



INTERNAL AUDIT DIVISION

REPORT 2020/018

Audit of grants management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

**Internal controls over grant closure, grant
reporting, liquidity management and internal
loans processing need to be strengthened**

28 August 2020

Assignment No. AA2019-210-01

Audit of grants management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of grants management at the United Nations Office at Nairobi (UNON), the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes in ensuring efficiency and effectiveness in the management of grants at UNON, UNEP and UN-Habitat. The audit covered the period from 1 January 2017 to 31 October 2019 and included a review of: (i) grant creation and approval; (ii) grant liquidity management and closure; (iii) grant reporting; and (iv) donor information systems.

The audit showed that internal controls relating to grant closure, grant reporting, liquidity management and internal loans processing needed to be strengthened.

OIOS made nine recommendations. To address the issues identified in the audit:

- UNON, UNEP and UN-Habitat needed to jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency;
- UNON needed to improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat to allow for accurate monitoring of receivables;
- UNEP needed to establish and implement a mechanism to efficiently track and address the recommendations from donor verification missions; and
- UN-Habitat needed to expedite the implementation of recommendations arising from donor verification missions.

UNEP and UN-Habitat, in coordination with UNON, needed to:

- Clean-up grants data to ensure completeness and accuracy;
- Develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja, and use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts;
- Strengthen mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants and ensure accountability for the funds;
- Define the specific actions to take for long overdue receivables including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame; and
- Review and agree on the mechanisms for clearing and issuing financial reports prepared in various formats to conform with donor requirements; ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and issue final reports only after closure of all open items to ensure the accuracy and completeness of the reported figures.

UNON, UNEP and UN-Habitat accepted the recommendations and have initiated action to implement them.

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Audit of grants management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of grants management at the United Nations Office at Nairobi (UNON), the United Nations Environment Programme (UNEP) and the United Nations Human Settlements Programme (UN-Habitat).
2. Grants management refers to the process and methods established in the Organization for processing and oversight of grants. In Umoja, the grants management module is a central system used to store information about contributions from donors (or ‘sponsors’) in a standardized way. Umoja is used to manage both monetary and in-kind contributions from donors, pre-award administration to post-award management, and reporting.
3. UNON is responsible for approval, financial reporting and closing of grants, while UNEP and UN-Habitat are responsible for the creation and execution of grants as well as the substantive reporting. As of 31 December 2019, UNEP had 1,012 open and 818 closed grants, whereas UN-Habitat had 456 open and 721 closed grants.
4. Comments provided by UNON, UNEP and UN-Habitat are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

5. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes in ensuring efficiency and effectiveness in the management of grants at UNON, UNEP and UN-Habitat.
6. This audit was included in the 2019 risk-based work plan of OIOS due to risk that potential weaknesses in the management of grants could adversely affect the implementation of projects and programmes, as well as accountability for the funds.
7. OIOS conducted this audit from October 2019 to February 2020. The audit covered the period from 1 January 2017 to 31 October 2019. Based on an activity-level risk assessment, the audit covered risks areas in the management of grants which included: (i) grant creation and approval; (ii) grant liquidity management and closure; (iii) grant reporting; and (iv) donor information systems.
8. The audit methodology included: (a) interview with key personnel; (b) review of relevant documentation; (c) analytical review of data; and (d) sample testing of grants.
9. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Grant creation and approval

Need to clean up grants data in Umoja

10. The Office of Programme Planning, Budget and Accounts' memorandum of 24 April 2015 on the roll-out of the Umoja Grants Management module, as well as the processes for the management of voluntary contributions, highlight specific user roles that are integral to an effective financial control framework. Specifically, the role of grants management account approver is given to the Accounts Division at Headquarters and its counterparts in Offices away from Headquarters. It includes the responsibility to ensure that all elements of grant master data accurately reflect the terms of financial agreements with donors, or funding agreements with implementing partners.

11. It is essential to periodically update and clean up the grants data to ensure its accuracy and integrity. OIOS' review of grant master data as of 31 October 2019 indicated data quality issues for existing grants, including the following:

(a) Grants created in Umoja had remained at the initial draft or application stage for more than a year, even though these grants had already been approved. For example, 10 grants in UNEP with a total value of \$3.4 million and 31 grants in UN-Habitat with a total value of \$27.9 million were still at the application stage. In addition, 77 grants in UNEP with a total value of \$67.9 million and 81 grants in UN-Habitat with a total value of \$41.7 million were still at the initial draft stage.

(b) Four UNEP grants and one UN-Habitat grant that were created in error between October 2015 and February 2017 had not been canceled in Umoja but showed a life cycle status of either 'award' or 'closing'.

(c) End dates for the validity of grants were not always accurately captured in Umoja. For instance, 27 UNEP grants which became operational between 2013 and 2015 in the pre-Umoja era all indicated grant validity dates of up to 31 December 2050 even though they were in operationally closing status as of 31 October 2019.

12. Grants data need to be periodically updated and cleaned up in Umoja to ensure their completeness and accuracy.

(1) UNEP and UN-Habitat should, in coordination with UNON, clean-up grants data to ensure completeness and accuracy.

UNEP accepted recommendation 1 and stated that grant data is continuously being cleaned. Grants with status 'Application' that have already been approved will be corrected, the status of cancelled grants will be updated, and end dates of closed grants will be correctly reflected. In 2020, UNEP agreed that 1551 grants were priority for closure and as of 31 July 2020, 1104 were closed. UN-Habitat accepted recommendation 1 and stated that it has already acted on the grants identified in paragraph 11 and will perform a semi-annual check on grants data to ensure accuracy and completeness. UNON stated that it will support UNEP and UN-Habitat to implement the recommendation. Recommendation 1 remains open pending receipt of evidence that UNEP and UN-Habitat have taken specific measures in coordination with UNON to clean up the grants data.

B. Grant liquidity management and grant closure

Need to harmonize procedures and define key performance indicators for grant management

13. UNON, UNEP and UN-Habitat had respectively issued eight, one and six standard operating procedures (SOPs) on grants management which explained the procedures relating to open items, payments, grant approval, project closure and financial reporting to donors. OIOS' review of these SOPs showed that none (except one) had defined the performance indicators to assess the efficiency and effectiveness of implementing the grant management processes.

14. UNON's SOP 107 on funds commitment required UNON, UNEP and UN-Habitat to agree upon benchmarks for performance measurement and reporting on grants management. However, there was no evidence that such benchmarks had been agreed and implemented. The SOPs also did not define the criteria for internal loans for grants, the maximum amounts that could be borrowed for grants, and the deadlines for internal loan repayments.

15. The absence of key performance indicators for grant management impacted the effective and efficient monitoring which resulted in delayed closure of grants. Performance indicators would also facilitate measurement and reporting of grant performance and enhance accountability to donors.

(2) UNON, UNEP and UN-Habitat should jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency.

UNON accepted recommendation 2. UNEP accepted recommendation 2 and stated that it will work with UNON to define realistic key performance indicators building on lessons learned from the ongoing grant clean-up project for which a dashboard was developed to manage the priority grants and track progress. UN-Habitat accepted recommendation 2 and stated that it will liaise with UNON and UNEP to jointly define necessary key performance indicators. Recommendation 2 remains open pending receipt of evidence that UNON, UNEP and UN-Habitat have jointly defined key performance indicators for grant management processes.

Need to strengthen controls over grant liquidity and clean up grants with deficit balances

16. The United Nations Financial Regulations and Rules emphasize the need to ensure the liquidity necessary to meet the Organization's cash-flow requirements. The implementation of the programme of work depend on adequate liquidity of grants where project activities are funded. Cash availability is a technical requirement within Umoja without which transactions should not be enabled. OIOS reviewed the grant cash position for UNEP and UN-Habitat and noted the following:

(a) There were 113 UNEP grants with deficit cash balances amounting to \$63 million as of 31 December 2019. One grant of the Global Environment Fund (GEF) had a deficit balance of \$61 million. According to the GEF Funds Management Officer (FMO), the deficit balance is covered by a corresponding receivable on the same grant. The FMO stated that the deficit arose because the overall GEF receivable was converted to this grant rather than individual grants due to lack of adequate supporting documents to determine the correct receivable balance for each individual grant during the conversion process from the Integrated Management Information System to Umoja in June 2015. UNEP explained that in November 2019, it took steps to gradually reduce the GEF deficit by allocating surplus cash totaling \$20.4 million from GEF replenishments, but as of 31 December 2019, UNON had not yet reversed the deficits. Further, the deficit balance is covered by balances in other GEF grants and the overall GEF trust fund does not have

a liquidity problem. The remaining 112 grants with negative balances had total deficit balances amounting to \$1.8 million.

(b) At UN-Habitat, there were 83 grants with deficit cash balances amounting to \$4.9 million. Overall, there were 16 grants in award status (operational) with a deficit of \$3 million, and 64 grants in closing status (operationally closing) with a deficit of \$1.9 million.

17. OIOS analyzed the causes of deficit cash balances and noted that payroll and programme support cost categories were the predominant expenditure items that led to grant deficits as they are charged even when the account has insufficient funds, overriding the control to limit expenditure to cash availability. As per UNON records, a total of 23 posts (14 UNEP and 9 UN-Habitat) were charged to grants with a negative cash balance in October 2019. The numerous deficit balances were attributed to weak liquidity controls.

18. According to UNON, negative cash balances were usually ‘cleaned up’ to enable grant closure by borrowing from other grants with sufficient funds. OIOS noted that the process of cleaning up and borrowing can continue indefinitely since it does not address the root causes. The grants management SOPs are silent on the treatment of cash deficits. Therefore, there is no guidance on how cyclical borrowing and deficits can be avoided.

19. On a weekly basis, UNON sends a reporting package to UNEP and UN-Habitat which includes the statement of financial performance that shows surpluses and deficits in grant accounts. Based on the number of grants with negative balances, there was no evidence that UNEP and UN-Habitat had used the reports effectively to monitor and clean-up accounts with deficit balances. Cash deficits affect the liquidity of grants and lead to delayed closure for operationally closing grants.

(3) UNEP and UN-Habitat should: (i) in coordination with UNON develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja; and (ii) use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.

UNEP accepted recommendation 3 and stated that: (i) the cleanup of the negative cash balances is ongoing as it is an integral part of the grants closure process including review of the weekly report issued by UNON; (ii) it will update the loan policy and procedure document, and hold a briefing for FMOs on the loan application, approval, and settling of internal loans; and (iii) it will review the process by which the GEF cash is managed. UN-Habitat accepted recommendation 3 and stated that it will develop clear guidelines and use Umoja and the weekly UNON statements for monitoring. UNON stated that it will support UNEP and UN-Habitat to implement the recommendation. Recommendation 3 remains open pending receipt of evidence that UNEP and UN-Habitat: (i) have developed and implemented guidelines for handling cash deficits and complying with cash availability controls in Umoja; and (ii) are using the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.

Need to strengthen procedures for issuance and settlement of internal grant loans

20. Loans are an important part of grants management as some donors pay in instalments or on a reimbursable basis, often bringing about the need to internally borrow funds to facilitate implementation of a project before donor funds are received. According to UNON procedures on internal loan process (SOP 106), UNON receives loan requests from UNEP and UN-Habitat and confirms that the request is appropriately justified and duly authorized, and that the lending grant has sufficient funds. Substantive offices at UNEP and UN-Habitat are required to monitor outstanding loan balances and request for

repayment through the Umoja adjustment/loan portal. In addition, according to SOP114, financial closure of grants cannot take place until all open items have been cleared.

21. A total of 82 UNEP grants and 18 UN-Habitat grants had loans as of 31 December 2019 according to data in Umoja. As of 11 December 2019, the overdue loan balances were 35 per cent (\$4.4 million out of \$12.5 million) of the total outstanding internal loan balances for UNEP and 85 per cent (\$4.8 million out of \$5.6 million) for UN-Habitat. UN-Habitat explained that the total outstanding loans of \$4.8 million include a loan of \$3 million to the foundation which has no fixed repayment term limit and is therefore not overdue. UNON regularly settled loan balances by monitoring available cash balances in the resource mobilization grant accounts associated with each grant which reduced the total outstanding loan balances. However, significant loans remained overdue despite regular loan settlement.

(a) Loans taken before prior loans are repaid

22. UNEP had issued a loans policy in 2017 which specified that loans were limited to 10 per cent of amounts expected from the donor, and payment should be within 90 days. However, there were three UNEP grants where subsequent loans were taken before the prior loan was repaid, thereby resulting in accumulation of unsettled loan balances as explained below:

(a) Grant M1-32CPL-000148 - after the first loan of \$160,000 was taken on 5 December 2016, four subsequent loans were taken on 13 December 2016 (\$115,000), 19 December 2016 (\$3,867), 5 January 2017 (\$244,890) and 11 February 2019 (\$212,000) before the previous loans were repaid.

(b) Grant S1-32GFL-000534 - the first loan was taken on 20 October 2016 (\$407,129) and five subsequent loans were taken on 1 November 2016 (\$513,750), 6 June 2017 (\$72,611), 15 August 2017 (\$7,000), 30 July 2019 (\$6,900) and 2 December 2019 (\$7,000) before repayment of previous loans.

(c) Grant S1-32GFL-000620 - after the first loan was taken on 27 June 2019 (\$231,583), two subsequent loans were taken on 26 September 2019 (\$700,000) and 9 December 2019 (\$700,000) before repayment of previous loans.

23. For UN Habitat, the Umoja Business Intelligence report as of 11 December 2019 showed no evidence that internal loans had been given prior to existing loans being settled.

(b) Grants in closing status with unpaid loans

24. For UNEP, 17 internal loans taken between 2015 and 2019 totaling \$1.1 million had not been fully repaid and the grants had reached closing status. Six out of 17 loans with loan balance of \$0.3 million were taken when there were insufficient accounts receivable to cover funds borrowed by the receiving grant. Four of these with total loan balance of \$0.3 million remained unpaid. Eleven out of 17 loans with total loan balance of \$0.7 million had sufficient accounts receivable balances but only 2 out of the 11 loans with total loan balance of \$8,386 had been substantially repaid (87 and 98 per cent respectively). The other nine loans with a total balance of \$0.7 million remained outstanding as no repayments had been made against the loans. These cases illustrate that the loans policy was not complied with.

25. For UN-Habitat, two out of five loans totaling \$1.0 million taken for grants were repaid as of December 2019 while a third loan was repaid in April 2020. Two of these loans taken in 2016 (\$90,000) and 2017 (\$75,000) had unpaid loan balances of \$74,844 and \$5,905, respectively, as of December 2019.

26. The above weaknesses were a result of: (a) inadequate controls to prevent repeated borrowing for grants which had unpaid loans before settling outstanding loans; and (b) failure of substantive offices to

monitor loan balances and request their repayment through the Umoja adjustment/loan portal. Unpaid loans resulted in delays in closure of grants which were in closing status, as unpaid loans are open items that should be cleared before the grant can be closed. This affects the ability to report timely to donors, refund unspent balances, and ensure accountability.

(4) UNEP and UN-Habitat, in coordination with UNON, should strengthen the mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants and ensure accountability for the funds.

UNEP accepted recommendation 4 and stated that it will update the loan policy and procedure document and hold a briefing for FMOs on the loan application, approval, and settling of internal loans. UN-Habitat accepted recommendation 4 and stated that it is strengthening the mechanisms for processing the loan, as well as approval and settlement. In addition, UN-Habitat will continue to collaborate with UNON to ensure that all adequate mechanisms are in place. UNON stated that it will support UNEP and UN-Habitat to implement the recommendation. Recommendation 4 remains open pending receipt of evidence that UNEP and UN-Habitat have strengthened the mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants, reporting processes and ensure accountability of funds.

Need to strengthen and implement procedures for receivables

27. When donors commit to funding a project by signing a grant agreement, an accounts receivable is created which is subsequently cleared upon receipt of funds. Similarly, an accounts receivable can be created when an advance is sent to an implementing partner for project implementation linked to specific grants which is subsequently cleared upon receipt of an expenditure report confirming implementation of all the planned activities. Accounts receivables are open items which require to be cleared before closing the grant.

28. According to the International Public Sector Accounting Standards (IPSAS), aging of accounts receivables can be classified into three categories: (i) receivables outstanding for more than 12 months, (ii) receivables outstanding for longer than 24 months, and (iii) receivables outstanding for longer than 36 months. In addition, according to ST/SGB/2019/2 on Delegation of authority in the administration of the Staff Regulations and Rules and the Financial Regulations and Rules, effective 1 April 2019, receivables up to \$25,000 can be written off.

29. As of 31 December 2019, \$235 million out of \$1,025 million (23 per cent) of receivables for UNEP were more than 36 months old, whereas \$369 million (36 per cent) were more than 24 months old and \$130 million (13 per cent) were more than 12 months old. Similarly, \$43 million out of \$209 million (19 per cent) of receivables for UN-Habitat as of 31 December 2019 were more than 36 months old; \$54 million (24 per cent) and \$52 million (23 per cent) were more than 24 and 12 months old, respectively.

30. According to UNEP, a monthly update with the ageing of receivables and cash application status for accounts receivable from donors prompts the FMOs to review the records and advise on the corrective actions in terms of cash application and write-downs. Additionally, year-end closing procedures are undertaken to review the receivables and the applicable provision for doubtful debts depending on the ageing. As part of year end activities, FMOs are required to sign-off the checklists which include the review of receivables.

31. UN-Habitat explained that it maintains a donor information system to track donor requirements including donor reporting and overdue donor contributions. Using this information, it was improving the timelines for reporting and following up outstanding receivables with donors.

(a) Advances to implementing partners

32. Outstanding advances to UNEP implementing partners through P1 (partnership) grants totaled \$152 million, out of which \$19 million (13 per cent) were more than 36 months old; \$14 million (9 per cent) and \$43 million (29 per cent) were more than 24 months and 12 months old respectively.

33. UNEP explained that it uses bi-weekly reports from UNON and the dashboards that UNON started preparing from July 2019 to ensure that all FMOs have information on outstanding advances to implementing partners. UNEP is also reviewing the legal instruments with implementing partners and is planning to include a clause which allows UNEP to offset unaccounted for amounts against any present or future payments that may be due to the partners under any other funding agreement with UNEP. During the audit of management of implementing partners at UNEP, OIOS reviewed the controls relating to advances to implementing partners and recommended that UNEP should ensure that implementing partners account for prior advances before additional advances are disbursed. Implementation of the recommendation is in progress.

34. In UN-Habitat, outstanding advances to implementing partners through P1 grants totaled \$13 million out of which \$2.5 million (19 per cent) were more than 36 months old; \$0.7 million (5 per cent) and \$4.3 million (33 per cent) were more than 24 months and 12 months old respectively. UN-Habitat explained that once the partner has implemented the agreement, the partner submits a financial report on the basis of which expenditure is recognized and the receivable reduced accordingly in UN-Habitat's records. In the event that the partner spends less than the amount advanced, the balance is refunded to UN-Habitat.

35. In 2018, the Board of Auditors recommended that UNEP: (a) establish a mechanism to be used to identify receivables from voluntary contributions on regular basis and analyze them according to their due dates; and (b) institute a mechanism to ensure regular communication and follow-up of all overdue pledges, as required under the UNEP programme manual (2016). Implementation of that recommendation was still in progress at the time of the present audit.

(b) Operationally closed grants that were still financially open

36. According to SOP 114 on financial closure of grants and projects, financial closure should generally take place within 12 months of operational closure or after the date of cancelation of the grant.

37. OIOS reviewed grants that were operationally closed but financially open between 1 January 2017 and 31 October 2019 to assess the efficiency of the grant closure process. Seventy-four per cent of the UNEP grants (715 out of 970 grants) which were operationally closed remained financially open for over one year with the longest period being 5.4 years. Similarly, 68 per cent of the UN-Habitat grants (309 out of 454 grants) which were operationally closed remained financially open for over one year with the longest period being 5 years. These delays in closing the grants were because numerous open items needed to be cleared prior to closure.

38. As a result of the growing backlog of financially open grants, UNON organized a dedicated grant closure exercise at the beginning of 2019 which was still ongoing as of December 2019. According to UNON's dashboard as of 22 October 2019, the target was to reduce the financially open grants to 60 per cent of the backlog (1,141 out of 1,901 UNEP grants and 739 out of 1,232 UN-Habitat grants) by December 2019. By October 2019, the dedicated closure exercise had achieved 38 per cent (724) of the target for UNEP and 52 per cent (644) of the target for UN-Habitat. Controls over closure of grants needed to be strengthened to ensure that operationally closed grants are financially closed within the stipulated 12-month

time frame to avoid accumulating a backlog. Delays in financially closing grants result in delayed closure of grants and accountability for project funds.

- (5) UNEP and UN-Habitat should, in coordination with UNON: (i) define the specific actions to take for long overdue receivables, including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and (ii) enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.**

UNEP accepted recommendation 5 and stated that: (i) it is in the process of updating the policy and procedures for notional claims, write-down and write-offs of donor receivables and advances to implementing partners; (ii) advances to implementing partners are being closed as part of the ongoing priority grants closure process; (iii) it will review the long outstanding donor contributions related to contribution agreements and outstanding donor contributions related to pledges; and (iv) it is developing a quarterly management report that provides information on grants to be closed in the following quarter and the actions to be taken to close the grants. UN-Habitat accepted recommendation 5 and stated that: (i) in coordination with UNON, it has been conducting a rigorous clean-up of the receivables at the beginning of fiscal year 2020 where specific actions were taken to clear long overdue receivables, including write-down of donor receivables which are uncollectable, and processing notional claims or complete write-offs for implementing partner advances based on review of deliverables; (ii) it has initiated grant closure project at the direction of the Executive Director for historically operationally closed grants to complete the financial closure; and (iii) it has strengthened the monitoring of grants to ensure that closing activities are completed within the stipulated timeframes per the donor agreements. UNON stated that it will support UNEP and UN-Habitat to implement the recommendation. Recommendation 5 remains open pending receipt of evidence that UNEP and UN-Habitat, in coordination with UNON have: (i) defined the specific actions to take for long overdue receivables; and (ii) enhanced controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.

- (6) UNON should improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat in the weekly and bi-weekly packages to allow for accurate monitoring of the ageing of receivables.**

UNON accepted recommendation 6. Recommendation 6 remains open pending receipt of evidence that UNON has improved the accounts receivable and commitment reports that it shares with UNEP and UN-Habitat to allow for accurate monitoring of the ageing of receivables.

C. Grant reporting

Need to enhance controls for accurate reporting to donors

39. UNEP and UN-Habitat are required to submit interim and final reports to donors during and after the execution of donor funded projects in line with respective donor agreements. According to SOP 117 on financial reporting to donors, the Chief of Accounts Section has the overall responsibility for financial reporting to donors. Also, the memorandum on the roll-out of Umoja Grants Management module indicates that where donors accept United Nations standard reports without changes to format and content, the substantive offices may certify and submit such financial reports to donors. However, if donors have specific requirements for financial reports, the substantive offices shall prepare customized reports and submit to the Accounts Division or counterparts in Offices Away from Headquarters (in this case UNON) for clearance.

40. OIOS reviewed interim and final financial reports to donors and noted that where donors had specific reporting requirements, clearance was not always obtained from the UNON Accounts Section as required. There were at least three cases pertaining to UNEP and five cases pertaining to UN-Habitat where UNON's clearance was not obtained. The reports of UNEP were interim financial reports, while those of UN-Habitat were final financial reports. Further, there were five cases where UN-Habitat had issued the final financial reports prior to clearance of open items.

41. While UNEP and UN-Habitat substantive offices issued the customized financial reports to donors in line with the Umoja roll out memorandum, there is a risk that incomplete and inaccurate figures may be reported when they are not cleared with UNON. This was particularly so in the case of UN-Habitat which prepared final reports while open items had not yet been cleared. Inaccurate financial reporting to donors poses risks to the Organization's reputation that need to be effectively mitigated.

(7) UNEP and UN-Habitat should: (i) in coordination with UNON, review and agree on the mechanisms for clearing and issuing financial reports prepared in various formats to conform with donor requirements; (ii) ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.

UNEP accepted recommendation 7 and stated that it will: (i) gather requirements from FMOs on the various donor reporting formats and present them to UNON; (ii) ensure that the final reports issued in different formats are cleared by UNON; and (iii) its policy is to approve all donor reports after the closure of all open items and approval by UNON. UN-Habitat accepted recommendation 7 and stated that it will devise a protocol with UNON on financial reports requiring special formats and will also enforce existing control mechanisms designed to ensure that final reports are issued only once all open items are closed. UNON stated that it will support UNEP and UN-Habitat to implement the recommendation. Recommendation 7 remains open pending receipt of evidence that UNEP and UN-Habitat, in coordination with UNON: (i) have reviewed and agreed on the mechanisms for clearing and issuing financial reports prepared in different formats to conform with donor requirements; (ii) ensured that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.

D. Donor information systems

Need to implement a donor information system

42. UNEP and UN-Habitat depend on donor funding in form of grants to fulfil their mandate and fund their programmes of work to meet their mandates. Donor agreements are signed to document the mutual obligations of donors and the agencies. One major donor undertakes verification missions to satisfy itself that its funds are being used for the agreed purposes and makes recommendations in this regard.

43. OIOS reviewed the verification mission reports and action taken to address donor concerns. The following were noted:

(a) In UNEP, it was difficult to assess the adequacy of actions taken in the absence of a repository for tracking the donor verification mission reports, the feedback provided to donors, and the implementation

status of the recommendations. This increased the risk that the concerns raised may not be addressed effectively and efficiently.

(b) In UN-Habitat, there was no evidence of implementation of recommendations from the three donor verification mission reports. UN-Habitat hired a consultant in October 2019 to develop a SOP on donor verification missions and to conduct training for staff. UN-Habitat needs to ensure that recommendations arising from the donor verification missions are implemented in a timely and effective manner.

(8) UNEP should establish and implement a mechanism to efficiently and adequately track and address recommendations from donor verification missions.

UNEP accepted recommendation 8 and stated that it will centralize the tracking of recommendations of donor verification missions. Recommendation 8 remains open pending receipt of evidence that UNEP has established and implemented a mechanism to efficiently and adequately track and address recommendations from donor verification missions.

(9) UN-Habitat should expedite the implementation of recommendations arising from donor verification missions.

UN-Habitat accepted recommendation 9 and stated that it will implement the recommendations which conform with the Financial and Administrative Framework Agreements, the United Nations regulations and rules, and the internal control framework. Recommendation 9 remains open pending receipt of evidence that UN-Habitat has taken measures to implement recommendations arising from donor verification missions.

IV. ACKNOWLEDGEMENT

44. OIOS wishes to express its appreciation to the management and staff of UNON, UNEP and UN-Habitat for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
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STATUS OF AUDIT RECOMMENDATIONS

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical¹/ Important²	C/ O³	Actions needed to close recommendation	Implementation date⁴
1	UNEP and UN-Habitat should, in coordination with UNON, clean-up grants data to ensure completeness and accuracy.	Important	O	Receipt of evidence that UNEP and UN-Habitat have taken specific measures in coordination with UNON to clean up the grants data.	UNEP: 30 September 2021 UN-Habitat: Implemented
2	UNON, UNEP and UN-Habitat should jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency.	Important	O	Receipt of key performance indicators for grant management processes that are jointly defined by UNON, UNEP and UN-Habitat have.	UNEP: 30 June 2021 UN-Habitat: 31 March 2021
3	UNEP and UN-Habitat should: (i) in coordination with UNON develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja; and (ii) use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.	Important	O	Receipt of evidence that UNEP and UN-Habitat: (i) have developed and implemented guidelines for handling cash deficits and complying with cash availability controls in Umoja; and (ii) are using the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.	UNEP: 31 March 2021 UN-Habitat: 31 March 2021
4	UNEP and UN-Habitat, in coordination with UNON, should strengthen the mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants and ensure accountability for the funds.	Important	O	Receipt of evidence that UNEP and UN-Habitat have strengthened the mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants, reporting processes and ensure accountability of funds.	UNEP: 31 March 2021 UN-Habitat: 31 December 2020
5	UNEP and UN-Habitat should, in coordination with UNON: (i) define the specific actions to take for long overdue receivables, including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and (ii) enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.	Important	O	Receipt of evidence that UNEP and UN-Habitat, in coordination with UNON have: (i) defined the specific actions to take for long overdue receivables; and (ii) enhanced controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.	UNEP: 30 June 2021 UN-Habitat: 31 December 2020

STATUS OF AUDIT RECOMMENDATIONS

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

6	UNON should improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat in the weekly and bi-weekly packages to allow for accurate monitoring of the ageing of receivables	Important	O	Receipt of evidence that UNON has improved the accounts receivable and commitment reports that it shares with UNEP and UN-Habitat to allow for accurate monitoring of the ageing of receivables.	31 March 2021
7	UNEP and UN-Habitat should: (i) in coordination with UNON, review and agree on the mechanisms for clearing and issuing financial reports prepared in various formats to conform with donor requirements; (ii) ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.	Important	O	Receipt of evidence that UNEP and UN-Habitat, in coordination with UNON: (i) have reviewed and agreed on the mechanisms for clearing and issuing financial reports prepared in different formats to conform with donor requirements; (ii) ensured that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.	UNEP: 30 June 2021 UN-Habitat: 31 March 2021
8	UNEP should establish and implement a mechanism to efficiently and adequately track and address recommendations from donor verification missions.	Important	O	Receipt of evidence that UNEP has established and implemented a centralized mechanism to efficiently and adequately track and address recommendations from donor verification missions.	31 March 2021
9	UN-Habitat should expedite the implementation of recommendations arising from donor verification missions.	Important	O	Receipt of evidence that UN-Habitat has implemented recommendations arising from donor verification missions.	31 March 2021

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 UNON, UNEP and UN-Habitat in response to recommendations.

APPENDIX I

Management Response

Memorandum

To **Eleanor T. Burns**
Director, Internal Audit Division, OIOS Date **05.08.2020**

From **Inger Andersen**
Executive Director 

Subject **2020-01108 Draft report on an audit of grants management at the United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme (Assignment No. AA2019-210-01)**

Thank you for your memo of 21 July 2020 which contained the OIOS audit report on grants management at UNON, UNEP and UN-Habitat. The report has been reviewed and we take note that the previous comments by UNEP on the draft have been incorporated into this final version. UNEP accepts all the recommendations.

Please find attached the Appendix with the details of the UNEP management response to the audit including Title of Responsible Officer and timeline for implementation.

Should you have any questions regarding UNEP's response to the audit you may contact the UNEP management focal point for audit, Ms. Elisabeth Turnbull-Brown (turnbull-brown@un.org).

Cc: Sonja Leighton-Kone
Elisabeth Turnbull-Brown
Felista Ondari

Management Response

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP and UN-Habitat should, in coordination with UNON, clean-up grants data to ensure completeness and accuracy.	Important	Yes	Director, Corporate Services Division	30 September 2021	<p>UNEP will review the status of grants: Grants with status 'Application' that have already been approved will be corrected. The status of cancelled grants will be updated. End dates of closed grants will be correctly reflected</p> <p>Grant data is continuously being cleaned.</p> <p>In 2020, UNEP agreed that 1551 grants are priority for closure and as of 31 July 2020, 1104 were closed. The closure of these grants has a direct impact on the financial statements.</p>
2	UNON, UNEP and UN-Habitat should jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency.	Important	Yes	Director, Corporate Services Division	30 June 2021	<p>Building on lessons learnt from the ongoing grant clean up project for which a dashboard was developed to manage the priority grants and track progress, UNEP will work with UNON to define realistic key performance indicators.</p>

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Management Response

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

3	UNEP and UN-Habitat should: (i) in coordination with UNON develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja; and (ii) use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.	Important	Yes	Director, Corporate Services Division	31 March 2021	<p>The cleanup of the negative cash balances is ongoing as it is an integral part of the grants closure process.</p> <p>The weekly report issued by UNON is reviewed and by UNEP.</p> <p>UNEP will update the loan policy and procedure document, hold a briefing for FMOs on the loan application, approval, settling of internal loans.</p> <p>UNEP will review the process by which the GEF cash is managed.</p>
4	UNEP and UN-Habitat, in coordination with UNON, should strengthen the mechanisms for processing, approval and settling internal loans for grants to facilitate closure of grants and ensure accountability for the funds.	Important	Yes	Director, Corporate Services Division	31 March 2021	<p>UNEP will update the loan policy and procedure document, hold a briefing for FMOs on the loan application, approval, settling of internal loans.</p>
5	UNEP and UN-Habitat should, in coordination with UNON: (i) define the specific actions to take for long overdue receivables, including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and (ii) enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.	Important	Yes	Director, Corporate Services Division	30 June 2021	<p>UNEP is in the process of updating the policy and procedures for notional claims, write-down and write-offs of donor receivables and advances to Implementing Partners</p> <p>Advances to Implementing Partners are being closed as part of the ongoing priority grants closure process.</p> <p>UNEP will review the long outstanding donor contributions related to contribution agreements.</p>

Management Response

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

						Outstanding donor contributions related to MEA pledges are presented to the Secretariats for discussion during the Meetings of the Parties. UNEP is developing a quarterly management report that provides information on grants to be closed in the following quarter and the actions to be taken to close the grants.
6	UNON should improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat in the weekly and bi-weekly packages to allow for accurate monitoring of the ageing of receivables.	Important	N/A	N/A	N/A	N/A
7	UNEP and UN-Habitat should: (i) in coordination with UNON, review and agree on the mechanisms for clearing and issuing financial reports prepared in various formats to conform with donor requirements; (ii) ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.	Important	Yes	Director, Corporate Services Division	30 June 2021	UNEP will gather requirements from FMOs on the various donor reporting formats and present them to UNON. UNEP will ensure that the final reports issued in different formats are cleared by UNON. UNEP policy is to approve all donor reports after the closure of all open items and approval by UNON.
8	UNEP should establish and implement a mechanism to efficiently and adequately track and address recommendations from donor verification missions.	Important	Yes	Director, Corporate Services Division	31 March 2021	UNEP will centralize the tracking of recommendations of donor verification missions.

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Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

9	UN-Habitat should expedite the implementation of recommendations arising from donor verification missions.	Important	N/A	N/A	N/A	N/A
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UN HABITAT
UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME
Programme des Nations Unies pour les établissements humains
OFFICE OF THE EXECUTIVE DIRECTOR

Ref: UNH-OED-OL-200818-01

Nairobi, 18 August 2020

Dear Ms. Ndiaye,

Subject: Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

I am pleased to present our comments to the above-mentioned detailed results in the attached **Appendix 1**. While UN-Habitat accepted all the audit recommendations, I would like to request the following factual corrections in the audit report:

- **Paragraph 21:** The total overdue loan balance of USD 4.8 million includes a loan of USD 3 million to the Foundation which has no fixed repayment term limit and is not overdue. Consequently, the sentence should read: “32% (\$1.8 million out of \$5.6 million) for UN-Habitat”. The supporting documentation was submitted to OIOS via email dated 25 June 2020. Alternatively, OIOS should add the following clarification “total outstanding loans include a loan of USD 3 million to the Foundation.”
- **Paragraph 25:** Out of the five (5) loans totalling US 1, 012140, three (3) have been fully repaid. The outstanding balance is USD 80,694 as at 31 December 2019. The supporting documentation was submitted to OIOS via email dated 25 June 2020.

I would like to take this opportunity to thank OIOS for the services provided to UN-Habitat.

Yours sincerely,



Maimunah Mohd Sharif
Under-Secretary-General and
Executive Director

Ms. Fatoumata Ndiaye, Under-Secretary-General
Office of Internal Oversight Services (OIOS)

Management Response

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP and UN-Habitat should, in coordination with UNON, clean-up grants data to ensure completeness and accuracy.	Important	YES	Head, Oversight and Internal Controls Unit of the Management, Advisory and Compliance Service	Implemented	UN-Habitat has already acted on the grants identified in paragraph 11. UN-Habitat will perform a semi-annual check on grants data to ensure accuracy and completeness.
2	UNON, UNEP and UN-Habitat should jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency.	Important	YES	Director, Management, Advisory and Compliance Service	31 March 2021	UN-Habitat will liaise with UNON and UNEP to jointly define necessary key performance indicators.
3	UNEP and UN-Habitat should: (i) in coordination with UNON develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja; and (ii) use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.	Important	YES	Director, Management, Advisory and Compliance Service	31 March 2021	UN-Habitat, in coordination, will develop clear guidelines and will use Umoja and the weekly UNON statements for monitoring.
4	UNEP and UN-Habitat, in coordination with UNON, should strengthen the mechanisms for processing, approval and settling internal loans for grants to facilitate	Important	YES	Head, Finance and Budget Unit of the Management,	31 December 2020	UN-Habitat is strengthening the mechanisms for processing the loan, as well as approval and settlement. UN-Habit will continue to collaborate with

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Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

	closure of grants and ensure accountability for the funds.			Advisory and Compliance Service		UNON to ensure that all adequate mechanisms are in place.
5	UNEP and UN-Habitat should, in coordination with UNON: (i) define the specific actions to take for long overdue receivables, including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and (ii) enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.	Important	YES	Director, Management, Advisory and Compliance Service	31 December 2020	UN-Habitat, in coordination with UNON has been conducting a rigorous clean up of the receivables at the beginning of fiscal year 2020 where specific actions were taken to clear long overdue receivables, including write-down of donor receivables which are uncollectable, and process notional claims or complete write-offs for implementing partner advances based on review of deliverables. UN-Habitat has initiated grant closure project at the direction of the Executive Director for historically operationally closed grants to complete the financial closure. Additionnally, UN-Habitat has strenghtened the monitoring of grants operationally closing to ensure closing activities are completed within the stipulated timeframes per the donor agreements.
6	UNON should improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat in the weekly and bi-weekly packages to allow for accurate monitoring of the ageing of receivables.	Important	UNON Related	UNON related	UNON related	UNON Related
7	UNEP and UN-Habitat should: (i) in coordination with UNON, review and agree on the mechanisms for clearing and	Important	YES	Director, Management, Advisory and	31 March 2021	UN-Habitat will devise a protocol with UNON on financial reports requiring special formats. UN-Habitat

Management Response

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

	issuing financial reports prepared in various formats to conform with donor requirements; (ii) ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.			Compliance Service		will also enforce existing control mechanisms designed to ensure final reports are issued only once all open items are closed.
8	UNEP should establish and implement a mechanism to efficiently and adequately track and address recommendations from donor verification missions.	Important	N/A	UNEP Related	UNEP Related	UNEP related
9	UN-Habitat should expedite the implementation of recommendations arising from donor verification missions.	Important	YES	Head, Oversight and Internal Controls Unit of the Management, Advisory and Compliance Service	31 March 2021	UN-Habitat will implement the recommendations which conform to the FAFA, the UN rules and regulations and the internal control framework.

Management Response – United Nations Office at Nairobi

Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNEP and UN-Habitat should, in coordination with UNON, clean-up grants data to ensure completeness and accuracy.	Important				We will support UNEP and UN-Habitat to implement their recommendations within the implementation dates that they specify.
2	UNON, UNEP and UN-Habitat should jointly define key performance indicators for the various processes in the grant management cycle to monitor their efficiency.	Important	Yes	Chief, Accounts Section, Budget and Financial Management Services	31/3/2021	UNON accepts this recommendation
3	UNEP and UN-Habitat should: (i) in coordination with UNON develop and implement guidelines for handling cash deficits and comply with cash availability controls in Umoja; and (ii) use the weekly statements of financial performance to monitor and clean up deficit balances in grant accounts.	Important				We will support UNEP and UN-Habitat to implement their recommendations within the implementation dates that they specify.
4	UNEP and UN-Habitat, in coordination with UNON, should strengthen the mechanisms for processing, approval and settling internal loans for grants to facilitate	Important				We will support UNEP and UN-Habitat to implement their recommendations within the implementation dates that they specify.

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Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

	closure of grants and ensure accountability for the funds.					
5	UNEP and UN-Habitat should, in coordination with UNON: (i) define the specific actions to take for long overdue receivables, including write-down of donor receivables which are unlikely to be received, and notional claims and write-offs for implementing partner advances based on review of deliverables; and (ii) enhance controls over operationally closed grants to ensure that they are financially closed within the stipulated time frame.	Important				We will support UNEP and UN-Habitat to implement their recommendations within the implementation dates that they specify.
6	UNON should improve the accounts receivable and commitment reports shared with UNEP and UN-Habitat in the weekly and bi-weekly packages to allow for accurate monitoring of the ageing of receivables.	Important	Yes	Chief, Accounts Section, Budget and Financial Management Services	31/3/2021	UNON accepts this recommendation
7	UNEP and UN-Habitat should: (i) in coordination with UNON, review and agree on the mechanisms for clearing and issuing financial reports prepared in various formats to conform with donor requirements; (ii) ensure that clearance for final financial reports is obtained from UNON in cases where donors have specific reporting requirements; and (iii) issue final reports only after closure of all open items to ensure accuracy and completeness of the reported figures.	Important				We will support UNEP and UN-Habitat to implement their recommendations within the implementation dates that they specify.

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Audit of grants management at United Nations Office at Nairobi, the United Nations Environment Programme and the United Nations Human Settlements Programme

8	UNEP should establish and implement a mechanism to efficiently and adequately track and address recommendations from donor verification missions.	Important				
9	UN-Habitat should expedite the implementation of recommendations arising from donor verification missions.	Important				