UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

ELECTRONIC FUNDS TRANSFER / E-BANKING

IN

UNDP

Report No. 2046

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Report on the Audit of Electronic Funds Transfer / E-Banking
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP's Electronic Funds Transfer / E-Banking from 23 September to 6 December 2019. Electronic Funds Transfer / E-Banking is the electronic transfer of money from a bank account of one UNDP business unit to a bank account of another entity through computer-based systems. Electronic Funds Transfer is executed without any manual intervention (payment information is sent directly from Atlas [enterprise resource planning system of UNDP] to the applicable bank for further processing) and E-Banking is processed with various degrees of manual intervention (payment information is extracted from Atlas and subsequently submitted to the applicable bank for further processing). 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 (policies and procedures, staffing and communications, and business process improvement); and

(b) operations (input and output process, data transmission, management of access rights, and business continuity).

The audit covered the activities of Treasury in New York and a selection of seven UNDP Country Offices (Colombia, Jordan, Kenya, Malawi, Peru, Sri Lanka, and Viet Nam) covering four of the five regions (Arab States, Asia and Pacific, Africa and Latin America and the Caribbean) regarding Electronic Funds Transfer / E-Banking from 1 January 2018 to 31 August 2019.

The seven Country Offices were selected based on the following criteria: (i) highest amounts paid using Electronic Funds Transfer / E-Banking, (ii) not subject to a Country Office audit in 2019, (iii) highest number of issues noted regarding the payment process during previous Country Office audits, and (iv) regional coverage.

During the period under review UNDP recorded voucher-related payments amounting to $8.1 billion. Of this amount, 56.7 percent was paid through UNDP's Electronic Funds Transfer interface with Bank of America managed by Treasury, 11.9 percent through Electronic Fund Transfer interfaces with various local banks managed by UNDP Country Offices, 4.9 percent through a variety of E-Banking applications provided by local banks and used by UNDP Country Offices, and 26.5 percent through other payment methods (for instance cheques and manual payments). The last audit of Electronic Funds Transfer was conducted by OAI in 2015. E-Banking was not previously audited.

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

Overall audit rating

OAI assessed UNDP's Electronic Funds Transfer / E-Banking as **partially satisfactory / some improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity." This rating was mainly due to a lack of automated interface between Atlas and Society for Worldwide Interbank Financial Telecommunication (SWIFT).

Key recommendations: Total = **6**, high priority = **1**

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	3	Medium
Safeguarding of assets	2, 4, 5	Medium
	6	High
Compliance with legislative mandates, regulations and rules, policies and procedures	1	Medium

For high (critical) priority recommendations, 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. The high (critical) priority recommendation is presented below:

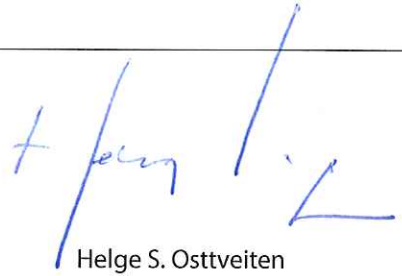Lack of automated interface between Atlas and SWIFT (Issue 6)

There was no automated interface between Atlas and Society for Worldwide Interbank Financial Telecommunication (SWIFT). Treasury Division staff manually entered applicable SWIFT transactions (wires, deals and bank settlements) manually in SWIFT. Data already entered in Atlas needed to be printed, saved to a shared drive and subsequently re-entered into SWIFT.

Recommendation 6: Treasury should implement an automated interface between Atlas and SWIFT and reduce the need for manual intervention.

Management comments and action plan

The Director of the Bureau for Management Services and the Treasurer accepted the six recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (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

UNDP's Treasury is part of the Office of Financial Resources Management (Bureau for Management Services). At the time of the audit, it was comprised of 14 staff based in New York responsible for two units: Cash and Treasury Operations, and the Investment Section.

In UNDP, Electronic Fund Transfers are processed either through a central interface with Bank of America managed by Treasury or through interfaces with local banks managed by the applicable UNDP Country Office, following instructions / guidelines provided by Treasury. At the time of the audit, local interfaces were implemented in 37 of the 136 UNDP Country Offices. Additionally, according to Treasury, 17 UNDP Country Offices were using various E-Banking applications to support their payment process. In addition to the various electronic payment modalities outlined, UNDP uses another electronic platform (SWIFT, or Society for Worldwide Interbank Financial Telecommunication) to initiate payments. The SWIFT system is utilized to send payments that cannot be processed as Electronic Funds Transfer (e.g., wires, deals, bank settlements). Payments that must be processed as a Treasury wire are sent via the SWIFT network. Access to SWIFT is limited to Treasury staff.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a) <u>Operations – Data transmission.</u> Transactions were processed in a secure manner.

(b) <u>Operations – Output process.</u> The output (payment report) from the electronic payment process was timely, complete, and accurately processed. Bank reconciliations were also timely, complete, accurate and reviewed.

(c) <u>Operations – Business continuity.</u> Controls put in place to manage business continuity were satisfactory.

OAI made one recommendation ranked high (critical) and five recommendations ranked medium (important) priority.

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

High priority recommendation:
(a) Implement automated interface between Atlas and SWIFT (Recommendation 6).

Medium priority recommendations, arranged according to significance:
(a) Prioritize implementation of a Host-to-Host (H2H) solution (Recommendation 4).
(b) Assess which Country Offices use unapproved E-Banking applications (Recommendation 2).
(c) Implement a process to ensure that all documents relating to the Electronic Funds Transfer / E-Banking process are regularly reviewed and updated (Recommendation 1).
(d) Adopt a support ticket system to track Treasury-related requests (Recommendation 3).
(e) Explore options to implement a vendor corporate payment advice system (Recommendation 5).

The detailed assessment is presented below, per audit area:

1. Policies and procedures

Issue 1 <u>Documents covering Electronic Funds Transfer / E-Banking process not regularly reviewed/updated</u>

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 and standards 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, but kept up to date as well, even more so for corporate procedures, which are meant to provide guidance to other offices.

The ICT (Information and Communication Technology) Enterprise Solutions Electronic Funds Transfer Standards document, dated 26 July 2016, established the policy that governs the management and operation of Electronic Funds Transfer. This document had not been updated since its creation and did not reflect the latest Electronic Funds Transfer-related developments (e.g., the document referred to a stand-alone payment workstation, which is no longer recommended as best practice). Furthermore, the policy document referred to additional guidance prepared by the Office of Information Management and Technology and Treasury dating back to 2006, which also contained outdated information (e.g., the document referred to an application provided by the bank that is installed at the client site on a dedicated workstation, which is no longer required). Finally, the Standard Operating Procedure on E-Banking template prepared by Treasury and used by UNDP Country Offices preparing to implement an E-Banking solution (i) contained instructions that were outdated (e.g., print UFF file,[1] review and compare data in E-Banking application with printed UFF file, sign printed and checked UFF file and submit this file to the bank), and (ii) applied only to payments initiated from the pay cycle, and therefore excluded payroll-related payments.

Incomplete and/or unknown policies might lead to inefficient or inadequate processes, increasing the risk of loss of funds due to erroneous or fraudulent payments.

Priority	Medium (Important)
Recommendation 1:	

Recommendation 1:

Given the critical nature of bank transfers, Treasury should:

(a) update all the policy documents relating to Electronic Funds Transfer / E-Banking;
(b) implement a process to ensure that policy documents are periodically updated to reflect the latest changes in policy and required practices; and
(c) include the payroll-related information in the Standard Operating Procedures template for E-Banking.

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[1] A payment file, Universal Flat File (UFF), is generated after running the pay cycle. The UFF contains the necessary information (e.g., payee, bank information, payment amount and payment mode) to create payment instructions.

Management action plan:

Treasury will:
- (a) collaborate with the Office of Information Management and Technology, who is the primary owner of the ICT Enterprise Solutions document, which contains the Electronic Fund Transfer Standards Policy to review and update this policy. Approximately 10-15 percent of the policy requires updates;
- (b) ensure that policy documents are periodically updated; and
- (c) include the word "payroll" throughout the Standard Operating Procedure template for E-banking.

Estimated completion date: June 2020

Issue 2   Insufficient knowledge in relation to the use of local E-Banking applications

According to the Standard Operating Procedure on E-Banking prepared by Treasury, local E-Banking solutions must be reviewed and approved by Treasury before implementation.

As evidenced by OAI during its previous Country Office audits, not all Offices had received approval from Treasury prior to implementation of their E-Banking application. After informing the Country Offices of this omission, they subsequently contacted Treasury to receive the necessary approval. According to Treasury, obtaining the required approval remains the responsibility of the Country Office with oversight provided by the Regional Bureaux, without the involvement of Treasury.

OAI recognizes that the general oversight over activities in Country Offices lies with the Regional Bureaux. However, the UNDP policies and procedures for cash management are primarily established by Treasury, the unit with the technical expertise for the management of cash and banking arrangements in UNDP. Treasury (if need be through the Regional Bureaux), was not pro-active in identifying which Country Offices were using E-Banking and, as applicable, ensuring that the application used by a Country Office complied with the requirements of its Standard Operating Procedure on E-Banking.

Using unapproved E-Banking applications increases the risk of loss of funds due to inefficiencies, and/or erroneous or fraudulent payments.

Priority	Medium (Important)
Recommendation 2: Treasury, in cooperation with the Regional Bureaux, should implement a process that periodically checks to identify which Country Offices use E-Banking without its approval to ensure that only approved E-Banking applications are used.	
Management action plan: The Bureau for Management Services (BMS) believes that the current policy, which is in place, requiring Country Offices to seek Treasury clearance on any new E-Banking requirements, is sufficient to meet any risk mitigation requirements. The Country Office's management line of authority is a direct report to the Regional Bureaux, and consequently the Country Office does not seek guidance from Treasury and there is no remedy that can be applied from a management perspective.	

However, BMS will take the proactive measures to mitigate the risk by:

- Sending the three UNDP core banking partners a message in writing informing them that their branches must not implement E-Banking solutions with any UNDP Country Office without confirming with UNDP Treasury;
- Including E-Banking solutions policy requirements in the existing Treasury training package; and
- Sending out a communication to the Regional Bureaux reminding them that E-Banking solutions must be approved by BMS/OFRM/Treasury prior to implementation and that policy compliance oversight sits with Regional Bureaux. Noting that non-compliance may reflect negatively on the audit performance of the Country Office as well as the organization as a whole.

Estimated completion date: June 2020

2. Staffing and communications

Issue 3 Lack of a support ticket system

The use of a support ticket system to monitor user reported payment issues and actions taken to resolve reported issues helps to ensure effective and efficient user support, increase user satisfaction and can potentially reduce costs.

Questions regarding outstanding payments and requests for support were emailed to Treasury through one of three generic email accounts. These email accounts were checked regularly by Treasury staff who were responsible for responding to these queries in a timely manner. However, incoming questions / requests and outgoing responses were not formally tracked, potentially leading to delayed handling of user requests.

The lack of a support ticket system can lead to inadequate / delayed responses to requests for support, which could result in missed payment terms, decreased user satisfaction, and additional costs to the organization.

Priority	Medium (Important)
Recommendation 3: Treasury should consider adopting a support ticket system for all Treasury-related questions / requests raised by Country Offices to track them from the moment of receipt to final resolution.	
Management action plan: Treasury deems the current tracking system to be working satisfactory as no errors, delays or omissions have been identified. Nonetheless, Treasury in conjunction with the Bureau for Management Services will explore any future system adopted by UNDP as to its suitability. **Estimated completion date:** March 2021	

3. Business process improvement

Issue 4   Sub-optimal payment process due to limited implementation of Host-to-Host (H2H) solution

According to the 'UNDP Programme and Operations Policies and Procedures', Electronic Funds Transfer is the preferred mode of payment whenever possible as it is cheaper, more efficient and eliminates cheque usage. In Atlas, Electronic Funds Transfer is configured for two formats, Universal File Format (UFF) and Bank of America. The UFF format is used by Country Offices for interfaces with local banks: the so-called Host-to-Host (H2H) solution. The Bank of America format is used for the UNDP/Bank of America interface.

During 2017 and 2018, Treasury, together with the Office of Information Management and Technology, developed and executed a project with the objective to increase the number of Country Offices using UNDP's global H2H solution for their local payment processes, thereby reducing the risk of fraudulent payments, reducing transaction costs, and simplifying bank to book reconciliation. Although the project was successful as the total number of Country Offices using the H2H solution increased from 18 to 37, the project was not continued after 2018, leaving a potential additional 75 Country Offices without the H2H solution. Out of these 75 Country Offices, 35 of them executed payments ranging from $10 million to $100 million through their local banks during 2018, making implementation of the H2H solution advisable.

In 2019 Treasury submitted a new project proposal for a continuation of the deployment of Country Offices under the H2H modality, but this had yet to be approved.

The lack of local Electronic Funds Transfer increases the risk of loss of funds due to erroneous or fraudulent payments and increases transaction costs.

Priority	Medium (Important)
Recommendation 4: Treasury should improve the payment process by: (a) implementing the Host-to-Host (H2H) solution in all applicable Country Offices; or (b) where implementation of the H2H solution is currently not feasible due to technical restrictions, explore other options of reducing risk / improving efficiency of the payment process (e.g., having Country Offices move to banks that can accommodate the H2H modality, work with Country Offices to implement E-Banking).	
Management action plan: Treasury will implement the H2H solution in the remaining 19 high risk countries (25 of 44 already implemented) based on their risk profile. Implementation will be a phased approach over the next two years subject to the availability of resources. Where H2H is not feasible, Treasury will continue working with the Country Office to implement the E-Banking solution and other risk mitigation processes, including through clustering and strengthening of the Bank to Book (B2B) reconciliation. **Estimated completion date:** December 2022	

Issue 5   Corporate Issue: Lack of a corporate payment advice system

A 'payment advice' is a document sent by a customer to the supplier of a product or service informing the supplier of the payment of their invoice. The payment advice is best practice to strengthen the control over the payment process as the supplier can follow up on expected payments.

The enterprise resource planning system currently in use by UNDP (PeopleSoft – Atlas) could be configured to email suppliers about their upcoming payments at the time the pay cycle is run (the so-called email payment advice). However, UNDP chose not to implement this option. A number of UNDP Country Offices considered this to be an omission and opted to use an alternative system (PAD – Payment Advice Delivery) developed by the Bangkok Regional Hub to inform their suppliers of upcoming payments.

OAI regards the use of a 'payment advice system' a best practice, which, when implemented across the organization, could increase detection of potential payment manipulation. Since vendors who had been informed that their payment was underway would alert UNDP in case they did not receive the payment. Furthermore, having a payment advice in place could also improve efficiency by reducing the number of inquiries from suppliers regarding the status of their payment.

Priority	Medium (Important)
Corporate Recommendation 5: The Bureau for Management Services should explore the option to implement a vendor payment advice system (e.g., through enabling existing functionality in Atlas or by adopting the system developed by the Bangkok Regional Hub).	
Management action plan: The Bureau for Management Services will explore the feasibility for such a system in the next 12 months. Offices within the Bureau for Management Services, including the Office of Information Management and Technology, the Procurement Services Unit, and the Office of Financial Resources Management will work in unison to explore if this is possible. **Estimated completion date:** March 2021	

B.   Operations

1.   Input process

Issue 6   Lack of automated interface between Atlas and SWIFT

Complete and accurate data is required by organizations to deliver services / execute processes effectively and efficiently. In some cases, data comes from another system through an interface. An interface is a combination of hardware, software and human processes that allows data to move from one system to another. The more automated the interface, the more secure, accurate, complete and efficient the flow of information will be.

There was no automated interface between Atlas and SWIFT. Treasury Division staff manually entered applicable SWIFT transactions (wires, deals and bank settlements) in SWIFT. OAI considered this to be inefficient, since data already entered in Atlas was required to be printed, saved to a shared drive and subsequently re-entered into SWIFT. While no errors were identified during the period reviewed, a manual interface is more likely to lead to errors, potentially leading to a loss of funds due to lost opportunities or erroneous transfers.

Priority	High (Critical)
Recommendation 6: Treasury should implement an automated interface between Atlas and SWIFT and reduce the need for manual intervention.	
Management action plan: Treasury has an established dual control process outlined in the Treasury Department manual to mitigate any risk associated with the lack of interface. Treasury supports the idea of automation assuming the benefits outweigh the costs. Treasury will undertake a feasibility study in June 2020. **Estimated completion date:** June 2021	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

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. Failure to take action could result in 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 <u>not included in this report</u>.