



## INTERNAL AUDIT DIVISION

### REPORT 2018/009

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Audit of the Secretariat's  
arrangements for implementation of  
the grants management module in  
Umoja

Procedural guidance on implementation of  
the grants managements module needed to  
be further improved

21 February 2018  
Assignment No. AG2017/511/01

# **Audit of the Secretariat's arrangements for implementation of the grants management module in Umoja**

## **EXECUTIVE SUMMARY**

The Office of Internal Oversight Services (OIOS) conducted an audit of the Secretariat's arrangements for implementation of the grants management module in Umoja. The objective of the audit was to assess the adequacy and effectiveness of internal controls over the Secretariat's arrangements for implementation of the grants management module in Umoja. The audit covered the period from 1 January 2015 to 31 July 2017 and included (i) guidance on implementation of the grants management module; and (ii) closing of inactive trust funds.

The Office of Programme Planning, Budget and Accounts (OPPBA) had issued guidance on implementation of the grants management module. However, procedural guidance on implementation of the module needed to be further improved.

OIOS made two recommendations. To address issues identified in the audit, OPPBA needed to:

- Provide additional guidance to implementing offices on conducting risk assessments to determine reasonable operating reserves; and
- Clarify the arrangements for sharing of programme support costs between implementing offices and the Department of Management (DM).

DM accepted the recommendations but was yet to initiate action to implement them.

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# **Audit of the Secretariat's arrangements for implementation of the grants management module in Umoja**

## **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Secretariat's arrangements for implementation of the grants management module in Umoja.
2. Umoja is an application of the SAP enterprise resource planning software that supports management activities related to finance, budget, human resources, supply chain, central support services, and other core business functions. This system replaced and integrated numerous legacy information systems across the United Nations Secretariat.
3. The Department of Management (DM) has been leading the implementation of the Umoja project through the Umoja Office. The deployment of Umoja was divided into four phases (Foundation, Umoja Extension 1, Umoja integration and Umoja Extension 2) and implemented in five clusters. The grants management module in Umoja was implemented during the integration phase for Cluster 3 and 4 entities in June and November 2015 respectively. The grants management module consisted of two components – grantee and grantor – of which only the grantee component was launched whereas the grantor module was expected to launch in 2018.
4. The grants management module was used to process voluntary contributions and was expected to improve efficiency and effectiveness in management of voluntary contributions. The module was designed to centralize and standardize the storage of information on donor contributions. The module also allowed the Organization to manage donor monetary and in-kind contributions from pre-award administration to post-award management and reporting. Benefits expected following the introduction of the grants management module included better financial controls, a centralized system to store information on donor contributions in a standardized way, immediate access to real-time and up to date financial reports, and improved reporting flexibility and financial transparency. Implementation of the grants management module resulted in one type of trust fund in Umoja, eliminating the classification of trust funds types as previously processed.
5. The Office of Programme Planning, Budget and Accounts (OPPBA) in DM was responsible for aligning related United Nations policies and procedures with grants management design in Umoja and providing guidance to implementing offices and departments that manage trust funds.
6. Voluntary contributions received for purposes specified by the donor were accepted and recorded in a trust fund. Trust funds were classified into two major categories: (a) general trust funds - which support or supplement the substantive work programme of the Organization or activities of humanitarian and relief assistance; and (b) technical cooperation trust funds - which provide for technical cooperation assistance to developing countries either through multilateral arrangements or through the United Nations system. Management of general trust funds and technical cooperation trust funds were governed by separate administrative instructions.
7. Comments provided by DM are incorporated in italics.

## II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

8. The objective of the audit was to assess the adequacy and effectiveness of internal controls over the Secretariat’s arrangements for implementation of the grants management module in Umoja.

9. This audit was included in the 2017 risk-based work plan of OIOS due to the risk that potential weaknesses could adversely impact the realization of benefits arising from implementing the grants management module in Umoja.

10. OIOS conducted this audit from September 2017 to November 2017. The audit covered the period from 1 January 2015 to 31 July 2017. Based on an activity-level risk assessment, the audit covered risk areas which included: (i) guidance on implementation of the grants management module; and (ii) closing of inactive trust funds. The scope of this audit was limited to implementing offices located in New York.

11. The audit methodology included: (a) interviews with responsible managers at selected implementing offices in New York; (b) review of relevant documentation; and (c) analytical review of data.

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

## III. AUDIT RESULTS

### A. Guidance on implementation of the grants management module

#### Guidance had been issued in a number of relevant areas

13. With the implementation of Umoja, DM removed the distinction between general and technical cooperation trust funds and initiated revisions to the Secretary-General’s bulletin ST/SGB/188 of 1 March 1982 and the administrative instructions<sup>1</sup> on general trust funds and technical cooperation trust funds. DM decided to have one administrative instruction (in place of the existing two) for establishing and managing trust funds and voluntary contributions. At the time of the audit, the revised administrative instruction was yet to be issued. Meanwhile, OPPBA issued guidance (along the lines proposed in the revised administrative instruction) in the form of memoranda: 6 issued before implementation of Umoja and 5 after, explaining the interim arrangements for Umoja Cluster 3 and 4 entities as shown in Table 1.

**Table 1: Guidance issued on implementation of the grants management module**

	Topic	Date	Memorandum title and main points
1	Classification of trust funds	4 March 2015	(i) Converting and merging technical cooperation trust funds to general trust funds - distinction between general and technical cooperation trust funds no longer exists.
2	Operating reserves	6 March 2015	(ii) Operating reserves for general trust funds - requirement to maintain 15 per cent operating reserve was eliminated.
3	Programme support costs (PSC)	30 January 2015	(iii) Administration of programme support accounts financed from extra-budgetary funds- PSC income will be credited to a central account.
4		28 September 2016	(iv) Management of programme support funds - addressed to the Executive Secretaries of Regional Commissions on

<sup>1</sup> ST/AI/284 dated 1 March 1982 on General Trust Funds and ST/AI/285 dated 1 March 1982 on Technical cooperation trust funds were proposed to be abolished.

			arrangements for crediting of PSC income to a central account.
5		29 November 2016	(v) Grants and indirect costs fund (PSC) – procedures governing the use of PSC and grants for offices away from Headquarters and Regional Commissions.
6	Data cleansing	14 July 2015	(vi) Guidance to facilitate data cleansing.
7	Changes in roles and processes in the management of voluntary contributions	24 April 2015	(vii) Roll-out of Umoja grants management module and changes in roles and processes in the management of voluntary contributions.
8	Closure of inactive trust funds	31 August 2015	(viii) Guidance to facilitate closure of trust funds - procedures for closure of inactive trust funds before implementation of the grants management module.
9		19 June 2017	(ix) Inactive general trust funds - Instructions to Headquarters and Offices away from Headquarters to close inactive trust funds identified by OPPBA after the implementation of the grants management module.
10	Donor agreements	20 November 2015	(x) Guidelines on preparation of agreements with donors and implementing partners.
11	After Service Health Insurance liabilities	29 November 2016	(xi) After-service health insurance for staff funded from voluntary contributions and other non-assessed resources.

14. The guidance provided to implementing offices: (i) enabled rationalization of the number of trust funds; and (ii) promoted transparency in financial information across the Secretariat's offices and departments. OPPBA also centralized the function to create new trust funds in the grants management module and requests to create new trust funds were scrutinized more rigorously to avoid duplication. However, OIOS identified the need for additional guidance in certain areas, namely: (i) maintenance of operating reserves; and (ii) share of PSC between DM and the implementing offices, as discussed in the following paragraphs.

#### Need to further strengthen guidance on operating reserves

15. ST/AI/284 on general trust funds requires that an operating cash reserve at a constant level of 15 per cent of estimated annual planned expenditures be maintained during the implementation of trust fund activities to cover shortfalls and final expenditures, including any liquidating liabilities. There was no requirement to maintain operating reserves for technical cooperation trust funds.

16. OPPBA's memorandum dated 6 March 2015 envisaged the need to harmonize the Organization's practices on operating reserves consequent to the merger of general trust funds and technical cooperation trust funds during the migration to Umoja and eliminated the application of the 15 per cent operating reserve for general trust funds as of January 2016. However, OPPBA acknowledged that an operating reserve could not be eliminated completely; an operating reserve would have to be maintained at the discretion of trust fund managers based on an objective assessment of the financial risks associated with distinct trust funds under their responsibility. Fund managers would have to demonstrate to the Controller that such an objective assessment had guided their determination of the need for, and the level of the reserve; the Controller may review such an assessment and prescribe a higher or lower reserve depending on the risk assessment. OPPBA also stated that additional guidelines for such assessments would be issued shortly. The memorandum further stated that following the migration to Umoja, technical cooperation fund managers should undertake a risk assessment to determine whether they can continue without an operating reserve or establish a new level of the reserve commensurate with the risk.

17. At the time of the audit, OPPBA was yet to issue additional guidance for conducting risk assessments to determine the level of operating reserve. OIOS could not find evidence that such risk assessments were conducted by implementing offices.

18. OIOS notes that in the grants management module, users can release budgets and make financial commitments even if the associated contributions have not been received from donors. The risk that the Organization may be unable to honour such commitments is higher if a department made commitments without receiving contributions. The lack of clear guidance on the level of operating reserves could expose the Organization to this risk.

**(1) OPPBA should provide additional guidance to implementing offices on conducting risk assessments to determine the level of operating reserves and ensure that such risk assessments have been conducted and reserves established.**

*DM accepted recommendation 1 and stated that revisions to the Controller's policy memorandum on programme support costs, including guidance to conduct risk assessments and establishment of operating reserves will be addressed in a holistic manner across all grants management processes as part of the implementation of Umoja Extension 2, Grantor Management module. Recommendation 1 remains open pending receipt of documentation showing the additional guidance issued to implementing offices on conducting risk assessments to determine the level of operating reserves.*

#### Need for guidance on sharing PSC income between implementing offices and DM

19. According to the Secretary-General's bulletin ST/SGB/188 on establishment and management of trust funds, reimbursement for PSC shall be provided for all activities financed from trust funds. The bulletin further states that PSC income must be used in areas where a relationship exists between the supporting activity concerned and the activities that generated the programme support revenue.

20. By its memorandum dated 30 January 2015, OPPBA decided that charges to trust funds for programme support services would be credited to a central account for PSC consequent to the merger of general and technical cooperation trust funds. Further, the authority to approve, administer and allot programme support budgets would remain with the Controller, who may delegate the administration of some of the funds to Chief Administrative Officers and Directors/Chiefs of Mission Support, within specified limits. The Controller instructed implementing offices to submit annual cost plans, staffing tables, trend analyses and cash flow projections for 2017 to issue PSC allocations. Based on a review of documents and discussions with selected implementing offices, OIOS identified the following issues which needed further clarification:

(a) Basis for allocation of PSC share to implementing offices needed to be clarified

Prior to pooling of PSC income in a central account, implementing offices and DM used to share PSC income through an informal arrangement and in varying ratios. For example, PSC income from general trust funds and technical cooperation trust funds was shared between the implementing office and DM in a ratio of 40:60 and 70:30 respectively. DM used its share to cover the costs related to Secretariat-wide initiatives and central administrative services. However, existing guidelines were not clear about the sharing of PSC income after the merger of general and technical cooperation trust funds and creation of a centralized account for PSC income. This needed to be clarified.

- (b) PSC share of implementing offices needed to be commensurately increased

With the implementation of the grants management module, implementing offices started undertaking some of the support activities previously carried out by DM, such as preparing financial authorizations, budgets, grants, and generating and certifying interim financial reports. Implementing offices indicated that there should be a commensurate increase in their share of PSC due to the increased support activities performed by them.

21. OPPBA stated that due to other priorities, additional guidance on sharing of PSC could not be issued. OIOS is of the view that additional guidance is required to enhance transparency in this area.

**(2) OPPBA should provide additional guidance on arrangements for sharing of programme support costs between implementing offices and DM to enhance transparency.**

*DM accepted recommendation 2 and stated that the timing of the issuance of guidance is premature in view of the implementation of Umoja Extension 2, Grantor Management module planned for the end of 2018. DM indicated a planned implementation date of 31 December 2018 for this recommendation. Recommendation 2 remains open pending receipt of documentation showing the additional guidance on arrangements for sharing of PSC between implementing offices and DM.*

## **B. Closing of inactive trust funds**

### OPPBA had initiated action to close inactive trust funds

22. OPPBA's memorandum of 4 March 2015 on converting and merging technical cooperation trust funds to general trust funds stated that Umoja provided the opportunity to harmonize business practices across the entities and to streamline and reduce the vast number of trust funds which currently exist.

23. Prior to implementing the grants management module in Umoja, OPPBA directed implementing offices to rationalize and reduce the number of trust funds. Although there was a reduction in the number of trust funds, implementing offices did not adopt common criteria to identify inactive trust funds. Subsequently, OPPBA issued a memorandum on 19 June 2017 outlining the criteria to define an inactive trust fund. OPPBA identified 38 more inactive trust funds with a total fund balance of \$9.3 million and requested the implementing offices to review and provide updates by 30 September 2017 on any closure action that might be appropriate. At the time of the audit, OPPBA was pursuing this matter with the implementing offices to close the identified inactive trust funds. In view of the actions being taken by OPPBA, OIOS is not making a recommendation in this regard.

### ST/SGB/188 was being revised to enable closure of inactive trust funds established by the General Assembly

24. According to the Secretary-General's bulletin ST/SGB/188 on establishment and management of trust funds, a trust fund established by the General Assembly may be terminated after a decision by the legislative body concerned. OPPBA's policy guidance on closure of trust funds dated 31 August 2015 stated that trust funds established by the General Assembly would be converted into a single fund in Umoja for each volume of the financial statements as separate grants with suitable additional identifiers to allow the Organization to manage the funds in accordance with their terms of reference, until such time that the Assembly approves their termination. OPPBA undertook a review of these funds in 2016 to establish the process for requesting the General Assembly to approve the termination of these funds. Out of 38 inactive trust funds identified by OPPBA, eight trust funds amounting to \$4.5 million were established by the



General Assembly. *DM clarified that ST/SGB/188 was being revised to institute a procedure whereby all unspent balances in trust funds that remain unclaimed, whether established by the General Assembly or the Secretary-General, that have completed their mandates will be transferred into an appropriate fund under the authority of the Controller.*

#### **IV. ACKNOWLEDGEMENT**

25. OIOS wishes to express its appreciation to the management and staff of DM for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* Eleanor T. Burns  
Director, Internal Audit Division  
Office of Internal Oversight Services

## STATUS OF AUDIT RECOMMENDATIONS

## Audit of the Secretariat's arrangements for implementation of the grants management module in Umoja

Rec. no.	Recommendation	Critical <sup>2</sup> / Important <sup>3</sup>	C/ O <sup>4</sup>	Actions needed to close recommendation	Implementation date <sup>5</sup>
1	OPPBA should provide additional guidance to implementing offices on conducting risk assessments to determine the level of operating reserves and ensure that such risk assessments have been conducted and reserves established.	Important	O	Receipt of documentation showing the additional guidance issued to implementing offices on conducting risk assessments to determine the level of operating reserves.	31 December 2018
2	OPPBA should provide additional guidance on arrangements for sharing of programme support costs between implementing offices and DM to enhance transparency.	Important	O	Receipt of additional guidance on arrangements for sharing of programme support costs between implementing offices and DM.	31 December 2018

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

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

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

<sup>5</sup> Date provided by DM in response to recommendations.

# **APPENDIX I**

## **Management Response**

United Nations



INTEROFFICE MEMORANDUM

Nations Unies

MEMORANDUM INTERIEUR

TO: Mr. Gurpur Kumar, Deputy Director, Internal Audit Division      DATE: 16 February 2018  
A: Office of Internal Oversight Services

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

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

SUBJECT: **Draft report on an audit of the Secretariat's arrangements for implementation of  
OBJET: the grants management module in Umoja (Assignment No. AG2017/511/01)**

1. We refer to your memorandum dated 1 February 2018 regarding the above-subject draft report and provide you with comments from the Department of Management in the attached Appendix I.
2. Thank you for giving us the opportunity to provide comments on the draft report.

DM-2017-07585  
19-Feb. 2018

## Management Response

## Audit of the Secretariat's arrangements for implementation of the grants management module in Umoja

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation Date	Client comments
1	OPPBA should provide additional guidance to implementing offices on conducting risk assessments to determine the level of operating reserves and ensure that such risk assessments have been conducted and reserves established.	Important	Yes	Deputy Controller	31 December 2018	Revisions to the Controller's policy memorandum on programme support costs, including guidance to conduct risk assessments and establishment of operating reserves will be addressed in a holistic manner across all grants management processes as part of the implementation of Umoja Extension 2, Grantor Management module.
2	OPPBA should provide additional guidance on arrangements for sharing of programme support costs between implementing offices and DM to enhance transparency.	Important	Yes	Deputy Controller	31 December 2018	OPPBA notes that as previously expressed, and noted for recommendation 1, the timing of the issuance of guidance is premature in view of the implementation of Umoja Extension 2, Grantor Management module planned for the end of 2018.
3	OPPBA should establish a mechanism to request the General Assembly for closure of inactive trust funds.	Important	No	Not applicable	Not applicable	OPPBA does not accept the recommendation as formulated. ST/SGB/188 is being revised to institute a procedure whereby all unspent balances in trust funds that remain unclaimed whether established by the General Assembly or the Secretary-General that have completed their mandates, will be transferred into an appropriate fund under the authority of the Controller.

<sup>1</sup> Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

<sup>2</sup> Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.