



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

### **REPORT 2016/105**

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#### **Audit of investment management in the Office of Programme Planning, Budget and Accounts**

**Overall results relating to the effective  
management of investments were initially  
assessed as partially satisfactory.  
Implementation of nine important  
recommendations remains in progress**

**FINAL OVERALL RATING: PARTIALLY  
SATISFACTORY**

**16 September 2016**

**Assignment No. AH2015/511/02**

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# AUDIT REPORT

## Audit of investment management in the Office of Programme Planning, Budget and Accounts

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of investment management in the Office of Programme Planning, Budget and Accounts (OPPBA).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: a) efficient and effective operations; b) accurate financial and operational reporting; c) safeguarding of assets; and d) compliance with mandates, regulations and rules.
3. As part of OPPBA, Treasury provides investment services to the United Nations Secretariat and selected funds and programmes. The assets are managed in two separate investment pools; the Main (United States dollars) pool and Euro pool. These investment pools totaled approximately \$9.3 billion (98 per cent in United States dollars, 1 per cent in Euros and 1 per cent in Swiss Francs) as at 31 December 2014. Investments were in major segments of the money and fixed income markets. Table 1 below shows the breakdown of the Main Pool by investment type. (2015 balances were not yet finalized at the time of the audit.)

**Table 1: Main pool by type of investment at 31 December 2014 (in millions United States dollars)**

<b>Investment type</b>	<b>Balance</b>	<b>Percentage</b>
Supranational Debt/Sovereign and Government Guaranteed Debt	3,824	41
Bank Deposits	3,344	36
United States Treasury Securities	1,700	18
United States Agencies Securities	460	5
<b>Total</b>	<b>9,328</b>	<b>100</b>

4. The Organization's investment management objectives are: a) preservation of capital; b) maintenance of sufficient liquidity to meet operating cash requirements; and c) earning of competitive market rates of return. The investment objectives, performance parameters and specific limitations on activities are documented in the United Nations Investment Management Guidelines. An Investment Committee, chaired by the Assistant Secretary-General, Controller, OPPBA is responsible for assessing Treasury's compliance with the Guidelines and Treasury Specific Limits.
5. The Investments Section in Treasury is responsible for the management of investments. It consists of three Professional and one General Service Staff reporting to the Treasurer. At the time of the audit, the position of Section Chief was vacant. The Investment Accounting Unit in the Accounts Division is responsible for record keeping and accounting.
6. Comments provided by the Department of Management are incorporated in italics.

## II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of OPPBA governance, risk management and control processes in providing reasonable assurance regarding the **effective management of investments in OPPBA**.

8. The audit was included in the 2015 risk-based work plan of OIOS due to the operational and financial risks of managing a high value of investments.

9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as one that provides reasonable assurance that policies and procedures: a) exist to guide investment management operations; b) are implemented consistently; and c) ensure reliability and integrity of financial information:

10. The key control was assessed for the control objectives shown in Table 2.

11. OIOS conducted this audit from January to April 2016. The audit covered the period from January 2014 to December 2015. The scope of the audit encompassed an assessment of: a) oversight by the Investment Committee; b) investment risk management; c) established benchmarks; d) segregation of duties; e) system access controls; f) established policies and procedures; g) investment transaction processing; and h) compliance and performance monitoring.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key control in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

## III. AUDIT RESULTS

13. The OPPBA governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding **the effective management of investments in OPPBA**. OIOS made nine recommendations to address issues identified in the audit. OPPBA established appropriate segregation of duties for investment management, including custody of assets, record keeping and accounting, authorization and reconciliation. Parameters included in the asset and investment management system (AIM) were in line with the Investment Management Guidelines and Treasury Specific Limits. The Finance Risk Officer also ensured that each trade was in accordance with the Guidelines and Limits.

14. However, OPPBA needed to: a) review the role and composition of the Investment Committee; b) document the criteria for managing liquidity and interest rate risks and the rationale for the selected benchmark; c) develop an investment operations manual; d) establish a leave policy for investment officers; e) establish an alternate for the compliance function; and f) revise the reporting lines of the Finance Risk Officer. Access controls in AIM also needed improvement.

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<sup>1</sup> A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist 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.

15. The initial overall rating was based on the assessment of the key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of nine important recommendations remain in progress.

**Table 2: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of investments in OPPBA	Regulatory framework	Partially satisfactory	Satisfactory	Satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## Regulatory framework

OPPBA needed to review the role and composition of the Investment Committee

16. In accordance with the Investment Committee’s terms of reference, its members should comprise senior officials drawn from different functional areas of the Organization. In addition, as a best practice, the role and authority of an investment committee should be clearly articulated and understood by its members. The committee should include professionals with expertise, experience and time to oversee the investment portfolio.

17. The Investment Committee, chaired by the Controller or Deputy Controller, assisted the Controller in overseeing investments. Its members were appointed by the Controller and comprised the directors of the three divisions in OPPBA, the Treasurer, Chief of the Investments Section, and the Director, Investment Management Division in the United Nations Joint Staff Pension Fund (UNJSPF). All members were from the same functional area, except for the member from UNJSPF, which could impact the diversity and knowledge base of the Committee.

18. OIOS reviewed the minutes of the six meetings held during the audit period and noted that attendance at meetings by some members of the Investment Committee was not adequate to ensure continuity and consistency, which could reduce its effectiveness. For example, the Director of Programme Planning and Budget Division never attended a meeting and, following the retirement of the incumbent, the last meeting attended by the member from UNJSPF was in January 2015.

19. The role of the Investment Committee was also unclear. For example, the Guidelines stipulated that its role is to assess Treasury’s compliance with the United Nations Investment Management Guidelines and Treasury Specific Limits, while the terms of reference indicated that it is to review such compliance. Also, the Committee reviewed portfolio performance and strategy, which was not included as a function in either the Guidelines or terms of reference. These documents therefore did not provide adequate details regarding the purpose of the Investment Committee.

**(1) OPPBA should clarify the role of the Investment Committee and review its composition to ensure that the Committee’s members are from different functional areas of the Organization with expertise, experience and time to oversee the investment portfolio.**

*OPPBA accepted recommendation 1 and stated that it would clarify the role of the Investment Committee and review its composition to ensure that members are from different functional areas. Recommendation 1 remains open pending receipt of evidence that the role and composition of the Investment Committee have been clarified.*

The Investment Committee needed to review performance timely

20. As a best practice, an investment committee should receive and review up-to-date reports on the performance and risk of the portfolio.

21. Treasury presented the Committee with information on the performance of investments twice a year. However, the Committee did not review the performance in a timely manner. For example, performance for the six month period ended 31 December 2014 was reviewed in April 2015. In comparison, UNJSPF Investment Committee reviewed the Fund's investment performance one month after the period end.

22. Treasury indicated that the delay in performance review was due to late closure of financial statements in Umoja by the Accounts Division. OPPBA expects to close financial statements more timely in the future. Therefore, OIOS did not make a recommendation at this time.

OPPBA needed to document criteria for managing investment risks

23. As a best practice, it is critical to understand the nature of investment risks and take steps to manage them to ensure investment management objectives are met.

24. Investment risks were identified in the Investment Management Guidelines, along with the potential impact and mitigation measures. OIOS reviewed how the Treasury managed selected risks in order to achieve its investment objectives:

a) Credit risk: The Guidelines stipulated the minimum allowable credit ratings for the various investment instruments. These limits were embedded in AIM to ensure compliance and no exceptions were noted.

b) Liquidity risk: This risk was mitigated in part by anticipating cash requirements. However, Treasury had no documented criteria to determine how much liquid cash balances to maintain. The Investments Section made investment decisions based on the daily cash balance and a general knowledge of the timing and amount of the most significant cash outflows. Average daily cash balances of liquid investments were \$1.3 billion and \$1.9 billion for 2014 and 2015, respectively. Monthly payments for salaries, insurance and pension premiums were estimated at \$370 to \$450 million, while quarterly troop and equipment payments were estimated at \$530 million. Without criteria to determine how much liquid cash balances to maintain, Treasury may not effectively achieve its investment objectives. Treasury indicated that due to the nature of the United Nations' cash inflows and outflows, there was limited information provided to the Investments Section to make decisions. With the implementation of Umoja, Treasury expects that more historical data would be available for forecasting of cash inflows and outflows. It was noted that Treasury used a sweep account whereby funds were automatically swept to interest-earning accounts at the end of each business day.

c) Interest rate risk: The Guidelines indicated that interest rate risk was mitigated by holding investments to maturity. However, a significant number of investments were not held to maturity.

In 2014 and 2015, there were \$36.7 billion in ‘buys’ related to the Main Pool of which 60 per cent were not held to maturity. The portfolio was being actively managed, with the goal of outperforming the investment benchmark index, which was not reflected in the Investment Management Guidelines.

25. The above occurred because the Guidelines had not been updated and approved by the Controller to reflect risk mitigating measures in practice in Treasury. This may result in non-achievement of investment objectives.

**(2) OPPBA should develop documented criteria to determine how much liquid cash balances to maintain to effectively manage investments.**

*OPPBA accepted recommendation 2 and stated that it would document the existing cash management procedure.* Recommendation 2 remains open pending receipt of the cash management procedure documenting criteria on the determination of liquid cash balances.

**(3) OPPBA should revise the Investment Management Guidelines to reflect actual measures used to mitigate interest rate risk.**

*OPPBA accepted recommendation 3 and stated that it would revise the Investment Management Guidelines with respect to mitigating interest rate risk.* Recommendation 3 remains open pending receipt of the revised Investment Management Guidelines that reflect actual measures used to mitigate interest rate risk.

OPPBA needed to document analysis and rationale for selected benchmarks

26. As a best practice, benchmarks are central to measuring investment performance and should mirror the investment style of the portfolio.

27. The investment benchmark stated in the Investment Management Guidelines is the average three-month United States Treasury Bill rate. This was 0.02 per cent in 2014, while the 2014 rate of return for the Main Pool was 0.7 per cent, which was 35 times the benchmark. The Main Pool has out-performed the benchmark in 9 of the last 11 years, ranging between 1 and 36 times the benchmark. The benchmark did not mirror the structure of the investments in the Pool as only 46 per cent of the Main Pool had investments with maturities from 0 to 3 months at 31 December 2014. However, Treasury indicated that the benchmark mirrored the highly liquid nature of the portfolio in line with the investment management objectives given the lack of visibility of cash inflows and outflows.

28. There was no documented analysis or rationale supporting the benchmark selected. An inappropriate benchmark may affect the measurement of performance and the effectiveness of the investment strategy. Treasury noted that the benchmark for each investment pool was consistent with industry standards and appropriate for the associated investment guidelines and as the portfolios had historically performed well.

**(4) OPPBA should review the appropriateness of the benchmark selected to measure investment performance and document the analysis and rationale supporting its selection.**

*OPPBA accepted recommendation 4 and stated that it would review and document the analysis and rationale supporting the current benchmark.* Recommendation 4 remains open pending receipt of the documented analysis and rationale supporting the investment benchmark.

OPPBA established appropriate segregation of duties for investment management

29. As a key concept of internal controls, segregation of duties should be established to reduce risk of erroneous and inappropriate actions.

30. OPPBA segregated key duties including custody of financial assets (custodian), record keeping and accounting (back office), authorization of transactions (front office) and reconciliation of trade details between AIM and the custodian (middle office). While both investment decision-making and the execution of trades were carried out by the investment officers, trades required two signatures. OIOS concluded that OPPBA had established appropriate segregation of duties over investment transactions.

OPPBA needed to improve access controls in the AIM system

31. Access to AIM should be defined based on staff members' responsibilities.

32. Individual logins were established to access AIM, Umoja, and the system used for payments. OIOS reviewed access rights provided to each individual in AIM and concluded that all users listed in AIM were current and there were no generic users. However, the Finance Risk Officer and the Investment Assistant had access to execute trades in AIM, which was not in line with their functions. Although OIOS confirmed that the Finance Risk Officer and Investment Assistant did not execute any trades during the period under review, there was a risk that inappropriate access rights may enable an individual to execute erroneous or fraudulent transactions. Treasury explained that the rights were granted during the implementation of AIM and that they would investigate with the system owner ways to limit this access.

**(5) OPPBA should review the access rights of the Finance Risk Officer and the Investment Assistant in the asset and investment manager system to ensure they match their functions.**

*OPPBA accepted recommendation 5 and stated that it would review the access rights of the Finance Risk Officer and the Investment Assistant. Recommendation 5 remains open pending receipt of the results of the review of access rights of the Finance Risk Officer and the Investment Assistant in AIM.*

OPPBA needed to develop an investment operations manual

33. Treasury is expected to provide detailed guidance to implement the requirements of the Investment Management Guidelines and Treasury Specific Limits.

a. Parameter changes in AIM needed to be approved

34. The Investment Management Guidelines and Treasury Specific Limits provided lists of allowed and prohibited investment types, and various limits including maturity limits, issuer limits, and credit rating limits. The Treasury Specific Limits were approved by the Controller. OIOS confirmed that the Guidelines and Treasury Specific Limits were embedded in AIM as compliance parameters. AIM checked positions of the portfolios and each transaction against the parameters to ensure compliance. In addition, the Finance Risk Officer reviewed violation reports from AIM on investment portfolios and individual transactions daily. OIOS reviewed each violation instance reported during the period under review and confirmed that the requirements of the Guidelines and Treasury Specific Limits were complied with at the time of the trades.

35. While the parameters and level of rule severity may be modified only by the Finance Risk Officer, OIOS noted that approval from the Treasurer was not required for changes made to the



parameters and the Treasurer did not review reports from AIM on changes made. OIOS reviewed 10 out of 44 adjustments to AIM parameters made during July 2014 to December 2015 and concluded that there was no evidence of inappropriate adjustments of parameters.

36. The Treasurer did not approve parameter changes in AIM because there was no documented investment operations manual which required this. Inappropriate and unauthorized modifications to the parameters embedded in AIM may lead to investment transactions that are not in line with the Guidelines and Treasury Specific Limits.

b. No pre-trade verification was conducted to ensure losses were not incurred on sales

37. The Investment Management Guidelines and Treasury Specific Limits require that no sale should incur a loss.

38. This requirement was not embedded in AIM. Investment Officers manually verified the original purchase price with the custodian report to avoid executing a sale at a loss. Paper blotters (trade documents which include details of trades) were prepared by the Investments Section. However, they were sent to the Investment Accounting Unit for processing and to the Finance Risk Officer for review simultaneously. As a result, there was no pre-trade verification by the Finance Risk Officer who performed the compliance function.

39. According to Treasury, the requirement that no sale should incur a loss was not technically feasible to be automated in AIM or Umoja. Manual controls by the Finance Risk Officer for pre-trade verification were also not established. There was therefore a risk that sales could be executed at a loss. However, OIOS confirmed with the back office that no losses on investment sales were incurred during the period under review.

c. Rationale supporting investment decisions was not documented

40. Preparation, approval and processing of investment purchase and sale transactions should follow appropriate control procedures.

41. During 2014 and 2015, there were 376 fixed income security transactions (totaling \$54 billion) and 107 time deposit transactions (totaling \$7 billion). OIOS selected 29 transactions (totaling \$4.1 billion) for review. Details of all selected transactions were agreed to a transaction report from AIM without exception.

42. However, there was no documentation of the rationale supporting investment decisions. According to Treasury, the Investments Section held bi-monthly portfolio meetings to discuss the investment strategy, but they were not documented. The investment officer initiating the transaction selected the best price using a list of brokers and prices generated in AIM. OIOS identified one instance where the best price was not selected and there was no notation supporting the reason. Treasury indicated that prices were always being adjusted, sometimes seconds prior to completing the buy/purchase. There was no evidence that the approving officer reviewed the rationale behind the transactions, and that the investment was not sold at a loss prior to approval.

43. The lack of an operations manual may result in the execution of transactions that are not in line with the agreed upon investment strategy and/or Guidelines.

**(6) OPPBA should develop an investment operations manual to guide operations. This should include, among others, requirements: (a) to review and approve changes to the parameters**

**embedded in the investment management system; (b) for the Finance Risk Officer to conduct pre-trade verification to ensure that no sale of investment incurs a loss; and (c) to document the rationale supporting investment decisions.**

*OPPBA accepted recommendation 6 and stated that it would develop an investment operations manual to guide operations. Recommendation 6 remains open pending receipt of the investment operations manual.*

OPPBA needed to establish straight-through processing of investment transactions

44. The United Nations Financial Regulations and Rules stipulate that all commitments, obligations and expenditures require at least two authorizing signatures.

45. The process of reviewing and authorizing investment transactions was cumbersome and prone to errors. For example, since the Investment Accounting Unit did not have access to AIM, they relied on paper blotters to confirm trade details. The blotters included information such as value date, security description, principal, price and the name of the broker/dealer. The printed ticket from AIM was attached to the paper blotter and reviewed by another Investment Officer, the Section Chief or the Treasurer, prior to forwarding them to the Investment Accounting Unit. Each transaction in AIM required two signatures to initiate and approve the trade.

46. In the 29 transactions reviewed, there were inconsistencies and errors in this process. A comparison of paper blotter signatures against those in AIM showed that the individual who initiated the transaction was different in three cases, and the individual who approved the transaction was different in 11 cases. Additionally, the initiator and approver was the same individual in AIM in four transactions totaling \$500 million. OIOS noted the system was set to prevent the same individual from being both the initiator and approver of a transaction and it was unclear how these four transactions were allowed to be processed. OIOS requested the AIM system owner to provide a log of who overrode this control; however, no information was provided.

47. Furthermore, two transactions only had one signature on the paper blotter even though the Investment Accounting Unit processed the transactions. The Unit indicated that it would normally request the Investments Section to resubmit the blotters but in these cases, the transactions were processed inadvertently.

48. The Investment Accounting Unit confirmed transaction details such as trade price and quantity with the broker. The Investment Accounting Unit also reconciled the trade details with the settlement confirmation from the custodian. OIOS confirmed that the selected transactions were settled timely.

49. The discrepancies occurred because there was no straight-through processing in Umoja that would allow the entire process to be conducted electronically without the need for manual processing. This exposed the Organization to the risk of erroneous and inappropriate investment activities.

**(7) OPPBA should request the Umoja team to establish straight-through processing of investment transactions to avoid manual errors.**

*OPPBA accepted recommendation 7 and stated that it had submitted a request to the Umoja team for straight-through processing of investment transactions. Recommendation 7 remains open pending receipt of evidence that straight-through processing of investment transactions has been established.*

OPPBA needed to review the reporting lines of the Finance Risk Officer

50. As a best practice, the finance risk officer, who conducts the compliance function, should report to a senior official who is not involved in the day-to-day management of investments to empower the position with sufficient independence and authority to accomplish its responsibilities.

51. The Finance Risk Officer reported directly to the Treasurer. OIOS noted that in the period reviewed, transactions totaling approximately \$30.4 billion in the Main Pool (42 per cent of the number or 49 per cent of the total value of transactions) were initiated by the Treasurer. Therefore, it would be more appropriate for the Finance Risk Officer to have reporting lines outside the Treasury, to ensure independence.

52. Treasury explained that the small number of team members in the Investment Section did not allow for alternative reporting lines. However, independence of the compliance function may be compromised without appropriate reporting lines.

**(8) OPPBA should review and revise the reporting line of the Finance Risk Officer to ensure the function remains independent.**

*OPPBA accepted recommendation 8 and stated that it would revise the Investment Guidelines and Procedures to establish a dotted reporting line from the Finance Risk Officer to the Controller and instruct him/her to escalate concerns to the Controller when necessary. Recommendation 8 remains open pending receipt of the revised Investment Guidelines and Procedures reflecting the additional reporting line of the Finance Risk Officer.*

OPPBA needed to establish a leave policy for investment officers and an alternate for the compliance function

53. As a best practice, a leave policy for staff involved in investment management should be established as an important internal safeguard against fraudulent activities. During this time, their duties and responsibilities should be assumed by other staff members.

54. There was no mandatory leave policy for those involved in investment management. While the Investment Officers had alternate staff members who could perform their functions in their absence, there were no alternates for the compliance function. All staff members involved in investment management had taken leave during the period under review.

55. Treasury explained that they follow the administrative instruction on recording of attendance and leave (ST/AI/1999/13). Due to the small team, it was not possible to ensure an alternate for the Finance Risk Officer, as the compliance function could not be combined with an investment officer's function. As a result, when on leave, the Finance Risk Officer was prepared to and, at times, was called upon to work remotely.

56. The lack of a mandatory leave policy and appropriate alternates exposed the Organization to the risk of inappropriate investment activities.

**(9) OPPBA should establish a mandatory leave policy for staff involved in investment management and identify an alternate staff member to perform the compliance function while the incumbent is on leave.**

*OPPBA accepted recommendation 9 and stated that it would develop a mandatory leave policy in*

*line with standard industry practices for investment professionals and identify an alternate staff member to perform the compliance function while incumbent is on leave. Recommendation 9 remains open pending receipt of the mandatory leave policy for staff involved in investment management and receipt of evidence that an alternate staff member has been identified to perform the compliance function during absences of the incumbent.*

The Investment Accounting Unit and the Treasury confirmed and reconciled investment transaction details

57. The Guidelines indicated that trades needed to be confirmed by counterparties and entered in the accounting system by the Investment Accounting Unit.

58. The Unit verified information on paper blotters received from the Investments Section with written confirmation received from the broker. OIOS reviewed the written confirmations for the 29 transactions selected for review. Written confirmations were only available for 18 of the transactions; however, the Unit submitted other information for the remaining 11 transactions, which showed that they were settled as initiated. Additionally, on a daily basis, the Unit reconciled the custodian accounting records to the Umoja system, as evidenced in the review of supporting documents for 15 dates in 2014 and 2015. OIOS concluded that trades were confirmed and reconciled as required.

Income and expense distribution by fund needed to be executed on a real-time basis

59. The Investment Management Guidelines stated that the Investment Accounting Unit was to distribute daily income and expenses of the pools to participants and the income was to be available for immediate use.

60. Subsequent to Umoja implementation in 2014, income and expense distribution by fund was recorded manually in Umoja by the Investment Accounting Unit on a semi-annual basis. OIOS reviewed the calculation and concluded the methodology underlying the calculation was appropriate.

61. This delay in allocation resulted in an inaccurate reflection of funds available to the pool participants. The Investment Accounting Unit indicated that it was working with the Umoja team to develop a functionality that would allow real-time information on pool balances. This capacity was expected to be available by December 2016. Therefore, OIOS made no recommendation at this time.

#### **IV. ACKNOWLEDGEMENT**

62. OIOS wishes to express its appreciation to the management and staff of OPPBA 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 investment management in the Office of Programme Planning, Budget and Accounts

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	OPPBA should clarify the role of the Investment Committee and review its composition to ensure that the Committee's members are from different functional areas of the Organization with expertise, experience and time to oversee the investment portfolio.	Important	O	Submission of evidence that the role and composition of the Investment Committee have been clarified.	30 June 2017
2	OPPBA should develop documented criteria to determine how much liquid cash balances to maintain to effectively manage investments.	Important	O	Submission of the cash management procedure documenting criteria on the determination of liquid cash balances.	30 June 2017
3	OPPBA should revise the Investment Management Guidelines to reflect actual measures used to mitigate interest rate risk.	Important	O	Submission of the revised Investment Management Guidelines that reflect actual measures used to mitigate interest rate risk.	31 December 2016
4	OPPBA should review the appropriateness of the benchmark selected to measure investment performance and document the analysis and rationale supporting its selection.	Important	O	Submission of the documented analysis and rationale supporting the investment benchmark.	30 June 2017
5	OPPBA should review the access rights of the Finance Risk Officer and the Investment Assistant in the asset and investment manager system to ensure they match their functions.	Important	O	Submission of the results of the review of access rights of the Finance Risk Officer and the Investment Assistant in AIM.	31 December 2016
6	OPPBA should develop an investment operations manual to guide operations. This should include, among others, requirements: a) to review and approve changes to the parameters embedded in the	Important	O	Submission of the investment operations manual.	30 June 2017

<sup>2</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>3</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>4</sup> C = closed, O = open

<sup>5</sup> Date provided by the Department of Management in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of investment management in the Office of  
Programme Planning, Budget and Accounts**

Recom. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
	investment management system; b) for the Finance Risk Officer to conduct pre-trade verification to ensure that no sale of investment incurs a loss; and c) to document the rationale supporting investment decisions.				
7	OPPBA should request the Umoja team to establish straight-through processing of investment transactions to avoid manual errors.	Important	O	Submission of evidence that straight-through processing of investment transactions has been established.	31 December 2016
8	OPPBA should review and revise the reporting line of the Finance Risk Officer to ensure the function remains independent.	Important	O	Submission of the revised Investment Guidelines and Procedures reflecting the additional reporting line of the Finance Risk Officer.	31 December 2016
9	OPPBA should establish a mandatory leave policy for staff involved in investment management and identify an alternate staff member to perform the compliance function while the incumbent is on leave.	Important	O	Submission of the mandatory leave policy for staff involved in investment management and receipt of evidence that an alternate staff member has been identified to perform the compliance function during absences of the incumbent.	31 December 2016

# **APPENDIX I**

## **Management Response**

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Ms. Muriette Lawrence-Hume, Chief, New York Audit Service DATE: 8 September 2016  
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 Baéz, Chief, Policy and Oversight Coordination Service  
DE: Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on an audit of investment management in the Office of Programme  
OBJET: **Planning, Budget and Accounts (Assignment No. AH2015/511/02)****

1. We refer to your memorandum dated 23 August 2016 regarding the above subject draft report and provide you with the comments of the Department of Management in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

16-02052  
9 Sept 2016



## Management Response

## Audit of investment management in the Office of Programme Planning, Budget and Accounts

Rec. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OPPBA should clarify the role of the Investment Committee and review its composition to ensure that the Committee's members are from different functional areas of the Organization with expertise, experience and time to oversee the investment portfolio.	Important	Yes	Treasurer	30 June 2017	OPPBA will clarify the role of the IC and review the composition to ensure that members are from different functional areas.
2	OPPBA should develop documented criteria to determine how much liquid cash balances to maintain to effectively manage investments.	Important	Yes	Treasurer	30 June 2017	OPPBA will document the existing cash management procedure which includes daily sweeps of idle bank account cash balances into liquid investment instruments. It should be noted that the reference to daily cash balances of \$1.3 billion to \$1.9 billion pertains to liquid investments and not bank account cash balances. OPPBA's effective liquid cash balance is evident in the consistent out performance of the investment pool versus the bench mark over multi year periods.
3	OPPBA should revise the Investment Management Guidelines to reflect actual measures used to mitigate interest rate risk.	Important	Yes	Treasurer	31 December 2016	OPPBA will revise the Investment Management Guidelines with respect to mitigating interest rate risk.
4	OPPBA should review the appropriateness of the benchmark selected to measure	Important	Yes	Treasurer	30 June 2017	OPPBA will review and document the analysis and rationale supporting

<sup>6</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>7</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

## Management Response

## Audit of investment management in the Office of Programme Planning, Budget and Accounts

Rec. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	investment performance and document the analysis and rationale supporting its selection.					the current benchmark. Treasury notes that the benchmark for each investment pool is consistent with industry standards and appropriate for the associated investment guidelines. OPPBA therefore suggests revising paragraph 28 to clarify that the benchmark is appropriate based on the fact that the portfolios have historically performed well.
5	OPPBA should review the access rights of the Finance Risk Officer and the Treasury Assistant in the asset and investment manager system to ensure they match their functions.	Important	Yes	Treasurer	31 December 2016	OPPBA will review the access rights of the Finance Risk Officer and the Investment Assistant.
6	OPPBA should develop an investment operations manual to guide operations. This should include, among others, requirements: (a) to review and approve changes to the parameters embedded in the investment management system; (b) for the Finance Risk Officer to conduct pre-trade verification to ensure that no sale of investment incurs a loss; and (c) to document the rationale supporting investment decisions.	Important	Yes	Treasurer	30 June 2017	OPPBA will develop an investment operations manual including a step to (a) review and approve changes to the parameters embedded in the investment management system. With regard to (b) OPPBA reiterates that there is no technical solution in AIM or Umoja to perform this task and that the system owner does not currently have plans to add this functionality. With regard to (c), OPPBA proposes to provide a summary of existing notes from the Investment Committee meetings and portfolio meetings between the Investment Officers, Compliance Officer and the Treasurer.
7	OPPBA should request the Umoja team to	Important	Yes	Treasurer	31 December	This request has already been

## Management Response

## Audit of investment management in the Office of Programme Planning, Budget and Accounts

Rec. no.	Recommendation	Critical <sup>6</sup> / Important <sup>7</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	establish straight-through processing of investment transactions to avoid manual errors.				2016	cataloged by UMOJA team and is subject to implementation.
8	OPPBA should review and revise the reporting line of the Finance Risk Officer to ensure the function remains independent.	Important	Yes	Treasurer	31 December 2016	OPPBA agrees to augment the Investment Guidelines and Procedures and to establish a dotted reporting line from the Finance Risk Officer to the Controller instructing the Finance Risk Officer to escalate concerns to the Controller when necessary.
9	OPPBA should establish a mandatory leave policy for staff involved in investment management and identify an alternate staff member to perform the compliance function while the incumbent is on leave.	Important	Yes	Treasurer	31 December 2016	OPPBA will develop a mandatory leave policy in line with standard industry practices for investment professionals and identify an alternate staff member to perform the compliance function while the incumbent is on leave.