UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

ELECTRONIC FUNDS TRANSFER

BY THE TREASURY DIVISION

IN

UNDP

Report No. 1481

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Report on the audit of UNDP Electronic Funds Transfer by the Treasury Division
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Electronic Funds Transfer by the Treasury Division in UNDP from 20 to 31 July 2015. Electronic Funds Transfer is the electronic transfer of money from a bank account of one entity to a bank account of another entity through computer-based systems. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance (roles and responsibilities, policies and procedures, staffing and communications); and

(b) operations (input and output process, data transmission, management of access rights, physical security of the operational areas related to the electronic payment process, and business continuity).

The audit covered the activities of the Treasury Division from 1 January 2014 to 30 June 2015. During this period, UNDP recorded voucher related payments amounting to $5.2 billion in 2014, and $2.2 billion up to 30 June 2015. Of this amount, 50 percent in 2014 and 55 percent in 2015 was paid through UNDP's Electronic Funds Transfer interface with a bank managed by the Treasury Division.

The last audit of the Treasury Division was conducted by OAI in 2007.

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

Overall audit rating

OAI assessed Electronic Funds Transfer as **satisfactory**, which means, "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity."

Key recommendations: Total = **4**, high priority = **0**

The four recommendations aim to ensure the effectiveness and efficiency of operations.

The audit did not result in any high (critical) priority recommendations. There are four medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions to address the following: procedures governing the electronic payment process not regularly updated and disseminated to staff; legal documents covering the Electronic Funds Transfer process lacking details; and lack of agreements between the Treasury Division and the Office of Information Management and Technology regarding each unit's obligations and expectations.

Management comments and action plan

The Director of the Office of Financial Resources Management accepted all of the recommendations and is in the process of implementing them. Comments and/or additional information provided had been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the office

The Treasury Division of the Office of Financial Resources Management, located in New York, is divided in two sections: Cash and Operations, and Investment.

In UNDP, Electronic Funds Transfers are processed either through a central interface with the bank managed by the Treasury Division or through interfaces with local banks managed by the applicable UNDP Country Offices, following instructions or guidelines provided by the Treasury Division. Besides the central interface with a bank, UNDP uses another electronic platform, Society for Worldwide Interbank Financial Telecommunication (SWIFT) to initiate payments; for the most part, SWIFT is used to process wire transfers.

This audit focused on the Electronic Funds Transfer infrastructure and interface process with the bank directly managed by the Treasury Division as well as the implementation and use of SWIFT.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a)   Operations – Input process. Controls were in place to ensure that transactions were accurate, complete, properly authorized, and not previously processed.
(b)   Operations – Data transmission. Transactions were processed in a secure manner, and rejected transactions were tracked and underlying issues were adequately resolved.
(c)   Operations – Output process. The output (payment report) from the electronic payment process was timely, complete, and accurately processed. The bank reconciliations were also timely, complete, accurately conducted and reviewed.
(d)   Operations – Physical security. The operational areas related to the electronic payment process were adequately secured and access to these areas was properly managed.

OAI made four recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Treasury Division and are not included in this report.

Medium priority recommendations, arranged according to significance:
(a)   Implement a process to ensure that policies and procedures are reviewed regularly and changes are timely disseminated to respective staff (Recommendation 1).
(b)   Review the contract with the bank ensuring it covers all aspects of UNDP's transactions, including Electronic Funds Transfer (Recommendation 3).
(c)   Finalize the standard operating procedure regarding the Headquarters bank reconciliation process (Recommendation 2).
(d)   Establish some form of agreement (e.g., standard operating procedure) with the Office of Information Management and Technology (Recommendation 4).

The detailed assessment is presented below, per audit area:

A.	Governance

1.	Policies and procedures

Issue 1   Procedures governing the electronic payment process not regularly updated and disseminated to applicable staff

UNDP's Internal Control Framework sets out the overall accountability of the heads of offices for establishing and maintaining adequate internal controls within their offices and for ensuring that their internal control procedures are documented. To assume this responsibility, it is essential that operational procedures are documented and up to date, encompassing all processes, latest changes, roles and responsibilities, as well as the offices' oversight activities. To be effective, procedures should not only be documented and kept up to date, but all concerned staff should also be made aware of existing procedures, including any changes made to these procedures.

The 'Treasury Policies and Procedures Manual', which provides Treasury Division staff with detailed work instructions, had not been reviewed and updated since 2009. New elements (e.g., sanction pay cycle) were added to the Treasury Division's daily operations but had not been added to the Manual. In addition, the Manual did not cover governance or oversight activities.

In addition, the standard operating procedure, describing the Headquarters bank reconciliation process and outlining the different responsibilities of the Global Shared Services Centre and the Treasury Division in this process, had been in draft form since 1 June 2014.

Incomplete and/or unknown policies might lead to inefficient or inadequate processes or duplication of work due to staff not doing what is expected of them or following a perceived lack of instructions, creating their own instructions.

Priority	Medium (Important)
Recommendation 1:	
The Treasury Division should implement a process to ensure that policies and procedures are reviewed regularly, ensuring that they reflect the actual situation. Evidence of these regular reviews should be incorporated in the policies and procedures reviewed. Furthermore, the process should include appropriate communication activities to ensure that staff are made aware of all existing policies and procedures relating to their work, including any changes made to those policies and procedures.	
Management action plan:	
Sections of the 'Treasury Policies and Procedures Manual' related to Electronic Funds Transfer, which were shared with the audit team, represent the current updated version, reflecting existing working conditions. With regards to the other sections of the Manual, the Treasury Division has initiated a process to review and update them.

Estimated completion date: December 2015 | |

Priority	Medium (Important)

Recommendation 2: The Treasury Division should, in coordination with the Global Shared Services Centre and management of the Office of Financial Resources Management, finalize the standard operating procedure regarding the Headquarters bank reconciliation process.
Management action plan: The standard operating procedure regarding Headquarters bank reconciliation was not officially finalized due to the evolving structural change exercise and the ongoing transition of functions from Headquarters to the Global Shared Service Centre, plus the onboarding of new bank reconciliation clients in July 2015. The Treasury Division will officially finalize this standard operating procedure. **Estimated completion date:** December 2015

Issue 2   Contract with the bank lacking details with regard to Electronic Funds Transfer process

According to UNDP's 'Programme and Operations Policies and Procedures', contract management is the process that ensures all parties to the legally binding agreement fully meet their respective obligations efficiently and effectively. The contract management process allows a business unit to track and manage the clauses, terms, conditions, commitments and milestones throughout the life of its contracts to maximize business benefits and minimize associated risks. Contract management includes monitoring performance (i.e., quality standards, delivery), effecting acceptance and payment, initiating amendments and resolving any disputes that may arise in the overall process. Regarding contracts covering automated processes, *inter alia* the Electronic Funds Transfer process, amendments to the contracts are expected to be put in place to ensure that the contract continues to reflect the most current (technical) situation.

The review of the contract (dated 2001) between UNDP and the bank and the related provision of banking services (dated 2010) disclosed that neither of these documents were specifically referred to the existing Electronic Funds Transfer process in place in terms of expected services and service levels.

Insufficiently detailed and/or outdated legal agreements increase the risk that parties may have different expectations regarding their responsibilities and accountabilities and might make it difficult for UNDP to ensure that required services are provided by the bank.

Priority	Medium (Important)

Recommendation 3: The Treasury Division should, in collaboration with the Legal Support Office, review the contract with the bank to ensure it covers all aspects of UNDP's transactions with the bank, including the Electronic Funds Transfer process.

Management action plan:

It is important to note that UNDP has enjoyed highly reliable, robust payment execution from the bank since inception with no service issues whatsoever, suggesting that mutually understood and agreed expectations of the parties are, in fact, in place. The Treasury Division, in partnership with the Office of Information Management and Technology, maintains active oversight and monitoring of transaction activity, including the quality of service delivery to internal and external clients. The Treasury Division will discuss with the Legal Support Office the legal arrangements that may be appropriate to address this observation based on best practice, including the possibility of adding it through an addendum based on existing clauses on contract amendment.

Estimated completion date: June 2016

Issue 3   Lack of agreement between the Treasury Division and another unit involved in Electronic Funds Transfer process

Based on the Information Technology Infrastructure Library, a set of practices for information technology service management that focuses on aligning information technology services with the needs of business, a service level agreement creates a common understanding about services, priorities and responsibilities between a service provider (either internal or external) and an end user. Service level agreements allow the expected levels of performance to be defined and benchmarked.

The Treasury Division relied on the Office of Information Management and Technology for the proper functioning of technical aspects of the electronic payment process. Furthermore, the Office of Information Management and Technology supported the Treasury Division in monitoring, identifying and resolving technical issues affecting the electronic payment process. However, no service level agreement was established describing the services, and quality of services to be provided by the Office of Information Management and Technology as well as the time frames in which they should be provided.

The lack of a defined agreement detailing the responsibilities of both parties (Treasury Division and Office of Information Management and Technology) involved in the electronic payment process might increase the risk that parties may have different expectations regarding responsibilities and accountabilities and subsequently could lead to delays in the execution of electronic payments.

Priority	Medium (Important)
Recommendation 4: The Treasury Division should establish a formal agreement (e.g., standard operating procedure or service level agreement) with the Office of Information Management and Technology, outlining the obligations and expectations of both parties with regard to the electronic payment process.	
Management action plan: The Treasury Division will put in place, with the Office of Information Management and Technology, a service level agreement or equivalent documentation to capture roles and responsibilities of key support personnel. **Estimated completion date:** March 2016	

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory**   Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.

- **Partially Satisfactory**   Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.

- **Unsatisfactory**   Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**   Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)**   Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.

- **Low**   Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.