENTS

I. BACKGROUND	1-2
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	2-3
III. AUDIT RESULTS	3-11
A. Policies and procedures governing the two-track system	3-5
B. Processing of benefits under the two-track system	6-9
C. Continued eligibility for two-track benefits	10-11
IV. ACKNOWLEDGEMENT	11
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

Audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund (UNJSPF).

2. UNJSPF was established by the General Assembly in 1949 to provide retirement, death, disability and related benefits for the staff of the United Nations and other international intergovernmental organizations admitted to the Fund. UNJSPF currently serves 134,632 active participants and 80,346 beneficiaries of the United Nations and 24 member organizations. In 2020, the Fund made benefit payments totaling \$2.8 billion in 17 different currencies.

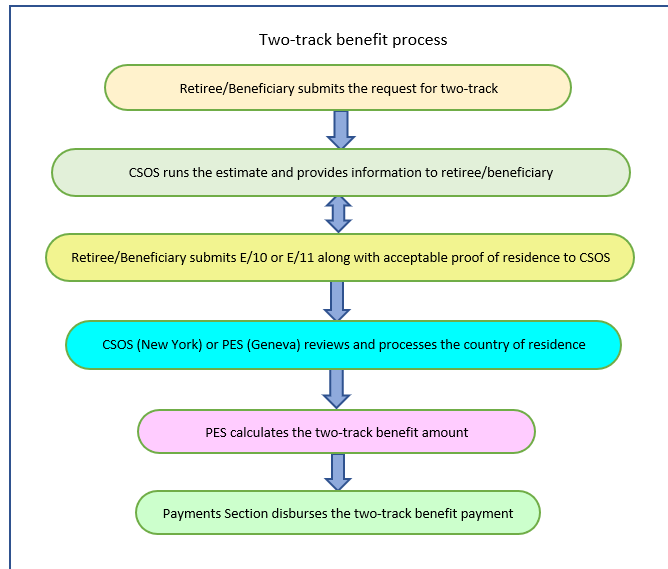
3. The Pension Adjustment System was adopted in December 1982 by General Assembly resolution 37/131 and has been amended several times since then. The two-track system is a feature of the Pension Adjustment System whereby the pension benefit of a beneficiary who has opted for two-track is calculated and maintained in United States dollars (the US dollar track) as well as in the currency of the country where the beneficiary resides (the local track). The two-track feature is intended to: (a) ensure that the periodic benefit payable to retirees and beneficiaries never falls below the “real” value of the initial US dollar amount; and (b) preserve the purchasing power of the monthly pension benefits as initially established in the currency of the recipients’ country of residence.

4. The two-track feature is optional, and beneficiaries who elect to receive their benefit in their local currency are required to provide proof of residence in that country (i.e., in a country other than the United States). A US dollar base amount is determined at the time of the beneficiary’s separation from service, in accordance with the Fund’s Regulations, and is then adjusted according to cost-of-living changes measured in terms of the United States Consumer Price Index (US CPI). The other pension record is maintained in local currency by converting the periodic benefit into a local currency amount at the time of the beneficiary’s separation, using the average of the monthly United Nations’ operational rates of exchange for 36 consecutive calendar months up to and including the month when the separation takes place. Cost Price Index (CPI) movements of various countries are monitored for the cost-of-living adjustments to be applied periodically to the local track. Every quarter, benefits in terms of the US dollar track and the local track are compared and generally, the larger of the two is payable to the beneficiary, subject to maximum and minimum ceilings that apply when the amount under the US dollar track exceeds the local track.

5. As of 30 June 2021, there were 16,483 two-track cases. During 2020, the Fund made two-track benefit payments aggregating \$843 million in 98 countries, which accounted for 30 per cent of the total periodic benefit payments. The Pension Adjustment System provides flexibility to the Chief Executive of Pension Administration to adopt certain measures where local track calculations are not possible for certain countries due to missing CPI data or changes in the valuation of currency. As of 30 June 2021, the local currency track was suspended for 57 countries. The Fund receives CPI data for all countries through the Monthly Bulletin of Statistics report from the United Nations Department of Economic and Social Affairs (DESA). The two-track feature has not been introduced in 16 countries.

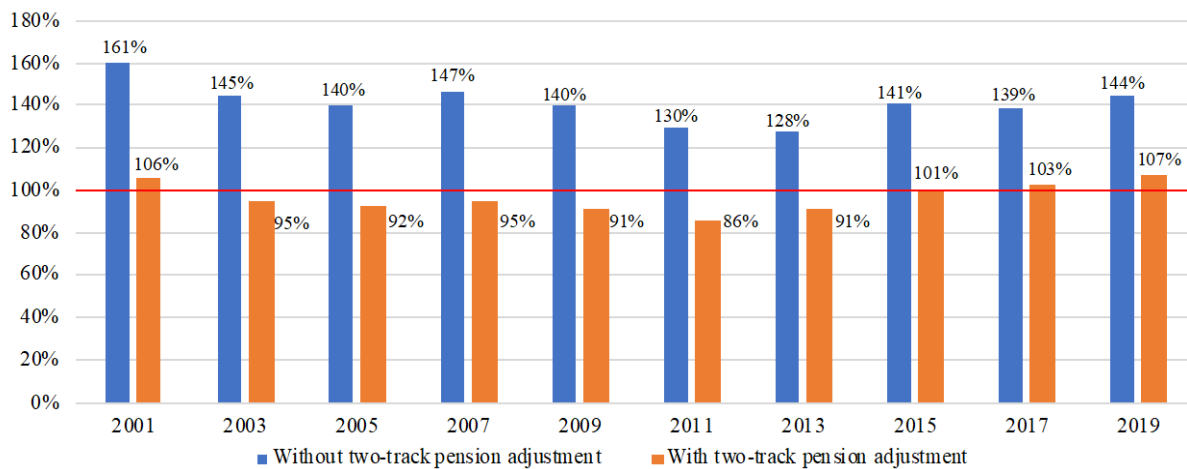
6. In New York, the Fund’s Client Services and Outreach Section (CSOS) is responsible for confirming the country of residence; the Pension Entitlements Section (PES) calculates the two-track benefit; and the Payment Section disburses the two-track benefits after CPI adjustments, as shown in Chart 1. In the Fund’s Geneva office, PES determines the country of residence and calculates the two-track benefit; the Payment Section disburses the two-track benefits after CPI adjustments.

Chart 1: Two-track benefit process



7. As the two-track system has a significant impact on the Fund’s liabilities, its actuarial cost is monitored by the Committee of Actuaries and the Fund Solvency and Assets and Liabilities Monitoring Committee. Chart 2 shows UNJSPF’s funding ratios from 2001 to 2019, with and without the two-track system. Funding ratio reflects the Fund’s financial position (i.e., assets available to pay off the liabilities).

Chart 2: Funding ratios of UNJSPF with and without the two-track system



Source: JSPB/67/R.6 - JSPB/CA/57/R.20, Page 10

8. Comments provided by the Pension Administration are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes in ensuring effective administration of the two-track system in UNJSPF.

10. This audit was included in the 2021 risk-based work plan of OIOS due to the risk that potential weaknesses in the administration of the two-track system could have an adverse impact on the Fund, its beneficiaries, or member organizations.

11. OIOS conducted this audit from August to October 2021. The audit covered the period from 1 January 2018 to 30 June 2021. Based on an activity-level risk assessment, the audit covered risk areas in the two-track system which included: (i) policies and procedures governing the two-track system; (ii) processing of benefits under the two-track system; and (iii) continued eligibility for two-track benefits.

12. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; (d) sample testing of data; and (e) process walkthroughs.

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

III. AUDIT RESULTS

A. Policies and procedures governing the two-track system

14. Policies and procedures are an essential element of internal control. The policies and procedures for administration of the two-track system are set out in the Pension Adjustment System of the Fund. In addition, the Fund has developed Procedures-General for administering the two-track benefits. OIOS noted the following.

Need to analyze the implications of establishing a ceiling for local-track benefits

15. Pension plans seek to achieve a balance between lifetime contributions and pension benefits. Under the Fund's Regulations, retirees are entitled to benefits that are commensurate with the length of their contributory service and contribution amount.

16. In general, beneficiaries opt for two-track visualizing the prospect that their local-track benefits would be higher than the benefits calculated under the US dollar track. However, contrary to their expectations, there are times when the US dollar strengthens against local currencies, thereby considerably exceeding the local-track benefits. To protect the beneficiaries in such circumstances, there is a provision to guarantee 80 per cent of the benefits in the US dollar track or the initially established base amount, whichever is higher, as the minimum payment. However, in the opposite situation where local-track benefits increase significantly above the US dollar track, there is no provision to protect the Fund or prevent disparity in benefit payments.

17. In its 2012 session, the United Nations Joint Staff Pension Board (hereafter referred to as the Pension Board) discussed the risks arising from the lack of a ceiling for local-track benefits and decided to monitor local-track benefits that exceed 140 per cent of the US dollar-track benefits. In July 2021, there were 9,276 two-track beneficiaries whose local-track benefits exceeded the US dollar-track benefits, including 688 beneficiaries who received an amount greater than 140 per cent of the US dollar-track benefit. The amount in excess of 140 per cent for the 688 beneficiaries was \$270,219 for the month. While this amount may not be significant considering the overall size of the Fund, the lack of a ceiling has left a disparity that is seemingly unfair to other beneficiaries for whom the two-track system may not be so advantageous, and those to whom the two-track option may be unavailable.

18. The reason for such disparity is the calculation of the local-track base amount which is determined by multiplying the 36-month average exchange rate to the US dollar base amount. The 36-month average exchange rate is calculated from the month of separation from service. If inflation in the declared country of residence is higher during these 36 months, then the base amount for the local-track will be higher (and vice versa). In 2010, to mitigate the effect of large swings in exchange rates at the time of separation, the Secretary/Chief Executive Officer (CEO) proposed to the Pension Board the adoption of a 120-month average exchange rate to offset short-term fluctuations. While the Pension Board did not accept this proposal, it requested the Secretary/CEO to monitor the fluctuations in local-track benefits and report thereon to the Pension Board on an annual basis. Since then, the proposal to consider the 120-month average exchange rate has not been pursued.

19. The system, which was devised to provide stability and fairness in purchasing power regardless of country of residence, has caused unintended advantages for some and disadvantages for others. In a defined benefit pension plan, inequitable balance between one's contributions and benefits need to be minimized to the extent possible by setting reasonable limits based on analysis of disparities.

20. OIOS is of view that the Pension Administration needs to analyze the existing disparities and suggest, for consideration by the Pension Board, possible means to mitigate the situation. This could possibly include establishing a ceiling for local-track benefits or adopting an average exchange rate over a longer period for the local-track base amount to offset the effects of unusual short-term exchange rate fluctuations.

(1) The Pension Administration should analyze and present to the Pension Board the implications of establishing a ceiling for local-track benefits and/or adopting an average exchange rate over a period longer than the current 36 months for establishing the initial base amount to offset the effects of unusual short-term exchange rate fluctuations.

The Pension Administration accepted recommendation 1 and stated that it will conduct a thorough analysis to assess the implications of establishing a ceiling for local-track benefits and adopting an exchange rate over a longer period for establishing the initial local-track benefit for both the Fund and beneficiaries. The results will be presented to the Pension Board in 2022. Recommendation 1 remains open pending receipt of evidence that the implications of establishing a ceiling for local track benefits and adopting an exchange rate over a longer period for establishing the initial base amount have been analyzed and presented to the Pension Board.

Client experience could be improved by sharing examples of acceptable proof of residence

21. According to the Pension Adjustment System, submission of acceptable proof of residence is essential to establish the two-track benefits. To receive the two-track benefit, the beneficiary needs to submit Form E/10 (Declaration of Country of Residence). When a beneficiary who is already on two-track relocates from one country to another, Form E/11 (Change of Country of Residence) needs be submitted along with acceptable proof of residence. These forms were last updated in October 2012.

22. Considering that the certificate of residence issued by national authorities varied from one country to another, the annex to these forms gave examples of acceptable proof of residence for 31 out of 98 countries covered under the two-track system. OIOS' review of 30 sample two-track cases showed that the acceptable proof of residence was obtained in 25 cases. In three cases, the Fund accepted alternative proof of residence; in one case, the issue date on the proof of residence was missing; and in one other case, proof of residence was not available in the Integrated Pension Administration System (IPAS).

23. The Fund kept samples of acceptable proof of residence for 84 countries in a shared folder which was not accessible to beneficiaries. Posting these samples on the Fund's website and updating them regularly could promote a better client experience and improve the efficiency in processing of two-track cases.

(2) The Pension Administration should post samples of acceptable proof of residence on its website and update it regularly to promote a better client experience and improve the efficiency in processing of two-track cases.

The Pension Administration accepted recommendation 2 and stated that CSOS will regularly update the list of acceptable proof of residence for selected countries and make it available on the Fund's website. Recommendation 2 remains open pending receipt of evidence that the samples of acceptable proof of residence have been posted and updated regularly on the Fund's website.

Need to formalize the working group for reviewing two-track cases

24. In 2012, the Fund formed a working group to develop a framework for reviewing and advising on possible effects of the varying economic conditions in different countries on the application of the two-track feature. The proposed working group included the CEO, Deputy CEO, Chief of Financial Services Section, Chief of Legal Office, Chief of Payment Section, Policy and Analysis Officer and the Statistician. The working group's responsibilities included: (a) defining the specific financial issues/situations in a country that may be considered as aberrant; (b) defining the specific criteria for monitoring the economic and financial conditions; and (c) suggesting a process for suspension or reinstatement of the two-track feature in countries, including the legal ramifications and a framework for recommending possible suspension or reinstatement.

25. The two-track working group was not operational; its terms of reference were not formalized. After the establishment of a Data Analysis Unit in 2021, the Fund made attempts to revive the working group informally by including representation from all sections involved in administering the two-track feature. However, members of the working group were not formally nominated, and the Legal Unit was not represented in these meetings. The lack of representation of members with technical knowledge and authority was reflected in the minutes of meetings. Except for the technical contribution from the Data Analysis Unit, there was no evidence of substantive inputs from other members. As a result, the objective of forming the working group could not be achieved.

(3) The Pension Administration should: (a) formalize the membership and terms of reference of the two-track working group; and (b) ensure adequate representation of subject matter experts on the working group to enhance its effectiveness.

The Pension Administration accepted recommendation 3 and stated that it will formalize the membership and terms of the reference of the two-track working group to ensure adequate representation of subject matter expertise, define clear roles of members, and address lack of authority. Recommendation 3 remains open pending receipt of evidence that the membership and terms of reference of the two-track working group has been formalized ensuring adequate representation of subject matter experts.

B. Processing of benefits under the two-track system

Need for clear guidelines on administration of the two-track system in non-sovereign states

26. The two-track feature adopted in terms of General Assembly resolution 37/131 in 1982 has not been launched in 16 countries. As of date, there were 1,332 beneficiaries from these countries who were always paid under the US dollar track. The Fund continued to receive CPI data for these countries from DESA.

27. The Fund stated that it followed the practice of extending the two-track feature only if a beneficiary exercises this option. No beneficiary from these 16 countries had opted for the two-track feature, although there were a few cases where existing two-track beneficiaries had relocated to one of the 16 countries and were no longer receiving benefits under two-track after their relocation. The Fund had initiated action to launch the two-track feature in four more countries by April 2022.

28. On the other hand, 53 non-sovereign states identified as statistical areas by the Statistics Division of DESA were included in the two-track system, even though CPI data was not available for 42 of these non-sovereign states. The Fund stated that the economic and political situation in these non-sovereign states were monitored, and new requests for the two-track feature from beneficiaries from these states were not accepted. There was no clear guidance as to whether to treat these non-sovereign states as countries for two-track purposes. The two-track feature had not been suspended in 42 such states despite the unavailability of CPI data.

(4) The Pension Administration should develop clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states.

The Pension Administration accepted recommendation 4 and stated that it will develop a clear rule to ensure consistent application of the two-track feature in non-sovereign states. Recommendation 4 remains open pending receipt of evidence that clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states have been developed.

Need to address delays in processing of two-track cases

29. The Fund has established a key performance indicator (KPI) which requires it to process 75 per cent of pension benefits at initial separation within 15 business days. However, there was no KPI for processing of two-track cases which could arise at the time of separation, after separation, or as survivor/child benefits.

30. A beneficiary will be entitled to the two-track benefit from the date of separation, provided that the required documents are submitted within six months of separation. If the Fund receives a request for two-track benefit after the initial six-month period, the effective date for the two-track entitlement would be from the first day of the quarter following the date of receipt of acceptable documents. Between 1 January 2018 and 30 June 2021, the Fund processed 888 new two-track cases (see Table 1) and took an average processing time of 250 days per case. OIOS calculated the average processing time from the entitlement date to the date of release of the two-track benefit because the date of receipt of documents was missing for some of cases in the data provided by the Fund.

Table 1: Processing times for two-track cases during 1 January 2018 and 30 June 2021

Number of cases and processing times	At the time of separation	After separation	Survivor/Child benefits	Total
Total number of cases (a)	386	132	370	888
Total number of days to process all cases (b)	93,696	72,277	56,123	222,096
Average days taken to process a case [(b)/(a)]	243	547	152	250

31. The processing of two-track cases involves two steps/workflows: (i) processing of country of residence received at the time of separation (i.e., Declaration of Country of Residence in Form E/10) or after separation (Change of Residence in Form E/11); and (ii) calculation of initial two-track benefits or revised two-track benefits due to change of residence (commonly called as recalculation workflows).

(i) Delays in processing country of residence workflows need to be addressed

32. A beneficiary or retiree opting for two-track needs to submit the request within six months of separation (Form E/10) or any time after separation (Form E/11) along with acceptable proof of residence. Table 2 shows the number of country of residence workflows processed and pending as on 30 June 2021.

Table 2: Status of country of residence workflows during 1 January 2018 to 30 June 21

Total backlog of two-track cases prior to 2018	New cases received from January 2018 to June 2021	Cases processed between January 2018 and June 2021	Cases pending as of 30 June 2021
454	1,271	1,043	682

33. Out of 454 workflows dating prior to 2018, 70 workflows were still pending as of 30 June 2021. The Fund stated that after implementing IPAS in 2015, it prioritized the processing of regular pensionary benefits to meet its KPIs, with processing of two-track cases given lower priority, resulting in a backlog. In March 2021, the Fund constituted two working groups (one in Geneva and one in New York) to clear the backlog of two-track cases. New cases received between January 2018 and June 2021 outnumbered the cases processed during this period, and 682 cases were pending as of 30 June 2021.

34. Around 80 per cent of two-track cases pertained to the Fund's Geneva office because most of the two-track beneficiaries are from the Euro Zone. Two-track cases were processed differently in New York and Geneva. In New York, country of residence workflows were managed by CSOS and recalculation workflows by PES. In Geneva, both these workflows were managed by PES.

(ii) Delays in processing of recalculation workflows resulted in overpayments

35. After review and approval of acceptable proof of country of residence by the respective sections (CSOS for New York and PES for Geneva), the two-track benefit amount is calculated by PES. When a beneficiary changes the residence from a country with a high cost of living to a country with a lower cost of living, there would be a reduction in two-track benefits. Until the recalculation process is completed, the beneficiary will continue to be paid the higher two-track benefit based on the cost of living in the previous country, which results in overpayment that should be recovered from future payments.

36. UNJSPF has the legal duty to recover all overpayments in accordance with Article 43 of the Fund Regulations, Administrative Rule J.9, and the relevant provisions of Procedure-General No. 17 (IV) of 28 January 2011. Article 43 of the Fund Regulations (recovery of indebtedness to the Fund) provides the basis for recovery of amounts due to the Fund. Recovery of overpayments in cases of change of residence is normally addressed by PES in terms of Section II, 2 (c) of Procedure-General No. 10 of 9 April 1984 which

states: “Recoveries due to change of residence, date of separation of pensionable remuneration will be initiated and implemented by the Benefits Section”.

37. Prior to 2008, the Fund’s practice was to limit the recovery of such overpayments to the past two years. From 2008 to 2020, the Fund applied full recovery for overpayment in two-track cases arising from a change in the country of residence. In 2020, the Fund developed a new policy on recovery of overpayments in such cases to address a specific circumstance where there were delays in processing two-track cases on the part of the Fund. Accordingly, the Fund decided not to penalize the beneficiary for delays in recalculation that were attributable to the Fund. The Fund can recover only up to two years of overpayment; the remainder is to be written-off in accordance with prescribed procedures. Table 3 shows the status of recalculation workflows during the period 1 January 2018 to 30 June 2021.

Table 3: Status of recalculation workflows during 1 January 2018 to 30 June 2021

Total backlog of two-track cases prior to 2018	New cases received from January 2018 to June 2021	Cases processed between January 2018 and June 2021	Cases pending as of 30 June 2021
217	805	599	423

38. Out of 423 workflows pending as of 30 June 2021, 112 were open for more than two years, which might lead to overpayment that would need to be written off. For the remaining 311 cases also, delays in processing would increase the probability of overpayments being written off.

39. Actual overpayment can be determined only after the recalculation workflow is completed. Based on recalculation workflows completed as of October 2021, the working groups in Geneva and New York determined that there was an overpayment of \$1,077,758 relating to 67 cases (see Table 4), of which an amount of \$541,467 was recoverable from beneficiaries (i.e., pertaining to the last two years), with the remaining \$536,291 to be written off.

Table 4: Overpayment due to delays in processing of recalculation workflows as of October 2021

Office	No. of cases	Total overpayment (\$)	Amount recoverable (\$)	Amount unrecoverable (\$)
Geneva	60	890,649	462,071	428,578
New York	7	187,109	79,396	107,713
Total	67	1,077,758	541,467	536,291

40. The total overpayment and potential write-off amounts are likely to increase because the working groups have not completed the processing of all recalculation workflows, especially those pending for more than two years. The policy on recovery of overpayments emphasizes that to avoid overpayments, the Fund shall take all necessary measures to recalculate the retiree/beneficiary’s benefit following a change of country of residence within three months from the date the Fund was notified that the beneficiary has relocated to another country, or within three months from the date of receipt of the required documents. The Fund did not comply with this timeline. The Pension Administration needs to implement corrective action to minimize the risk of overpayments and their potential write-off.

(5) The Pension Administration should: (a) streamline the procedures for processing of workflows pertaining to two-track benefits, including effective performance monitoring; and (ii) develop an action plan to suitably prioritize the long-pended open workflows to minimize overpayments and write-offs.

The Pension Administration accepted recommendation 5 and stated that: (a) it will review the procedures for the processing of two-track benefits in New York and Geneva to identify opportunities

for further standardization and alignment that might lead to efficiencies, and establish and monitor relevant performance indicators; and (b) it will continue the measures to address long-pended open workflows, including the work of special groups, as needed. Going forward, it will ensure close performance monitoring to avoid the creation of backlogs and take corrective action when needed. Recommendation 5 remains open pending receipt of evidence that: the procedures for processing of workflows pertaining to two-track benefits have been streamlined; relevant performance indicators have been established and monitored; and corrective actions have been taken to avoid the creation of backlog of cases.

Need to review the efforts to educate retirees on the implications of opting for two-track system

41. The two-track feature is complex to administer, and it can be a challenge for a potential beneficiary to fully understand the implications of opting for it. For an improved client experience, tools should be available to the potential beneficiary explaining the two-track feature so that the beneficiary can make an informed decision on this option.

42. The Fund had made efforts to educate beneficiaries about the two-track feature. But considering the complexity of the system, more could be done. For example, the booklet on the two-track system was not updated since 2010; it contained examples mainly from the Euro Zone, without covering other parts of the world. The Fund suspended the two-track feature in 57 countries. Although the list of suspended countries is available on the Fund's website, information about the criteria to suspend or reinstate the two-track feature was neither provided in the booklet nor on the website. Further, in emails to beneficiaries that provided estimates of benefits, the information about benefit payable lacked clarity; it did not provide adequate information about the ceilings on the maximum and minimum guaranteed amount. Estimates of two-track benefits are calculated as on the date of separation by applying an average exchange rate. Due to CPI movements, the same option may not be beneficial in the long run or due to different separation dates, the estimates may give different results.

43. Receipt of a large number of queries (between 116 and 586 during 2019 to 2021) from retirees on the two-track system also indicated the need to improve the quality of information available to them.

44. The Fund stated that beneficiaries normally read the available information and reach out to the Fund for clarification; it is difficult to provide comprehensive information for their decision-making. However, in the context of the Fund's initiative to redesign its website to provide a more simple service experience to beneficiaries, there is opportunity to review the existing resources provided to beneficiaries and improve the quality of information/resources on the two-track system by, for example: (a) providing trend analysis of two-track benefits at the country level; and (b) giving more examples of two-track calculations for different countries and also for the same country but with different separation dates so that beneficiaries can more fully understand the impact of exchange rate fluctuations on two-track benefits.

(6) The Pension Administration should review the existing resources/tools available to beneficiaries on the two-track system and provide additional tools/resources on its website to assist in achieving its strategic objective of a simplified client experience.

The Pension Administration accepted recommendation 6 and stated that it will review the resources related to the two-track system that are available to beneficiaries on the website, to identify areas where additional or enhanced resources might be needed. Recommendation 6 remains open pending receipt of evidence that: the existing resources/tools available to beneficiaries on the two-track system have been reviewed; and additional resources/tools have been provided on its website.

C. Continued eligibility for two-track benefits

45. Paragraph 26 (a) of the Pension Adjustment System states that the two-track feature may be suspended by the Chief Executive of Pension Administration when the application of this feature would lead to aberrant results with wide fluctuations in the local currency amount. Since the inception of the two-track system in 1982, the Fund has suspended the two-track feature for 57 countries. During 2019, two-track was suspended in 30 countries due to the unavailability of CPI data.

46. OIOS' review showed that the two-track feature was suspended in 42 countries for lack of CPI data, and in 15 countries for aberrant economic behaviour due to lack of correlation between inflation and exchange rates. The time taken for monitoring the economic situation before suspension of the two-track feature varied from country to country, as shown in Table 5.

Table 5: Time taken for monitoring and suspension of two-track in various countries

#	Country	Reason for suspension of two-track feature	Effective date	Time taken before suspension
1	Libya	Lack of published CPI since January 1980	01/07/2000	20 years
2	Niger	Lack of published CPI since October 1982	01/07/2000	18 years
3	Cameroon	Lack of published CPI since April 1987	01/07/2000	13 years
4	Iraq	Lack of information on inflation since 1986, and dramatic change in exchange rates during the second quarter of 1997	01/07/1997	11 years
5	Burundi	Lack of published CPI since 2008	01/07/2018	10 years
6	Syrian Arab Republic	The aberrant economic situation since 2011 due to high inflation	01/01/2018	7 years

47. In all the above-mentioned cases, beneficiaries were receiving the minimum guaranteed amount of benefit, which was much lower than the US dollar track. The Fund indicated that from 2017 onwards, the economic situation of all the countries was being monitored for any potential suspension or reinstatement.

48. Before April 2019, country-specific Procedures-General were issued for suspension of the two-track feature, but not for its reinstatement. In April 2019, the Fund issued Procedures-General No. 81 and 82 describing the procedures for suspension and reinstatement of the two-track feature. Although these Procedures-General clarified various conditions related to suspension and reinstatement, the time frame/range (minimum or maximum period) for monitoring the situation before suspension or reinstatement of two-track in a country was not clarified, and aberrant economic behaviour that could lead to suspension of the two-track feature was not adequately defined. Similarly, the criteria for reinstatement that "reasonable level of confidence that economic stability will be maintained" was not clarified adequately.

(7) The Pension Administration should revisit the Procedures-General for suspension and reinstatement of the two-track feature in order to define the criteria adequately, and also establish a timeframe for monitoring the economic situation of countries for suspension and reinstatement of the two-track feature.

The Pension Administration accepted recommendation 7 and stated that it will update the Procedure-General for suspension and reinstatement of two-track to ensure that the criteria for suspension and reinstatement are clearly stated, including the timeframe and specific economic conditions. However, it will assess each suspension and reinstatement on a case-by-case basis and may consider elements that cannot be quantified. Recommendation 7 remains open pending receipt of evidence that the criteria for suspension and reinstatement is adequately defined in the Procedure-General; and the

timeframe for monitoring the economic situation of countries for suspension and reinstatement of two-track feature have been established.

IV. ACKNOWLEDGEMENT

49. OIOS wishes to express its appreciation to the management and staff of the Pension Administration 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 two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical/ Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The Pension Administration should analyze and present to the Pension Board the implications of establishing a ceiling for local-track benefits and/or adopting an average exchange rate over a period longer than the current 36 months for establishing the initial base amount to offset the effects of unusual short-term exchange rate fluctuations.	Important	O	Receipt of evidence that the implications of establishing a ceiling for local track benefits and adopting an exchange rate over a longer period for establishing the initial base amount have been analyzed and presented to the Pension Board.	31 December 2022
2	The Pension Administration should post samples of acceptable proof of residence on its website and update it regularly to promote a better client experience and improve the efficiency in processing of two-track cases.	Important	O	Receipt of evidence that the samples of acceptable proof of residence have been posted and updated regularly on the Fund's website.	31 December 2022
3	The Pension Administration should: (a) formalize the membership and terms of reference of the two-track working group; and (b) ensure adequate representation of subject matter experts on the working group to enhance its effectiveness.	Important	O	Receipt of evidence that the membership and terms of reference of the two-track working group has been formalized ensuring adequate representation of subject matter experts.	31 July 2022
4	The Pension Administration should develop clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states.	Important	O	Receipt of evidence that clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states have been developed.	31 December 2022
5	The Pension Administration should: (a) streamline the procedures for processing of workflows pertaining to two-track benefits, including effective performance monitoring; and (ii) develop an action plan to suitably	Important	O	Receipt of evidence that: the procedures for processing of workflows pertaining to two-track benefits have been streamlined; relevant performance indicators have been established and	31 July 2023

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

³ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁴ Date provided by the Pension Administration in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

	prioritize the long-pended open workflows to minimize overpayments and write-off.			monitored; and corrective actions have been taken to avoid the creation of backlog of cases.	
6.	The Pension Administration should review the existing resources/tools available to beneficiaries on the two-track system and provide additional tools/resources on its website to assist in achieving its strategic objective of a simplified client experience.	Important	O	Receipt of evidence that: the existing resources/tools available to beneficiaries on the two-track system have been reviewed; and additional resources/tools have been provided on its website.	31 December 2022
7.	The Pension Administration should revisit the Procedures-General for suspension and reinstatement of the two-track feature in order to define the criteria adequately, and also establish a timeframe for monitoring the economic situation of countries for suspension and reinstatement of the two-track feature.	Important	O	Receipt of evidence that the criteria for suspension and reinstatement is adequately defined in the Procedure-General; and the timeframe for monitoring the economic situation of countries for suspension and reinstatement of two-track feature have been established	31 December 2022

APPENDIX I

Management Response

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

NEW YORK (Headquarters)
P.O. Box 5036, UNITED NATIONS, N.Y., N.Y. 10017
Tel: (212) 963 -6931; Fax: (212) 963 -3146
E-mail: UNJSPF@UN.ORG
Cable: UNATIONS NEWYORK
Web: <http://www.unjspf.org>

OFFICE AT GENEVA
c/o PALAIS DES NATIONS
CH - 1211, Geneva 10
Tel: +41 (0) 22 928 8800; Fax: +41 (0) 22 928 9099
E-mail: UNJSPF.GVA@UNJSPF.ORG
Web: <http://www.unjspf.org>

MEMORANDUM

Ref: UNJSPF/CEPA/031221

New York, 2 December 2021

To / A: Ms. Eleanor Burns, Director
Internal Audit Division,
OIOS

From / De : Rosemarie McClean, Chief
Executive of Pension
Administration, United Nations
Joint Staff Pension Fund

A handwritten signature in black ink, appearing to read 'Rosemarie McClean'.

Subject / **UNJSPF response to draft report audit of two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund (Assignment No. AS2021/800/02)**

1. Reference is made to your memorandum dated 19 November 2021, in which you submitted for the Fund's review and comments, the draft report on the above-mentioned audit.
2. As requested, the Pension Administration's comments to the audit recommendations are included in **Annex I**.
3. The Pension Administration would like to thank OIOS auditors for the detailed review and constructive exchanges and proposed audit recommendations.

cc.: Mr. D. Penklis, Deputy Chief Executive
Ms. M. O'Donnell, Chief of Operations
Ms. C. Cartner, Chief Client Services and Outreach
Mr. B. Sheehan, Chief Pension Entitlements Section
Ms. F. Loum, Chief Participation and Entitlements Section, Geneva
Ms. S. Mathieson, Chief Data Analysis Unit
Ms. K. Manosalvas, Risk Officer, Audit Focal Point

**Annex I
Management Response**

Audit of two-track system in the Pension Administration of the United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1.	The Pension Administration should analyze and present to the Pension Board the implications of establishing a ceiling for local-track benefits and/or adopting an average exchange rate over a period longer than the current 36 months for establishing the initial base amount to offset the effects of unusual short-term exchange rate fluctuations.	Important	Yes	Chief Data Analysis Unit	December 2022	The Pension Administration will conduct a thorough analysis to assess the implications of establishing a ceiling for local-track benefits and adopting an exchange rate over a longer period for establishing the initial local-track benefit for both the Fund and beneficiaries. The result will be presented to the Pension Board in 2022.
2.	The Pension Administration should post samples of acceptable proof of residence on its website and update it regularly to promote a better client experience and improve the efficiency in processing of two-track cases.	Important	Yes	Chief Client Services	December 2022	The Client Services and Outreach Section will regularly update the list of acceptable proof of residence for selected countries and, make it available on the Fund's website.
3.	The Pension Administration should: (a) formalize the membership and terms of reference of the two-track working group; and (b) ensure adequate representation of subject matter experts on the working group to enhance its effectiveness.	Important	Yes	Chief Data Analysis Unit	July 2022	The Pension Administration will formalize the membership and terms of the reference of the two-track working group to ensure adequate representation of subject matter expertise, define clear role of

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
						members and address lack of authority.
4.	The Pension Administration should develop clear guidelines to deal with suspension or continuation of the two-track feature in non-sovereign states.	Important	Yes	Chief Data Analysis Unit	December 2022	The Pension Administration will develop a clear rule to ensure consistent application of the two-track feature in non-sovereign states.
5.	The Pension Administration should: (a) streamline the procedures for processing of workflows pertaining to two-track benefits, including effective performance monitoring; and (ii) develop an action plan to suitably prioritize the long-pended open workflows to minimize overpayments and write-off.	Important	Yes	Chiefs Pension Entitlements Section	July 2023	(a) The Fund will review the procedures for the processing of two-track benefits in New York and Geneva to identify opportunities for further standardization and alignment that might lead to efficiencies, and establish and monitor relevant performance indicators; and (b) The Fund will continue the measures to address long-pended open workflows, including the work of special groups, as needed. Going forward, the Fund will ensure close performance monitoring to avoid the creation of backlogs and take corrective action when needed.
6.	The Pension Administration should review the existing resources/tools available to beneficiaries on the two-track system and provide additional tools/resources on its website to assist in achieving its strategic objective of a simplified client experience.	Important	Yes	Chief Client Services	December 2022	The Fund will review the resources related to the two-track system that are available to beneficiaries on the website, to identify areas where additional or enhanced resources might be needed.

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
7.	The Pension Administration should revisit the Procedures-General for suspension and reinstatement of the two-track feature in order to define the criteria adequately, and also establish a timeframe for monitoring the economic situation of countries for suspension and reinstatement of the two-track feature.	Important	Yes	Chief Data Analysis Unit	December 2022	The Pension Administration will update the Procedure-General for suspension and reinstatement of the two-track to ensure that the criteria for suspension and reinstatement are clearly stated including the timeframe and specific economic conditions. However, the Pension Administration will assess each suspension and reinstatement case-by-case basis and may consider elements that cannot be quantified.

Annex II
Factual comments and clarifications to the Draft Report of the audit of two-track system in the Pension Administration

Table 1: In Table 1, OIOS computed the average time to process two-track cases from the ‘entitlement date’ to the ‘release date’ for each case, and this might cause inconsistencies:

1. As per the Fund’s Pension Adjustment System, the entitlement date can vary depending on the date of receipt of required documents: the entitlement date could be the prior quarter or the following quarter. It would have been therefore more appropriate to compute the time taken to process a two-track case from the ‘documents receipt date’ to the ‘release date’ for the case. This would also have been consistent with the methodology applied by the Fund for other key performance indicators for benefit processing.
2. It is also noted that the average processing time includes the time taken to obtain required documents or clarifications from beneficiaries, which is not attributable to the Fund.