



INTERNAL AUDIT DIVISION

REPORT 2017/080

Audit of the management of the memorandum of understanding between the United Nations Secretariat and a United Nations Agency

While the Department of Management developed supplementary guidance to support governance and implementation of the memorandum of understanding, improvements were needed to strengthen oversight and monitor delegated authorities, benchmark project costs and evaluate the performance of the Agency

9 August 2017
Assignment No. AH2016/513/01

Audit of the management of the memorandum of understanding between the United Nations Secretariat and a United Nations Agency

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the memorandum of understanding (MOU) between the United Nations Secretariat and a United Nations Agency (Agency A). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the MOU. The audit covered the period from July 2014 to December 2016 and included higher and medium risk areas in the management of the MOU, which included: a) governance; b) decision to engage the Agency; c) development of project documents; d) performance management; and e) annual refund.

The Department of Management (DM) developed supplementary guidance to support governance and implementation of the MOU. However, some improvements were needed to strengthen oversight and operations under the MOU.

OIOS made eight recommendations. To address issues identified in the audit, DM needed to:

- Oversee and monitor delegated authorities to enter into financial agreements with Agency A;
- Ensure sufficient parameters are established in financial agreements to measure the Agency's performance before approving the agreements;
- Develop procedures to benchmark the costs proposed by Agency A before deciding to engage the Agency;
- Establish procedures to conduct periodic monitoring to ensure compliance with guidance on development of project documents;
- Revise the MOU to include definitions, calculation and monitoring of locally and centrally managed direct costs and contingency fees;
- Revise the supplementary guidance to strengthen performance monitoring of projects implemented by Agency A;
- Reconcile 2014 and 2015 annual expenditures and management fees with Agency A to verify whether the annual refund was due for those years; and
- Explore the possibility of removing the provision of an annual refund in the MOU and renegotiate the management fee.

DM accepted the recommendations and has initiated action to implement them.

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Audit of the management of the memorandum of understanding between the United Nations Secretariat and a United Nations Agency

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the memorandum of understanding (MOU) between the United Nations Secretariat and a United Nations Agency (Agency A)
2. The United Nations Secretariat and the Agency signed an MOU dated 3 August 2014, with an effective date of 1 July 2014, for the Agency to provide project implementation services to support programmes and projects of the Secretariat. The memorandum, together with supplementary guidance issued by the Assistant Secretary-General (ASG), Controller, Office of Programme Planning, Budget and Accounts (OPPBA) in the Department of Management (DM), govern the process and include instructions on, among other matters: a) development of statements of requirements and budgets; b) allowable payment terms; c) required financial and substantive reporting; d) terms of potential refund of indirect costs; and e) establishment and function of a Review Committee. Details on how individual projects will be implemented are stipulated in the financial agreements.
3. The range of programmes or activities supported by the Agency include: a) technical support for Umoja implementation, training and data management; b) camp construction and support services; c) implementation and monitoring of disarmament, demobilization and reintegration projects; d) coordination of mine action clearance operations; and e) payroll processing and administration of individual contractors.
4. Several Secretariat offices and departments are allowed to enter into financial agreements with the Agency under authority delegated by the Controller to accept voluntary contributions. In addition, the Controller delegated authority to the Under-Secretary-General for Field Support to negotiate, approve and sign individual financial agreements with the Agency up to \$3 million per agreement. This delegation was further sub-delegated to directors and chiefs of mission support of peacekeeping missions and special political missions up to \$1 million. The Controller retained her authority to review and sign all other financial agreements.
5. Payments made to the Agency by the Secretariat were estimated at over \$357 million from January to December 2016, as detailed in Table 1. At the time of the audit, the Secretariat did not have information on the total amount of funds disbursed to the Agency for the entire period under review due to difficulty of extracting information from the Integrated Management Information System.

Table 1: Estimated total amount paid to the Agency from January to December 2016

Business area	Amount paid \$
United Nations Headquarters	306,067,363
Peacekeeping operations	35,649,443
Regional commissions	11,435,144
United Nations Office at Vienna	1,007,535
Special political missions	2,705,664
Other entities	961,727
Total	\$357,826,876

6. Out of \$358 million paid to the Agency in 2016, \$256 million was from the peacekeeping budget, \$87 million from extrabudgetary resources and \$15 million from the regular budget.

7. Comments provided by DM are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the management of the MOU.

9. This audit was included in the 2016 risk-based work plan of OIOS due to the risk that weaknesses in the management of the MOU could adversely affect programme delivery, donor confidence as well as the reputation of the Organization.

10. OIOS conducted this audit from August 2016 to February 2017. The audit covered the period from July 2014 to December 2016. Based on an activity-level risk assessment, the audit covered higher and medium risk areas in the management of the MOU, which included: a) governance mechanisms; b) decision to engage the Agency; c) development of project documents; d) performance management; and e) annual refund.

11. The audit methodology included: a) interviews of key personnel; b) reviews of relevant documentation; c) analytical reviews of data; and d) judgmental sample testing of financial agreements. The audit reviewed 17 projects valued at approximately \$206 million. OIOS selected its sample from 120 financial agreements maintained by the Office of the Controller, which excluded agreements entered into by departments with delegated authority to accept voluntary contributions.

12. The audit did not cover the effectiveness of the management of financial agreements by programme managers.

III. OVERALL CONCLUSION

13. DM developed supplementary guidance to support governance and implementation of the MOU. However, DM needed to: a) strengthen oversight and monitoring of delegated authorities; b) specify the performance management framework for projects and monitor its implementation; c) ensure cost effectiveness of projects implemented by the Agency; d) include definitions and calculations of direct costs in the supplementary guidance; and e) review the provisions of the MOU with regard to the annual refund and management fee.

IV. AUDIT RESULTS

A. Governance mechanisms

Oversight and monitoring of delegated authorities needed strengthening

14. The authority to commit financial resources and to enter into financial agreements with the Agency is delegated to the Controller, who may delegate this authority and responsibility to other officials but remains accountable. The Controller is therefore expected to establish proper mechanisms to monitor the manner in which the authority is exercised.

15. The following issues weakened the ability of OPPBA to effectively oversee and monitor use of delegated financial authority.

i. The Review Committee was not operational

16. The supplementary guidance states that the Controller shall establish a Review Committee at United Nations Headquarters that will provide oversight through periodic and selective review of financial agreements. At the time of the audit, the Review Committee had not been operational. According to OPPBA, it was thought to be beneficial to accumulate financial agreements, which would allow the Committee to have a better understanding of issues, if any, pertaining to the Secretariat's engagement of the Agency. The Controller chaired the first meeting of the Committee in May 2017 and the terms of reference are under development. Lack of an operational Review Committee may result in inadequate oversight of agreements between the United Nations Secretariat and the Agency.

ii. Inadequate visibility and review by the Controller's Office of financial agreements signed under delegated authority

17. OPPBA did not review data available in Umoja on financial agreements entered into by the United Nations Secretariat with the Agency to monitor the exercise of delegated authorities. At the time of the audit, OPPBA had not developed any customized reports, and agreements were not uniformly captured in Umoja to enable extraction of such reports. There was therefore no readily available information on the number of financial agreements signed in the period under review, and details of services, amounts, amendments and unutilized balances. This hindered the ability of OPPBA to: a) monitor Secretariat engagements with the Agency; b) provide information to the Review Committee; c) obtain sufficient information on the value and types of projects to ensure adequate financial controls were maintained; and d) verify the accuracy of the annual refund calculation prepared by the Agency. In May 2016, OPPBA and the Office of Central Support Services (OCSS) established a working group to draft guidelines for the uniform processing of transactions with the Agency and implementation of the working group's recommendations was ongoing.

iii. Delays in submitting financial agreements for review and approval

18. OIOS review showed that 8 of the 17 financial agreements sampled were approved ex post facto by a range of two days to approximately three months. In one additional case, a project amendment was approved ex post facto by over a year. Only one financial agreement was submitted timely, 32 days before the project start date. In addition, 8 of the 17 financial agreements and/or amendments involved future budget periods; however, only 4 of these were submitted to and approved by the Controller, as required. This precluded a meaningful review of the agreements and reduced the effectiveness of controls.

(1) DM should strengthen oversight mechanisms to enable the Controller to effectively oversee and monitor delegated authorities to enter into financial agreements with United Nations Agency A. This should include: a) ensuring the Review Committee is operational; b) developing customized reports that include pertinent information on United Nations engagement with the Agency; and c) establishing deadlines for submission of financial agreements and the amendments thereto for approval.

DM accepted recommendation 1 and stated that the Controller had established the Review Committee and was finalizing the terms of reference with inputs of the Committee members. Recommendation 1 remains open pending receipt of the terms of reference of the Review Committee and evidence of their oversight activities.

Financial agreements needed to specify the performance management framework

19. The MOU stipulated the need to evaluate timeliness and quality of project activities and to measure deliverables against statements of requirements. Financial agreements are therefore expected to include the basis to measure the Agency's performance on the agreements objectively.

20. Only 13 out of the 17 financial agreements sampled had statements of requirements that were available for the auditors' review. OIOS noted that: a) two projects did not specifically mention the intended deliverables; b) eight projects did not include clear parameters to evaluate timeliness and quality of implementation; c) six projects did not specifically outline an implementation plan and schedule, including delivery timelines; and d) one construction project had a project completion date of 30 April 2015 but continued to incur expenditures over a year beyond this date without an amendment to the project's timeline.

21. This occurred because financial agreements were approved without an established performance management framework that would allow the Secretariat to measure objectively the timeliness, quality and other substantive aspects of the Agency's services and follow-up any strategic and policy issues with the Agency's senior management.

(2) DM should establish procedures to ensure financial agreements, and related statements of requirements, with United Nations Agency A include sufficient parameters to facilitate objective measurement of the Agency's performance before the financial agreements are approved.

DM accepted recommendation 2 and stated that OPPBA would coordinate with departments and offices to ensure that financial agreements and related statements of requirements include parameters for objective measurement of the Agency's performance. Recommendation 2 remains open pending receipt of the established procedures.

B. Decision to engage Agency A

Adequate criteria needed to be developed to avoid duplication of resources

22. The supplementary guidance instructed that Secretariat entities may not outsource mandated activities for which they have already been staffed. Consequently, where it is envisaged that certain activities will be implemented by the Agency, Secretariat programme managers are required to specifically stipulate this and include the corresponding financial resources under "Contractual Services" in the programme/mission budget submission, to ensure there is no duplication of resources.

23. The 17 sampled financial agreements were related to activities such as: a) technical support for Umoja implementation, training and reporting, business intelligence and data management; b) technical support for video conferencing; c) camp construction in the United Nations Multidimensional Integrated Stabilization Mission in Mali (MINUSMA) and the United Nations Support Office in Somalia; d) catering and camp management services in the United Nations Mission in the Republic of South Sudan (UNMISS) and the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic; e) mine action activities in UNMISS and MINUSMA; and f) human resources management of independent contractors in the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo. There was no evidence that the use of the Agency was stipulated in the respective budget submissions, as required to ensure there was no duplication of resources.

24. This occurred because DM had not established specific criteria or adequate guidance on whether and when to engage the Agency to ensure the effective management of resources. Without adequate guidance, there was a risk that programme managers may use the Agency for activities that were supposed to be performed by staff. At the time of the audit, DM had initiated a review to develop criteria for when and whether to engage the Agency. OIOS, in its report 2015/122 on the review of the management of implementing partners by the United Nations Secretariat, recommended that OPPBA establish clear guidance for the engagement of United Nations system organizations for project implementation. Therefore, OIOS did not make a recommendation on this issue at this time, as OPPBA considers the Agency as an implementing partner.

OPPBA needed to develop procedures to ensure cost effectiveness of projects

25. The Secretariat is expected to ensure that services provided by the Agency are cost effective. The following issues were identified.

a) OPPBA agreed to consult the ASG for Central Support Services on all financial agreements exceeding \$3 million to ensure that the Agency provides cost effective services. Projects initiated by the United Nations Mine Action Service (UNMAS) that were over \$3 million were not referred to OCSS. In April 2017, OCSS clarified that UNMAS financial agreements should not be sent for review and clearance but for information purposes. Although other financial agreements over \$3 million were sent to OCSS, in the opinion of OIOS, consultations at the stage when financial agreements are sent for the Controller's approval are too late to benchmark the Agency proposed costs, without causing undue delays to the projects.

b) Instructions sent by the Department of Field Support to directors and chiefs of mission support required that the Procurement Division be informed of financial agreements for construction projects that exceed \$1 million. The Procurement Division was not informed of the two financial agreements for construction, both exceeding \$1 million. As a result, the Procurement Division could not explore whether the project could have been implemented within the requested timeline in a more cost effective manner using a commercial contractor. Also, bills of quantities were not included in the submissions of the final detailed statement of requirements to assist in facilitating this review, as required by the MOU and supplementary guidance.

c) Local procurement sections and/or the United Nations Procurement Division were only consulted on project budgets in 7 out of the 17 cases reviewed, which could have led to overpayment for services. For example, in an amendment to extend a financial agreement for catering and camp services for six additional months, the programme manager requested the local procurement section to obtain a quote directly from the subcontractor that had been used by the Agency. According to a note from the Procurement Division on the case, although it was difficult to make a direct comparison, the quote from the subcontractor was approximately \$635,000 or 34 per cent lower than the Agency's proposal without taking into account the Agency's management fees and locally managed direct costs (LMDC). As a result, the local procurement section contracted with the catering service subcontractor directly. However, this due diligence had not been conducted for the original agreement to ensure reasonableness of the Agency's costs and there was no evidence that the original agreement was reviewed by the local procurement section. These consultations should take place at the project initiation stage before the decision to engage the Agency is made.

26. The above occurred because the requirement to timely consult with local procurement sections or the Procurement Division at the project initiation stage was not included in the supplementary guidance,

which could result in higher project costs for the Organization. OPPBA commented that it may not be feasible to consult with local procurement sections for all projects.

(3) DM should: a) develop procedures to benchmark the costs proposed by United Nations Agency A before a decision to engage the Agency is made; and b) develop criteria to determine in which cases these procedures should apply.

DM accepted recommendation 3 and stated that OPPBA would coordinate with OCSS to develop procedures for proper benchmarking, such as sufficient advance notice, methods of benchmarking, level of details for requirements, etc. Recommendation 3 remains open pending receipt of established procedures to benchmark the Agency's costs.

C. Development of project documents

OPPBA needed to establish procedures for periodic monitoring to ensure compliance with established guidance

27. The MOU and the supplementary guidance set a number of requirements for the Secretariat programme managers with respect to the following:

i. Consultations with relevant experts

28. The supplementary guidance requires programme managers to seek substantive and technical guidance from relevant experts (e.g. for disarmament, demobilization and reintegration, elections, political, engineering, logistics, etc.) when developing statements of requirements. This guidance was not consistently sought and documented by programme managers when developing statements of requirements. Only 4 of the 17 financial agreements selected for review were supported by evidence of any level of expert review.

ii. Establishing controls over project equipment

29. The MOU requires statements of requirements for projects to include the type and quantities of equipment likely to be purchased using project funds, if applicable. It also states that the Agency should provide the Secretariat programme manager with a copy of the project asset register, including location, serviceability, serial numbers and other relevant details at the end of each calendar year. Seven of the 17 projects reviewed included the purchase of equipment but only one included specific details (equipment totaling \$816,000) in the project budget, two included general details (equipment totaling \$5.6 million and \$66,000), and the remaining four did not include any details on the type and quantities of equipment required (equipment per project totaling \$7,000 to \$240,000). While the Agency largely complied with the requirement to provide a list of non-expendable assets as of the end of the calendar year, this did not allow for comparison against assets included in the budget. The statement of requirements was not properly reviewed by programme managers, resulting in missing important information required to safeguard assets.

30. Although it is the responsibility of programme managers to ensure compliance with established guidance, inadequate monitoring may lead to ineffective and/or inefficient project implementation.

(4) DM should establish procedures to conduct periodic monitoring of compliance with guidance on the development of project documents stipulated in the memorandum of understanding with United Nations Agency A and the supplementary guidance.

DM accepted recommendation 4 and stated that OPPBA would establish procedures for the Review Committee to monitor compliance with relevant provisions in the MOU related to the development of project documents. Recommendation 4 remains open pending receipt of established procedures on periodic monitoring.

Definitions and calculations of additional direct costs needed to be included in the supplementary guidance and related costs appropriately monitored

31. Locally and centrally managed direct costs, or overhead costs incurred by the Agency to support several projects, should be monitored to ensure reasonableness.

32. The Agency could not justify the calculation of LMDC and did not track them despite a request from the Controller's Office. The Agency indicated that it does not track individual projects' use of these charges. If these costs are not tracked, then they are inappropriately classified as 'direct costs' and increase the amount of management fees charged to the project. LMDC costs for the 17 projects reviewed by OIOS totaled over \$6 million. Only five of their budgets included specific details of what was covered by the LMDC. In three of these projects, LMDC covered the Agency's expenditure on rent, cleaning services, utilities and stationery. It may be argued that these costs should be covered by the Agency's management fees, defined as indirect costs associated with the development, negotiation, conclusion and implementation of financial agreements.

33. In addition, 7 of the 17 project budgets included the line item 'centrally managed direct costs' ranging from \$9,000 to \$12,000, and two included the line item 'contingency fee' of \$944,000 (or 25 per cent) in one case and \$63,000 (or 18 per cent) in another. There were no details and no definition of these charges included in any of the guiding documents, including when such contingencies should be utilized.

34. Inadequate information in the MOU and project budgets on direct costs and contingency fees hindered the Secretariat's ability to identify if any of these costs should have been covered by the Agency's management fees or determine whether direct costs had been allocated to various Secretariat projects appropriately.

(5) DM should revise the provisions of the memorandum of understanding with the United Nations Agency A to include: a) detailed definitions and methods of calculating locally and centrally managed direct costs and contingency fees; b) the requirement that programme managers are to ensure that such costs are separately identified in the budget and monitored; and c) guidelines on the utilization of contingency fees.

DM accepted recommendation 5 and stated that OPPBA would revise the MOU in collaboration with Agency A to include definitions, calculation and monitoring of locally and centrally managed direct costs and contingency fees. Recommendation 5 remains open pending receipt of the revised MOU.

Management fees rates charged to projects were in accordance with the MOU

35. In accordance with the MOU, the Agency's management fee covers the indirect costs associated with implementing a financial agreement. These charges should equal 8 per cent of direct costs for most projects. The UNMAS and information technology financial agreements included a management fee of 5 per cent, taking into account the large value of direct costs. OIOS reviewed the terms of the financial agreements to ensure that the stipulated management fees did not exceed 8 per cent and concluded that the rates charged were in accordance with the MOU.

The supplementary guidance needed revision to require project payments to be based on both cash flow requirements and progress on the implementation of the project

36. The MOU states that the amount, number, and frequency of instalment payments shall be determined based on the specific operational needs of the project, the project's milestones and progress of the project. Notwithstanding this, if the project duration is less than one year, two instalment payments may be made with the first payment representing 60 per cent of the total project costs. Additionally, if a project is less than \$1 million, 100 per cent of the project costs may be paid. The MOU states that the first instalment payment shall be made within 15 working days of the signature of the financial agreement.

37. OIOS review of the payment terms included in the 17 financial agreements sampled noted the following:

- a) There were no financial agreements stipulating payments to be made based on projects' operational needs/cash flow requirements;
- b) Only three projects had payment schedules linked to progress of deliverables;
- c) Only six agreements stated that payments would be made after receipt of interim financial reports submitted by the Agency; and
- d) No agreements required submission of substantive reports prior to payment.

38. As of 31 December 2015, approximately \$100 million had been paid on 10 ongoing projects, of which \$54 million had been expended by the Agency (according to available financial reports). This left \$46 million in advance payments. Only six of these projects included a report on interest earned on these balances, as required by the MOU.

39. Non-alignment of project payment schedules with cash flow requirements and/or progress status may reduce the Secretariat's ability to generate income from large advance payments and exposes it to financial risks in the event of poor/under performance or disputes. OIOS, in its report 2015/122 on the review of the management of implementing partners by the United Nations Secretariat, recommended that OPPBA should assess the risk pertaining to large advance payments to implementing partners. Therefore, OIOS did not issue another recommendation at this time.

D. Performance reporting and monitoring

Progress reports needed to be submitted timely by the Agency to support project performance monitoring

40. The MOU requires the Agency to submit financial and substantive reports within 30 days of the end of each quarter. In addition, the Agency needed to provide interim financial progress reports within one month of the end of the project, and final financial report no later than 31 July of the year following the financial closure of the project.

41. The Agency prepared and submitted timely substantive reports on 3 of the 17 projects reviewed on a quarterly basis, and annual reports on the achievements of 2 other projects. Implementation of three projects had recently started or not yet started at the time of audit; therefore, reports were not yet due. OIOS was unable to verify timely submission of substantive reports for the remaining nine projects.

42. Most substantive reports submitted by the Agency followed the template provided by the MOU and covered general progress of the projects. However, with unclear parameters and/or timelines in the statements of requirements, actual progress could not be easily compared with planned implementation.

The three UNMAS projects were the exception, as they had clear parameters and timelines, which were referenced in the related substantive reports.

43. Quarterly financial reports were submitted timely for six projects. Five other projects had some quarterly reports available for review but it was not possible to confirm whether they had been submitted on time because they were not dated. No financial reports were available for the remaining three projects. Generally, the financial reports submitted by the Agency were highly summarized and not conducive to a detailed comparison of expenditures to the budgets included in the statements of requirements. While these reports followed the template as included in an Annex to the MOU, the information provided was insufficient for project monitoring purposes. This could result in ineffective project management, inaccurate evaluation of the Agency's performance and non-detection of inappropriate use of resources.

(6) DM should revise the supplementary guidance to strengthen performance monitoring of projects implemented by United Nations Agency A including: a) reviewing and, if necessary, revising the templates for substantive and financial reports to ensure they provide an appropriate level of information; and b) requiring programme managers to ensure timely submission of substantive and financial reports by the Agency to facilitate performance reviews.

DM accepted recommendation 6 and stated that OPPBA would revise the supplementary guidance, in collaboration with clients, to strengthen performance monitoring of projects implemented by Agency A. Recommendation 6 remains open pending receipt of the revised supplementary guidance.

E. Annual refund

The MOU provisions related to the annual refund and management fee needed revision

44. The MOU states that given the economies of scale and efficiencies of working in close partnership, where the cumulative indirect costs charged by the Agency on Secretariat projects exceed an agreed threshold in a calendar year, the Agency will provide a refund to the Secretariat in accordance with the schedule included in the MOU.

45. The Agency submitted information on indirect costs charged on Secretariat projects for both 2014 and 2015 only in August 2016. The total reported for 2014 and 2015 was \$15,896,196 and \$15,582,429, respectively, which fell below the \$16 million threshold stipulated in the MOU. As a result, the Agency informed the Secretariat that no refund of any indirect costs would be paid for those years. Payments of additional management fees of \$104,000 and \$418,000 for 2014 and 2015 respectively, would have yielded a refund of \$2 million dollars for each year.

46. OIOS review identified the following:

- i. The Agency's information on management fees did not reconcile to information available in the Secretariat

47. The Agency provided the Office of the Controller with details supporting their calculation of the annual management fee refund but they were difficult to validate. OIOS attempted to trace project expenditures for 25 financial agreements as detailed in the Agency 2015 year-end financial progress reports to the detailed refund calculation list provided by the Agency. However, only 17 of the projects could be traced by project number or description, and OIOS was only able to obtain financial progress reports

prepared by the Agency for 15 projects. Comparison of the year-end expenditures and the detailed refund calculation for 2015 showed that:

- a) Expenditures for seven projects were in agreement;
- b) Expenditures for six projects were lower in the Agency refund calculation by a range of \$683 to \$98,000 (totaling \$115,000); and
- c) Expenditures for two projects were higher in the Agency refund calculation by \$1,000 and \$2,000.

48. The results of this test showed a net understatement by the Agency of \$112,000 in expenditure. A more detailed review could reveal other understatements.

- ii. The refund was based on expenditure and not payments by the Secretariat

49. The calculation of the refund was based on incurred and accrued expenditure recorded by the Agency and the Secretariat had no easy means of independently verifying the amounts. A more transparent and objective basis of calculation would provide greater assurance of its accuracy.

- iii. Several Secretariat entities were excluded from the refund calculation

50. Payments by the United Nations Office on Drugs and Crime, United Nations Environment Programme and United Nations Centre for Human Settlements were not included in the calculation by the Agency because these entities had entered into financial agreements under different MOUs with the Agency. In the 2016 calendar year, these payments totaled \$9 million, \$38 million and \$28 million, respectively.

51. Some projects, including those related to UNMAS and information technology, negotiated management fees of 5 per cent due to the economies of scale. As such, DM could have achieved savings had management fees been set at 5 per cent instead of seeking to obtain a refund from the Agency, given the level of payments made by the Secretariat to the Agency (\$358 million in the 2016 calendar year).

52. The terms of the MOU and the supplementary guidance did not allow for the United Nations Secretariat to most effectively and efficiently verify the computation of the refund payable under the MOU.

(7) DM should reconcile 2014 and 2015 annual expenditures and management fees with United Nations Agency A to verify whether the annual refund, provided for under the memorandum of understanding between the two entities, was due for those years.

DM accepted recommendation 7 and stated that OPPBA would reconcile 2014 and 2015 expenditures and management fees to verify whether the annual refund was due. Recommendation 7 remains open pending receipt of the results of the reconciliation.

(8) DM should revisit the terms in the memorandum of understanding with United Nations Agency A and explore the possibility of removing the provision of an annual refund and renegotiate the management fee.

DM accepted recommendation 8 and stated that OPPBA would work with Agency A to explore the feasibility of removing the annual refund. Recommendation 8 remains open pending receipt of the results of negotiation of the management fee with Agency A.

V. ACKNOWLEDGEMENT

53. OIOS wishes to express its appreciation to the management and staff of DM 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 the memorandum of understanding between the United Nations Secretariat and a United Nations Agency

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	DM should strengthen oversight mechanisms to enable the Controller to effectively oversee and monitor delegated authorities to enter into financial agreements with United Nations Agency A. This should include: a) ensuring the Review Committee is operational; b) developing customized reports that include pertinent information on United Nations engagement with the Agency; and c) establishing deadlines for submission of financial agreements and the amendments thereto for approval.	Important	O	Submission of the terms of reference of the Review Committee and evidence of their oversight activities.	31 December 2017
2	DM should establish procedures to ensure financial agreements, and related statements of requirements, with United Nations Agency A include sufficient parameters to facilitate objective measurement of the Agency's performance before the financial agreements are approved.	Important	O	Submission of procedures to ensure financial agreements, and related statements of requirements include sufficient parameters to facilitate objective measurement of Agency A's performance.	30 June 2018
3	DM should: a) develop procedures to benchmark the costs proposed by United Nations Agency A before a decision to engage the Agency is made; and b) develop criteria to determine in which cases these procedures should apply.	Important	O	Submission of established procedures for proper benchmarking of the Agency's costs, such as sufficient advance notice, methods of benchmarking, level of details for requirements, etc.	30 June 2018
4	DM should establish procedures to conduct periodic monitoring of compliance with guidance on the development of project documents stipulated in the memorandum of understanding with United Nations Agency A and the supplementary guidance.	Important	O	Submission of established procedures for the Review Committee to periodically monitor compliance with relevant provisions in the MOU related to the development of project documents.	30 June 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 DM in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the management of the memorandum of understanding between the United Nations Secretariat and United Nations Agency A

Rec. no.	Recommendation	Critical/ Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
5	DM should revise the provisions of the memorandum of understanding with the United Nations Agency A to include: a) detailed definitions and methods of calculating locally and centrally managed direct costs and contingency fees; b) the requirement that programme managers are to ensure that such costs are separately identified in the budget and monitored; and c) guidelines on the utilization of contingency fees.	Important	O	Submission of the revised memorandum of understanding that includes detailed definitions and methods of calculating locally and centrally managed direct costs and contingency fees; requirements to monitor these costs and guidelines on utilization of contingency fees.	30 June 2018
6	DM should revise the supplementary guidance to strengthen performance monitoring of projects implemented by United Nations Agency A including: a) reviewing and, if necessary, revising the templates for substantive and financial reports to ensure they provide an appropriate level of information; and b) requiring programme managers to ensure timely submission of substantive and financial reports by the Agency to facilitate performance reviews.	Important	O	Submission of the revised supplementary guidance to strengthen performance monitoring of projects implemented by Agency A.	30 June 2018
7	DM should reconcile 2014 and 2015 annual expenditures and management fees with United Nations Agency A to verify whether the annual refund, provided for under the memorandum of understanding between the two entities, was due for those years.	Important	O	Submission of the results of the reconciliation of 2014 and 2015 annual expenditures and management fees to verify whether the annual refund was due from the Agency.	30 June 2018
8	DM should revisit the terms in the memorandum of understanding with United Nations Agency A and explore the possibility of removing the provision of an annual refund and renegotiate the management fee.	Important	O	Submission of the results of negotiation of the management fee in the MOU with Agency A.	30 June 2018

APPENDIX I

Management Response

United Nations  Nations Unies
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Ms. Muriette Lawrence-Hume, Chief, New York Audit Service DATE: 2 August 2017
A: Internal Audit Division, Office of Internal Oversight Services

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

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

SUBJECT: **Draft report on an audit of the management of the memorandum of understanding
OBJET: between the United Nations Secretariat and United Nations Agency A (Assignment No.
AH2016/513/01)**

1. We refer to your memorandum dated 19 July 2017 regarding the above-subject draft report and provide you with comments of the Department of Management (DM) in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

Management Response

Audit of the management of the memorandum of understanding between the United Nations Secretariat and United Nations Agency A

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	DM should strengthen oversight mechanisms to enable the Controller to effectively oversee and monitor delegated authorities to enter into financial agreements with United Nations Agency A. This should include: a) ensuring the Review Committee is operational; b) developing customized reports that include pertinent information on United Nations engagement with the Agency; and c) establishing deadlines for submission of financial agreements and the amendments thereto for approval.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	31 December 2017	The Controller has established the Review Committee, held a kick-off meeting, and is finalizing the Terms of Reference with inputs of the Committee members.
2	DM should establish procedures to ensure financial agreements, and related statements of requirements, with United Nations Agency A include sufficient parameters to facilitate objective measurement of the Agency's performance before the financial agreements are approved.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will coordinate with client departments and offices to ensure that financial agreements entered into with United Nations Agency A, and related statements of requirements, include parameters for objective performance measurement of the Agency's performance before the agreement is approved.
3	DM should: a) develop procedures to benchmark the costs proposed by United Nations Agency A before a decision to engage the Agency is made; and b) develop criteria to determine in which cases these procedures should apply.	Important	Yes	Assistant Secretary-General and Controller, OPPBA and Assistant Secretary-General, OCSS	30 June 2018	OPPBA will coordinate with OCSS to develop procedures on what is needed to allow proper benchmarking, such as sufficient notice in advance, methods of benchmarking, level of details for requirements, etc.

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 the memorandum of understanding between the United Nations Secretariat and United Nations Agency A

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
4	DM should establish procedures to conduct periodic monitoring of compliance with guidance on the development of project documents stipulated in the memorandum of understanding with United Nations Agency A and the supplementary guidance.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will establish procedures for the Review Committee to monitor the compliance with relevant provisions for development of project documents stipulated in the Memorandum of Understanding with United Nations Agency A and the supplementary guidance.
5	DM should revise the provisions of the memorandum of understanding with the United Nations Agency A to include: a) detailed definitions and methods of calculating locally and centrally managed direct costs and contingency fees; b) the requirement that programme managers are to ensure that such costs are separately identified in the budget and monitored; and c) guidelines on the utilization of contingency fees.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will revise the Memorandum of Understanding, in collaboration with United Nations Agency A, to include the requirements outlined in the recommendation.
6	DM should revise the supplementary guidance to strengthen performance monitoring of projects implemented by United Nations Agency A including: a) reviewing and, if necessary, revising the templates for substantive and financial reports to ensure they provide an appropriate level of information; and b) requiring programme managers to ensure timely submission of substantive and financial reports by the Agency to facilitate performance reviews.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will revise the supplementary guidance, in collaboration with clients, to include the requirements outlined in the recommendation.

Management Response

Audit of the management of the memorandum of understanding between the United Nations Secretariat and United Nations Agency A

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
7	DM should reconcile 2014 and 2015 annual expenditures and management fees with United Nations Agency A to verify whether the annual refund, provided for under the memorandum of understanding between the two entities, was due for those years.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will reconcile the expenditures and management fees for 2014 and 2015 to verify whether the annual refund was due.
8	DM should revisit the terms in the memorandum of understanding with United Nations Agency A and explore the possibility of removing the provision of an annual refund and renegotiate the management fee.	Important	Yes	Assistant Secretary-General and Controller, OPPBA	30 June 2018	OPPBA will work with United Nations Agency A to explore the feasibility of removing the annual refund.