



INTERNAL AUDIT DIVISION

OFFICE OF INTERNAL OVERSIGHT SERVICES

AUDIT REPORT

**Cash Management - UNJSPF
Secretariat and Investment
Management Service**

9 July 2007

Assignment No. AS2006/800/01

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE
OIOS · BSCI

REFERENCE: AUD-8-10:6 (0033307)

TO: Mr. Bernard Cochemé, Chief Executive Officer
A: United Nations Joint Staff Pension Fund

DATE: 10 July 2007

TO: Mr. Warren Sach,
A: Representative of the Secretary-General for Investments of
the Pension Fund

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



SUBJECT: **OIOS Audit No. AS2006/800/01: Cash Management - UNJSPF Secretariat
and Investment Management Service**

1. I am pleased to present the final audit report on the above-mentioned audit, which was conducted from July to October, 2006.
 2. Based on your comments, we are pleased to inform you that OIOS will close recommendations 9, 19 and 25 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 critical (i.e., recommendations 3, 4, 6, 8, 15, 17, 21, 22, and 23), in its annual report to the General Assembly and semi-annual report to the Secretary-General.
 4. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
- cc: Ms. Chieko Okuda, Director, Investment Management Service
Mr. Swantantra Goolsarran, Executive Secretary, UN Board of Auditors
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Ms. Fatoumata Ndiaye, Deputy Director, IAD

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).

CONTACT INFORMATION

DIRECTOR:

Dagfinn Knutsen, Tel: +1.212.963.5650, Fax: +1.212.963.2185,
e-mail: knutsen2@un.org

DEPUTY DIRECTOR:

Fatoumata Ndiaye: Tel: +1.212.963.5648, Fax: +1.212.963.3388,
e-mail: ndiaye@un.org

EXECUTIVE SUMMARY

Cash Management - UNJSPF Secretariat and Investment Management Service

The Office of Internal Oversight Services (OIOS) conducted an audit of Cash Management at the United Nations Joint Staff Pension Fund (UNJSPF) Secretariat and the Investment Management Service (IMS) from July to October, 2006. The audit was conducted in accordance with International Standards for the Professional Practice of Internal Auditing.

The main objectives of the audit were to: (i) evaluate the procedures for new global banking arrangements; (ii) assess the adequacy of the internal controls over cash management; (iii) determine the appropriateness of the cash management policy and procedures and establish whether they are in line with best industry practices; and (iv) verify compliance with relevant rules, and regulations governing cash management operations.

The auditors acknowledge that in some instances, cash management in the UNJSPF Secretariat and the IMS has improved since previous audits of this area by OIOS and the Board of Auditors. However, as shown below, the audit identified significant weaknesses and associated risks, which need corrective actions.

UNJSPF - Secretariat

- Banking agreements and contracts were generally in the best interest of the Pension Fund except for some noted areas e.g., contracts did not include a requirement of a SAS 70 Report, or in lieu of that report, a Right to Audit clause. In one case, the banking relationship continued not to be governed by a duly executed contract. Furthermore, maximization of income earned was part of the overall strategic cash management policy.
- Written procedures were insufficient or incomplete as they did not adequately cover all functions and responsibilities of the staff. Furthermore, the segregation of duties in the Foreign Exchange process was inadequate and was primarily a result of insufficient staff resources, which management intends to address in the 2008-09 budget cycle;
- Excessive cash balances were held in the UNJSPF operating bank accounts that could have been invested in other instruments to obtain higher interest rates. The opportunity cost of unearned interest income for one quarter was approximately \$167,000;
- Excessive bank fees were being charged for routine transactions and there was insufficient documentary evidence to provide an audit trail that monitoring of bank charges and interest income had been undertaken. Despite the Fund's efforts, disputes over fees charged had not been resolved two-and-half years into a three-year contract;

- Reconciliation of the General Ledger was not compliant with UN Financial Regulation and Rule 104.11 and best practices that require timely reconciliation. According to the Fund's management this was attributable to the Fund's inability to close the general ledger due to delays in the Accounts Payable module. The audit revealed a substantial difference (approximately \$63 million) between JP Morgan Chase Bank Euro account balance and the balance for the same account on the General Ledger. Management was unaware of this difference as the bank reconciliation for June 2006 had not been done at the time of the audit.

Investment Management Services (IMS)

- The cash management procedures need to be updated to include more details on foreign currency trading and to incorporate procedural changes relating to the conversion from multiple custodians and separate master record keeper (MRK) arrangement to a single global custodian/MRK arrangement;
- Monitoring of dividends and interest income need to be improved to reconcile information from all sources.

Cash management

- Cash flow projections need further improvement in both UNJSPF Secretariat and IMS. The methodology used by the Secretariat to forecast cash balances had led to excessive balances in the operating accounts and resulted in lower than optimal interest income. The projection method used by IMS did not match the Fund's total assets with its total liabilities, in order to provide a more global and longer term view of the Fund's liquidity position.

TABLE OF CONTENTS

Chapter	Paragraphs
I. INTRODUCTION	1-5
II. AUDIT OBJECTIVES	6-7
III. AUDIT SCOPE AND METHODOLOGY	8-10
IV. AUDIT FINDINGS AND RECOMMENDATIONS	
A. Cash Management at the UNJSPF Secretariat	
Global Banking Arrangements	11-36
Internal Control Arrangements in Operations	37-61
B. Cash Management at the Investment Management Service	
Internal Control Arrangements in Operations	62-66
Foreign Exchange Transactions	67-71
Dividends and Equities	72-73
V. ACKNOWLEDGEMENT	74
ANNEX 1 – Status of Audit Recommendations	

I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of Cash Management at the United Nations Joint Staff Pension Fund Secretariat (UNJSPF, the Fund, or the Secretariat) and the Investment Management Service (IMS) from July to October, 2006 in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. As of December 2005, the Fund had 93,683 active participants and 55,140 beneficiaries from its 21 member organizations. Total payroll disbursements for the Fund average \$100 million per month. In terms of investments, the market value of the Fund's assets, managed by the IMS was \$37 billion as of 31 December, 2006.
3. The Secretariat Financial Servicing Section is responsible for cash management and treasury function in the Secretariat. Currently, the UNJSPF uses 14 operating accounts at three banks: JP Morgan Chase (JPMC) in New York (effective 31 January, 2004), UBS (Switzerland) (effective May 2005), and Standard Chartered Bank (SCB) with two branches in Pakistan and India. Approximately seven per cent of benefit payments are distributed by cheques and cash and the remainder by direct deposit and electronic funds transfer.
4. The Secretary General, who is the fiduciary manager of the Fund, has designated the Controller as the Representative of the Secretary General (RSG) for the management and administration of investments of the UNJSPF. The RSG is assisted by the staff of the IMS, which manages the Fund's investment portfolio.
5. Effective 1 April, 2006, the IMS contracted the services of Northern Trust Bank (NT) as its master record keeper (MRK) and global custodian (replacing State Street, the Fund's former MRK, and Boston Safe and Trust Company, Northern Trust Company, Deutsche Bank AG and Bank of Tokyo-Mitsubishi Trust Company, the former custodians.) The role of the MRK is to provide detailed records and balances of investment transactions conducted on a regular basis. The MRK also audits and consolidates transactions and holding records and prepares *ad-hoc* reports for accounting and management purposes. The global custodian's responsibilities include: safe keeping of all securities and cash; consolidated reporting of all securities and financial instruments; collection of income; processing of investment transactions; and the maintenance of physical control of security instruments and other assets.

II. AUDIT OBJECTIVES

6. The specific audit objectives were as follows:
 - i. Evaluate the procedures for new global banking arrangements in light of the cessation of dealings with some banks, to determine if the arrangements minimize risks to the Pension Fund, and to establish whether idle funds could otherwise be earning interest for the Fund;
-

-
- ii. Assess the adequacy of the internal controls over cash management activities including, but not limited to, segregation of duties;
 - iii. Verify compliance with relevant rules and regulations governing cash management in both operational areas of the Fund, i.e. treasury function and investments;
 - iv. Determine the appropriateness of the cash management policy and procedures and if they are in line with best industry standards;
 - v. Determine if adequate controls exist over receipt, disbursement, and recording of investment income, other incomes and expenses; and
 - vi. Determine whether the UNJSPF has implemented prior OIOS recommendations to the Secretariat and the Investment Management Service concerning cash management (ref: AS2005/65/01 and AS1999/68/1).

7. In planning the audit, OIOS considered the UNJSPF risk assessment conducted by Price Waterhouse Coopers (PwC) in December 2005, which ranked the overall risk associated with banking relationships as high.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit focused on cash management activities of the Secretariat and IMS. Based on industry practices, against which the policies and practices of the Fund were benchmarked, the audit sought to identify any significant control weaknesses and areas where the process could be improved and strengthened, focusing on the following:

- i. Current contractual arrangements with the operating banks;
- ii. Cash management policy and procedures;
- iii. Foreign exchange transactions;
- iv. Cash-flow projection process as pertains to investment modeling and fund operations;
- v. Timeliness of receipt of interest/dividends on investments and depositing of contributions;
- vi. Joint functions with IMS in cash management (funding benefit payments, purchasing currencies for benefit payments, etc.); and
- vii. Follow-up of previous audit recommendations.

9. The audit was conducted using various methods including: observation; interviewing key officers and support staff; evaluating procedures; reviewing all

relevant documents including the SAS 70 report for the UNJSPF and IMS service providers and existing contracts.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

10. The auditors acknowledged certain achievements of UNJSPF and IMS since the audits in 1999 and 2002. OIOS acknowledged that there was marked improvement in the timeliness of remittances and compliance with the requirement to compensate for any delays by making earlier remittances the following month, and also by developing a simplified cash projection from the Cashier's Unit and a formal contract with UBS. However, in a number of areas, there was a need for improvement in processes and controls. OIOS concluded that the overall Cash Management and Treasury functions at Secretariat and IMS could be further enhanced.

A. Cash management at the UNJSPF Secretariat

Global Banking Arrangements

Banking Agreements

11. Arrangements for payments to beneficiaries are regulated by duly executed contracts between the UNJSPF and JP Morgan Chase (JPMC) and UBS Geneva respectively. Specifically, JPMC (11 accounts) processes all currencies except for Swiss Francs (CHF), Indian Rupee (INR), and Pakistani Rupee (PKR), while UBS (one account) processes CHF and the Standard Chartered Bank (SCB) (two accounts) processes INR and PKR. A separate contract exists for the JPMC Global Account which is an agreement between JPMC and UNJSPF for non-US accounts. OIOS noted, however, that the relationship with SCB was governed by a verbal agreement only.

12. The Secretariat explained the reason for the arrangement with SCB is due to the following: (a) JPMC is not actively dealing with Indian and Pakistani Rupees and does not have branches in India and Pakistan; (b) subsequent analysis by the Fund indicated that, given their lack of penetration in retail banking in that market, asking JPMC to serve the clients of UNJSPF there, would have been more costly for the Fund and the beneficiaries; (c) the corresponding payroll volume and value are less than one percent of total disbursements; (d) traditionally UNJSPF has used SCB; and (e) the vast majority of beneficiaries living in the areas serviced by SCB are satisfied with the existing arrangements. (This was not independently verified by OIOS.)

13. OIOS also found that no formal bidding exercise had been carried out before reaching the agreement with SCB, and the Secretariat had not provided assurance that this arrangement is the most effective and economical. According to the Secretariat, the contracts with JPMC and UBS will both terminate on 31

December 2007, which will allow UNJSPF to review the existing banking arrangements and possibly consolidate operations with one or two banks only.

Recommendation 1

(1) The UNJSPF Secretariat should ensure that the Pension Fund's arrangements with Standard Chartered Bank – including all terms and conditions for the maintenance of each account are formally documented in a contract.

14. *The UNJSPF management accepted recommendation 1 and stated that the Pension Fund will ensure that its arrangements with Standard Chartered Bank - or its successor - are formally documented in a contract to be implemented and formalized with the next RFP due during the first half of 2008. Recommendation 1 remains open pending receipt of documentation of a formal banking arrangement between UNJSPF and Standard Chartered Bank or its successor in a new contract.*

Monitoring of interest income and bank fees:

Interest income

15. According to the banking agreements, UNJSPF should receive interest income on positive balances in the majority of its operating accounts. OIOS noted that the Secretariat did not compare the amount of interest income due for any of the accounts against the banking agreements to ascertain compliance. UNJSPF Secretariat stated that this was due to insufficient resources to dedicate personnel to fully monitor all the accounts. OIOS noted that the issue of inadequate staffing in the Cashier's Unit seemed to have adversely affected several controls and processes, e.g. segregation of duties; monitoring of bank fees and interest income; the documentation of the unit's procedures, etc. This issue was also raised in the Board of Auditors (BOA) Management Letter dated 17 January 2006 (UNJSPF-HQ-USA-2006-2). OIOS concurs with the BOA recommendation that the UNJSPF Secretariat review the workload and staffing for the Cashier's Unit. The Fund indicated that the issue of segregation of duty has been addressed and that the resources are being requested in the 2008-09 budget.

16. There are several rates on which interest income are computed in each of the 14 operating accounts. The rate for the Money Market Deposit Account (MMDA), the account with the highest balance, is determined by JPMC on a weekly basis. The JPMC Global Account earns either a "Tier 1" or "Tier 2" rate which is pegged to the Fed Funds rate. According to the contract, if the balance swept at the end of the day is below \$8 million it will be applied a Tier 1 rate which is defined simply as the average (effective) Fed Funds rate minus 50 basis points. Should the balance exceed \$8 million, the rate applied is Tier 2, defined as the lowest Fed Funds rate minus 50 basis points. The Secretariat indicated that the reason for this two-tier process is that JPMC wants to discourage the holding of large volumes of cash late in the day since the bank has to hold capital against these funds but cannot go to the market and invest that late in the day.

The Secretariat further indicated that the tier process was not negotiable as far as JPMC was concerned. OIOS is of the view that this arrangement is beneficial only to the bank and that the Secretariat should conduct an impact analysis based on historical transactions to determine the amount of interest income lost. If necessary, this issue should be revisited at contract renewal. OIOS found three occurrences of this type in the three-month period reviewed where the average balance was \$24.2 million on those three days, ranging from \$16.4 to \$30.9 million. The opportunity cost of unearned interest income for those three days, due to tier differential, was approximately \$1,000. In its response, the Fund indicated that it seeks to compensate for this by keeping about \$1.5 million in the global account and by having contributions moved to the money market account that earns higher rates.

17. The Secretariat also provided the interest income rates for some of the non-US Dollar (USD) accounts from 3 January 2006 to 30 June 2006. These included Great Britain Pound (GBP), Euro (EUR), and US dollar (USD). The interest rates for Euros, for example, fluctuated between 1.69% and 2.55% during the period reviewed. JPMC accounts for the Australian Dollar (AUD), New Zealand Dollar (NZD), and Japanese Yen (JPY) paid JPMC BID¹ minus 50 basis points, and the Canadian Dollar (CAD) account paid zero interest for positive balances. Since there is no contract with SCB, it was unclear if any interest was to be paid on positive balances. UNJSPF Management indicated that they usually only keep small balances in these non-USD accounts.

Recommendations 2 and 3

The UNJSPF Secretariat should:

- (2) Closely monitor the Fund's operating bank accounts in order to ascertain that interest earned is computed and paid according to the terms of the respective contracts; and**
- (3) Prior to renewing contracts with its bankers, conduct an impact analysis based on historical transactions and market research of existing banking services to determine that cost-effective fees and other advantageous terms, such as interest rates earned on sweep accounts are obtained from the banks involved.**

18. *The UNJSPF management accepted recommendation 2 and stated that the monitoring system in place in the Cashier's Unit for interest bearing accounts has been further improved with monthly verification of interest income. Furthermore, the Pension Fund is awaiting a breakdown of interest charges on the MMDA account in order to fully verify the interest posted. Recommendation 2 remains open pending receipt of documentary evidence of fee income review as well as receipt of breakdown of interest charges on the MMDA account.*

¹ The price at which a buyer will purchase a specific security, in this case, Fed Funds.

19. *The UNJSPF management accepted recommendation 3 and stated that such analysis will form part of Request for Information/Request for Proposal. This recommendation is slated for implementation by April 2008. Recommendation 3 remains open pending receipt of documentation indicating that the impact analysis was completed.*

Bank fees

20. The Secretariat Cashier is in charge of matching fee statements and actual banking services. However, OIOS noted that there is little monitoring of bank fees for accounts denominated in non-USD (NUSD) and non-GBP (NGBP) currencies, i.e. AUD, NZD, JPY, and CAD. Further, for the accounts that were monitored, there were several instances of bank fees that were indicated as verified on the spreadsheet² but were not listed on the Fee Schedule. In addition, OIOS noted that the Fee Schedule for JPY and CAD was in US dollars but the fee statements by JPMC were in local currency. (JPMC provides AUD and NZD fee statements in local currency and USD equivalent.) In OIOS' view, the use of more than one currency for monitoring purposes made the review process more difficult for the Fund.

Recommendations 4 and 5

The UNJSPF Secretariat should:

- (4) Closely monitor banking fees as charged to the accounts in accordance with the agreed-upon fee schedules; and**
- (5) Request the JP Morgan Chase bank to provide fee schedules and statements in one currency to improve the monitoring process.**

21. *The UNJSPF management accepted recommendation 4 and stated that the monitoring system in place in the Cashier's Unit with regard to banking charges/fees levied against its various bank accounts in accordance with the agreed-upon fee schedule has been further enhanced. Recommendation 4 remains open pending receipt of documentary evidence of banking fee review of all accounts.*

22. *The UNJSPF management accepted recommendation 5 and stated that the Pension Fund has requested JPMC to provide JPY and CAD fee schedules and analysis statements, currently only expressed in local currency, to also include its USD equivalent, i.e. like the case of AUD and NZD. The Pension Fund requested JPMC in January 2007 to implement as soon as possible, however, and as of the March 2007 the fees/analysis statements has not yet been implemented by JPMC. The Pension Fund continues to follow-up with the bank in this regard. Recommendation 5 remains open pending receipt of fee*

² The spreadsheet is used by Cashier's Unit staff to compare fees charged against the Fee Schedule. All items verified as being on the Schedule are checked off.

schedules and analysis statements for JPMC JPY and CAD accounts in USD equivalence.

JPMC fees

23. Fees are listed in annexes to the JPMC main contract and Global Account contract and, according to the contracts, are in effect for a three year period. However, during review of fee statements, OIOS noted that fees for several services were not included in the original fee schedules or were listed at different rates, e.g. single euro payments area (SEPA), 'Electronic Unable to Execute', etc. When the Secretariat brought some of these charges to JPMC's attention (prior to the audit), JPMC forwarded amended fee schedules to cover some of the claimed fees, which is in contravention of the contractual terms. However, some charges on the fee statements, such as the ACH Credits (\$3.50 per item), are still not reflected in the amended fee schedules.

24. OIOS noted that the Secretariat requested JPMC to refund \$230,000 for charges not covered on the fee schedule. In response, JPMC counter-claimed that they had not charged UNJSPF for 2,746 investigations (\$144,000) and several other services amounting to \$150,000, resulting in a net refund (to the Fund) of \$80,000. This issue was still under negotiation at the time of the audit. The Secretariat advised that there had been difficulties on both sides – JPMC and UNJSPF – as the payment transactions turned out to be more complex than originally envisaged.

25. The Secretariat indicated that they were continuing to negotiate the fees with JPMC and the Fund is learning from experience and will take into account the outstanding issues in negotiating future contracts. OIOS noted that, in the meantime, JPMC had continued to charge fees not included in the contracts. OIOS is of the opinion that the Secretariat has taken too long (two-and-half years into a three-year contract) to negotiate the fee schedules with JPMC and that the Secretariat needs to urgently bring this issue to the attention of the Office of Legal Affairs (OLA). In response, the Fund pointed out that this issue is more of a technical rather than legal one that hinges upon the complexity of the Fund's operations.

26. OIOS found that there is no limitation or cap to changes (increases) to the fee schedule that should be considered if the existing contract is renewed upon expiration. The Secretariat needs to place a cap on increase in bank fees, drawing lessons from prior experience when a former bank increased its fees by over 300% after learning that it had not secured the winning bid. The Secretariat indicated that JPMC cannot unilaterally impose fee increases and, until they are actually agreed upon in the contract, fee increases will not come into effect. However, OIOS found that JPMC actually increased its fees unilaterally. Management also advised that OLA did not raise the issue of setting a cap on fees during its review of the draft contracts with JPMC and, once the parties had agreed to contract terms, the Fund had little room for negotiation.

Recommendations 6 and 7

The UNJSPF Secretariat should:

(6) Conclude ongoing negotiation with the JP Morgan Chase Bank and refer all future fee schedule amendments to its in-house counsel and possibly to the Office of Legal Affairs for review, especially as the contract does not provide for any amendments during its term; and

(7) Secure any refunds due to the Fund from the JP Morgan Chase Bank, upon concluding negotiations.

27. *The UNJSPF management accepted recommendations 6 and 7 and stated that the Pension Fund will finalize the negotiation of fees and secure any refunds due to the Pension Fund from JPMC. Recommendations 6 and 7 remain open pending receipt of an approved and final fee schedule with JPMC and an indication of receipt of any refund due to the Pension Fund.*

28. During the review of the Fee Schedule, OIOS observed that JPMC charged the Fund from \$50 to \$100 for an investigation (no details were given as to what constitutes a \$50, \$75, or \$100 investigation) and \$11 for a single check deposit (\$7.50 per bulk check deposit and \$3.50 for each check in a deposit). It is the view of OIOS that Management needs to review these fees and determine whether they are inflated, and renegotiate them if deemed necessary. The Secretariat indicated that based on the previous two years information, the Fund only processes on average 100 check deposits per year; the number of checks per deposit was not figured into this information. In Management's opinion, the total amount spent on check deposits is not significant. OIOS is of the view that, as a matter of principle, the Secretariat must ensure that its business transactions are fair, and require from JPMC clarification of the basis for investigation fee to assess its reasonableness. Furthermore, the Secretariat needs to determine if the day-to-day processes that results in these investigations, i.e. customer complaints or inquiries, should be reengineered to decrease the number of investigations by JPMC prior to signing any contract renewal in 2007 as provided for in the terms of the contract.

29. The Fund processes three groups of currencies: the first group are 15 to 16 currencies which the Fund agreed to transact as part of normal payroll, i.e., maintain balances in these currencies; the second group of currencies are those in which JPMC is making payments since they have presence in the country; and, the third group is the one in which the Fund has the claim-back process, in which an external entity would process payments on behalf of the Fund. Claim-backs are payments in US dollar equivalent made to beneficiaries in currencies not directly transacted in by JPMC. Claim-back payments are treated as manual payments at a cost of \$100 per payment regardless of the value of the payment. When the United Nations Board of Auditors questioned the costliness of this transaction, JPMC responded that claim-back payments are highly labor intensive. As a result of negotiation with JPMC, the transaction fee for claim-

backs was subsequently reduced to \$50 per payment (beginning Jan 2006) and a \$27,000 refund was agreed upon by JPMC.

30. The audit noted that the Secretariat's total foreign currency charges for the one-year audit period amounted to over \$200,000 (which includes multiple fee types: FC Straight-thru (\$4.50), FC Repairs (\$15), and Claim-backs (\$100)). As noted above the fee for the claim-back transactions were reduced by 50% to \$50; however, the audit revealed that the overall fees from foreign currency transactions have not decreased considerably: \$110,000 from July to December 2005 vs. \$93,000 from January to June 2006, which indicates an increase in volume of FC Straight-thru and Repair transactions, further strengthening the need for the Secretariat to review the cause for the growth of these transactions. In response to the draft report, the Secretariat indicated that, in accordance with the UNJSPF rules and regulations, they are required to pay wherever and however the beneficiaries would like to be paid.

Recommendations 8 and 9

The UNJSPF Secretariat should:

(8) Re-negotiate fees for services like check deposit, investigations, "claim-back", etc., in the next round of fee schedule amendments, as well as obtain clarification for the basis of the investigation fee; and

(9) Conduct a comprehensive review of the "Investigations" process and determine if the day-to-day processes that result in investigations, i.e. customer complaints or inquiries, can be reengineered to decrease the number of these transactions.

31. *The UNJSPF management accepted recommendation 8 and stated that pending finalization of the one-year extension of the current JPMC contract, the bank proposed to make some modifications to the fee schedule. JPMC added service fees for specific Infocash reporting activities which JPMC had not expected UNJSPF to use at the time of conclusion of the initial Agreement; hence their pricing was not included in the original Annex A. In return, JPMC proposed to amend its current price of \$50 to \$150 for Inquiries/Investigations to Free of Charge. A cost benefit analysis was conducted which indicated that this amendment was cost effective and would be in the interest of UNJSPF to accept. As for the claim-back fees, these have been reduced to US\$50 per claim. OIOS considers recommendation 8 partially implemented and will keep it open pending receipt of an approved and final fee schedule with JPMC.*

32. *The UNJSPF management accepted recommendation 9 and stated that the investigations in general are triggered by a number of factors, which are not controllable by the Pension Fund. Overall, and since December 2006 there has been a gradual decrease in customer complaints. Considering the response from management regarding the bank's amending the fee structure for Investigations, OIOS has closed recommendation 9 and will follow-up in future audits.*

Customer Complaints

33. OIOS was provided with a list of 1,375 customer complaint cases with Work-Type (WT) Code 710 (Non-Receipt) opened between 1 July 2005 and 30 June 2006. The Secretariat considers many of these “routine” e.g. address changed and customer has not received payment, etc. Of the 20 complaints reviewed by OIOS, four were caused by incorrect or delayed input of beneficiary payment instructions by the Secretariat Payments Unit (three instances) and Cashier’s Unit (one instance), which highlights the need for improvement in the review process for payment instruction input. The remaining complaints were due to beneficiary error, e.g., the credit was made but the beneficiary did not acknowledge it. OIOS could not determine from the information made available by the Secretariat if these error types contributed to the 2,746 investigations noted above, which underscores the need for more aggressive follow-up and for UNJSPF to request the details of these investigations from JPMC.

Recommendation 10

(10) The UNJSPF Secretariat should establish a system of secondary review for all payment instructions input within the Payments Unit.

34. *The UNJSPF management agreed in principle with recommendation 10 and stated that current practice includes the audit of all changes to payment instruction by a second person.* Recommendation 10 remains open pending receipt of documentary evidence of secondary review.

Right-to-Audit Clause

35. The JPMC and UBS contracts do not contain a right-to-audit clause or a provision requiring the contracting banks to provide a Service Auditor’s Report, also known as the SAS-70 Report, or any other external verification of the banks’ internal control practices. In the view of OIOS, the Fund, as part of its risk management, and in the absence of a provision in the existing contract, must seek to obtain an external assurance that the internal controls of its primary financial service providers are adequate. A right-to-audit clause or the requirement for SAS-70 or equivalent should be incorporated in all future contract revisions or renewal.

Recommendation 11

(11) The UNJSPF Secretariat should obtain a Service Auditor’s (SAS-70) Report or any other form of external assessment of the adequacy of the banks’ internal control practices from the JP Morgan Chase and UBS Geneva banks. In addition, the Secretariat should make this report a requirement for all future contracts or in lieu of this report, include a Right-to-Audit clause in all future contracts and contract revisions with service providers.

36. *The UNJSPF management did not accept recommendation 11 and stated that in the Fund's opinion, the regulatory environment within which the banks operate, as evidenced by the reply from JPMC, provides a reasonable level of assurance in relation to the nature of the business they transact for the Fund and that in its view a right-to-audit clause is not a necessary condition for the procurement of a commodity service such as payment. OIOS reiterates the need for the recommended control of obtaining an independent assessment of the bank's internal controls in order for the Fund to mitigate the potential risk of default by the primary financial service provider (as provided for in the current contract between IMS and Northern Trust and JPMC and UNHQ Treasury Services). OIOS would accept any alternate report of an independent review paid for and provided by the bank.*

Internal Control Practices in Operations

Cash management procedures

37. Procedures for the Cashier's Unit had been updated since the previous audit but were still incomplete. Missing for example were: (a) written procedures on the monitoring of bank fees and charges and interest income received for the new banking arrangements with JPMC as well as existing relationships with SCB and UBS; (b) documented procedures on funds transfer from IMS and from one JPMC account to another or non-JPMC accounts; (c) the daily operations, including investigations; and (d) follow-up of customer complaints. Furthermore, the procedures did not include documentation on cash forecasting, handling of cancelled checks and handling of checks received from participants for restoration, as well as validation of contributory service.

Recommendation 12

(12) The UNJSPF Secretariat should enhance procedures to include all aspects cash management activities.

38. *The UNJSPF management accepted recommendation 12 and stated that the procedures for investigations continuously evolve as cases arise. Revised procedures for the monitoring of bank fees/charges and interest income are currently being drafted. It is expected they will be ready by end of June 2007. For investigations it is expected that revised procedures for this large topic will be complete by December 2007. The Cashier's Unit has already completed written procedures for: transfer of funds from IMS, within the Fund's bank accounts as well as non-JPMC accounts; and handling of cancelled checks and checks received from participants for restoration and validation of contributory service (the latter is with the Chief of Financial Servicing Section for review). Furthermore, the Cashier's Unit weekly and monthly payroll cash forecasting has been streamlined and a paper audit trail is now maintained. Recommendation 12 remains open pending receipt of all updated procedures.*

Foreign Exchange Transactions

39. The Cashier (or Deputy Cashier) initiates foreign exchange transactions by calling JPMC to obtain rates on currencies involved. The Cashier checks the rates using the Bloomberg Financial System, and the rates are then input into an Excel spreadsheet for cross-comparison with JPMC rates. The Cashier then calls back JPMC to communicate agreed rates, prepares and signs a letter confirming the foreign exchange deal with instructions to transfer funds. The letter is sent by fax to JPMC, which calls back the Cashier to acknowledge receipt of the faxed confirmation. According to the Cashier, JPMC also calls to confirm trades; however, OIOS did not find documentary evidence of this verification on file.

40. OIOS noted that the above procedure is cumbersome and insufficient to fully support foreign currency transactions. The Secretariat's records did not show when and how foreign exchange transactions were initiated and who reviewed and verified trade confirmations to ensure that instructions were followed. Signed confirmation letters sent by fax by the Cashier to JPMC were the only documents on file. There were no records of return advice from JPMC to the Cashier confirming that the latter's instructions were followed including effective date of transaction, funds transferred, and exchange rate. Furthermore, the written procedures for Purchase of Foreign Currency were not sufficiently detailed to facilitate understanding of the process and show segregation of duties. For example, for foreign exchange: the process did not include a two person initiation for foreign exchange purchase, (refer to procedure of IMS); nor any documented verification from JPMC. There was no segregation of duties with regards to process as the person initiating the Foreign Exchange transaction was the same person receiving the confirmation call from JPMC.

41. In OIOS opinion, the Secretariat needs to consider either using the services of IMS for foreign currency transactions or implementing a system similar to that used by IMS. In discussion, IMS had indicated that they would agree to provide the Secretariat foreign currency transactions services if this were in compliance with the Fund's governance structure and the volume of such transactions would not create excessive workload for IMS; and that the arrangement would be cost effective.

Recommendations 13 to 15

The UNJSPF Secretariat should:

(13) Fully document all foreign exchange transactions including the initiation of the transaction;

(14) Review all existing manuals, procedures and instructions and, where necessary take corrective measures to ensure that proper segregation of duties is performed as required; and

(15) Explore the possibility of using the services of the Investment Management Service for foreign exchange transactions.

42. *The UNJSPF management accepted recommendation 13 and stated that, in the light of the auditors initial comments regarding the processing of foreign exchange transactions, the Fund implemented in January 2007 a revised approach to handling such deals to reinforce and better demonstrate the segregation of duties and responsibilities with regard to foreign exchange transactions. The initiation of a transaction and its actual completion in this regard is now fully documented and verified at various stages during the process. Recommendation 13 remains open pending receipt of documentary evidence showing that foreign exchange transactions, including initiation of transaction, are fully documented and demonstrate segregation of duties.*

43. *The UNJSPF management accepted recommendation 14 and stated that all existing 15 Cashier's Unit Processes and procedures have been revised and updated. In March 2007, these and an additional 11 written processes and procedures were posted to Knowledge Management System (KMS). More will follow in 2007. Recommendation 14 remains open pending receipt of all updated cashier's unit procedures.*

44. *The UNJSPF management did not accept recommendation 15 and stated that, in addition to the governance issue and the potential confusion of responsibilities, there would be a technical problem with the need for counterparty settlement instructions to be available to JPMC for those entities trading with IMS. It should be recalled that in the past the occasional late delivery of funds via IMS hampered the payment of benefits. IMS Management commented that, if it is suitable to the Secretariat, IMS can execute foreign exchange transactions on their behalf, debiting the Secretariat's JPMC bank account, a single transaction per currency once or twice a month. These transactions should be an aggregate total, per currency, of Secretariat's monthly need. Based on the comments of UNJSPF Secretariat and IMS, OIOS reiterates recommendation 15 and states that, to avoid duplication of labor, Secretariat Management should collaborate with IMS Management and determine the feasibility of IMS completing foreign currency transactions on behalf of the Secretariat.*

Contributions

45. The Secretariat has taken corrective action to improve timeliness of remittances, as recommended by OIOS in its previous audit (AS2002/65/1). Contributions used to be remitted to the Investment Management Service (IMS) bank accounts and funds needed for payments of benefits subsequently transferred from IMS accounts to the Secretariat's operational bank accounts and, as found in previous audit, there were several instances where the transfers were delayed.

46. As per Administrative Rules of the UNJSPF (Annex I to Regulations, Rules and Pension Adjustment System of the UNJSPF), member organizations are required to compensate for any delay in remittances by either remitting their

following month's contributions earlier by the same number of days their contributions for the previous month were delayed, or paying a penalty. According to the Secretariat, this procedure has resulted in better control over the receipt of remittances and timely reconciliation of contributions. However, OIOS found that this procedure was not explained and documented in the Fund Administrative Manual. Management confirmed in its response that the rules are silent on how any loss shall be calculated, and compensation for such loss assessed, and do not provide any mechanism for payment.

Recommendation 16

The UNJSPF Secretariat should update the Administration Manual to include the revised procedure for remittances, clearly detailing specific requirements for compensating for any loss emanating from delays in receipt.

47. *The UNJSPF management accepted recommendation 16 and stated that the Fund will ensure that the current practice is documented in a procedure. This recommendation is slated for implementation by 31 December 2007.* Recommendation 16 remains open pending receipt of revised procedure in the Administration Manual to include the revised procedure for remittances, clearly detailing specific requirements for compensating for any loss emanating from delays in receipt.

General Ledger Reconciliations

48. The audit found that the General Ledger (GL) reconciliation of cash accounts was lagging approximately five months. For example, in October 2006, the June 2006 GL was not reconciled. The Secretariat stated that the reconciliation process is complex and cannot be completed until the GL and all its modules are closed and that there are compensating controls since bank account transactions are verified and automatically reconciled.

49. Furthermore, when checking JPMC-Euro account balance on 15 October 2006, OIOS found that, although the GL showed a \$65 million balance, the bank statement balance was less than 1 million Euros. (The exchange rate is approximately \$1.2 = 1 Euro). In examining the GL and bank statements for the previous four months, OIOS further found that the June 2006 payroll of \$31 million (to be deducted at the end of May) was not deducted from the GL and the September payroll, approximately \$31 million, had not yet been entered, accounting for \$62 million of the balance of the JPMC-Euro account. There was still a difference of about \$3 million to be reconciled. The Secretariat needs to determine the feasibility of an interface between the Lawson Accounting System and JPMC Insight System to download payroll transactions, and ensure cost-effectiveness and efficiency. This issue will be followed-up on further in the on-going audit of Financial Reporting and Reconciliation.

50. The audit also found several instances of negative balances in the UBS Swiss Franc account. Upon further investigation, the Secretariat indicated, and OIOS verified, that the negative balances were due to UBS placing a one-day

float on funds wired into the UNJSPF account on the value date of payments to beneficiaries. Since the Secretariat did not receive (refer to recommendations 4 and 5 above) statements of fees charged on the UBS account, the auditors could not determine from available information if there are fees being charged for payment on the unavailable balance. In response to the draft report, Management explained further that at no time was the Fund “overdrawn” on these accounts and that any charge for negative interest would have been shown on the bank statements or via a transaction reported through Insight, that is, no such charge was made. OIOS is of the opinion that UNJSPF should wire the money one day earlier than the value date in order to make the funds available when needed and avoid any negative balances in the account.

Recommendations 17 to 20

The UNJSPF Secretariat should:

(17) Conduct timely bank reconciliations, i.e., on a monthly basis, in compliance with UN Financial Rule 104.11.

(18) Reconcile the general ledger and bank statement balances for the Euro account held at the JP Morgan Chase Bank to determine the reason for unresolved discrepancies.

(19) Determine feasibility of an interface between the Lawson Accounting System with the JPMC Insight System to download payroll transactions, for cost-effectiveness and efficiency.

(20) Determine if bank charges are assessed for unavailable funds in the UBS Swiss Francs account, and if so, wire the funds one day earlier than the value date of payments to prevent instances of negative balances from recurring.

51. *The UNJSPF management accepted recommendation 17 and stated that bank reconciliation requires General Ledger closing for the month, and the delays in monthly General Ledger closing cause delays in bank reconciliation. Bank reconciliation has been performed within appropriate time from monthly General Ledger closings and the Fund will seek to eliminate source of delay. Recommendation 17 remains open pending receipt of documentation showing that General Ledger reconciliation is occurring within the 30 days as promulgated in the UN Financial Rule 104.11.*

52. *The UNJSPF management accepted recommendation 18 and stated that the large book-to-bank difference was due to delayed June 2006 payroll journal entry in May 2006. A corrective action was made for June 2006. October 2006 payroll entry was correctly made in September 2006, but not before the audit. At 2006 year-end, total reconciling items for JPMC Euro account was less than \$7,000. Recommendation 18 remains open pending receipt of documentation showing that the Euro account had been fully reconciled.*

53. The UNJSPF management did not accept with recommendation 19 and stated that JPMC Insight does not, and is not supposed to upload payroll data to the General Ledger. Currently, the Fund's monthly payroll entries are entered manually based on the Fund's "Pensys" system, historical data outputs. The interface being referred to is between the banking and accounting systems concerning the processing payment transactions by the bank, not the Fund's payroll data. OIOS has closed recommendation 19 and will follow-up further in the ongoing audit of Financial Reporting and Reconciliation.

54. The UNJSPF management accepted recommendation 20 and stated that the Cashier's Unit is now wiring funds one day earlier to UBS in order to avoid negative bank balances at UBS. Recommendation 20 remains open pending receipt of documentation showing earlier transfer of funds.

Management coordination of cash policies

55. During the period 1 April to 30 June 2006, the average balance in the operating bank accounts was approximately \$105 million. Contributions from Member Organizations averaged \$114 million, while disbursements approximated \$130 million. The majority of contributions are made by the second business day of the month and the disbursements in the final two days of the month; hence the balances stay in the accounts for the major part of the month. The highest interest earned was in the JPMC Money Market Deposit Account which earned on average 4.367% whereas some accounts earned only 1% or no interest.

Table 1: Average Daily Balances in Secretariat Accounts at JPMC for period April – June 2006

Account	Average Balance (04/06-06/06)	Current Interest (Secretariat)	Potential interest with Commercial Paper (IMS)	Opportunity Cost of Unearned Interest
MMDA	\$96,477,000.00	\$1,051,599.30	\$1,181,843.25	\$130,243.95
GLOBAL	\$3,619,000.00	\$39,809.00	\$44,332.75	\$4,523.75
Euro	\$1,834,869.69	\$9,633.07	\$22,477.15	\$12,844.09
GBP	\$1,266,083.20	\$12,819.09	\$15,509.52	\$2,690.43
CHF	\$1,402,782.50	\$876.74	\$17,184.09	\$16,307.35
Other*	\$221,813.05			
TOTAL	\$104,821,548.44	\$1,114,737.20	\$1,281,346.76	\$166,609.56

*Other currencies i.e. JPY, CAD, NZD, AUD, PKR, INR

56. Given the high balances maintained in some of the operating accounts (up to around \$100 million), UNJSPF should consider requesting IMS to invest the excess balances in Commercial Paper or another investment instrument where the interest rate is substantially higher than in the operating banks. For the period April to June 2006, Commercial Paper used by IMS offered an interest rate of 4.90 per cent. On that basis (refer to Table 1 above), OIOS estimated that the Secretariat may have lost for the same period about \$166,609 in interest. This

estimate does not take into consideration the fact that the JPMC Global Account operates on a two-tier basis with a 50-basis point lower rate for balances greater than \$8 million (discussed in paragraph 16 above), and that there were three such occurrences during the three-month period reviewed. The Secretariat indicated that their primary objective is to ensure that there are sufficient funds to cover liabilities, not necessarily to maximize interest income. OIOS, however, is of the view that the Fund has a fiduciary responsibility to maximize income. This issue was also raised in a previous OIOS audit AS/1999/68/1.

Recommendation 21

(21) The UNJSPF Secretariat should invest the Secretariat's excess cash balances with the operating banks in order to optimize interest income.

57. *The UNJSPF management did not accept with recommendation 21 and stated that for operational funds, it is sufficient to ensure funds held for the payment of entitlements earn a market return.* IMS Management commented that, should IMS receive excess cash balances from the Secretariat, it [IMS] would be able to invest those funds in Commercial Paper or other investment instruments. Considering both responses, OIOS reiterates recommendation 21: cash management best practices and the overall fiduciary responsibility of the Pension Fund should establish a goal of income maximization and not simply disbursement of payments. In this regard, the Secretariat should engage in deliberations with IMS to determine feasibility and procedure.

Cash projection

58. In practice, the Cashier's Unit (CU) forecasts the balance needed to pay beneficiaries by considering the previous year's balance multiplied by an assumed 5% growth to represent cost of living adjustments (COLA). A minimum foreign currency balance is maintained in three of the currencies other than USD. These are GBP, Euro, and CHF. Regarding AUD, NZD, or JPY, which are all scarce for UNJSPF, USD is sold from the Global account regularly in exchange for these currencies. OIOS noted only one instance in which there was an overdraft which resulted in a shortage of JPY. In this case, USD was sold for JPY to pay the Japanese beneficiaries. Management explained that the overdraft was due to timing differences between London and Japan.

59. As discussed above, the Fund Secretariat has had high cash balances based on its cash projection methodology, however, this excess is not considered by Management as part of its overall cash management strategy. In its response to the draft report, Management indicated that, it was determined that a balance representing approximately one month's funding requirements should be kept within the operational accounts to ensure that adequate funding would always be available. In the case that amounts in excess of the given range were to accumulate, funds would be transferred to IMS. (This has in fact happened when large amounts of contributions have been remitted by organizations at year end). Subsequently, in the context of business continuity planning, it was also determined that in case of disaster recovery the Fund's response would be, if

necessary, to pay the beneficiaries based on the previous month's payroll file. This approach is viable only if the required funding is available.

60. Although this methodology may be adequate for its immediate (short term) needs, OIOS is of the view that the cash forecasting process should be more holistic. The Fund's Management should project its cash flows based on the Funds' total assets (including IMS' balances) and its total liabilities (including benefit payments), to not only satisfy its short-term requirements but also provide actuarial projection. As has been noted in previous audit reports and BOA management letters, UNJSPF Management needs to implement short-, medium- and long-term forecasts of cash flow, i.e. weekly, 90-day and one-year forecast.

Recommendation 22

(22) The UNJSPF Secretariat should implement a more holistic and technical methodology for cash management and forecasting and provide its projections to the Investment Management Service to be included in an overall projection which should be based on the Fund's total assets and liabilities.

61. *The UNJSPF management accepted recommendation 22 and stated that the Cashier's Unit prepares a forecast based on payroll volumes. More data is accumulated each month with regard to the robustness of the forecast and the Secretariat will review further with IMS how its requirements may mesh with those of IMS. IMS management commented that, if provided with appropriate information from the Secretariat, IMS could incorporate the Secretariat's projections in an overall forecast based on the Fund's total assets and liabilities. This recommendation is slated for implementation by the Secretariat by 31 December 2007. Recommendation 22 remains open pending receipt of documentation showing that a more holistic and technical methodology for cash management and forecasting has been implemented.*

B. Cash management at the Investment Management Service

Internal Control Practices in Operations

Cash projection

62. The Operations Section of the IMS is required to develop cash flow plans for all currencies/countries in accordance with Section 4.01 of the Operations Section Procedures Manual. OIOS noted, however, that the procedures did not specify the projection period. According to the Operations Section, the Cash Projection report is prepared for five days forward based on settlement dates of investment trades. IMS Management also stated that the Cash Balance (projection) report can be extended forward for longer periods based on the same criteria, but in practice it is only run for five-day periods.

63. In a previous audit, the Board of Auditors suggested that the UNJSPF Secretariat and IMS consider operating “a reconciled or unified cash-flow projection system”. While a valuation of current assets is presented in the accounts of the Fund, no other appraisal of the “liabilities” (more precisely the value of the benefits expected to be paid in the future) exists. OIOS supports this observation and is of the view that the cash forecasting process should reflect the Funds’ total assets and liabilities (including Secretariat’s projection) and that it is an important element in establishing the asset and liability management policy and procedure of the Fund as a whole. Furthermore, OIOS is of the view that once the projections are integrated, it would be prudent to prepare the projection for periods of one year, considering that the funds required by the Secretariat should be projected forward to strategize for known requirements for foreign currencies.

Recommendation 23

(23) The UNJSPF Investment Management Service (IMS) should collaborate with the Fund Secretariat to ensure that the cash forecast method is based on the Pension Funds’ total assets (including IMS’ balances) and its total liabilities (including benefit payments) and obtain the cash forecast from the UNJSPF Secretariat. Furthermore, the Secretariat should implement long-term forecasts of cash flow, i.e. one-year forecast incorporating both the assets and liabilities of the entire Pension Fund.

64. *The UNJSPF Management (Secretariat) partially accepted recommendation 23 and stated that the Secretariat can provide cash forecast to IMS. IMS management accepted recommendation 23 stating that IMS is working closely with the Secretariat to determine the best method to be employed to provide a meaningful forecast that would satisfy this recommendation. This recommendation is slated for implementation by 31 December 2007. OIOS reiterates recommendation 23 and stresses the need for collaboration between the Secretariat and IMS regarding consolidating the cash forecast.*

Operations manual

65. Following the 2002 audit (AS2002/65/1), IMS revised its operations manual in 2004. However, OIOS noted that the revised manual did not incorporate the changes to the cash management function since the conversion from multiple custodians and a separate Master-Record-Keeper (MRK) to a single global custodian/MRK which came into effect in April 2006. The procedures manual does not indicate the changes that had occurred to IMS’ day-to-day operations as a result of this new arrangement, such as reconciliation, cash projection, etc. Furthermore, while Section 4.05 Foreign Exchange (FX) Executions sets out the procedures for executing FX transactions by IMS, there was no mention of the steps to be taken when restricted (non-market tradable) currencies are concerned.

Recommendation 24

(24) The UNJSPF Investment Management Service should update cash management procedures in the Operations Manual to include changes which have occurred since the last revision of the Manual.

66. *The UNJSPF IMS management accepted recommendation 24 stating that the cash management procedures will be updated in the manual when the procedures have been finalized. The Global Custodian is presently developing automated cash projection reports, which when implemented will significantly alter the daily procedures followed by IMS. This recommendation is slated for implementation by 30 June 2007. Recommendation 24 remains open pending receipt of updated procedure in the Operations Manual.*

Foreign Exchange Transactions

67. Foreign exchange (FX) transactions are executed by the Fixed Income Unit of the Investment Section. However, OIOS found that all non-tradable currencies transactions were executed by the Operations Section based on the authorized requests prepared by the Fixed Income Unit. In most instances, these non-tradable currencies require that transactions be collateralized with securities held in those countries and necessitate the custodian to transact these currency exchanges.

68. IMS executes transactions in two categories of currencies: (i) those currencies which are executed directly by IMS after checking the rates from Bloomberg and at least three other sources/banks through the FX-all system; and (ii) those which are executed by the custodian banks or through the sub-custodian, at the request of IMS. All FX transactions are settled by IMS. The Fixed Income Unit's Investment Assistant (IA) executes the first group of currencies. With regards to 11 transactions involving restricted currencies (non-tradable currencies in the open market), these were executed only through the Custodian bank or its sub-custodians and the files are maintained by the Operations section IA.

69. While these procedures appear to be satisfactory, in reviewing the documentation for FX transactions, OIOS found that documentation supporting these transactions was incomplete and files were not organized in a way to facilitate review of transactions. In the opinion of OIOS, a standardized system for maintenance of working files would increase efficiency.

Recommendation 25

(25) The UNJSPF Investment Management Service should ensure that all supporting documentation for foreign exchange transactions be maintained on file and properly cross-referenced.

70. *The UNJSPF IMS management accepted recommendation 25 and has given a commitment to maintain all supporting documentation for FX transactions. OIOS has closed recommendation 25 and will monitor in a follow-up audit.*

Non-hedging of FX risks

71. IMS does not hedge foreign exchange transactions to reduce foreign exchange risks in accordance with best industry practices. In light of exchange rate fluctuations, IMS needs to review the possibility of using investments techniques to mitigate associated risks. This issue was raised in a previous OIOS audit (AS2002/65/1/021). IMS Management indicated that the Fund's long-term (strategic) currency hedge will be determined as part of the results of the Assets Liabilities Management study which has started, with a targeted completion date of July 2007. In terms of a hedge strategy for the fund, a long-term scheme should be adequately formulated in the context of the study. OIOS will continue to monitor progress of this issue.

Dividends from Equities

72. A review of the Income Paid Statistics Details report revealed that the dividends on a number of equities were paid up to 34 days late. According to IMS, delays were due to the transition from four custodian banks to one global custodian and adjustments were being made.

Recommendation 26

(26) The UNJSPF Investment Management Service should provide written procedures on monitoring of ageing income receivables from dividends and interests with respect to accounts maintained in Northern Trust, to ensure proper and timely receipt of dividend income and determine reasoning for delays.

73. *The UNJSPF IMS management accepted recommendation 26 stating that in conjunction with the Global Custodian, reports have been developed to properly monitor the receipt of income. Detailed reports describe the income due to the Fund, pay date and value date, and if applicable, the number of days late. These reports are available on a daily basis and are utilized by the Operations Section in assuring timely receipt and follow up of Fund income. Recommendation 26 remains open pending receipt of new reports and documentary evidence of monitoring of these reports by the Operations Section staff.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	C/O ¹	Actions needed to close recommendation	Implementation date ²
01	O	Submission to OIOS of documentation of banking arrangement between UNJSPF and Standard Chartered Bank – or its successor in new contract is formalized in the upcoming procurement processes.	Not provided
02	O	Submission to OIOS of documentary evidence of fee income review as well as receipt of breakdown of interest charges on the MMDA account.	Not provided
03	O	Submission to OIOS of completed RFI/RFP indicating that the impact analysis was completed.	April 2008
04	O	Submission to OIOS of documentary evidence of banking fee review of all accounts.	Not provided
05	O	Submission to OIOS of fee schedules and analysis statements for JPMC JPY and CAD accounts in USD equivalent.	Not provided
06	O	Submission to OIOS of an approved and final fee schedule with JPMC and an indication of receipt of refund due to the Pension Fund.	Not provided
07	O	Submission to OIOS of an approved and final fee schedule with JPMC and an indication of receipt of refund due to the Pension Fund.	Not provided
08	O	Considered partially implemented. Submission to OIOS of an approved and final fee schedule with JPMC.	Not provided
09	C	Implemented; OIOS accepted management's response regarding an amended fee structure.	15 May 2007
10	O	Submission to OIOS of documentary evidence of secondary review as well as receipt of breakdown of interest charges on the MMDA account.	Not provided
11	O	Submission to OIOS of SAS-70 Report for JPMC. OIOS would also accept any alternate independent review provided and paid for by the bank.	Not provided
12	O	Submission to OIOS of all updated cash management procedures.	Not provided
13	O	Submission to OIOS of documentary evidence showing that foreign exchange transactions, including initiation of transaction, are fully documented and demonstrate segregation of duties.	Not provided
14	O	Submission to OIOS of all updated cashier's unit procedures.	Not provided
15	O	OIOS reiterates recommendation 15 and states that, for reduction of duplication of labor, Secretariat Management should collaborate with IMS Management and determine the feasibility of IMS completing foreign currency transactions for the Secretariat. Submission to OIOS of evidence and outcome of aforementioned deliberations.	Not provided
16	O	Submission to OIOS of the revised procedure in the Administration Manual clearly detailing specific requirements for compensating for any loss emanating from delays in receipt.	31 December 2007
17	O	Submission to OIOS of documentary evidence showing that General Ledger reconciliation is occurring within the 30 days as promulgated in the UN Recommendation 20 remains open pending receipt of documentation	Not provided
18	O	Submission to OIOS of documentation showing that the Euro account has been fully reconciled.	Not provided
19	C	Closed. This issue will be followed-up on in the ongoing audit of Financial Reporting and Reconciliation	Not provided
20	O	Submission to OIOS of documentary evidence of showing that the Cashier's Unit is now wiring funds one day earlier to UBS.	Not provided
21	O	OIOS reiterates recommendation 21; Cash Management best practices and	Not provided

		the overall fiduciary responsibility of the Pension Fund should establish a goal of income maximization and not simply disbursement of liability. In this regard, the Secretariat should engage in deliberations with IMS to determine feasibility and procedure. Submission to OIOS of evidence and outcome of aforementioned deliberations.	
22	O	Submission to OIOS of documentation showing that a more holistic and technical methodology for cash management and forecasting has been implemented.	Not provided
23	O	Submission to OIOS of a consolidated cash projection inclusive of Pension Fund assets and liabilities	31 December 2007
24	O	Submission to OIOS of updated procedures in the Operations Manual.	30 June 2007
25	C	Implemented; OIOS accepted management's commitment to complete.	13 June 2007
26	O	Considered partially implemented. Submission to OIOS of new reports and documentary evidence of monitoring of these reports by the Operations Section staff.	Not provided

1. C = closed, O = open

2. Date provided by [client] in response to recommendations.

UNITED NATIONS



OIOS Client Satisfaction Survey

Audit of: Cash Management-UNJSPF Secretariat & IMS

(AS2006/800/01)

	1	2	3	4	5
By checking the appropriate box, please rate:	Very Poor	Poor	Satisfactory	Good	Excellent
1. The extent to which the audit addressed your concerns as a manager.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The audit staff's understanding of your operations and objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Professionalism of the audit staff (demeanour, communication and responsiveness).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The quality of the Audit Report in terms of:					
• Accuracy and validity of findings and conclusions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Clarity and conciseness;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Balance and objectivity;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Timeliness.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The extent to which the audit recommendations were appropriate and helpful.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The extent to which the auditors considered your comments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Your overall satisfaction with the conduct of the audit and its results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please add any further comments you may have on the audit process to let us know what we are doing well and what can be improved.

Name: _____ Title: _____ Date: _____

*Thank you for taking the time to fill out this survey. Please send the completed survey as soon as possible to:
 Director, Internal Audit Division, OIOS
 By mail: Room DC2-518, 2 UN Plaza, New York, NY 10017 USA
 By fax: (212) 963-3388*