



INTERNAL AUDIT DIVISION

AUDIT REPORT

Management of Trust Funds supporting OCHA

**Weaknesses in financial planning and cash flow
management need to be immediately addressed**

20 November 2008

Assignment No. AN2008/590/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE

INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. John Holmes, Under-Secretary-General and
A: Emergency Relief Coordinator
Office for the Coordination of Humanitarian Affairs

DATE: 20 November 2008

REFERENCE: IAD: 08-01971

for 
FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AN2008/590/01 - Audit of the management of Trust Funds supporting OCHA**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 2, 4 and 12 in the OIOS recommendations database as indicated in Annex 1. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1, 3, 7 and 8 in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Ms. Christina Post, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. William Petersen, Chief, New York Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of the management of Trust Funds supporting OCHA

OIOS conducted an audit of the management of Trust Funds supporting the Office for the Coordination of Humanitarian Affairs (OCHA). The overall objective of the audit was to review the adequacy of the internal control system, and to assess the efficiency and effectiveness of the management of OCHA's trust funds. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Following the adoption of a three-year strategic framework and the implementation of the Enterprise Risk Management exercise in late 2006, the reporting mechanisms within OCHA, as well as towards donors and the broader international community significantly improved both in terms of transparency and disclosure of financial information. Overall, OIOS found that material key internal controls were inadequate in the areas of financial planning and cash flow management. More specifically, OIOS found that:

- The income from voluntary contributions was understated in respect of the value of pledged un-earmarked contributions from the time the pledge agreements are received until the funds are allocated to individual projects or activities. The pledge agreements in respect of the un-earmarked contributions are only accounted for when the corresponding cash is received in the United Nations accounts, and recognized as income upon the allocation to OCHA's projects and activities. Failure to forward all pledge agreements to the United Nations Office in Geneva (UNOG) for accounting purposes represents a departure from the provisions of the delegation of authority entrusted to OCHA.
- There is little discernable linkage between the strategic planning framework and the measurement and reporting of actual performance.
- OCHA expenditures incurred in respect of the extrabudgetary resources are clustered in three categories: core activities, headquarters projects and field coordination activities. The application of the definition of "core activities" for a large number of projects has not been consistent. Consequently, there is a risk that the funding allocations for core activities shift from one trust fund to another.
- There was limited use of the cash flow mechanism as a financial management tool that would allow for adequate financial planning, cash flow management and equitable allocation of funds. No consolidated cash flow statement is prepared by OCHA.
- The OCHA Tracking System (OCT) developed in 2006 to provide an online tracking facility pertaining to donors contributions has no documented system specifications, and the data in use was not fully tested.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of trust funds supporting the Office for the Coordination of Humanitarian Affairs. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
 2. OCHA is funded from the United Nations regular budget and from voluntary contributions, supplemented by income generated from programme support costs. The regular budget appropriations for OCHA for the biennium 2006-2007 under Section 27: Humanitarian Assistance was \$26.6 million, representing nine per cent of the overall resource requirements.
 3. Voluntary donor contributions are administered through a series of trust funds. The establishment and management of the trust funds are governed by the United Nations Financial Regulations and Rules. For the biennium 2006-2007, donor contributions of \$254.5 million made up 81 per cent of OCHA's funding related to its biennium activities. Programme support costs of \$29.8 million represented 10 per cent of the total budget.
 4. Voluntary contributions to OCHA are mainly received and managed through the following trust funds and special accounts:
 - (i) Trust Fund for Disaster Relief Assistance (DM) was established by General Assembly resolution 2816 (1971) to finance humanitarian coordination and relief activities in all countries affected by conflicts, natural disasters and industrial, environmental and technological accidents. The fund is the main source of funding for field offices, and it is administered by the Geneva office. The fund balance as of 31 December 2007 was \$178.8 million.
 - (ii) Trust Fund for Strengthening of the Office of the Emergency Relief Coordinator (DD) was established by General Assembly resolution 3243 (1974) to support core activities of OCHA that are mainly funded from un-earmarked contributions. The fund is administered by the New York office and is comprised of the main fund and a sub-account for the Integrated Regional Information Networks (IRIN). The fund balance as of 31 December 2007 was \$28.7 million.
 - (iii) Special Account for Programme Support (OD) consists of resources derived from the programme support costs levied on activities financed by OCHA's trust funds. The levy ranges from three per cent on grants to United Nations Agencies and NGOs, to 13 per cent for OCHA's own activities. The funds are used for administrative costs and common services. The fund balance as of 31 December 2007 was \$30.7 million.
 5. Comments made by OCHA are shown in *italics*.
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II. AUDIT OBJECTIVES

6. The main objectives of the audit were to:
 - (a) Review the adequacy of the internal control system for administration of OCHA's trust funds; and
 - (b) Assess the efficiency and effectiveness of the management of OCHA's trust funds.

III. AUDIT SCOPE AND METHODOLOGY

7. The audit covered OCHA's primary trust funds (DM, DD and OD) for the biennium 2006-2007.
8. The methodology of the audit included: interviews with key officials; review of the cost plans, annual reports and financial statements; review of the allocations from un-earmarked contributions; and the reporting mechanisms to donors. The audit reviewed OCHA's structure and allocation of responsibilities to evaluate the adequacy of internal controls, as well as testing the accuracy of selected accounting transactions. As part of the audit, a field visit was undertaken to OCHA's Geneva office from 25 March to 10 April 2008.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Financial planning of the humanitarian activities

9. As part of the United Nations regular programme budget, OCHA submits to the General Assembly a proposed biennial programme plan that follows the Results Based Budgeting (RBB) framework and monitoring arrangements. The proposed biennium budget includes an overview of the humanitarian assistance programme together with detailed resource requirements for assessed and voluntary contributions.
 10. Additionally, OCHA field offices prepare work plans that are submitted to OCHA headquarters on a yearly basis. The related cost plans prepared in collaboration with the Coordination and Response Division (CRD) contain the extrabudgetary resource requirements needed to meet the goals and objectives laid out in the work plans. The individual work plans are derived from a parallel planning and monitoring system established in 2006, and are based on the three-year strategic framework developed from the implementation of the Enterprise Risk Management (ERM) exercise conducted by OCHA. The individual cost plans are consolidated in the annual document called "OCHA in 200X – Activities and extrabudgetary funding requirements". The document contains narrative and financial details for the activities and projects to be undertaken by headquarters entities, regional offices and field offices, and is used as a basis for mobilizing and securing resources from donors.
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11. Pursuant to the administrative instruction ST/AI/284 on general trust funds, cost plans for the following year should be submitted to the Budget Division. Given the nature of OCHA's organizational set up, its main trust funds are administered in New York (DD trust fund) and Geneva (DM trust fund). The programme support fund (OD) is administered by both offices in New York and Geneva. OCHA therefore, submits annual cost plans separately to the Programme Planning and Budget Division in New York, in respect of the DD and OD trust funds, and to the Financial Resources Management Service in Geneva, in respect of the DM and OD trust funds. Due to the separate submissions of the annual cost plans, there is no link between the activities proposed for funding in the annual cost plans and their relationship to the programme of work detailed in the consolidated biennium programme budget. Revised cost plans are examined and approved by OCHA's Senior Management Team (SMT) annually at meetings held in March, July and October. OCHA's unpredictable operational environment often results in upwards revisions to the cost plans.

12. Further, the cost plan submissions are neither based on available resources nor reflect the amount of actual commitments, some of which are often identified long after the statutory deadline for the approval of the related cost plans expires. For example, the Proposed Programme Budget (PPB) for the biennium 2006-2007 included an extrabudgetary requirement of \$207.5 million whereas the OCHA documents prepared on "Activities and Extrabudgetary Funding Requirements for donors", called OCHA 2006 and OCHA 2007, included a figure of \$285.8 million. The difference between the two sets of figures was \$78.3 million. It should be noted that the actual expenditures for the biennium 2006-2007 amounted to \$321.3 million, as indicated in Section 26 of the PPB for the biennium 2008-2009 (A/62/6), 4 April 2007. As a result of the different budget cycles, and related revisions the PPB is not as accurate as the reports to donors.

13. The biennial Programme Performance Report (PPR) assesses the results achieved from the current activities in the proposed biennium budget, but without linking the mandated outputs and the expected accomplishments to the actual level of resources used.

14. OCHA's internal strategic planning and monitoring process is intended to strengthen the relevance and effectiveness of the organizational performance by linking the funding requirements, as well as the actual level of resources, to the performance indicators. OCHA's "Annual Report 200X - Activities and use of extrabudgetary funds" represents the primary document for donors and the broader international community providing detailed quantitative and qualitative analysis of performance and management of the financial resources. The "Annual Report 200X" provides a thorough performance picture by using complete and up to date financial information, including comparatives, and by providing a more flexible outline clustered around activities appraised under a set of evaluation criteria, similar to those used in the PPR.

15. Notwithstanding OCHA's improved Annual Report format, both in terms of transparency and relevant disclosure, the review of the organizational units'

work plans for 2007 showed that there is little discernable linkage between the OCHA's three-year strategic planning framework and the measurement and reporting of actual performance. Performance metrics used in the mid-year and end-year reviews did not influence resource allocation, or serve as performance information to adjust the work plan. In OIOS' view, the goal should be to link the strategic planning framework to the measurement and reporting of actual performance, rather than just funding requirements.

Recommendation 1

(1) The OCHA Administration should harmonize its strategic planning framework with the formal biennial planning process with a view to using a consistent performance-based reporting system.

16. *The OCHA Administration accepted recommendation 1 and stated that a concept paper was drafted in April 2008, outlining the steps necessary to align the two planning processes, and that a further harmonization is planned for 2009. Recommendation 1 remains open pending receipt of documentation indicating the implementation of steps outlined in OCHA's concept paper.*

Classification of core activities not consistent

17. OCHA expenditures incurred in respect of the extrabudgetary resources are clustered in three categories: core activities, headquarters projects and field coordination activities. Table 1 provides a breakdown by the relevant expenditure category:

Table 1: Extrabudgetary expenditures and requirements by activity type

	<i>XB Expenditures</i>		<i>XB Requirements</i>			
	2006		2007		2008	
	US \$		US \$		US \$	
Core activities	25,381,291	21%	39,672,676	27%	56,901,157	29%
Headquarters projects	15,453,289	13%	18,934,563	13%	23,338,339	12%
Field activities	82,432,267	66%	87,751,924	60%	119,048,372	60%
TOTAL	123,266,847		146,359,163		199,287,868	

Source: Annual Report 2006 and OCHA documents on Activities and Extrabudgetary Funding requirements (2007 and 2008)

18. Core activities represent the minimum activities that OCHA must carry out to effectively discharge its mandate, based on an average level of humanitarian emergency programming around the world. The definition of "core" is based on three priority functions identified by the General Assembly's resolution 46/182, as follows: humanitarian coordination, advocacy and policy development. Headquarters projects represent additional, limited-duration activities undertaken in support of OCHA's core mandate. Field coordination activities represent limited-duration activities associated with the coordination of

humanitarian assistance for natural disasters and complex emergencies in the field. The continuous demands on humanitarian assistance programmes resulted in a proliferation of projects within the extrabudgetary resource base.

19. The DD trust fund supports OCHA's core requirements by funding activities of a more permanent nature, similar to those funded through assessed contributions. As an exception, Integrated Regional Information Networks (IRIN), OCHA's only field based project, a humanitarian news service, was traditionally funded through a DD sub-account. By contrast, the DM trust fund covers headquarters projects or field coordination activities that by their nature are time-bound. The distinction has merits for financial planning and administration of the trust funds. For example, headquarters projects usually involve time-specific needs in response to changing circumstances; therefore, they are more likely to be funded through earmarked contributions. On the other hand, reasonably knowing the level and the distribution of expenditure related to the core activities, the projections of the DD fund could be managed in a proactive manner using a mix of un-earmarked and programme support derived funding.

20. The definition of "core activities" has not been consistently applied to OCHA's projects. Examples of these inconsistencies are listed below:

- (i) During 2006, core activities were funded through a combination of trust funds, as follows: DD (74 per cent), DM (2 per cent) and OD (24 per cent). For a number of projects, staff costs were charged to OD both in 2006 and 2007, even though the remaining project expenditures were absorbed by DD;
- (ii) Expenditures in respect of the Consolidated Appeal Process (CAP) and the Surge Capacity Unit were transferred during 2006 from DM (headquarters projects) to DD (core activities);
- (iii) An amount of \$2.2 million in respect of Enhancing Emergency Response Coordination was disclosed as field activity in the budget requirements table of "OCHA in 2007" and included as headquarters project in the annex. In 2008, the same activity was included in the headquarters projects while the nature of the expenditure seems more likely to be considered core activities;
- (iv) During 2008, seven headquarters projects with a cumulative balance of \$10.6 million are to be transferred to core activities. It should be noted that Field Information Support, as well as Displacement and Protection Section are still considered projects, and are therefore funded via DM, even though the nature of expenditures seems more likely to be considered core activities;
- (v) An amount of \$0.6 million in respect of IRIN is included in core activities in the "OCHA in 2008" budget requirements while the corresponding annex includes this amount in the field activities;

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- (vi) During 2008, IRIN expenditures are to be considered projects instead of core activities; hence they will be funded via DM instead of DD.

21. These inconsistencies ultimately translate into additional administrative costs in connection with the constant shifting of expenditures from one trust fund to another. This could be avoided by consistent treatment of extrabudgetary expenditures. The reports “OCHA in 2008” and the “2007 Annual Report” included an improved format where the extrabudgetary requirements are separately disclosed as core activities, headquarters projects and field coordination activities.

Recommendations 2 and 3

The OCHA Administration should:

- (2) Clarify the definition of core activities, headquarters projects and field coordination activities, in accordance with the mandates, organizational structure and functions of the department; and**
- (3) Consistently report expenditures under the three categories – core activities, headquarters projects and field coordination activities, within the trust funds, as well as from one period to another.**

22. *The OCHA Administration accepted recommendation 2 and stated that while the definition of core activity has been consistently applied to all activities in OCHA’s financial documents, an activity could be reported as a headquarters project one year, and a core activity the next year when the project matures and become more stable and permanent. OCHA further stated that this practice should not be considered as reporting inconsistency. While OIOS agrees that changing the status from headquarters project to core activities should not be considered an inconsistency, the exceptions identified by the audit pointed out that the classification of humanitarian activities into core, headquarters projects and field coordination activities was inconsistently applied. Based on the comments provided by the OCHA Administration, recommendation 2 has been closed.*

23. *The OCHA Administration accepted recommendation 3 and stated that Enhancing Emergency Response has never been reported as a field activity, and that IRIN has been reported as a field activity and funded by a sub-account under DD. OIOS points out that the budgetary requirements in respect of the Enhancing Emergency Response are disclosed as field activity in the “OCHA in 2007” document, and that the funding for IRIN is to shift from DD to DM trust fund. Recommendation 3 remains open pending receipt of documentation indicating the correction of discrepancies related to the Enhancing Emergency Response and IRIN.*

B. Cash flow management

24. Since 2005, there has been a steady trend towards increased annual global humanitarian funding, but with an uneven distribution across emergencies, thus leading to under or over-funding of projects. The degree to which donors' contributions are earmarked affects the manner in which funds may be used. Earmarked contributions do not allow resources to be channeled to where they may be most needed. There was considerable improvement in the timeliness of receiving contributions with an even flow of funds overall for the four quarters during 2006 and 2007, with around half of the donors' funding being un-earmarked or loosely earmarked. OCHA's aim for 2008 is to obtain at least 75 per cent of annual contributions by the end of the second quarter.

25. Financial resources are requested by the field offices and related financial authorizations are issued on a quarterly basis. Expenditures may be incurred under a given allotment account. OCHA can only incur expenditures against contributions received, and not against funds pledged. Expenditures are governed by the United Nations Financial Rules and Regulations; therefore, after allotments have been issued and provision has been made for operating reserves and programme support costs only unencumbered funds can be used for programmatic purposes.

26. Field offices submit their quarterly budgetary requirements to the Administrative Office (AO) in Geneva, by adjusting the previous allotments from the approved cost plans. The finance officers within the AO however, use the budgetary requirements submitted by the field to determine the cash requirements for the individual projects. Quarterly cash requirements are estimated as a combination of standard staff and operational costs adjusted for the number of months to be funded. The funding requirements are calculated as the difference between approved cost plans, current cash balance and the estimated cash requirements, consideration being also given for the amounts previously borrowed by projects from various reserve funds.

27. At the individual trust funds level, the cash requirements are derived from the cost plans adjusted for previous allotments. The primary purpose of the allotment-based cash flow exercise developed for the trust funds is to request an envelope allocation from the Controller's office. After 2007, OIOS noted an improvement in the frequency of the requests for envelope allocation from mostly monthly requests to three to five per year.

28. There is no consolidated cash flow statement prepared by OCHA, and submitted periodically to its senior management. OCHA's overall cash position could be obtained from the financial information recorded in IMIS; however, because of the timing differences between incurring the transactions and accounting for them, including consolidation in the centralized IMIS database, the information has rather limited value for operational purposes. OCHA's internal applications, such as the Financial Accounting System (FAS) could provide more updated cash positions, but the information is limited to individual projects, only. There is no embedded capability within FAS to aggregate the financial information for the individual projects, in order to obtain OCHA's

financial position on a consolidated basis. OCHA Geneva stated that it is considering a cash flow template allowing for an accurate cash position for the trust funds, and an enhanced cash management system.

Recommendations 4 and 5

The OCHA Administration should:

(4) Prepare a consolidated cash flow statement and submit it on a quarterly basis to its senior management to ensure adequate financial planning, cash flow management and equitable allocation of funds; and

(5) Design an enhanced template for the cash flow statement that would allow for an accurate cash position of the trust funds.

29. *The OCHA Administration accepted recommendation 4 and stated that since April 2008, statements of funds for DM, DD and OD accounts have been generated jointly by the Administrative Office in Geneva, and the Executive Office in New York, and sent to OCHA SMT on a monthly basis. The format of the report has been approved by OCHA SMT and the report details the amount of cash received, expenditures for the month and the balance available by the fund. Based on the action taken by the OCHA Administration, recommendation 4 has been closed.*

30. *The OCHA Administration accepted recommendation 5 and stated that the development of an online cash flow template is one of the current projects for development with OCHA IT Section. Recommendation 5 remains open pending receipt of documentation indicating completion of the online cash flow template.*

Dormant account balances require redeployment

31. As part of the audit procedures, OIOS analyzed the carry-over balances of the DD and DM trust funds. Carry-over balances include unpaid pledges, operating reserves, un-earmarked funds derived from interest and miscellaneous income, net exchange gains/losses, as well as grants for natural disaster activities or governments' pre-positioned funds for United Nations Disaster Assessment and Coordination (UNDAC) country account. The carry-over balances may also include idle projects whose balances may be redeployed for annual programming and implementation purposes.

32. In order to maximize the use of the available cash balances, individual projects should be reviewed on a periodic basis in order to identify dormant account balances and develop proposals for their redeployment for programming purposes.

33. The carry-over balance for the DM trust fund was \$104 million as of 31 December 2005, and \$146 million as of 31 December 2006. Out of a total number of around 350 projects that made up the carry-over balance, some 30

projects had balances over \$1 million, and accounted for 63 per cent of the DM carry-over as of 31 December 2005. OIOS identified around 100 projects which were dormant for over one year, with a cumulative balance of around \$9 million, or nine per cent of the carryover as of 31 December 2005,

34. During 2007, OCHA's Finance Section in Geneva undertook a review of the carryover balances and identified and clustered the dormant account balances into the following four categories, as follows:

- (i) OCHA internal accounts amounting to approximately \$6.2 million: The amounts were allocated from the un-earmarked account to various individual projects, and the balances were not closed;
- (ii) Donor countries' accounts amounting to approximately \$4 million: The amounts were traced to specific donor countries', hence, the respective donors should be approached regarding alternative use of funds;
- (iii) Residual fund accounts amounting to approximately \$3.8 million: The amounts represent closing balances in respect of trust funds that were transferred from New York to Geneva; and
- (iv) Pre-IMIS accounts amounting to approximately \$1.2 million: The amounts refer to balances dated back to 1994 that could not be traced to individual projects.

35. The total dormant account balances identified by OCHA amounted to around \$15.2 million. A suitable action-plan for each cluster needs to be developed, including developing a communication strategy for approaching donors.

Recommendation 6

(6) The OCHA Administration should ensure a proper resolution of dormant account balances for redeployment by: (i) closing the OCHA internal accounts and redeploying the balances for programming purposes; (ii) developing a donor strategy to secure the alternative use of unspent contributions; (iii) taking steps to close the balances in respect of the residual funds transferred from New York; and (iv) transferring the pre-IMIS account balances to an internal account for programming purposes.

36. *The OCHA Administration accepted recommendation 6 and stated that those accounts deemed for redeployment of balances have been closed. OCHA's Finance Section in Geneva regularly monitors the status of accounts to take appropriate action and will now work closer with the Coordination and Response Division and Branch managers to determine adequate use of dormant fund balances. Recommendation 6 remains open pending receipt of the*

documentation indicating the closure of residual funds balances transferred from New York, the transfer of pre-IMIS balances to appropriate accounts, and the completion of a donor strategy to secure the alternative use of unspent contributions.

C. Allocation of funds

Voluntary contributions need to be properly accounted for

37. According to the provisions of OCHA's delegation of authority from the Controller's Office (2 July 2007), the authority to accept voluntary contributions rests with the Chief Finance Officer within the Administrative Office (AO) who should ensure that: (i) the financing agreements fully comply with the United Nations Financial Regulations and Rules; and (ii) copies of all financing agreements are forwarded to the Chief of UNOG's Financial Resources Management Service.

38. The Donor and External Relations Section (DERS), in Geneva is primarily responsible for securing maximum support and resources for the effective implementation of OCHA's activities and extrabudgetary requirements. In addition to managing the portfolio of donors' agreements, DERS is entrusted with the preparation of the quarterly allocation from un-earmarked contributions to projects and activities within OCHA.

39. OIOS found that UNOG only accounts for OCHA's earmarked pledges to individual projects or activities. These pledges are accounted for as Accounts Receivable based on the pledge agreements and the "Record of Pledge" form signed by OCHA's Finance Section and DERS, respectively. Upon receiving the corresponding cash amount, the Accounts Receivable are cleared. Pledges in respect of the un-earmarked contributions are not recorded as Accounts Receivable, and hence not recognized as income because no supporting documents are provided by DERS to OCHA's Finance Section, to be forwarded to UNOG in accordance with the delegation of authority provisions.

40. The current procedure is to account for the cash received in respect of the un-earmarked contributions. The account used is GL2310 - "Outstanding contributions and unapplied deposits", which is a liability account. In practice, the GL2310 is a suspense account that is cleared upon the allocation of the funds to projects and activities, and these amounts are finally recognized as income.

41. Voluntary contributions formally pledged represent good-faith commitments of the donors for the period or periods to which they relate, and should be recognized as income, as stated in the United Nations Accounting Manual, as well as the Secretary-General's Bulletin ST/SGB/188 and the Administrative Instruction ST/AI/284. Voluntary contributions not formally pledged are recorded only when received. OIOS also noted that pledges loosely earmarked (e.g. for field activities or particular countries) are included in the un-earmarked contributions, but they are accounted for as earmarked contributions.

42. OCHA Geneva stated that they could not record pledges against unspecified projects or activities. This practice is however, not consistent from an accounting perspective, and also within the Organization, since UNOG should account for all pledges in respect of the United Nations agencies. On 20 June 2007, OCHA sent a memorandum to the Controller wherein, it sought to obtain confirmation of the current arrangements by creating a project account under the DM trust fund for the crediting of un-earmarked contributions. As of the report date, no reply has been received. Consequently, the income from voluntary contributions was understated in respect of the value of un-earmarked contributions from the time the pledge agreements are received until the funds are allocated to individual projects or activities.

43. OIOS found that for the fourth quarter 2007 allocation, the clearance time (calculated as the time lag between the receipt of funds and the allocation to the individual projects) for the outstanding contributions accumulated in the GL2310 account, and amounting to some \$12.5 million, ranged from 50 to 264 days. Further, OIOS calculated the clearance time for a sample of four 2007 un-earmarked contributions amounting to \$14.7 million out of a total of \$52.6 million un-earmarked contributions (2007), and found an average time of 101 days (ranging from five to 267 days). Nevertheless, the income from un-earmarked contributions is understated for longer periods, since the corresponding pledges are not recorded as Accounts Receivable.

Recommendations 7 and 8

The OCHA Administration should:

(7) Set up, in cooperation with UNOG, a suitable arrangement to consistently account for pledges; and

(8) Ensure that the Administrative Office complies with the delegation of authority provisions by forwarding to UNOG the record of pledge forms for all contributions, including un-earmarked contributions.

44. *The OCHA Administration accepted recommendation 7 and stated that under the current arrangements for un-earmarked contributions, it would be challenging to recognize contribution income at the time of receiving pledge agreements, as funds cannot be transferred between two trust funds under the UN financial rules and regulations.* OIOS emphasizes that accounting for all pledges is consistent with the International Public Sector Accounting Standards (IPSAS). Recommendation 7 remains open pending receipt of the documentation indicating that a suitable arrangement for accounting for pledges has been implemented.

45. *The OCHA Administration accepted recommendation 8 and stated that OCHA is awaiting the approval of the memorandum to the Controller dated 20 June 2007. It is envisaged that OCHA would be able to timely record all contributions with the establishment of a project under the DM trust fund created for the purposes of recording un-earmarked contributions.* OIOS emphasizes

that OCHA should comply with the delegation of authority provisions. Recommendation 8 remains open pending receipt of documentation indicating that all record of pledge forms are forwarded to UNOG.

Need for formal procedures for allocation from un-earmarked contributions

46. DERS performs an allocation exercise and distributes cash balances from un-earmarked contributions on a quarterly basis, to meet the financial requirements for the headquarters and field activities. The allocation also entails monitoring of allocations/advances from the Field Coordination Reserve Fund (FCRF), the Budgetary Cash Reserve Fund (BCRF), and Un-earmarked Sub-account. Before approval by senior management, the proposed allocation is submitted for review to OCHA's Programme and Funding Review Group, an advisory group on matters related to programme planning, budget and allocation of regular budget and extrabudgetary resources.

47. FCRF accumulates contributions for field coordination that are not earmarked for a specific country. Allocations from FCRF are treated as advances, being reimbursable according to the recipient's capacity to repay. BCRF provides for a target reserve of \$30 million to allow OCHA to meet its immediate requirements for the beginning of the year. Allocations from BCRF are also treated as advances that should be reimbursed. The un-earmarked Sub-account collects interest generated by the DM trust fund, and is used for advances against incoming/unpaid pledges, or to provide funds for the mandatory operating reserve.

48. The allocation process is performed using a worksheet containing the requested shortfalls for individual projects and activities, and the cash balances to be allocated by source. The requested shortfalls are derived from the cash flow statements submitted by the finance officers within AO. The cash is allocated from the following sources: contributions loosely earmarked (generally for field activities), un-earmarked contributions that are traceable to the GL2310 account, as well as reserve funds such as FCRF, BCRF, or the Un-earmarked Sub-account. An additional column includes information on the incoming pledges. As a general rule, the allocation from the un-earmarked balance is based on the following criteria: individual cash requirements, availability of funding, including cash projections and the donors' history of funding.

49. As part of the audit procedures, OIOS analyzed the third quarter 2007 allocation from the un-earmarked contributions for a sample of 30 field projects. The sample represented an amount of \$6.9 million out of the total allocations of approximately \$15 million for the quarter. OIOS found no exceptions. However, the allocation process appears to be heavily dependent on the individual staff members' knowledge and experience; for audit purposes, the substantiation of the allocation process could be only done on a case-by case basis. For example, in the absence of the relevant explanations by the staff members, it was not clear whether projects with shortfalls did not receive allocations because they were funded from pooled funds, or whether the monitoring of advances from FCRF and BCRF was undertaken by DERS. The heavy reliance on individual staff

members' knowledge is compelled by the lack of documentation of applicable processes and procedures covering the work-flow allocation process.

Recommendation 9

(9) The OCHA Administration should develop written procedures and a documented work-flow process covering the process for making proposed allocations from un-earmarked funds and advances from the Field Coordination Reserve Fund, and Budgetary Cash Reserve Fund.

50. *The OCHA Administration stated that recommendation 9 was not applicable as DERS has already prepared a work-flow covering the process for making proposed allocations from un-earmarked contributions and advances from Field Coordination Reserve Fund, and Budgetary Cash Reserve Fund.* OIOS believes that specific written procedures covering the processes described in the work-flow will further increase the transparency of the allocation process. Recommendation 9 remains open pending receipt of specific procedures covering the allocation process.

D. Relationship with donors

51. Due to the lack of common programming cycles, different budgetary demands of donors and the multiple trust funds with their own reporting requirements, there are no universally agreed standards to provide for consistency in reporting. OCHA's reporting to donors on the use of funds entrusted for implementation of coordination activities is generally made on/or before the due dates stipulated by donors in the signed Memorandum of Understanding (MOU). OCHA also reports upon a donor's specific request, and globally through the OCHA "Annual Report 200X – Activities and use of extrabudgetary funds".

52. OCHA's Annual Report comprises a detailed analysis of income and expenditures by trust funds and other accounts, and provides in-depth data on voluntary donor contributions. Most major donors accept the Annual Report and do not request additional reporting. Two major donors, namely the United States Agency for International Development (USAID) and the European Commission's Humanitarian Aid Office (ECHO) have specific reporting requirements, mainly consisting of interim and final narrative and financial reports for individual contributions.

53. Total contributions received by OCHA amounted to \$112 million in 2006 and \$198 million in 2007. As part of the audit procedures, OIOS analyzed a sample of eight contributions received in 2006 and 2007 amounting to \$53 million (coverage: 17 per cent). Out of the total sample amount, 38 per cent represented earmarked contributions, 37 per cent un-earmarked contributions and the remaining 25 per cent, loosely earmarked contributions. The contributions are accounted for as per the donors' agreements, and OIOS found no exceptions.

OCHA Contribution Tracking (OCT) database specifications need to be documented

54. The OCT database was developed in 2006 to provide an online tracking facility with detailed information pertaining to donor contributions, and to provide more transparency and accountability in the allocation and utilization of voluntary contributions to OCHA. Because of the versatility of the embedded features, such as automatic generated reminders on due dates, OCT allows for more efficient planning and timely reporting to donors. The “Pipeline” module accumulates information about pledge agreements not yet formalized and pledges that were not fully paid.

55. Even though the OCT database is still under development, it has greatly improved the transparency and monitoring of donors contributions. Under Version 2 phase, it is envisaged to upgrade the database features, and also to include the pooled funds. Although fully operational, the application was not fully tested, and data captured in OCT in respect of prior 2007 contributions agreements appears neither accurate, nor complete. Therefore, before launching the Version 2 phase, assurance should be obtained that data is accurate and complete by fully testing the application, in conjunction with documented system specifications that are to be developed.

Recommendations 10 and 11

The OCHA Administration should:

(10) Develop documented system specifications for the OCHA Contribution Tracking application; and

(11) Ensure that the OCHA Contribution Tracking data is accurate and complete by fully testing the application.

56. *The OCHA Administration accepted recommendations 10 and 11, and stated that DERS intends to document the system specifications of the OCT application upon completion of all phases.* OIOS emphasizes that the system specifications for the OCT application should be developed prior to launching a new version. Furthermore, data testing should be undertaken before launching the new version, with subsequent data testing upon the introduction of a new module. Recommendations 10 and 11 remain open pending receipt of documentation indicating that documented system specifications have been developed, and the OCT application has been fully tested.

Reporting to donors needs to be timely

57. OIOS reviewed all projects for which final reports had not been submitted, in respect of 2004, 2005 and 2006 ECHO projects. The sample was selected from the “Pipeline” module of OCHA Contribution Tracking (OCT), as follows: two projects pledged in 2004 with a cumulative amount of E250,000, two projects pledged in 2005 with a cumulative amount of E150,000, and seven projects pledged in 2006 with a cumulative amount of E1,148,638.

58. ECHO standard agreements provide for 80 per cent upfront financing, with the remaining 20 per cent due upon submission of the final narrative and financial reports, usually within three months after the end of project implementation. In addition, an interim report is due within five months from the project implementation start date. OIOS found that the final narrative and financial reports for two ECHO funded projects in Sudan were submitted with a two year delay. One pledge agreement in respect of Congo appears outstanding when in fact the remaining project balance was forfeited to ECHO. Provision 2(e) from the delegation of authority stipulates that “the financial and substantive reporting arrangements set forth in financing agreements with donors must be complied with in a timely manner; timely and financial and substantive reports must also be obtained from implementing partners”. Consequently, suitable internal controls should be enforced by the AO to ensure timeliness of the reporting to donors, including the submission of the narrative reports from the field offices.

Recommendation 12

(12) The OCHA Administration should ensure that the Administrative Office complies with the delegation of authority provisions concerning the timeliness of reporting obligations to donors.

59. *The OCHA Administration accepted recommendation 12 and stated that with the exception of ECHO, donor reporting is complied with in a timely manner. To enhance the reporting to ECHO, a subcommittee comprising representation from DERS, AO Finance and Coordination Response Division (CRD) was formed to regularly review the schedule of ECHO reporting deadlines and to take action to avoid delinquent reporting. Based on the action taken by the OCHA Administration, recommendation 12 has been closed.*

V. ACKNOWLEDGEMENT

60. We wish to express our appreciation to the Management and staff of OCHA for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The OCHA Administration should harmonize its strategic planning framework with the formal biennial planning process with a view to using a consistent performance-based reporting system.	Governance	High	O	Documentation evidencing the implementation of steps outlined in OCHA's concept paper.	2009
2	The OCHA Administration should clarify the definition of core activities, headquarters projects and field coordination activities, in accordance with the mandates, organizational structure and functions of the department.	Governance	Medium	C	Action completed.	Implemented.
3	The OCHA Administration should consistently report expenditures under the three categories – core activities, headquarters projects and field coordination activities, within the trust funds, as well as from one period to another.	Financial	High	O	Documentation indicating the correction of discrepancies related to the Enhancing Emergency Report and IRIN.	Not provided
4	The OCHA Administration should prepare a consolidated cash flow statement and submit it on a quarterly basis to its senior management to ensure adequate financial planning, cash flow management and equitable allocation of funds.	Financial	High	C	Action completed	Implemented.
5	The OCHA Administration should design an enhanced template for the cash flow statement that would allow for an accurate cash position of the trust funds.	Financial	Medium	O	Documentation indicating the completion of the online cash flow template.	March 2009
6	The OCHA Administration should ensure a proper resolution of dormant account balances for redeployment, by: (i) closing	Financial	Medium	O	Documentation indicating the closure of residual funds balances transferred from New York, transfer of pre-IMIS balances	February 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O	Actions needed to close recommendation	Implementation date ²
	the OCHA internal accounts and redeploying the balances for programming purposes; (ii) developing a donor strategy to secure the alternative use of unspent contributions; (iii) taking steps to close the balances in respect of the residual funds transferred from New York; and (iv) transferring the pre-IMIS account balances to an internal account for programming purposes.				and completion of a donor strategy.	
7	The OCHA Administration should set up, in cooperation with UNOG, a suitable arrangement to consistently account for pledges.	Financial	High	O	Documentation indicating that a suitable arrangement to consistently account for pledges was set up.	January 2009
8	The OCHA Administration should ensure that the Administrative Office complies with the delegation of authority provisions by forwarding to UNOG the Record of Pledge forms for all contributions, including un-earmarked contributions.	Operational	High	O	Documentation indicating that all Record of Pledge forms were forwarded to UNOG.	January 2009
9	The OCHA Administration should develop written procedures and a documented work-flow process covering the process for making proposed allocations from un-earmarked funds and advances from the Field Coordination Reserve Fund, and Budgetary Cash Reserve Fund.	Operational	Medium	O	Documentation indicating that written procedures covering the allocation process were developed.	Not provided.
10	The OCHA Administration should develop documented system specifications for the OCHA Contribution Tracking application.	Information Resources	Medium	O	Documentation indicating that system specifications were developed for OCT.	June 2009
11	The OCHA Administration should ensure that the OCHA Tracking System data is accurate and complete by fully testing the application	Information Resources	Medium	O	Documentation indicating that OCT application was fully tested.	June 2009
12	The OCHA Administration should ensure that the Administrative Office complies with the delegation of authority provisions	Operational	Medium	C	Action completed.	Implemented

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	concerning the timeliness of reporting obligations to donors.					

1. C = closed, O = open

2. Date provided by OCHA in response to recommendations.