Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2022/020

Audit of global banking operations in the United Nations Secretariat

The Special Procedure for acquiring banking services needed to be strengthened to ensure consistency with United Nations' procurement principles

8 June 2022
Assignment No. AH2020-511-01

Audit of global banking operations in the United Nations Secretariat

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of global banking operations in the United Nations Secretariat. The objective of the audit was to assess the effectiveness of acquiring and managing global banking services in the United Nations Secretariat. The audit covered the period from 2012 to 2020 during which a Harmonization Project was implemented to ensure a standardized, coordinated and efficient approach to procure and administer banking and treasury services for the United Nations Common System.

Due to its specialist nature, banking services are acquired through a Special Procedure that was established in 2008. However, the Procedure was not adequate to ensure segregation of duties, effective international competition and mitigation of fraud risks but had remained in place despite several attempts to revise it since 2013. The audit identified significant flaws pertaining to lack of source selection plans; inconsistent sourcing methodology, bid opening and technical and commercial evaluation processes; selection of banks that deviated from evaluation results; and extension of contracts without rebidding or adequate benchmarking exercises. Negotiations with selected banks did not always result in more favourable rates and there was inadequate monitoring of bank fees.

OIOS made four recommendations. To address issues identified in the audit, the Office of Programme Planning, Finance and Budget (OPPFB) needed to:

- Revise, without further delay, the Special Procedure for acquiring banking services in collaboration with the Office of Supply Chain Management (**critical**);

- Finalize, in collaboration with the Office of Legal Affairs, the master banking agreement with Bank E;

- Provide guidance to entities on the division of responsibilities for managing bank contracts, including monitoring the accuracy of bank fees in light of their complex structure; and

- Ensure completeness and availability of records pertaining to acquisition of banking services.

OPPFB accepted the recommendations and initiated action to implement them. Actions required to close recommendations are indicated in Annex I.

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Audit of global banking operations in the United Nations Secretariat

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of global banking operations in the United Nations Secretariat.

2. Currently, the Secretariat has business relationships with 103 banks with which it maintains about 256 active bank accounts. The authority to designate the banks in which the funds of the United Nations are kept is delegated to the Controller[1]. The Controller selects fee-charging banks based on recommendations by the Financial Risk Management Service (also known and hereinafter referred to as Treasury) in the Finance Division of the Office of Programme Planning, Finance and Budget (OPPFB) following formal procurement activities led by the Global Banking Operations Section (GBOS) in Treasury. Treasury also opens non-fee charging bank accounts at the request of Secretariat entities wishing to deposit cash, process vendor payments or support temporary activities such as conferences.

3. The process to acquire banking services is outlined in a memorandum dated 27 March 2008 on the approval of exceptional measures for the provision of banking services (referred to as Special Procedure or Exceptional Measures by Treasury). The Special Procedure established that:

(a) The request for proposal (RFP) is only distributed to banks identified by Treasury.
(b) A Special Evaluation Committee (SEC) is established comprising chiefs of procurement and finance of the entity for which banking services are being procured and a representative from Treasury. SEC performs both technical and commercial evaluations, negotiates with compliant banks and requests "best and final offer", and submits its recommendations to the Treasurer through the head of administration of the entity receiving the services.
(c) The recommendations are reviewed by the Headquarters Committee on Contracts (HCC) if the estimated bank fees exceed the delegated procurement authority, and the HCC minutes have limited circulation.

4. In 2012, the Chief Executives Board launched the Treasury Harmonization Project to ensure a standardized, coordinated and efficient approach to procure and administer banking and treasury services for the United Nations Common System. The Secretariat served as the lead organization for the project with three other United Nations entities[2] acting as co-lead agencies. Treasury provided the banking expertise and procurement and evaluation methodology for the project. Thirty-two procurement exercises were conducted in different countries from 2012 to 2019 and the Secretariat participated in 19 of them, including in countries where peacekeeping or special political missions operate. Treasury separately procured banking services for the United Nations Headquarters (UNHQ) through the Procurement Division in New York (PD) in 2014.

5. The Secretariat recorded around $70 million in bank fee expenditure from 2016 to 2020. The fees mainly relate to charges for importing and delivering brand-new United States dollar (USD) notes for payment to civilian staff and uniformed personnel in field missions, and for opening and operating banking facilities including branches, implant teller services and automated teller machines at those locations. Table 1 lists seven United Nations entities that paid the highest bank fees from 2016 to 2020 based on data in Umoja.

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[1] Rule 104.4 of the Financial Regulations and Rules of the United Nations
[2] The United Nations Children's Fund, the United Nations Development Programme and the Food and Agriculture Organization.

Table1: Top-seven United Nations entities paying the highest bank fees (in USD)

Rank	*Entity*	*Year*					*Total*
		2016	*2017*	*2018*	*2019*	*2020*	
1	UNAMID	6,945,196	4,216,763	3,840,972	2,452,410	2,390,251	19,845,592
2	MONUSCO	2,978,538	2,637,095	2,382,432	2,378,354	2,199,596	12,576,015
3	UNMISS	2,280,444	2,116,449	2,139,225	1,926,117	2,413,650	10,875,885
4	MINUSCA	1,052,004	1,410,280	1,672,327	901,691	813,640	5,849,942
5	UNHQ	646,310	853,572	805,084	807,996	577,603	3,690,565
6	UNSOS	181,183	306,633	431,957	385,405	826,596	2,131,774
7	UNISFA	154,983	753,861	63,273	6,928	104,197	1,083,242
	Total	**14,238,658**	**12,294,653**	**11,335,270**	**8,858,901**	**9,325,533**	**56,053,015**

Source: Umoja General Ledger Transaction Report
Abbreviations: United Nations Hybrid Operation in Darfur (UNAMID[3]), United Nations Organization Stabilization Mission in the Democratic Republic of Congo (MONUSCO), United Nations Mission in the Republic of South Sudan (UNMISS), United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic (MINUSCA), United Nations Support Office in Somalia (UNSOS), and United Nations Interim Security Force for Abyei (UNISFA)

6. In addition, GBOS centrally manages all bank relationships, conducts due diligence activities to open bank accounts for special events such as conferences, authorizes bank signatories, and processes bank account closures. GBOS is headed by a chief at P-5 level, who reports to the Chief of Financial Risk Management (Treasurer) at D-1 level. The Section has three other staff at P-4, P-3 and G-5 levels.

7. Comments provided by DMSPC are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the effectiveness of acquiring and managing global banking services in the United Nations Secretariat.

9. This audit was included in the risk-based work plan of OIOS due to the financial and operational risks related to banking arrangements.

10. OIOS conducted this audit from November 2020 to September 2021. The audit covered the period from 2012 to 2020, during which the Harmonization Project was implemented. Based on an activity-level risk assessment, the audit covered higher and medium risks areas in the establishment and operations of banking arrangements, which included: (a) the regulatory framework; (b) contracting and contract management; and (c) opening and closing of bank accounts.

11. The audit methodology included: (a) interviews with key personnel, (b) review of relevant documentation, and (c) analytical review of data. OIOS performed an in-depth review of the formal procurement processes for selecting banks for five entities: UNAMID, MINUSCA, MONUSCO, UNMISS and UNHQ. OIOS also reviewed the other 15 procurements of banking services conducted for the Secretariat under the Harmonization Project to determine the consistency of the procurement process and evaluation methodologies.

[3] UNAMID completed its mandate on 31 December 2020.

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

III. AUDIT RESULTS

A. Regulatory framework

Authority to designate banks and applicable procurement principles

13. In December 2013, upon request of the then Controller, the Under-Secretary-General for Management (USG, DM), sought the opinion and advice of the Office of Legal Affairs (OLA) on rules governing the acquisition of commercial banking services. OLA responded on 20 December 2013 that the Controller must be guided by and give due consideration to the procurement principles set forth in Financial Regulation 5.12 and Financial Rules 105.13 to 105.19 when designating banks to hold the Organization's funds. OLA also recommended that in certain circumstances the Controller may wish to use the Organization's procurement machinery, in which case the Controller and the Assistant Secretary-General (ASG) for Central Support Services (OCSS, some of whose functions have now been taken over by the Office of Supply Chain Management or OSCM) may develop criteria on when and how the Controller could use the procurement machinery.

14. Concurring, USG, DM directed ASG, OCSS on 31 December 2013 to "work with the Controller and OLA to define a comprehensive set of guidelines to govern the circumstances, conditions, manner, links, etc. of such arrangements." However, at the time of writing this report no progress had been made to implement the directive and the acquisition of commercial banking services is still governed by the Special Procedure established in 2008. The Procedure has significant control weaknesses as described below.

(a) Internal controls under the Special Procedure were not adequate to ensure segregation of duties, effective international competition and mitigation of fraud risks

15. The Special Procedure allowed several deviations from the normal procurement process, including: (a) cancellation of the requirement to request for expressions of interest, (b) authorization for SEC to perform both technical and commercial evaluations, (c) cancellation of public bid opening, (d) authorization for SEC to negotiate with compliant banks, (e) cancellation of review by local committees on contracts, and (f) limited distribution of HCC minutes. This was justified by the special nature of banking services and the importance of security in their acquisition, particularly for peacekeeping missions.

16. However, the Special Procedure did not stipulate compensating controls for such significant deviations. The Special Procedure was also silent on the application of general controls and best practices in the Procurement Manual such as: (a) criteria for selecting banks to submit proposals; (b) securing bids received; and (c) documenting interactions with banks to ensure consistency, fairness and transparency.

17. The Special Procedure did not elaborate on when the broad and significant exemptions should apply. Nine of the 19 acquisitions reviewed were for general banking services without USD cash importation and delivery. In such cases, the security risks that triggered the creation of the Special Procedure were either not present or not significant but were applied, nonetheless.

18. Control deficiencies, especially inadequate segregation of duties, may lead to an unmitigated risk of vendor favouritism, fraud and violation of the four procurement principles[4]. OPPFB stated that the technically specialized nature of banking arrangements lends itself to exceptions to the use of formal methods of solicitation.

(b) Lack of terms of reference for SEC compromised its effectiveness

19. There were no terms of reference to guide the functioning of SEC and the roles and responsibilities of the members, appointment of the Chairperson, and ethical rules to be applied such as declaration of conflict of interest. This included the role and responsibilities of the procurement officer assigned to each acquisition exercise, usually from the procurement section of the entity receiving the services. According to Treasury, the procurement officer was expected to ensure the integrity, fairness and transparency of the process. However, the procurement officers mainly performed administrative tasks, such as issuing RFPs and receiving and safeguarding proposals submitted by banks until SEC convened to review them. There was no evidence that procurement officers who served on SEC had raised any concerns or reported breaches of the Special Procedure and irregularities that were later identified by PD and HCC during the review of cases for three peacekeeping missions. This may indicate lack of understanding by procurement officers of their roles and responsibilities that impacted the adequacy of controls over the procurement process.

20. The Treasury's authority, expertise in banking services and its role as the single interface with the banks enabled the Treasury representative on the SEC to exert significant influence over the procurement process. This was exacerbated in two cases where two members from Treasury with a reporting relationship were on the same committee. Treasury indicated that the extra member from Treasury was included in the SEC for training purposes.

21. The Treasury representative determined the list of banks to receive RFPs, customized the RFP, and provided the evaluation criteria and scoring matrices. Due to infrequent participation in the process, other SEC members did not have comparable exposure to procurement of banking services. The tight schedule of the SEC meetings as well as the differing needs of the Secretariat and other participating organizations were additional challenges impacting the ability of the other SEC members to examine proposals received in depth. As only awards exceeding $1 million were subject to review by HCC, there was no other oversight of the process. OPPFB commented that the activities undertaken by Treasury as subject matter experts were not anomalous, comparing them to similar experts in the multi-stage RFP process for complex capital projects. However, the multi-stage RFP process is well documented and incorporates several controls including an independent probity monitor with no decision-making role, who is required to ensure that the process is consistent with applicable United Nations Financial Regulations and Rules and recognized best practices.

(c) Attempts to revise the Special Procedure were not successful and significant flaws in the process remain unaddressed

22. Despite several efforts since the USG, DM directive in 2013 for a comprehensive set of guidelines on the acquisition of commercial banking services, the Special Procedure has remained in effect. In May 2017, GBOS submitted a draft Procedure to the Treasurer, but it did not improve the segregation of duties between the requisitioning, sourcing, and technical and commercial evaluation functions, and it did not include guidelines on when and how the procurement machinery would be used. It also proposed to eliminate HCC review. There were significant flaws in implementing the Special Procedure impacting the

[4] Best value for money; fairness, integrity and transparency; effective international competition; and interest of the United Nations.

competitiveness of bids and eventual selection decisions and contract negotiations. Additionally, the Special Procedure was not always complied with. OIOS noted the following:

23. **Source selection plans** (SSPs): Treasury only developed an SSP for the solicitation exercise conducted for UNHQ. Therefore, responsibilities of members of the evaluation committees, criteria for technical and commercial evaluation, and procedures for evaluating proposals were not stipulated. Lack of SSPs allowed SEC to make important decisions in these areas late in the process, for example during the evaluation of bids, that could lead to vendor favouritism or other irregularity.

24. **Sourcing methodology**: The basis of determining the banks to receive RFPs was inconsistent in terms of the number, types (i.e., local or international) and size of banks identified, especially in African countries.

(a) The number of banks invited ranged from 5 to 17 and some international or regional banks received many more invitations than others.
(b) In the case of the acquisition exercise in South Sudan, 12 of the 17 banks invited were small local banks with limited total assets and equity, which impacted their ability to submit a technically compliant bid. Inviting too many banks with low chances of winning the contract may spread sensitive security information too broadly and expose the United Nations operations to security risks.
(c) In Uganda, all five banks invited to bid were international banks, although the contract had no cash importation requirements. Only one international bank was invited for the RFPs for Sudan and Rwanda.

25. OPPFB indicated that the list of banks for distribution of RFP was determined in consultation with the other members of the SEC. However, this was not documented. There is a risk that inadequate transparency over the selection of banks to receive RFPs may limit assurance over the competitiveness of the acquisition exercise.

26. **Bid opening and evaluation**: SEC opened and conducted a simultaneous "preliminary" review of both the technical and commercial proposals, contrary to the Special Procedure, which required technical evaluations to be performed first, and commercial evaluations of only technically compliant banks. At the end of the preliminary review, SEC members, already aware of the prices proposed by all bidders, met with them individually to "provide further clarification on the requirements as well as discuss their technical and financial proposals". Following these meetings, the banks were given an opportunity to submit a revised proposal (both technical and financial) addressing all the clarifications that were raised during the meetings. The revised proposals were then formally evaluated by SEC and scores assigned to derive the best value-for-money (BVM) score.

27. This process gave rise to a significant risk that confidential bid information obtained from competing banks' proposals or meetings could be inadvertently or purposely shared with a favoured bank, enabling it to revise its proposal to win the bid. For UNAMID and UNMISS, an international bank (Bank A) and its local partners reduced their bank fees significantly in their revised proposals and were eventually awarded the contracts. HCC and ASG, OCSS expressed concerns over the practice of opening commercial proposals before technical evaluations were finalized.

28. **Technical evaluation criteria**: Only in 6 out of the 19 procurement exercises reviewed was there evidence that technical evaluation criteria and scoring matrices were finalized before technical proposals were opened. In addition, some of the technical evaluation matrices did not describe the parameters to be used to assess technical capability. This resulted in banks with very different experiences and technical capabilities being given identical points. For instance: (a) three banks were assessed as technically qualified

to provide services in Somalia, but only one of them had experience in delivering cash to and making payments in remote locations, which was the most important service and cost driver; and (b) despite two banks being found technically compliant to provide banking services in Sudan with identical scores for all 22 criteria, justification for not selecting one of them was that Treasury did not believe that the bank met many requirements. At UNHQ in 2014, all five bidders were given 70 per cent of the maximum scores for each of the 23 technical criteria, while the bank that had been providing services since 2005 was found technically non-compliant. After deciding to split the award of the contract to three of the five banks, Treasury found out they could not deliver the proposed solutions for the requirement that the incumbent bank had failed to meet.

29. Also, the pass threshold was variously set at 50, 60 and 70 per cent of maximum points for technical evaluation, with no clear rationale, impacting the outcome of the results.

30. **Assessment of credit risk**: Treasury incorporated an assessment of financial capacity and health of banks as a separate component of the overall evaluation, allocating either 10 or 20 per cent of BVM points. The assessment was to ensure: (a) timely payment of staff members' salaries in full, and (b) security of the Secretariat's funds and was based solely on credit ratings issued by a United States-based rating agency. It made no reference to the financial analysis of the banks' financial statements and annual reports. The assessment was applied late in the evaluation process and the absence of a rating disqualified some banks that were otherwise assessed as technically strong, due to its relative weighting against other criteria. In OIOS' view, not having a rating from a United States-based rating agency does not necessarily mean banks have unacceptable level of credit risks that would prevent the Secretariat from using them for operational purposes. OPPFB commented that the designation of a bank constitutes an investment decision that is guided by the security and immediate accessibility of the Organization's funds as the primary goal. However, if Treasury believes that only those banks with credit rating from a United States agency can ensure timely payment of staff salaries and security of funds, it should be reflected in the market research and clearly stipulated in the RFP as a prerequisite for banks to participate in the solicitation exercise. This will prevent the current practice of eliminating technically compliant banks without a credit rating at the final stages of the procurement process that may expose the Organization to bid protests.

31. In addition, seven different scoring scales were used to assess financial ratings, with no criteria to guide the selection. PD and HCC consistently questioned the relevance and fairness of the methodologies used, which clearly favoured large global banks headquartered in developed markets.

32. In cases where international banks partnered with local ones, staff usually maintained accounts with the local bank, exposing their funds to credit risk should the bank collapse, as the deposits are not insured. In acquiring banking services for MONUSCO and UNMISS, Bank A submitted joint proposals with two local banks but only the credit rating of Bank A was considered, and the joint proposals received the maximum score for financial rating. According to OLA, Bank A had a contractual obligation to guarantee the performance of its subcontractors to the United Nations per the master banking agreement; however, staff members' deposits were not guaranteed by Bank A. The methodology for evaluating financial risks of banks should equally capture the credit risk faced by staff members.

33. **Errors and inconsistencies in commercial evaluations**: In MONUSCO, bank fees were estimated based on incorrect projections of the amount of mint USD notes needed to be imported. The higher projections resulted in significant overestimation of the monthly bank fees for those banks that calculated their fees as a percentage of imported amounts, relative to Bank A that proposed a mixed fee structure of a fixed portion and a percentage. If the correct projections had been used, Bank A would not have been the most competitive bidder.

34. Three main categories of scoring methodologies were used for commercial evaluations. In three cases (UNAMID, UNMISS and agencies, funds and programmes in Colombia), the adopted scoring methodology favoured proposals submitted by Bank A, singly or in conjunction with local partners. HCC and ASG, OCSS raised concerns over the scoring method used for UNMISS. Treasury explained that the methodology used was to prevent banks with poor credit rating winning over a bank with the best credit rating due to a marginally lower financial bid. OIOS did not find that scenario possible among the cases reviewed. The approach also reinforced the appearance that the commercial evaluation methodology was determined when the evaluation was underway, rather than before the start.

35. **Selection decisions deviated from evaluation results**: In four cases, Treasury did not select the bank with the highest BVM score. Two selection decisions were justified by the lower costs of the bank with the second highest BVM score. The justification for selecting Bank A and its local partners in the other two cases, UNAMID and UNMISS, was less objective. In case of UNAMID, Treasury suggested that the bank with the highest BVM score might be adversely impacted by the macroeconomic environment in the country and might not have the financial capacity to provide the required services. The case was not submitted to HCC because the Procurement Division did not endorse it. As pointed out by the then ASG, OCSS on 21 October 2016, a selection decision that was not consistent with evaluation results exposed the Secretariat to the risk of bid protest.

36. In the UNMISS case, the bank with the highest BVM score was disqualified due to Treasury's concern that the bank's USD deposits in the country's central bank would be unavailable due to a credit event in the country, despite the bank's representation that less than 20 per cent of its funds held in the central bank could not be withdrawn. Treasury made a split award and allocated most of the business to Bank A, the incumbent bank, despite another bank receiving higher technical and BVM scores, including lower fees. Moreover, the contract was not rebidded after two years per the recommendation of ASG, OCSS, with no explanation from Treasury.

37. OPPFB commented that selecting the most secure financial institution is of utmost importance, particularly where large amounts of cash are involved. According to Treasury, in the procurement exercises conducted during the audit period, the highest rated bank that was technically compliant was selected, ensuring the safety of the funds. OIOS reiterates that assessment criteria such as credit rating from a United States agency should be stipulated as a prerequisite for participation in the solicitation exercise instead of using it to eliminate technically compliant banks at the final stages of the procurement process.

38. **Negotiations:** The requirement in the Special Procedure that SEC negotiates with technically compliant banks was not met. Out of the 19 procurement exercises reviewed, Treasury only negotiated with Bank A and another bank selected for UNMISS (Bank B) with mixed results. In the latter case, the bank fees increased by 55 per cent, as Bank B claimed that it had not understood the requirements.

39. Treasury also negotiated with incumbent banks on receiving occasional requests to adjust bank charges and/or for additional services. For MINUSCA, although the RFP stated that "the price shall not be subject to any adjustment, including the actual cost incurred by the Proposer in performing the contract or any market price change.", Treasury approved new fee rates in June 2017 as the bank claimed that it had been losing money from the services it was providing to the Mission. Furthermore, despite changing circumstances – suspension of USD cash importation in June 2019 and reduction in the amount of salaries processed by the bank – Treasury did not renegotiate the bank charges downwards until March 2021. Although total bank charges were reduced by 5 per cent, the new fee schedule included additional charges.

40. As requested by the Fifth Committee[5], Treasury worked with MONUSCO in 2016 and 2017 to identify ways to reduce bank fees. This was done by, among others, excluding vendor payments from the basis of computation. However, the same was not applied for UNAMID, to which a much higher fee was charged for its vendor payments in Darfur and other regions.

41. Moreover, Treasury negotiated with banks without involving other parties including PD and mission personnel, which could help achieve better terms based on their knowledge of field operations.

42. The above indicate that there is an urgent need to revise the Special Procedure and develop comprehensive guidelines on procurement of banking services that ensure, inter alia:

(a) Adequate segregation of duties, controls and oversight for the whole procurement process, including sourcing, technical and commercial evaluations;
(b) Criteria and scoring methods are developed to evaluate financial strengths of prospective vendors and are established before technical and commercial proposals are opened;
(c) Selection of banking institutions is consistent with the evaluation results and based on the overall BVM score; and
(d) Effective negotiations are conducted with prospective vendors to achieve better terms and price.

(1) OPPFB should, in consultation with OSCM, revise the Special Procedure for acquiring banking services without further delay and ensure it includes comprehensive guidelines that are consistent with United Nations' procurement principles.

OPPFB accepted recommendation 1 and stated that it would revise the Special Procedure, bearing in mind the delegation of authority on the designation of banks.

B. Contracting and contract management

Master agreements were signed with some banking institutions, but others remain outstanding

43. In 2009, OLA and Treasury agreed to enter into standard agreements with banking institutions in which the Secretariat maintains its accounts. By the end of 2017, master banking agreements had been signed with five major banks that serve as house banks, including two agreements entered into before 2009.

44. At the conclusion of the RFP process to acquire banking services for UNHQ in March 2015, the Controller selected three banks in a split award. One of them (Bank E) was designated to process automated clearing house (ACH) and cheque payments. Due to the urgency to acquire banking services for the scheduled roll-out of Umoja in November 2015, OLA negotiations of a master agreement were not completed, and Bank E suggested that it enter into a joinder agreement with the Secretariat by leveraging an existing agreement between a United Nations programme and the bank in 2000. OLA expressed serious concerns regarding provisions in the joinder agreement, such as the exclusion of most of the clauses of the general conditions of contract, limitations on the bank's obligation to indemnify and defend the United Nations, and several requirements for the United Nations to indemnify, reimburse and compensate the bank for losses it may incur. Despite that, the joinder agreement was entered into as a stop-gap solution considering the urgency conveyed by Treasury.

45. Negotiations with Bank E were never concluded and therefore, the master agreement has not been signed. Bank E did not respond to an attempt by OLA to recommence negotiations in 2018 because,

[5] As mentioned in Treasury's correspondence to Bank A dated 15 March 2017.

according to Treasury, it had little interest to do so unless it had more concrete indications of additional business with the Secretariat to justify the additional legal costs. Treasury indicated it did not foresee any expansion in business. OLA reiterated its concerns regarding the existing joinder agreement and stressed the importance of finalizing and concluding the master banking agreement with Bank E.

(2) OPPFB should, in collaboration with OLA, finalize the master banking agreement with Bank E.

OPPFB accepted recommendation 2 but stated that it does not have control over the timeline for the finalization of the master banking agreement, as the legal process is handled by OLA and Bank E..

Inadequate monitoring of bank fees

46. Distribution of responsibilities relating to management of banking services are for: (a) missions to manage contracts with banks, (b) the Regional Service Centre Entebbe (RSCE) to monitor bank charges for peacekeeping missions through the bank reconciliation process, and (c) Treasury to requisition banking services, evaluate proposals, establish contracts and authorize changes thereto. However, Treasury's role appears to have diluted the sense of ownership of the banking contract management function on the part of mission personnel. Also, since mission staff were not sufficiently familiar with the complex fee schedules included in new contracts, bank charges were not adequately monitored and analyzed to detect potential overcharges. For example, MONUSCO was charged bank fees that were based on an incorrect interpretation of fee schedule in the new contract. The Mission was also charged fees for the inactive accounts of staff who had separated from the Mission. It is also possible that inactive accounts were not being timely excluded from the total number of bank accounts against which maintenance or other fees of similar nature were charged at other United Nations entities. Therefore, there is a need for Treasury to clarify responsibilities for contract management and work with the relevant entities to review bank fees and identify and address possible overcharges by applying the lessons learnt from MONUSCO.

47. In addition, neither individual entities nor the Finance Division had full visibility of bank fees for monitoring purposes. This was because bank fees were recorded in three or more accounts in Umoja. Fees directly deducted from bank accounts by banks were recorded in bank clearing accounts, those invoiced by banks, the majority, were recorded through the accounts payable process in the expense pool account (74251010), while miscellaneous charges were recorded in other accounts. For example, in 2019, out of total bank fees of $1,926,117 for UNMISS, $30,736 were recorded in clearing accounts, $1,776,279 in accounts payable and $94,173 in other accounts. Although the Finance Division could identify total bank fees for specific entities, it was not able to analyze them by bank since some entities receive services from more than one bank and/or have more than one bank account (for example USD and local currency accounts). While Treasury approves changes to the bank fee schedules, it also has no visibility of fees charged by banks.

48. Furthermore, while OPPFB reported bank fees in the financial report and audited financial statements for cash pools[6] in Volume I, it did not do so for peacekeeping operations (Volume II), which attract the greater proportion of bank fees. According to the Finance Division, there is no requirement to separately disclose bank fees in the financial statements.

(3) OPPFB should provide guidance to entities on the division of responsibilities for managing bank contracts, including monitoring the accuracy of bank fees in light of their complex structure.

[6] Funds pooled from Secretariat entities and used among others for investment

OPPFB accepted recommendation 3 and stated that it would ensure that appropriate guidance is provided to Secretariat entities and that they are aware of the focal points to whom to refer requests for further explanation and clarifications.

Contracts were repeatedly extended without rebidding or conducting adequate benchmarking exercises to ensure vendors remain competitive

49. Two banking agreements in force at Headquarters since the early/mid 2000s were extended repeatedly without regular benchmarking exercises. The agreement with Bank F was established in 2005 and was extended nine times until 4 August 2019, following an unsuccessful attempt to replace it in 2014. On approving the latest request for extension, ASG, OCSS required PD, with support from Treasury, to conduct a benchmarking exercise to determine if Bank F remained the most competitive and cost-effective solution. PD obtained information to conduct the benchmarking in 2019 but Treasury did not provide the required technical input in time for PD to complete the analysis of the complex pricing structures before the contract expired. PD therefore requested the approval of ASG, OSCM to extend the contract for one more year, which was granted due to operational needs. ASG, OSCM requested PD and Treasury to develop a medium to long-term plan for the requirement before requesting or committing to any further extensions of the contract. Treasury advised that it did not have a "timeline nor a plan to move the collection bank accounts from Bank F and that it would be a disaster to move the collection accounts to other banks without a good plan and a justifiable reason." In 2020, the Controller approved the extension of the contract for the eleventh time using his authority without a completed benchmarking exercise. This extension was not submitted to PD and the HCC for endorsement.

50. The second banking agreement to provide custodian services for investments entered into in 2001 was extended eight times until 2009. Following a rebid, a new agreement was signed with the same vendor in 2009, with some adjustments to the transaction fees. The contract was extended twice from 2014 to 2016 and then to 2018. Upon discovering that the contract was renewed for a third time to 2020 and without HCC review, PD questioned the validity of the benchmarking cost analysis done by Treasury to support the Controller's decision, as the fees cited by Treasury from another investment management entity in the United Nations system were significantly lower. There was no evidence that Treasury provided a valid benchmarking exercise to support the extension of the contract. The contract was renewed again in 2020 for another two years under the Controller's authority, this time with a benchmarking exercise.

51. OPPFB commented that while benchmarking for best value-for-money is fully appreciated, the complexities of the strategic partnership with Bank F, its proven track record and the operational and business continuity benefits gained by the Organization must be taken fully into consideration. Bank F has been providing banking services to the United Nations for over 70 years and is used to receive contributions from Member States and donors. Changing banks would require changes thousands of payment instructions that would take years to complete. As the bank fees paid to Bank F are considered reasonable and a benchmarking exercise may only show a bank that may charge a little less, there will be significant pushback from the Member States if the Organization chooses to change the bank in which it receives contributions. OPPFB agreed to keep this matter under review. Therefore, OIOS does not make a recommendation at this time.

Procurement files were not properly retained

52. Treasury did not implement proper records management procedures. According to Treasury, procurement officers on SECs were responsible for retaining records relating to the procurement exercises. However, only the RSCE procurement officer involved in the UNMISS case was able to provide relatively complete procurement files. None of the other three procurement sections in the sampled missions could produce any documents and directed OIOS to Treasury for the files. As the designation of banks was done

under the authority of the Controller, all relevant records should have been maintained by OPPFB to support the decision. However, Treasury could only provide recommendation memorandums, technical and commercial proposals from the vendors that were recommended for award by SECs, technical and commercial evaluation results and bank agreements. Records such as market research and sourcing decisions, minutes of the meetings with banks, technical and commercial proposals of unsuccessful bidders were missing. The retention period for procurement-related records is seven years from the conclusion of the procurement action. Therefore, these records should have been available for review during the present audit.

(4) OPPFB should implement procedures to ensure completeness and availability of records pertaining to acquisition of banking services.

OPPFB accepted recommendation 4 and stated that it would reiterate to missions to retain records pertaining to acquisition of banking services in full compliance with normal retention periods.

C. Opening and closing of bank accounts

OPPFB developed procedures for opening and closing bank accounts

53. From 2018 to 2020, the Treasurer approved the opening of 19 bank accounts at the request of Secretariat entities wishing to deposit cash, process vendor payments or support temporary activities such as conferences. Treasury also approved closure of 34 bank accounts. The Board of Auditors (BOA) noted in its 2018 report[7] the need for a formal, documented mechanism outlining the criteria to open and close bank accounts to provide better transparency and objectivity in the necessary decision-making process. BOA also noted delays in clearing closed accounts in Umoja as 30 bank accounts closed physically by Treasury remained active in Umoja. The Board reported that Treasury had not conducted a comprehensive review to identify the bank accounts that could be considered for closure and set a schedule for closing them.

54. OIOS also observed delays between terminating relations with banks and closing accounts in Umoja. It took an average of 53 days to close 7 of the 16 bank accounts terminated in 2019. Upon closure of the accounts, Treasury did not instruct entities to reconcile the accounts with bank statements and the Umoja team to close the accounts timely. There were also, 3 bank accounts with no activities in the last three years among the current 256 active accounts in Umoja. It was unclear if they were still needed. Furthermore, there was a delay in establishing a newly opened bank account in Umoja to enable timely posting and reconciliation of transactions.

55. OPPFB commented that it had developed and shared with the BOA, a special operating procedure for opening and closing bank accounts. However, the timeline for closing bank accounts in Umoja varied, depending on the circumstances of each case. Nevertheless, Treasury would make every effort to close accounts as soon as possible after clearing outstanding items in the general ledger. It was already actively monitoring bank accounts to identify those that were no longer needed in line with the BOA recommendation. In light of this, OIOS does not make a recommendation.

[7] Financial report and audited financial statements for the year ended 31 December 2018 (A/74/5 (Vol. I))

IV. ACKNOWLEDGEMENT

56. OIOS wishes to express its appreciation to the management and staff of DMSPC and DOS 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 global banking operations in the United Nations Secretariat

Rec. no.	Recommendation	Critical[8]/ Important[9]	C/ O[10]	Actions needed to close recommendation	Implementation date[11]
1	OPPFB should, in consultation with OSCM, revise the Special Procedure for acquiring banking services without further delay and ensure it includes comprehensive guidelines that are consistent with United Nations' procurement principles.	Critical	O	Receipt of the revised Special Procedure.	31 January 2023
2	OPPFB should, in collaboration with OLA, finalize the master banking agreement with Bank E.	Important	O	Receipt of evidence of actions taken to finalize the master banking agreement with Bank E.	30 June 2024
3	OPPFB should provide guidance to entities on the division of responsibilities for managing bank contracts, including monitoring the accuracy of bank fees in light of their complex structure.	Important	O	Receipt of guidance provided on the division of responsibilities between OPPFB and missions for managing bank contracts.	31 January 2023
4	OPPFB should implement procedures to ensure completeness and availability of records pertaining to acquisition of banking services.	Important	O	Receipt of procedures on retention of records relating to acquisition of banking services.	31 January 2023

[8] 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.
[9] 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.
[10] Please note the value C denotes closed recommendations whereas O refers to open recommendations.
[11] Date provided by OPPFB in response to recommendations.

APPENDIX I

Management Response

United Nations Nations Unies

INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Ms. Eleanor T. Burns, Director DATE: 1 June 2022
A: Internal Audit Division, OIOS

THROUGH: C.H.Monier Christophe Monier, Director
S/C DE: Business Transformation and Accountability Division
Department of Management Strategy, Policy and Compliance

FROM: Mario Baez Mario Baez, Chief, Accountability Service
DE: Business Transformation and Accountability Division
Department of Management Strategy, Policy and Compliance

SUBJECT: **Draft report on an audit of global banking operations in the United Nations**
OBJET: **Secretariat (Assignment No. AH2020-511-01)**

1. With reference to your memorandum dated 6 May 2022, please see below comments from the Office of Programme Planning, Finance and Budget (OPPFB), including an action plan with estimated implementation target dates on accepted OIOS recommendations summarised in Appendix I.

Office of Programme Planning, Finance and Budget

2. The Administration notes that the audit was included in the risk-based work plan of OIOS due to the financial and operational risks related to banking operations and acknowledges the significant attention the OIOS audit placed upon consistency with UN procurement principles, most particularly competitive processes and cost-effectiveness (best value-for-money). However, OPPFB is of the view that this does not, of itself, address the key financial and operational risks associated with the designation of a bank for the United Nations Secretariat, which is paramount to its secured operations in a complex global environment.

3. The Administration would like to emphasize that the designation of a bank constitutes an investment decision that is guided by the security and immediate accessibility of the Organization's funds as the primary goal. The audit report does not consider how these key concerns are appropriately factored into, for example, the principle of best value-for-money. In paragraph 37, it appears OIOS disputes the importance of credit ratings, which are alleged to be used to '*eliminate technically compliant banks at the final stages of the process*'. OPPFB strongly disagrees with this representation. Credit ratings are internationally recognized and commonly understood by banking institutions.

4. The Administration emphasizes that the important distinction between designation of a bank and the Organization's procurement of goods and services is codified within the United Nations financial regulations and rules. The financial regulations and rules governing the Organization's banks are dealt with exclusively under the Article IV. Custody of funds, namely: **"Regulation 4.15. The Secretary-General shall designate the bank or banks in which the funds of the Organization shall be kept."**

5. While due regard ought to be given the principles of procurement, they do not take primacy over the delegated authority of the Assistant Secretary-General, Controller to designate the Organization's banks. It should be acknowledged that procurement procedures do not factor in the investment nature of a bank, which was recognized by the General Assembly (as above) and are not responsive to the complexities and risks associated with an investment decision.

6. Arrangements with banking institutions are strategic partnerships that are critical for the Organization's operational effectiveness and business continuity. They are built on trust and a proven track record over years based on a deep understanding of the complex nature of the Organization's operations and a willingness and capacity to support the United Nations in extraordinary circumstances, including geopolitical conflict and natural disasters.

7. It is commonly accepted the UN Secretariat and its banks are called upon as facilitators of sustained liquidity to UN system entities and other humanitarian actors at times of crisis. During the OIOS audit, this was demonstrated amply in the context of the COVID pandemic, as well as the Organization's operations in Afghanistan, Ukraine and other regions in conflict, where it is paramount the United Nations remains and serves the peoples. This is testament to the reliability of the designated banks that serve the UN Secretariat, support the wider UN country teams and safeguard the assets of Member States. Furthermore, it highlights the importance of designation tailored to the Organization's unique requirements and selection being undertaken by subject matter experts. OPPFB does not consider it judicious to compromise the effectiveness of this strategic partnership in the principal interest of cost-effectiveness.

8. As regards the analysis of the Special Procedures at paragraph 19, the Administration notes that the audit report refers to the procurement officers "mainly performing administrative tasks" and contends that the absence of any concerns being raised, or breaches being reported <u>may indicate</u> a lack of understanding by the procurement officers of their roles and responsibilities that impacted the adequacy of controls over the procurement process. OPPFB strongly disagrees. The procurement officers were typically Chiefs of Procurement, with delegated authority and responsibility for managing procurement activities for their respective entities. Experienced managers were fully engaged in the process.

9. The Administration accepts recommendation 1 for the Special Procedures for acquiring banking services issued in 2008 to be revised and strengthened. However, the final determination on which banks are selected for the official business of the Organization rests ultimately with the Assistant Secretary-General, Controller as per the UN financial regulations and rules (Rule 104.4). In the case of the RFPs mentioned in the report, the decision on which bank represented the best value-for-money was not taken based on which bank was the least expensive, but which bank could provide the required banking services that are in the best interest of the Organization without disruption to operations. Global strategic partnerships are also taken into consideration when selecting banks.

10. The audit report fails to mention that following the RFP exercises, the bank fees paid by MONUSCO, UNMISS and UNAMID were significantly lowered as compared to what was paid prior to the RFP. Furthermore, Treasury, along with the procurement officers on the various Special Evaluations Committees, not only negotiated a reduction in fees for the above-mentioned missions, but they were also successful in negotiating lower, and in most cases waiving of bank fees, for nearly all the RFPs conducted under the Harmonization Project. OPPFB does not agree with the assertion that such negotiations did not occur or take place.

11. Regarding source methodology, every country in the world is different in respect of the number of banks (both local and international) and banking regulations. During the audit period, OIOS did not identify any banks that should have been invited but were not in any of the countries where RFPs were conducted.

12. In respect of the point raised in paragraph 33, the MONUSCO projection for the USD cash mint note importation was provided by the mission based on the actual staffing table prior to issuing the RFP. OIOS is referring to the figures one year after the completion of the RFP exercise. It is unreasonable to expect Treasury or the Special Evaluation Committee to know what the figures would be a year in the future. Furthermore, OIOS did not conduct an analysis of the subsequent years to see if the figures were more in line with the projections.

13. It is important to note that there are external factors related to banking that need to be taken into consideration before selecting a banking partner, particularly where large amounts of USD cash and payments are involved. These external factors are related to the bank’s reserves held with the respective Central Bank and the financial rating from the largest global rating agency specializing in financial institutions. It is OPPFB’s fiduciary responsibility to ensure the safety of the funds of the Organization, which is particularly important following the financial crisis in 2008. As the former Controller communicated to the previous Assistant Secretary-General of Central Support Services, selecting the most secure financial institution that can provide the required banking services is of paramount importance. This important criterion will be an integral part of the revision to the Special Procedures.

14. The Administration accepts recommendation 2 and has reached out to Bank E to see whether they are willing to spend the time and resources to finalize the master banking agreement.

15. The Administration accepts recommendation 3 and would provide additional guidance to the various entities that manage House Bank accounts on monitoring the accuracy of bank fees.

16. The Administration does not accept recommendation 4 and would like to reiterate that Bank F is one of the most secure global financial institutions that has been providing banking services to the United Nations for over 70 years, (nearly all USD contribution accounts are received by Bank F and immediately transitioned to the Investment pool). All Member States send their contributions, both assessed and voluntary, to accounts held with Bank F. In absence of Member States' dissatisfaction, even if there were a bank that may propose lower bank fees, the cost in time and resources to change the banking details of all contribution accounts is prohibitive and operationally highly challenging, as well as disruptive for Member States. The change management related to 193 Member States is a paramount consideration and while OPPFB agrees to keep it under review periodically, it does not see the need for a cost-benefit review of a non-quantifiable benefit against a backdrop of a severe liquidity crisis linked to delays in collections from Member States that involves an already difficult process.

17. The Administration accepts recommendation 5 and will reiterate that missions will be expected to retain records pertaining to acquisition of banking services in full compliance with normal retention periods.

18. The Administration questions whether section C of the report is needed as OIOS did not make any recommendation and OPPFB has already developed procedures for opening and closing bank accounts and actively monitoring bank accounts to identify those that are no longer needed.

19. Thank you for giving the Administration an opportunity to provide comments on the draft report.

APPENDIX I

Management Response

Audit of global banking operations in the United Nations Secretariat

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	OPPFB should, in consultation with OSCM, revise the Special Procedure for acquiring banking services without further delay and ensure it includes comprehensive guidelines that are consistent with United Nations' procurement principles.	Critical	Yes	Chief, FRMS	January 2023	The Administration accepts the recommendation. DMSPC-OPPFB will revise the Special Procedures for the acquisition of banking services bearing in mind the Delegation of Authority on the designation of banks for the official purpose of the United Nations as defined by the UN financial regulations and rules.
2	OPPFB should, in collaboration with OLA, finalize the master banking agreement with Bank E.	Important	Yes	Chief, FRMS	June 2024	The Administration accepts the recommendation but draws OIOS attention to the fact that it does not have control over the timeline regarding the finalization of the master banking agreement as the legal process is handled between OLA and Bank E.
3	OPPFB should provide guidance to entities on the division of responsibilities for managing bank contracts, including monitoring the accuracy of bank fees in light of their complex structure.	Important	Yes	Chief, FRMS	January 2023	The Administration accepts the recommendation. OPPFB will take the requisite steps to ensure appropriate guidance is provided to Secretariat entities, and ensure entities are fully aware of focal points to whom they might refer if there is a need for further explanation or clarification when questions arise.
4	OPPFB should, in collaboration with the Procurement Division, expeditiously conduct a cost-benefit-analysis incorporating a benchmarking exercise, to	Important	No	Chief, FRMS	N/A	The Administration does not accept the recommendation 4 and would like to reiterate that Bank F is one of the most secure global financial institutions, has been providing banking services to the United Nations for over 70 years,

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

Rec. no.	Recommendation	Critical[1]/ Important[2]	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	determine if Bank F still represents the best-value-for-money for the Organization					(nearly all USD contribution accounts are received by Bank F and immediately transitioned to the Investment pool). All Member States send their contributions, both assessed and voluntary, to accounts held with Bank F. Even if there is a bank that may propose lower bank fees, the cost in time and resources to change the banking details of all contribution accounts is prohibitive and operationally highly challenging, as well as disruptive for Member States. The change management related to 193 Member States is a paramount consideration and while DMSPC agrees to keep it under review periodically, it does not see the need for a cost- benefit review of a non-quantifiable benefit against a backdrop of a severe liquidity crisis linked to delays in collections from Member States that involves an already difficult process.
5	OPPFB should implement procedures to ensure completeness and availability of records pertaining to acquisition of banking services.	Important	Yes	Chief, FRMS	Ongoing	The Administration accepts recommendation 5 and will reiterate that missions will be expected to retain records pertaining to acquisition of banking services in full compliance with normal retention periods.