



INTERNAL AUDIT DIVISION

AUDIT REPORT

Management of the United Nations Trust Fund for Human Security

The impact of the United Nations Trust Fund for
Human Security programme remains
undetermined

29 January 2010
Assignment No. AN2009/590/04

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
A: United Nations Office for the Coordination of
Humanitarian Affairs

DATE: 29 January 2010

Mr. Jun Yamazaki, Assistant Secretary-General,
Controller, Office of Programme Planning, Budget and
Accounts

REFERENCE: IAD: 10- 0043

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AN2009/590/04 - Audit of the management of the United Nations**
OBJET: **Trust Fund for Human Security**

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 recommendation 8 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. The Controller's response to the draft audit report indicated that OPPBA did not accept recommendations 5, 6 and 7. In OIOS' opinion however, these recommendations seek to address significant risk areas. We are therefore reiterating them and requesting OPPBA to reconsider the initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 1 and 5), 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. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwanye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Special Assistant to the USG, 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 the United Nations Trust Fund for Human Security

OIOS conducted an audit of the management of the United Nations Trust Fund for Human Security (UNTFHS or the Fund). The overall objectives of the audit were to: (a) assess the adequacy and effectiveness of internal controls in the planning, disbursement and reporting on the activities of the UNTFHS; and (b) determine whether the UNTFHS was effectively and efficiently managed in accordance with the United Nations Financial Regulations and Rules and relevant instructions. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

There has been no comprehensive evaluation of the Fund's activities to determine its impact in the areas of the human security programme although the Fund has spent \$223 million or 60 per cent of its total income during the period 1999-2008. The Government of Japan remains the main sponsor of the human security programme in the UN.

The Fund's review procedures for project approval established an expected standard of 21 weeks for the clearance of the two steps in the approval process, i.e., the concept note and the project proposal processes. However, the actual time taken far exceeded this standard and it took an additional 26 weeks on average to disburse the funds after the projects had been approved.

OCHA/Human Security Unit (HSU) did not systematically review project financial reports to determine the implementing partners' compliance with financial agreements, the validity of the expenditures, and the financial performance of the projects in accordance with the approved budgets. A review of the expenditures of the closed and completed projects from the beginning of the Fund in 1999 through December 2008 showed wide gaps between approved budgets and reported expenditures and non-reconciled outstanding advances.

OCHA/HSU which manages the Fund had not been provided any portion of the programme support costs, which were entirely used for central support services.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the management of the United Nations Trust Fund for Human Security (UNTFHS or the Fund), which is part of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The concept of human security

2. The concept of human security envisages that a people-centered, rather than a state-centered view of security is necessary for national, regional and global stability. Human security is the need “to protect people from critical and pervasive threats to human lives, livelihoods and dignity, and thus enhance human fulfilment”. In March 1999, the Government of Japan (GOJ) invited the Secretary-General of the United Nations to establish the Trust Fund for Human Security with the aim of promoting human security through the protection and empowerment of people and communities threatened in their survival, livelihood and dignity. Specifically, the Fund was to support activities undertaken by organizations in the United Nations system that ensure human security in such areas as poverty alleviation, environmental problems, transnational crimes, refugees, human rights, infectious diseases, anti-personnel landmines and children under armed conflicts. In its May 2003 report to the UN Secretary-General entitled “Human Security Now”, the independent Commission on Human Security provided a framework defining the concept of human security. The report refined the definition of human security as activities aiming “to protect the vital core of all human lives in ways that enhance human freedoms and human fulfilment”, and stressed the need for comprehensive and integrated actions of the international community to achieve these goals. The framework became the basis for the programmatic approach of the UNTFHS.

Governance of UNTFHS

3. Upon its establishment by the Secretary-General in 1999, and under the overall oversight of the Executive Office of the Secretary-General (EOSG), the UNTFHS was managed by the United Nations Controller’s Office until 2004 when the management responsibilities were transferred to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). This led to the creation of the Human Security Unit (OCHA/HSU) in May 2004 under the supervision of the Under-Secretary-General (USG) for OCHA. The staffing table of OCHA/HSU included five Professionals and one General Service staff. The Unit was headed by a P-5. The overall objective of OCHA/HSU was to: (a) manage the UNTFHS; (b) disseminate and promote the conclusions of the Commission on Human Security; and (c) provide support to the Advisory Board on Human Security (ABHS) which was created in 2003 to advise the Secretary-General on the management of the UNTFHS.

Project funding mechanism

4. OCHA/HSU channeled funds to the implementing agencies through three modalities:

- Single implementing agency modality: Only one implementing agency is responsible for the management of the project and reporting on the use of funds received for the implementation of the project.
- Joint programming, parallel funding modality: Several agencies are involved in the implementation of a project, each responsible for one specific component. Funds covering each separate component are disbursed directly to the responsible implementing agency.
- Joint programming, pass-through modality: An Administrative Agent is selected among implementing agencies to receive the funds from the UNTFHS and channel them to the individual implementing agency. The Agent prepares a consolidated financial report which is submitted to the UN Controller.

Financial status

5. The establishment and management of the trust funds are governed by the United Nations Financial Regulations and Rules and relevant administrative instructions. As of 31 December 2008, the UNTFHS had committed about \$355 million for project and management costs, including pipeline projects and operational costs. A total of 126 of these projects had been completed (substantive activities completed at the end date of project as per the financial agreement). These included 69 closed projects (final substantive and financial reports submitted at the end date of the project as per the financial agreement). Financial data is detailed in Table 1 below.

Table 1: UNTFHS financial performance from 1999 to 31 December 2008

Income (as of 31/12/08)	
Contributions	\$330,508,545
Interests and miscellaneous	45,606,467
Total income	376,115,012
Commitments (as of 31/12/08)	
Approved projects	300,983,454
OCHA/HSU estimated expenditures	4,461,899
Pipeline projects	42,510,511
OCHA/HSU estimated cost plan (2009)	1,644,906
Estimated 2008 operating reserves on advances	5,354,998
Total commitments	354,955,768
Uncommitted funds (as of 31/12/08)	\$21,159,244

6. Comments made by OCHA/HSU and the Office of Programme Planning, Budget and Accounts (OPPBA), on behalf of the Controller's Office, are shown in *italics*.

II. AUDIT OBJECTIVES

7. The main objectives of the audit were to:
- (a) Assess the adequacy and effectiveness of the internal control system in the planning, disbursement, reporting and oversight of the UNTFHS; and
 - (b) Determine whether the Fund was effectively and efficiently managed in accordance with the UN Financial Regulations and Rules and relevant instructions.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit primarily covered the UNTFHS management processes and programme activities for the period 2006-2008. The audit included a review of OCHA/HSU's structure and allocation of responsibilities and tests of the adequacy of internal controls.

9. UNTFHS activities had not been audited previously by OIOS or the United Nations Board of Auditors since its inception in 1999. One external evaluation of the Fund was initiated by OCHA but never completed, and the GOJ commissioned a limited review of the Fund in 2004.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

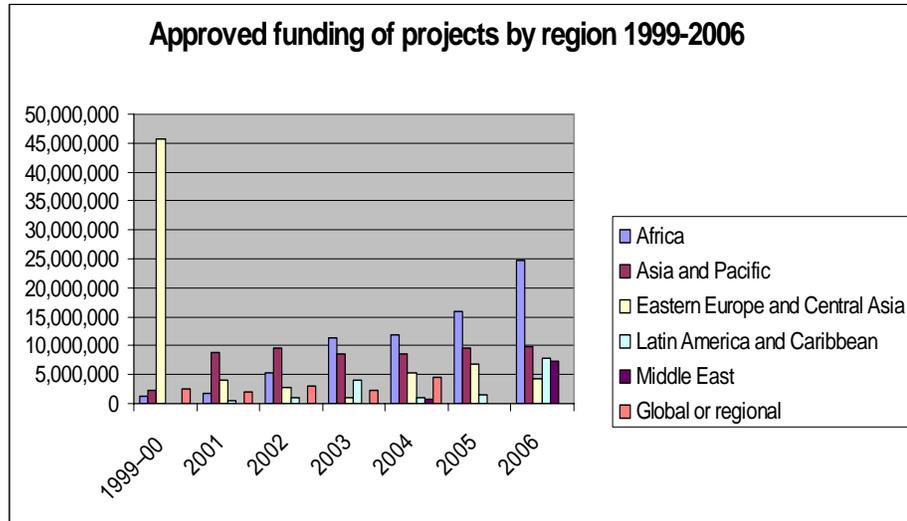
A. Impact of the Trust Fund for Human Security programme

UNTFHS activities not evaluated

10. The GOJ has provided almost 100 per cent of the funding for UNTFHS. The resources have been channeled through more than 20 UN agencies and departments to finance project activities approved by the UN and the GOJ to cover 11 thematic areas. A document prepared by OCHA/HSU on the performance of UNTFHS showed that up until 2006, the Fund approved the financing of \$238 million for 160 projects under several thematic areas. The document was not updated to incorporate 2007 and 2008 statistics. About 54 percent of the \$238 million were approved for activities in the areas of reintegration/peace-building, community development and health. Three UN agencies received about 59 per cent or \$140 million: United Nations Development Programme (UNDP) (35%), United Nations Children's Fund

(UNICEF) (17%) and Food and Agriculture Organization (FAO) (7%). The regional coverage is illustrated in Figure 1.

Figure 1: Approved funding of projects by region (1999-2006)



11. Although much has been achieved in promoting the human security concept through funding projects, the concept has still not been adopted by the United Nations General Assembly as a core area of programme activities. The GOJ remains the key donor of the Fund. Only two other Member States (Thailand and Slovenia) have contributed a total of \$70,000 since 2007 and there has been limited concrete buy-in on the part of other Member States. OIOS was informed that a report of the Secretary-General on human security to the General Assembly was being contemplated. From a review of the project documents, it was not clear whether the agencies receiving resources from the Fund had integrated the concept in their overall programme strategy or were attempting to fulfil a unique requirement arising from human security activities. It should be recognized that the Fund's most recent projects are multi-sectoral projects with several agencies cooperating in a specific project area.

12. Further, there has been no comprehensive evaluation of the Fund's activities to determine its impact on the human security programme. The main donor, the GOJ, commissioned a limited review or evaluation which was conducted in 2004. An evaluation was also initiated by OCHA/HSU in 2006 but was considered ineffective and the exercise was stopped before its completion. OCHA/HSU indicated that the evaluators did not carry out sufficient substantive review of the projects. In addition, according to OCHA/HSU, the evaluation approach was not in line with the standards of the United Nations Evaluations Group. No other evaluation was subsequently undertaken to determine the impact of the UNTFHS even though the Fund has spent \$223 million or about 60 percent of its total income. OCHA indicated that it faced a major challenge identifying evaluators with the appropriate knowledge of human security to carry out an evaluation. OIOS is of the opinion that this has posed a significant risk exposure for the United Nations in not being able to demonstrate the impact of the human security programme, including the effectiveness of its advocacy of the

human security concept. A number of trust funds and technical cooperation activities are being undertaken by the UN in similar thematic areas and the rationale behind operating a separate trust fund with similar activities remains to be determined. OIOS was informed that a review of all trust funds was in the process of being conducted by the Controller's Office to determine the appropriateness of their rationale.

Recommendation 1

(1) OCHA should initiate a comprehensive evaluation of the United Nations Trust Fund for Human Security to determine the impact of the human security programme and whether there is a continuing need for a separate trust fund to finance human security activities.

13. *OCHA accepted recommendation 1 regarding the need to initiate a comprehensive evaluation of the UNTFHS to determine its impact and stated that at the eighth meeting of the ABHS on 10 November 2009, the board advised the HSU to undertake an evaluation of the UNTFHS two years from that date (at the earliest), since the first projects which used the new guidelines in their formulation only started in 2006/07 and have either just been completed or are expected to be completed within the next couple of years. The objective of the evaluation is to determine the impact of the Fund to promote human security. In OIOS' opinion, there is no need to wait for another two years to carry out this evaluation as UNTFHS has completed its tenth year with over \$223 million in expenditures. Recommendation 1 remains open pending completion of a comprehensive evaluation of the UNTFHS.*

B. Organization and staffing

OCHA/HSU staff job descriptions not updated

14. The EOSG transferred the management of the UNTFHS from the Controller's Office to OCHA on 16 January 2004 followed by the establishment of the Human Security Unit in May 2004. OCHA/HSU is headed by a Chief of Unit who is under the supervision of the Director of OCHA, New York. However, the current job descriptions of the finance staff of OCHA/HSU were not up-to-date as they were created when the activities of the UNTFHS were managed by the Controller's Office and included both financial and substantive functions under the direction of the Controller. For example, although the finance staff now functionally report to the Chief of OCHA/HSU, the job descriptions still reflect the Controller as their reporting officer. Staff job descriptions/terms of reference should reflect the current duties that they are expected to carry out. The job descriptions should be reviewed, updated or changed when there is an organizational requirement for new activities and a need to improve efficiency.

15. According to the job descriptions and interviews with the HSU staff members, at least 40 per cent of staff time was to be devoted to:

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- Evaluating project proposals to ensure that the submissions are in accordance with UN policies, regulations and rules and are consistent with the policies, aims and activities of the United Nations;
 - Verifying that the project proposals are complete, comprehensive, logical and achievable;
 - Liaising with UN organizations applying for funding from the Fund and explaining project approval criteria and obtaining clarifications, additional information and/or changes to project proposals when necessary; and
 - Developing and managing a monitoring and evaluation programme, and coordinating and participating in the substantive review of reports submitted by executing entities and monitoring and evaluation missions.

16. These substantive functions are with the finance officers who support all review processes through the approval of the project document and the signing of the financial agreement. Furthermore, they monitor the project implementation through liaising with implementing agencies, reviewing the annual and final substantive project reports, and following up and providing feedback to the implementing partners.

17. Since the job descriptions are not in alignment with the newly created organizational structure in OCHA, the finance staff did not effectively perform their financial monitoring and review functions which include the review and reconciliation of financial reports submitted by the implementing partners. Instead, they focused on the substantive aspects of the Fund's activities. It was only in 2008 that OCHA/HSU compiled a project expenditure report for the first time. Until then, the Unit assumed that this was a function of the Accounts Division. OIOS also observed that the involvement in project management (financial and substantive) of the Chief of Unit (P-5), the Programme Officer (P-4) and one Programme Officer (P-3) was focused on outreach activities.

Recommendation 2

(2) OCHA should review and update the job descriptions of the Human Security Unit staff and clearly delineate their financial and substantive responsibilities.

18. *OCHA accepted recommendation 2.* Recommendation 2 remains open pending the update of the job descriptions of the HSU staff.

C. Programme planning and execution

Lack of clarity on the application of operational reserves

19. ST/AI/284, Section III.A.1 established that an operating cash reserve must be maintained during the implementation of the trust fund at a constant level of 15 per cent of estimated annual planned expenditures to cover shortfalls including liquidating liabilities.

20. The required reserves of 15 per cent were not systematically applied to the annual planned expenditures. In addition to the fact that there was no overall projection of the estimated expenditures in a given year, there seemed to have been no follow-up to ensure that the required reserves were identified and applied. Unsigned worksheets obtained from the Programme Planning and Budget Division (PPBD) showed a plan to apply the reserves. However, the statement of assets and liabilities ending 31 December 2006 and 2008 showed only “reserves for allocations” but no provision for “operating reserves”. The Accounts Division explained that Headquarters’ trust funds do not show operating reserves in the financial statements. They also stated that the current policies relating to UN trust funds dated from 1982 are under review.

Recommendation 3

(3) The Controller’s Office should clarify whether the provision for operational reserves for the United Nations Trust Fund for Human Security has been applied in accordance in accordance with the instructions in ST/AI/284.

21. *OPPBA did not indicate whether it agreed with the recommendation but stated that the provision for the operational reserves was applied in accordance with procedures established by the former Controller on 29 March 2005, which required that the amount for operating reserves should be set aside within the cash resources of the trust fund. OPPBA also recognized that although the requirement for operating reserves is taken into account and documented, the operating reserve, in the case of UNTFHS, is not recorded and hence not reported in the financial statements. Further, OPPBA noted that the current policy of operational reserves is under review, and once established, the amounts for operating reserves, as required by the new policy, would be shown in the financial statements. OPPBA’s comments imply that it has, in fact, accepted recommendation 3. Furthermore, OPPBA provided a fund availability report dated 27 August 2009 which was issued following several discussions between OIOS and OPPBA. Recommendation 3 remains open pending finalization of the review of the current operational policy and the establishment of the new policy for application by the UNTFHS.*

The project approval processes need to be streamlined

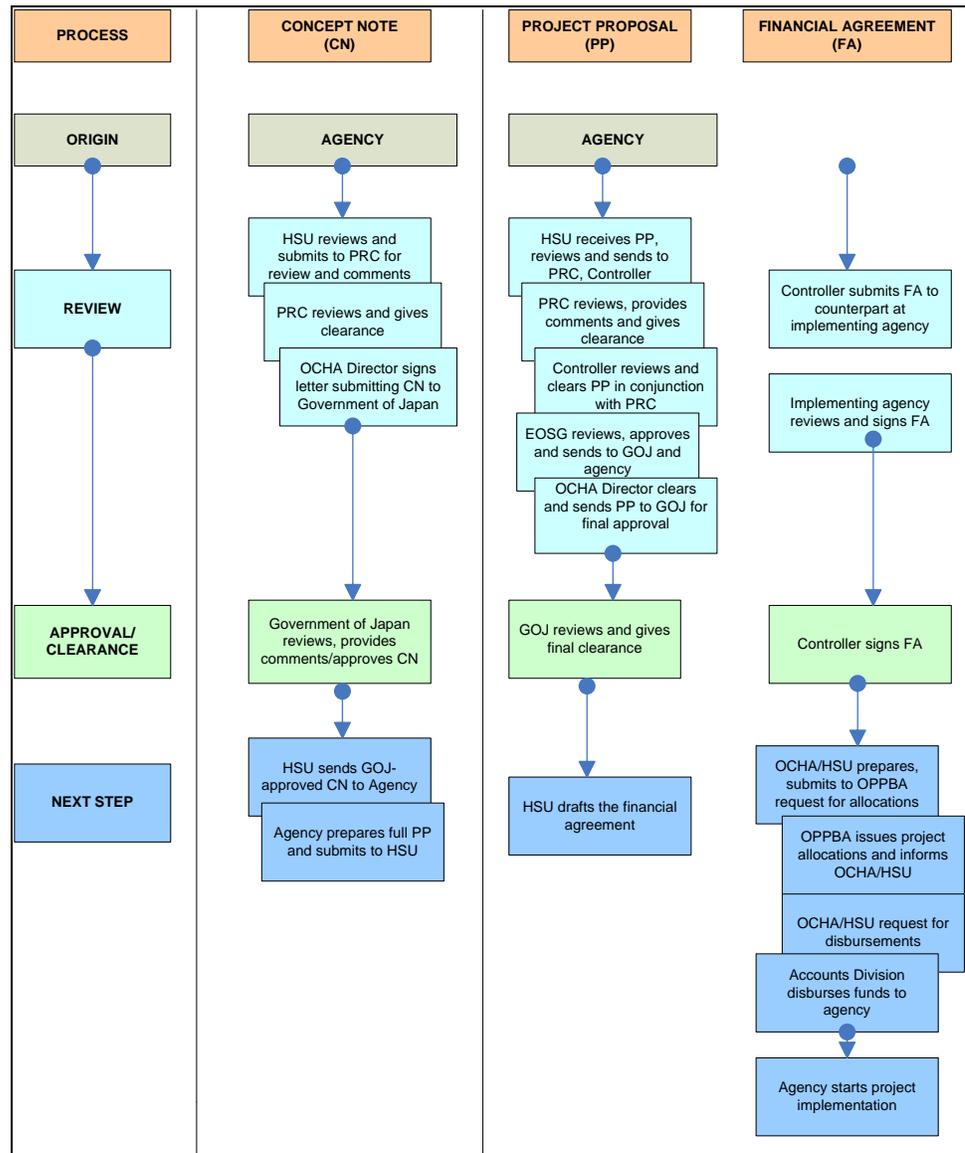
22. An efficient review process is essential to expedite the approval and implementation of projects to achieve their objectives in a timely manner. The

UNTFHS project approval process took from 12 to 96 weeks to approve project concept notes and proposals. There were two main project submission phases:

- A concept note which included the essential intent of the project submitted by the requesting agency to OCHA/HSU; and
- A project proposal developed by the requesting agency subsequent to the approval of the concept note by the UN and the GOJ.

23. Figure 2 shows the project review process.

Figure 2: Project review process



24. Until March 2008, several parties (GOJ, OCHA/HSU, EOSG, Controller's Office, and the Project Review Committee) were involved in the

review of the concept note and the project proposal processes. With the introduction of the 17 March 2008 guidelines, the GOJ no longer undertakes the review of the project proposals. These guidelines established standard review procedures with set time lines. In total, the review of the concept note is expected to take about 9 weeks, while the project proposal process should take about 12 weeks from its submission to the signing of the financial agreement. This totals to 21 weeks for both the concept note and the project proposal processes. Of the 50 concept notes reviewed, OIOS noted that the time taken to complete the review was as follows:

Table 2: Time taken for review of concept notes

No. of cases	Percentage	Range in weeks
10	20%	4 to 9
33	66%	10 to 52
7	14%	53 to 96

25. Similarly, a review of 34 project proposals showed the following results:

Table 3: Time taken for review of project proposals

No. of cases	Percentage	Range in weeks
7	21%	4 to 12
23	68%	13 to 52
4	11%	53 to 96

26. Overall, for the 34 project proposals reviewed, it took on average of about 32 weeks to complete the project proposal review. Additionally, it took an average of 26 weeks to make the first disbursement of the funds to the implementing partners after the project approval date.

27. There were several factors contributing to the lengthy review process:

- At the inception of the programme, there were no clear criteria for the project review and approvals. Agencies generally prepared projects based on their respective standard project templates which included general criteria;
- The project review process was undertaken on an individual basis, with OCHA/HSU staff performing the initial review. The comments of the members of the Project Review Committee were generally provided on an individual basis by e-mail to OCHA/HSU, and then reviewed in a meeting. This re-examination of projects on an individual basis prolonged the project review period;
- The GOJ was involved in the concept note and project proposal review phases at one time or another. A review of the concept notes showed that the GOJ spent an average of 12 weeks to approve and/or

provide its final opinion on the submissions. However, 26 per cent of the cases took between 12 weeks to 44 weeks for the completion of the GOJ process. Detailed budgets were often requested by the GOJ at the concept note stage thereby prolonging the approval process;

- The project review procedures were amended five times since 2003: November 2003, December 2004, December 2005, March 2008 and May 2009. The constant adjustment to new procedures placed a burden on requesting agencies in preparing their project submissions;
- There was no time frame to call for project submissions from agencies. Project concept notes and proposals could be submitted any time during the year without an established time frame; and
- Resources were inadequate to quickly review and provide feedback to the requesting agencies and to the donors in a timely manner.

28. The protracted project approval process resulted in the following:

- An excessive amount of resources were devoted to the review processes at several levels;
- Agencies became weary of the review process both at the concept note and the project proposal phases. OCHA/HSU indicated that there was a noticeable decrease in the number of submissions from the agencies;
- Some projects had to be redesigned and/or amended as the local conditions drastically changed since the submission of the concept note; and
- Other important activities of the Fund such as project financial review and monitoring may have been adversely affected due to resource constraints.

Recommendation 4

(4) To streamline the overall project review and approval process, OCHA, in consultation with the Government of Japan, should: (a) eliminate the concept note review as a separate process and integrate the critical steps of this process in the project proposal phase; and (b) institute a procedure calling for annual project proposals by a specific due date in order to review the projects simultaneously and reduce the time spent in the review process.

29. *OCHA accepted recommendation 4 agreeing that an efficient review process is essential to expedite the approval and implementation of projects in order for them to achieve their objectives in a timely manner. However, OCHA indicated that it is not appropriate to eliminate the concept note review as a*

separate process and it is not necessary to institute a procedure for annual project proposals. OCHA stated that the initial idea behind the two-step review process was to allow OCHA to expeditiously examine submissions from applying UN organizations where applying organizations submit concept notes to OCHA for initial consideration and if they are considered to be substantively in line with the UNTFHS guidelines, a full project proposal would be developed for consideration by the interested donor. While OIOS recognizes the added-value of requiring a concept note as a first stage, the implementation of this process has created significant delays in the project review and approval process resulting in inefficiencies. Recommendation 4 remains open pending the provision by OCHA of documentation showing that OCHA and the GOJ have agreed on and instituted procedures leading to a more efficient review and approval process for projects.

D. Financial monitoring

Financial monitoring of projects needs improvement

30. Financial Rule 105.5 (b) states: Certifying officers are responsible for managing the utilization of resources, including posts, in accordance with the purposes for which those resources were approved, the principles of efficiency and effectiveness, and the Financial Regulations and Rules of the United Nations. Financial Rule 105.8 states that outstanding obligations must be reviewed periodically by the responsible certifying officer(s). Moreover, certifying officers must maintain detailed records of all obligations and expenditures against the accounts for which they have been delegated responsibility.

31. OCHA/HSU did not systematically carry out the review of project financial performance including outstanding obligations of the approved projects implemented by the agencies. OCHA/HSU completed its first report on project expenditures only in 2008 following a request from the GOJ. The compilation was made after receiving a summary of expenditure reports from the Accounts Division. The analysis focused on aggregating expenditures as reported instead of carrying out a thorough review of the financial reports submitted by the implementing agencies to determine their compliance with the financial agreements, the validity of the expenditures, and the financial performance of the projects in accordance with the approved budgets.

32. A review of the project expenditures from the beginning of the Fund in 1999 through December 2008 showed wide gaps between the approved budgets and reported expenditures with respect to closed and completed projects. Reported expenditures were not systemically reconciled by OCHA/HSU to ensure that the financial performance of the projects was in line with the reported activities and the interim financial reports. In addition, there were significant over-expenditures and outstanding obligations even though the projects were shown as closed or completed. These were not followed up by OCHA/HSU or the Controller's Office to ensure that appropriate expenditure figures were recorded after review and reconciliation.

33. For example, resolution was needed for about \$1.84 million in over-expenditures for closed and completed projects. OCHA/HSU indicated that about \$1.18 million of this amount consisted of outstanding advances including \$100,325 refunded by UNDP in April 2009. It was also indicated that the Controller's Office and the GOJ gave approval to two projects (Kosovo Brick Factory – project number 9950 and Kosovo School Buses – project number 9957) to use about \$147,000 to cover overspending. These over-expenditures should have required justifications and amendments to the approved budgets of projects subject to approval by the Controller's Office. Further, these expenditures over approved allocations also indicated that the budget sufficiency clauses were not being exercised by some of the implementing agencies or being monitored by OCHA/HSU.

34. Expenditure analysis of completed projects also showed outstanding advances of about \$3 million. OIOS notes that the implementing agencies of completed projects have about 12 months to submit their final financial reports on project advances. A review and reconciliation of the implementing partners' financial reports to account for these outstanding advances was pending as of the date of the audit.

35. A lack of effective financial monitoring of projects by OCHA/HSU had a number of causes:

- The interim financial reports from implementing agencies were sent directly to OPPBA, and OCHA/HSU was not always copied these reports as this was not required in the financial agreements between UNTFHS and the implementing partners. The financial agreement was instituted when the Controller's Office was in charge of the management of the substantive and financial aspects of the Fund and had not been subsequently reviewed after the management of the Fund was moved to OCHA.
- The OCHA/HSU certifying officer was not exercising her responsibilities under the delegation of authority, as she was not trained in the required skills by the Controller's Office.
- The finance officers of OCHA/HSU were not proficient or trained in the use of the financial system of the UN (Integrated Management Information System or IMIS) to review, certify and prepare performance reports. Training sessions were planned several times but were never carried out.
- There was a lack of effective management oversight to ensure adequate financial review and monitoring of projects by OCHA/HSU, including periodic reporting to OCHA management or the Controller of the financial status of the projects. In accordance with the Finance Manual, the Accounts Division records income and expenditures, and provides the implementing offices with a monthly Allotment Report listing the allotment advice, unliquidated obligations, disbursements and unencumbered balance of the

allotment to assist the implementing offices in determining the current balance of funds available. The implementing offices are expected to carry out the appropriate analysis based on the financial and substantive reports submitted by implementing partners. However, the reports submitted to the Controller's Office by OCHA/HSU did not include analysis and reconciliation of the project financial reports. OCHA/HSU informed OIOS that they relied on the Budget and Accounts Divisions to carry out the financial review and monitoring functions.

Recommendations 5 and 6

(5) The OCHA Human Security Unit should ensure that project financial review and monitoring is performed in a systematic manner to ensure the accuracy of reported expenditures of the projects. Project financial reports submitted to the Controller should be copied to the OCHA Human Security Unit for their review and reconciliation; and

(6) The Controller's Office should train the OCHA Human Security Unit staff entrusted with certifying officer responsibilities to ensure that the staff members are able to carry out their responsibilities.

36. *OCHA accepted recommendation 5 and stated that it has consistently conducted a thorough review of the financial statements that it has received from implementing agencies to determine compliance with the financial agreements, the validity of the expenditures and the financial performance of the projects in accordance with approved budgets. OCHA also stated that when it took over the management of the UNTFHS in 2004, some of the financial functions remained with the Programme Planning and Budget Division (PPBD) and the Accounts Division (AD) although this was never agreed upon in writing by either party. For OCHA, the issue that needs to be addressed is the clear division of responsibilities between HSU, PPBD, AD and the Controller's Office with regard to the financial management of the UNTFHS. Furthermore, OCHA stated that as per the financial agreements that are signed by the UN and the UN implementing agencies, all financial statements are submitted to AD directly. OPPBA did not accept recommendation 5 stating that financial reports received by the Office of the Controller and/or the Accounts Division are shared with OCHA as a routine practice. However, OIOS found no evidence that OPPBA consistently shared the project financial reports with OCHA. Recommendation 5 remains open pending the formalization of either an internal OPPBA procedure or a revision of the financial agreement to ensure that OCHA receives copies of the project financial reports.*

37. *OPPBA did not accept recommendation 6, stating that the recommendation should be directed to OHRM, as the Office responsible for developing and conducting training in the Secretariat. OPPBA further indicated that OHRM has recently approached OPPBA to start an initiative to develop*

training modules on budget and finance, which would be expected to include training in certifying officer responsibilities. OIOS notes that it is the Controller that designates the certifying officers and therefore he is responsible to ensure that designated staff understand how to perform these responsibilities. OIOS is therefore reiterating recommendation 6, which will remain open pending the training of HSU staff entrusted with certifying officer responsibilities.

Programme support cost resources not used as intended

38. UN policies require that resources from programme support costs (PSC) should be used in areas where a demonstrable relationship exists between the supporting activity concerned and the activity which generated the programme support revenue. In this respect, offices utilizing programme support resources should ensure an equitable distribution among programme and project management, and the central support functions (i.e., finance, personnel and general services).

39. During the period 1999-2008, the UN earned PSC income amounting to \$9.46 million based on two rates: one per cent in the initial years and three percent subsequently as agreed by the GOJ. The entire PSC income was used exclusively for central support services. OCHA/HSU, which manages the UNTFHS, had not been provided any portion of these resources. The Fund directly financed OCHA/HSU operations for \$4.2 million from the trust fund resources instead of the PSC income generated from the trust fund. The OCHA/HSU operations alone earned PSC amounting to \$260,000 from 2004 to 2008. According to the Controller's Office, there was no consideration to allocate PSC resources to OCHA/HSU because the Unit was directly financed by the Fund. However, OCHA management believes that the PSC resources should have been used to support the management of the Fund in the first place.

Recommendation 7

(7) The Controller's Office, in collaboration with OCHA, should ensure that the programme support cost resources are allocated in accordance with UN policies ensuring an equitable distribution among programme and project management, and the central support functions.

40. *OPPBA did not accept recommendation 7, stating that 46.2 per cent of PSC were actually allocated to OCHA for the substantive backstopping of trust fund activities for the period from 2004 to 2008. OPPBA indicated that the \$4.2 million of OCHA/HSU operational costs are part of the total effective programme support costs of \$9.65 million charged against the fund.* In OIOS' opinion, the inclusion of the \$4.2 million operational costs as OCHA/HSU's share of the PSC resources is not correct since the OCHA/HSU expenses were included as part of the trust fund's operational costs directly charged against the fund. Furthermore, the allocation of PSC resources to cover the OCHA/HSU expenses could have freed up \$4.2 million to be utilized for programme activities. The Controller's Office and OCHA should further consult and resolve this issue with OCHA preparing a cost plan for the utilization of the PSC amount

agreed upon for effective programme support. OIOS is therefore reiterating recommendation 7, which will remain open pending receipt of documentation from OPPBA indicating that PSC has been equitably distributed between OPPBA and OCHA in accordance with ST/AI/286.

Disputed interpretation of the terms of the agreement with the Multi-donor Trust Fund Office

41. UN policies authorize charging trust funds for PSC of up to 13 per cent inclusive of administrative fees paid to implementing agencies of projects funded by the trust funds. The PSC/administrative fee rates vary from five per cent to nine percent per individual financial agreement. OCHA/HSU established three modalities to channel funds to the implementing agencies as discussed in paragraph 4:

- One implementing agency modality;
- Joint programming with parallel funding modality; and
- Joint programming with pass-through modality.

42. In October 2007, the Controller signed a Letter of Agreement (LOA) with the Executive Coordinator, Multi-Donor Trust Funds Office (MDTF), United Nations Development Programme (UNDP) to govern the overhead charges for MDTF and funds passing through the Joint Programming modality. Both of these agreements are covered under the United Nations Development Group (UNDG) framework and are an attempt to move towards the “One UN.” The LOA establishes that:

“The administrative Agent shall be entitled to allocate an administrative fee of one per cent (1%) of the amount contributed by the Donor, to cover the Administrative Agent’s costs of performing the Administrative Agent’s functions. The Participating Organizations’ budgets should include programme support costs (PSC) at the rate up to 7%, and in cases approved by the relevant legislative body, up to a maximum of 9%.”

43. As of December 2008, a total of \$33.58 million was approved for 12 projects under the MDTF joint programming mode, of which seven were being implemented with a total budget of \$16.26 million. Although most of the projects were approved in 2006 and 2007, they showed expenditures of only about 18 per cent of the budget. Furthermore, the implementation of five projects valued at about \$17.31 million was delayed for several months because of the Controller’s Office’s noncompliance with the terms of the LOA signed with MDTF Office. Expenditures for these projects were estimated at 1.36 per cent. According to the Controller’s Office, the MDTF Office was double-charging on the portion of the funding relating to the overhead/PSC charged by the implementing partners as the one per cent is applied across the board on the funds contributed by the donor. However, these were precisely the terms of the LOA already agreed to by the Controller. According to the Controller’s Office, the MDTF office was not willing to amend the LOA. OIOS was informed that the Fund will no longer approve a pass-through modality with MDTF, and will

instead use the parallel funding modality in such cases thereby eliminating the payment of an additional one per cent fee to the Administrative Agent.

44. As a result, five projects had to be reprogrammed with different implementation modalities using other agencies instead of UNDP for pass-through funding modality, and/or using the parallel funding modality. This subsequently delayed the implementation of the projects and committed substantial additional resources on the part of OCHA/HSU to find alternative solutions. As of May 2009, some projects approved in 2008 were still in their initial stages and would require at least a one year extension to complete. OIOS notes that the Controller's Office took the necessary action to avoid any further constraints in the implementation of the UNTFHS projects initially signed with MDTF. Therefore, no recommendation has been made in this regard.

Projects implemented by FAO were substantially delayed

45. Funds for approved projects are expected to be expeditiously disbursed to allow their timely implementation. The Controller's Office had put on hold since 2005 the disbursement of funds to FAO for the implementation of approved projects. According to the Controller's Office, FAO was in possession of UN funds under the Iraq Oil-for-Food programme which should have been returned following the completion of the activity implemented by FAO. FAO indicated that they could not return the funds because there were outstanding claims against contracts by suppliers which were still under review by the United Nations Commission on International Trade Law (UNCITRAL). There was no written instruction from the Controller advising OCHA/HSU regarding its decision not to disburse funds to FAO prior to the development and approval of these projects, and/or rescinding the agreements with FAO. FAO has been involved in the implementation of 20 projects amounting to \$34.30 million including authorized PSC. In nine of these 20 projects valued at \$6.86 million, FAO was the sole implementing partner. FAO received direct funding until 2005 for these nine approved projects which are now closed.

46. Although the 11 remaining projects were multi-sectoral projects programmed jointly with other UN agencies under the "pass-through" modality for a total amount of \$27.45 million, the Controller's Office did not disburse any funds to FAO. The partner agencies and OCHA/HSU sought to find alternative solutions to get the lead agency or other willing agencies to receive and disburse funds to FAO. As a result, the implementation of the projects has been seriously delayed. Seven projects approved for implementation by FAO had to be cancelled by the GOJ. Also, six other projects which should have been completed in 2008 and early 2009 have spent only about 25 per cent of their total budgets as of 31 December 2008. The Controller's Office informed OIOS that the issue has been resolved and that the disbursement of funds would resume. However, no specific date for the resumption of disbursement was indicated, and there was no formal instruction to OCHA/HSU to resume regular financial agreement processes. No disbursement has been made to FAO as of July 2009. As a result, these projects may not have the intended and timely impact on the human security of the beneficiaries.

Recommendation 8

(8) OCHA, in consultation with the Controller's Office, should resume the disbursement of funds to the FAO-implemented projects to avoid further delays in their implementation.

47. *OCHA accepted recommendation 8, and although the Controller's Office did not accept the recommendation, it indicated that the issue of disbursement of funds to FAO has been resolved and made a reference to a disbursement of \$278,200 on 9 September 2009 (IMIS ref# RCTP5877) on behalf of FAO. Based on the action taken by the Controller's Office, recommendation 8 has been closed.*

V. ACKNOWLEDGEMENT

48. We wish to express our appreciation to the Management and staff of OCHA and OPPBA 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	OCHA should initiate a comprehensive evaluation of the United Nations Trust Fund for Human Security to determine the impact of the human security programme and whether there is a continuing need for a separate trust fund to finance Human Security activities.	Strategy	High	O	Submission of documentation to OIOS of the completion of a comprehensive evaluation of the UNTFHS.	Not provided
2	OCHA should review and update the job descriptions of the Human Security Unit staff and clearly delineate their financial and substantive responsibilities.	Operational	Medium	O	Submission of documentation to OIOS of the update of the job descriptions of the finance officers.	Not provided
3	The Controller's Office should clarify whether the provision for operational reserves for the United Nations Trust Fund for Human Security has been applied in accordance in accordance with the instructions in ST/AI/284.	Compliance	Medium	O	Submission of documentation to OIOS of the finalization of the review of the current operational policy, the establishment of the new policy and its application by the UNTFHS.	Not provided
4	To streamline the overall project review and approval process, OCHA, in consultation with the Government of Japan, should: (a) eliminate the concept note review as a separate process and integrate the critical steps of this process in the project proposal phase; (b) institute a procedure calling for annual project proposals by a specific due date in order to review the projects simultaneously and reduce the time spent in the review process.	Operational	Medium	O	Submission of documentation to OIOS showing that OCHA and the Government of Japan have agreed and instituted procedures leading to more efficient review and approval process of projects.	Not provided
5	The OCHA Human Security Unit should ensure that project financial review and monitoring is performed in a systematic manner to ensure the accuracy of reported expenditures of the projects. Project	Financial	High	O	Submission of documentation to OIOS of the formalization of either an internal OPPBA procedure or a revision of the financial agreement to ensure that OCHA receives copies of the project financial	Not provided

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	financial reports submitted to the Controller should be copied to the OCHA Human Security Unit for their review and reconciliation.				reports.	
6	The Controller's Office should train the OCHA Human Security Unit staff entrusted with certifying officer responsibilities to ensure that the staff members are able to carry out their responsibilities.	Operational	Medium	O	Submission of documentation to OIOS of completion of the training of the of the HSU certifying officer.	Not provided
7	The Controller's Office, in collaboration with OCHA, should ensure that the programme support cost resources are allocated in accordance with UN policies ensuring an equitable distribution among programme and project management, and the central support functions.	Compliance	Medium	O	Submission of documentation to OIOS of the resolution, and establishment of OCHA's share of the PSC reflected in a cost plan.	Not provided
8	OCHA, in consultation with the Controller's Office, should resume the disbursement of funds to the FAO-implemented projects to avoid further delays in their implementation.	Operational	Medium	C	Action completed	09/09/09

¹ C = closed, O = open

² Date provided by OCHA and OPPBA in response to recommendations