



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Financial Accounting and Reconciliation Process at the United Nations Joint Staff Pension Fund

16 May 2008

Assignment No. AS2006/801/02

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

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

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

DATE: 16 May 2008

Mr. Warren Sach, Representative of the
Secretary-General for the Investments of
United Nations Joint Staff Pension Fund

REFERENCE: IAD: 08- 01.323

f:5 William Peters
FROM: Dagfinn Knutsen, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Assignment No. AS2006/801/02 - Audit of the Financial Accounting and Reconciliation Process**
OBJET: **at the United Nations Joint Staff Pension Fund**

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 9 and 11 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. Your response indicated that you did not accept recommendations 6, 7 and 16. In the opinion of OIOS however, these recommendations seek to address significant risk areas. We are therefore reiterating them and request that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as critical (i.e., recommendations 1, 3, 7-10, 15 and 16), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Susanne Bishopric, Director, Investment Management Service
Ms. Jaana Sareva, Secretary to the UNJSPF Audit Committee
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez-Troncoso, OIC, JIU Secretariat
Mr. Jonathan Childerley, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Programme Officer, OIOS
Mr. William Petersen, Chief, New York Audit Service, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

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

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

CHIEF, NEW YORK AUDIT SERVICE:

William Petersen: Tel: +212.963.3705, Fax: +1.212.963.3388,
e-mail: petersenw@un.org

EXECUTIVE SUMMARY

Audit of the Financial Accounting and Reconciliation Process at the United Nations Joint Staff Pension Fund

OIOS conducted an audit of the financial accounting and reconciliation process at the United Nations Joint Staff Pension Fund (UNJSPF or the Fund). The overall objectives of the audit were to assess the adequacy of internal controls over financial accounting and reconciliations, and to determine compliance with the relevant rules and regulations, including those pertaining to reconciliation of accounts. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS concluded that the overall structure of the Fund's general ledger accounts was adequate to support its reporting and information needs, and the Fund had generally complied with the relevant rules and regulations governing financial accounting. The UNJSPF Secretariat needs to address the exceptions pertaining to the accountability, operational responsibility for the accounting function, and timeliness and accuracy of reconciliations. Of concern also, was the inadequacy of policies and procedures. For IMS, the issues relate to the sufficiency of resources, both in terms of staffing and business support systems. Summarized below are the key audit issues:

UNJSPF Secretariat

- The financial reconciliation process needs to be formalized, clarifying the accountability and responsibility of each office involved. The accounting manual needs to be updated and disseminated to staff involved in the accounting and financial reconciliation process.
- The functions of financial reporting and reconciliation need to be centralized and segregated from the operational responsibilities that generate the accounting records.
- Interim financial information needs to be regularly reviewed, and the related policies and procedures established for such reviews. Immediate measures also need to be taken to ensure timely monthly closing of the books.
- Procedures governing the disposition of bank reconciling items need to be established and long outstanding items properly identified and followed up in a timely manner. Moreover, all bank reconciliations need to be reviewed and duly signed off on by a staff member who is not involved in their preparation.

Investment Management Service

- An accounting system with the capabilities for ensuring proper investment accounting, including the independent verification of the custodial records by IMS, needs to be implemented.
- Staffing requirements need to be reassessed within the context of any automation enhancement initiatives, and the filling of the vacant posts in the Operations Section aggressively pursued.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the financial accounting and reconciliation processes at the United Nations Joint Staff Pension Fund (UNJSPF or the Fund). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The Fund was established in 1949 by the United Nations General Assembly and comprises the Secretariat, with responsibility for administrative matters, and the Investment Management Service (IMS), with responsibility for the investment of the Fund's assets. The Fund's mandate is to provide retirement, death, disability and related benefits for the staff of the United Nations and the other organizations admitted to membership in the Fund. The number of the member organizations of the Fund has increased to 22, following the General Assembly's approval to admit the International Organization for Migration with effect from 1 January 2007. The operations of the Fund continued to increase in 2006. In 2006, the annual benefit payments by the Fund amounted to \$1.5 billion, with payments having been made in 15 currencies in some 190 countries. As of 31 December 2006, the Fund had 98,433 active participants and 56,718 beneficiaries. The market value of the Fund's assets, managed by IMS was \$37 billion as of 31 December 2006.

3. UNJSPF currently uses the United Nations System Accounting Standards (UNSAS) to the extent they are applicable and relevant to the activities of the Fund, and the UNJSPF Regulations, Rules and Pension Adjustment System, which govern the Fund's operations, for financial accounting. The Fund uses the Lawson accounting system for maintaining its accounting records. Within the UNJSPF Secretariat, the Accounts Unit (AU) of the Financial Services Section (FSS) bears the responsibility for coordination of accounting records for the preparation of the annual financial statements. The main tasks of AU include maintaining and monthly closing of the general ledger (GL), accounting for monthly contribution income from the member organizations, and posting entries for administrative expenditures and bank charges. The Payments Unit (PU) is responsible for processing monthly benefit payments as well as miscellaneous payments. "Daily payments" are accounted for by the Pension Entitlements and Client Services Section in PENSYS and are transferred to Lawson via an interface. The Executive Office (EO) calculates administrative expenses using data from the United Nations Integrated Management Information System (IMIS) and forwards the figures to AU for data entry. IMS is responsible for ensuring the integrity and validity of the GL accounts pertaining to investments. The reconciliation of the GL accounts is done by the above offices based on their areas of responsibility in the accounting process.

4. Comments made by UNJSPF and IMS are shown in *italics*.

II. AUDIT OBJECTIVES

5. The major objectives of the audit were to:
- (a) Assess the adequacy of internal controls over financial accounting and reconciliations; and
 - (b) Ensure compliance with relevant rules and regulations governing financial accounting in both IMS and the Secretariat of the Fund.

III. AUDIT SCOPE AND METHODOLOGY

6. The scope of the audit covered the assessment of the adequacy of internal controls over financial accounting, focusing on reconciliation of the GL accounts, for the period January – December 2006, in the following areas:

- i) Organization of the accounting function
- ii) Policies and procedures
- iii) General ledger closing and reconciliations
- iv) Accounting for contributions, administrative expenses and monthly benefit payments
- v) Investment accounts
- vi) Staff performance and development

7. The audit methodology included interviewing key personnel involved in the preparation of the financial statements in FSS and EO within the Secretariat, and IMS, and the review of relevant documents. The auditors mapped three of the key processes, prepared related flow charts and narratives and conducted a walk-through of each key process. Sampling, tests of details and analysis were performed using IDEA audit software and Microsoft Excel. The audit also considered prior audit recommendations of OIOS and the Board of Auditors.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Accounting function organization

8. The structure of the Fund is such that the UNJSPF Secretariat, through the CEO, reports to the United Nations Joint Staff Pension Board (the Board) while IMS, headed by a Director, reports to the Secretary General through the designated Representative of the Secretary-General (RSG) for Investments. The Fund Secretariat is responsible for producing the financial statements of the Fund. In practice, the overall process is decentralized among FSS and EO within

the Secretariat, and the Operations Section within IMS. Within FSS, the work effort is further sub-divided between the Accounts Unit (AU) and the Payments Unit (PU), with AU being responsible for the production of the financial statements. This arrangement is the result of custom and practice, which has evolved over time and results in part from the structure of the Fund. UNJSPF management is satisfied that this tripartite approach has worked in the past, with each area fulfilling its requirements. OIOS found, however, that there was a need to strengthen this process by formalizing the arrangements and clearly delineating overall responsibility and accountability for the process.

9. Particularly, within the context of the bifurcated structure of the Fund, the responsibility for signing off on the underlying completeness, accuracy and validity of the accounting data drawn from the different sources was not clearly assigned. The Memorandum of Understanding (MOU) between IMS and the Fund Secretariat that was established in 2002 to facilitate collaboration in areas that can benefit from economies of scale, does not explicitly address the roles and the responsibilities relating to accounting and reconciliation. OIOS is of the view that a formalized mechanism would add transparency to the overall accountability framework for the reconciliation process, and that the Fund needs to address this issue in the planned “whole office review” study, and when reviewing the MOU, as mandated by the Board at its 54th Session in July 2007.

10. In light of the increased activities associated with the growth in the volume of investments, the number of participants, beneficiaries and the member organizations, the volume of accounting transactions and reconciliations has escalated. OIOS found, however, that there had not been a proportionate increase in the focus given to the reconciliation process. The Fund needs to strengthen its policies related to key areas of financial accounting and reconciliation to ensure a sound validation process for all transactions and account balances. OIOS has also identified the need for restructuring the financial management function of UNJSPF in such a way that functions of financial reporting and reconciliation, setting of policies and procedures, as well as key accounting processes, are centralized. These functions should be segregated from the operational responsibilities that generate the accounting records provided that it is efficient to do so.

Recommendations 1 and 2

The UNJSPF Secretariat should:

(1) Formalize the financial reconciliation process, clarifying the responsibilities and accountability of the Secretariat’s Financial Services Section, the Executive Office and the Investment Management Service’s Operations Section. The Fund should address this issue in the planned “whole office review” and the planned revision of the Memorandum of Understanding between the Investment Management Service and the Fund Secretariat; and

(2) Centralize the functions of financial reporting and reconciliation by establishing a separate unit within the Financial Services Section, and ensuring that these functions are segregated from the operational responsibilities that generate the accounting records.

11. *The UNJSPF Secretariat accepted recommendation 1 and stated that this point has been raised by OIOS in the audit of governance mechanism, in reply to which the Fund referred to its whole office review. A copy of the governance audit and the Secretariat's response was provided to the Board in summer 2007. In this regard, a memorandum concerning the Pension Board's request for the RSG and CEO to review the MOU between the Investment Management Service and the Fund Secretariat was forwarded to the RSG for comment on 26 September 2007 and again on 13 December 2007. A further reminder was sent on 31 March 2008. At the time of writing no response has been received. Recommendation 1 remains open pending receipt of the outcome of the proposed "whole office review" and the revised MOU between the Investment Management Service and the Fund Secretariat, addressing the responsibilities for the accounting and reconciliation process.*

12. *The UNJSPF Secretariat accepted recommendation 2 and stated that any such centralization and segregation would be dependent upon and subject to two conditions: the resolution of the bifurcated structure of the Fund, with regard to the responsibility for financial reporting; and, such segregation implies that the post of the Chief of the revised Financial Services Section would be upgraded to D1 as was already requested in the budget submission for biennium 2008-2009. Recommendation 2 remains open pending receipt of the terms of reference for establishment of a separate unit within the Financial Services Section with the centralized functions of financial reporting and reconciliation.*

B. Policies and procedures

Accounting manual

13. The audit observed a number of opportunities for improvement in the Fund's accounting procedures. For example, the Fund has not updated its accounting manual since 1991. The current de facto manual is a Lawson software manual that is not specific to the accounting operations of the Fund and does not contain procedures for reconciliation of the General Ledger (GL) accounts. OIOS also found that critical financial accounting processes were not documented in a flowchart and/or narrative form. Procedures for reconciliation of the GL accounts and for closing the books were not documented and formally endorsed by management.

14. The Fund's recent growth, combined with the increasing complexity and volume of transactions, has highlighted the need to revise the accounting manual. Developing formalized and documented processes and procedures would enable the Fund to identify areas of risk and opportunities for improvement as well as serve as a reference tool for each process. Written policies and descriptions of processing systems generally prevent errors or misunderstandings, which may

otherwise result in inefficiencies or in a weakening of internal controls. Further, a comprehensive accounting manual would facilitate the training of both existing and new employees in the accounting policies and practices of the Fund. During the audit, OIOS mapped three key processes in the areas covered by the audit scope, namely: Monthly Contribution Income Accounting (Annex 2 (a)), Year-End Contributions Reconciliation (Annex 2 (b)), and IMS General Ledger Reconciliation (Annex 2 (c)). The flowcharts are provided for consideration by the Fund's management.

Recommendations 3 and 4

The UNJSPF Secretariat should:

(3) Develop and formalize procedures for reconciliation of the general ledger accounts. These procedures should be incorporated in the accounting manual and disseminated to all accounting staff; and

(4) Update the accounting manual to include the revised procedures for all areas of financial accounting and reporting in the Fund.

15. *The UNJSPF Secretariat accepted recommendation 3 and stated that it was true that the Fund had not recently updated its accounting manual. FSS has been making efforts in recent years to document or update accounting and procedural processes, which are generally considered more important to continuing operations, and therefore of greater value-added than formalizing the comprehensive manual. As part of continuing efforts, as a result of an OIOS audit on cash management, the procedures in the Cashier's Unit have been comprehensively revised and updated. In the Accounts Unit, detailed descriptions of processes have been created. In consequence, significantly improved procedural documentation has been set up with regard to year-end closing, contribution accounting, accounts receivable processes, bank reconciliation, validation and restoration, credit recording, and the emergency fund. Recommendation 3 remains open pending receipt of the formalized procedures, as approved by management, and narrative descriptions for critical accounting processes including reconciliation of the general ledger accounts.*

16. *The UNJSPF Secretariat accepted recommendation 4 and stated that recently PricewaterhouseCoopers consultants significantly contributed to "flow-charting" the processes down to a certain level and that end user materials will be provided as part of the Lawson upgrade. Having said that, although there is no question about the need to maintain an updated, formalized accounting manual, the Fund does not consider that time and effort should be invested, as a priority, in documents which will need to be replaced in the short term with the introduction of new systems. In the current business environment of the Fund (system upgrades, automation of contribution records, impact of IPSAS or other relevant standards and the potential enterprise resource planning (ERP) or co-equivalent system) the Fund needs to look at an accounting manual from a different angle from the traditional view of being absolutely necessary and set in*

stone, and move to viewing it as something that will need to evolve over time. Recommendation 4 remains open pending receipt of an updated accounting manual and the finalized process flow-charts prepared by PricewaterhouseCoopers.

Management review of trial balance and GL accounts

17. OIOS observed that there was insufficient monitoring of the interim financial information by FSS management. For example, the financial information such as the GL accounts and the trial balance (TB) were not regularly reviewed and analyzed by FSS management. As explained by the Fund, senior managers take more responsibility in the issuance of the financial statements, which is done annually, rather than reviewing the TB and GL during the interim period.

18. According to FSS, the Chief of AU reviews the TB line-by-line for inconsistencies or obvious errors on a monthly basis. However, this review was not documented and, therefore, OIOS could not verify its frequency. The auditors noted some improvements to the process in 2007, whereby the Deputy Chief of AU was assigned the responsibility to monitor the monthly GL closing. The Deputy Chief prepares the monthly closing schedule with dates for each Lawson module, and communicates this information to all units responsible for the GL input.

19. Nevertheless, good accounting practice suggests that management should remain proactive by conducting analytical reviews of the interim financial records and information. The interim monitoring and analysis of the trial balance and the general ledger accounts should be assigned to an individual who does not process, authorize or release transactions in order to ensure adequate segregation of duties. The results of such analysis should be timely communicated to the chiefs of the respective units. This would enable AU to highlight potential problems in a timely manner, ahead of the end of the financial reporting period, and take appropriate remedial actions. The absence of such reviews could result in inaccurate information, which would adversely affect decision making.

Recommendation 5

(5) The UNJSPF Secretariat should develop procedures for regular interim monitoring and analysis of the trial balance and the general ledger accounts. The interim monitoring of the financial information should be assigned to an individual who does not process, authorize or release transactions in order to ensure adequate segregation of duties.

20. *The UNJSPF Secretariat accepted recommendation 5 and stated that FSS did not provide senior management with monthly or quarterly accounting information; that was done only on expenditure reports related to administrative expenses. More regular information is provided to board members primarily on the market value of the Fund. Whether more formal reporting on accounting*

data in periodic quarterly closings and the consequent need for monitoring of trial balance and general ledger accounts by a third party is a question of structure and resources, which should be addressed in the context of the whole office review. Recommendation 5 remains open pending receipt of procedures for periodic monitoring and analytical review of the trial balance and the general ledger accounts as an operational function within the Accounts Unit of FSS.

C. General ledger closing and reconciliations

General ledger reconciliations

21. The audit found that the function of reconciling the GL accounts within the Fund was not clearly assigned to specific staff. In practice, the responsibilities for GL reconciliation are assumed to be carried out by the area managers for their respective of accounts. The audit found in some instances a lack of clear understanding by certain staff of their responsibility for periodically reconciling the GL accounts. Furthermore, reconciliations of GL accounts, with the exception of bank reconciliations and monthly payroll reconciliations in PENSYS, were not documented. Also, there was no evidence of supervisory review of the reconciliations. Management explained that some staff members were not familiar with the term reconciliation, which in some instances is referred to as “validation” by persons performing the function.

22. An effective internal control structure calls for periodic reconciliation of all GL accounts by a person not involved in recording transactions in those accounts. Reconciliation refers to the process of comparing independent records of financial transactions for the period to actual transaction details that have been recorded in the GL, to verify the accuracy of each. Account reconciliation is essential to ensure accurate reports, because it identifies errors and inconsistencies requiring correction on a timely basis, and should not be confused with validation, which is associated with daily checks and balances at the point of data input.

Recommendation 6

(6) The UNJSPF Financial Services Section should formally assign responsibilities for the reconciliation of the general ledger and conduct supervisory reviews of the general ledger reconciliations on a monthly basis.

23. *The UNJSPF Secretariat did not accept recommendation 6 and stated that whether more formal reporting and supervision of periodic closing and the consequent need for monitoring of trial balance and general ledger accounts was subordinate to the question of structure. The Fund does not undertake a formal monthly closing, nor are the benefits of introducing such entirely clear in relation to the additional efforts that would be required.* OIOS is of the opinion, that periodic reconciliation of the general ledger accounts is essential to accurate record keeping and safeguarding of assets. Good practice also calls for the reconciliation functions to be specifically assigned to individuals to ensure accountability and integrity of data. OIOS would like to point out that monthly

closing of the accounting period is an integral feature of the Lawson accounting system that is currently utilized by the Fund. OIOS observed that during 2006 the Deputy Chief of Accounts Unit prepared a schedule that showed the monthly financial closing process for the year, with regard to Lawson sub-modules, deadlines, and timing for the closing process. This schedule was communicated to all units and sections using Lawson to record accounting data. Furthermore, unless the accounting period has closed and the final Lawson month-end balances have been finalized for the preceding month, Operations Section of IMS cannot complete reconciliation of investment accounts (Lawson Proof) for the following month. Thus, a monthly closing process is understood and assumed by FSS, although with significant delays. However, the responsibilities for the reconciliation of the general ledger accounts are not formally assigned to staff, and supervisory reviews reconciliations on a monthly basis are not performed currently. OIOS reiterates recommendation 6 and will keep it open pending receipt of the formalized procedures for reconciliation of the general ledger accounts that clearly assigns the responsibility for such function to appropriate staff.

General ledger closing

24. The audit found that there were significant delays in closing the books. During 2006, the monthly GL closing was delayed by an average of three months. At the time of fieldwork, OIOS observed that the April 2007 GL was only closed at the end of August 2007. According to the Fund, there is no formal deadline for closing the books; however, the GL should be closed within two weeks of closing of its component systems, a prerequisite for GL closing. The auditors observed that the accounts payable sub-module of Lawson caused delays in closing the books every month, and was mainly associated with the untimely clearing out of suspense accounts (5282 and 5284) by PU. According to FSS, delays in closing the accounts payable sub-module are mainly due to insufficient staff resources and the large volume of tasks PU performs.

25. The audit concluded that the delays in closing the books compromised the accuracy and reliability of the accounting records. Errors caused by misstatements or deliberate manipulation of accounting records could go undetected for a longer time. Additionally, current financial information would not be available for managerial decision making purposes when needed.

Recommendation 7

(7) The UNJSPF Financial Services Section should take immediate measures to ensure timely monthly closing of the books.

26. *The UNJSPF Secretariat did not accept recommendation 7 and stated that it had explained to the auditors on a number of previous occasions that the reasons for GL closing delays are: first, Period 13 [December 31] closing occurs in late April, and therefore, January GL closing cannot happen until May; and second, there has been a delay in completing the Accounts Payable module. Since the Pension Fund handles "someone else's" data as far as contributions are*

concerned, much earlier year-end closing is generally not feasible under current operational constraints. It is not clear how meaningful completing the January GL would be without the beginning balances. OIOS would like to point out that interim closing of books on a monthly or quarterly basis would not only enable timely detection and resolution of potential errors and problems with the accounting records, it would also safeguard the integrity of the data and maximize the use of scarce staff resources. Furthermore, earlier closing of the book would impact positively on the investment accounting process, where accuracy and timeliness is critical. OIOS reiterates recommendation 7 for reconsideration by the UNJSPF Secretariat when reviewing the adequacy of staff resources during the whole office review. Recommendation 7 remains open pending the outcome of the whole office review.

General ledger maintenance

27. Overall, OIOS determined that the structure of the Fund's GL and the nature of accounts were adequate to support the reporting and information needs of the Fund. However, the auditors found a number of GL accounts, which had not had any activity for more than 12 months. The inactive accounts were not monitored and were not included in the reconciliation process. Furthermore, no policy or criteria was established to determine when an account becomes inactive. The existence of these inactive accounts in Lawson and the absence of related controls could result in erroneous and/or fraudulent recording of transactions in these accounts, a risk that should be mitigated.

Recommendation 8

(8) The UNJSPF Financial Services Section (FSS) should develop a policy for inactive general ledger accounts, including the criteria for determining when an account becomes inactive. FSS should establish controls in Lawson for blocking and reactivating inactive accounts in order to prevent erroneous and/or fraudulent recording of transactions in these accounts.

28. *The UNJSPF Secretariat accepted recommendation 8 and stated that this would be reviewed as part of the current upgrade project.* Recommendation 8 remains open pending receipt of the formalized policy on inactive general ledger accounts, upon the conclusion of the Lawson upgrade.

Bank reconciliations

29. The auditors reviewed the process of bank reconciliations and noted that the Fund continued to experience delays of up to 110 days in the final reconciliation of its bank accounts. At the time of the audit, in August 2007, AU had finalized the June 2007 bank reconciliation. As explained by the Fund, the delays in closing other sub-systems of the general ledger (particularly accounts payable) resulted in the delays in finalizing bank reconciliations. The issue of untimely bank reconciliations has been raised by OIOS previously, in particular, in the cash management audit report. Hence, OIOS reiterates its previous

recommendation (AS2006/800/01/17) that bank reconciliation statements should be prepared promptly on a monthly basis, in compliance with the Financial Rule 104.11.

30. The auditors noted that responsible staff initiated the preliminary bank reconciliation in advance of the established closing date to ensure sufficient time for investigating reconciling differences. However, leaving the general ledger open after the preliminary bank reconciliations allows additional entries to be posted, thus creating a need to perform the reconciliation for the same period more than once.

31. The auditors also observed that a number of bank reconciliations contained unidentified transactions that dated back, in some instances, to prior years. For example, the 31 March 2006 bank reconciliation for JP Morgan Chase Bank – GMU US\$ account (Lawson a/c 1270-0456) had an unidentified reconciling item dating back to 29 June 2005, in the amount of US \$536.36; and the 31 November 2006 bank reconciliation for JP Morgan Chase Bank (MMD, Lawson a/c 1275-0456) contained a transaction of US\$10,604.42 that remained unidentified from 6 March to 31 November 2006. Additionally, an incoming transfer in the amount of Pakistani Rupees 300,000, (approximately equivalent to US \$5,000) dated 8 June 2006 had been outstanding as of the 31 November 2006 reconciliation of the Standard Chartered Bank – Pakistani Rupee account. The Standard Chartered Bank – Pakistani Rupee account reconciliation for the month ending 31 December 2006 contained an unidentified credit of Pakistani Rupee 2,948.43 (approximately equivalent to US \$50) dating back to 29 March 2006.

32. Such instances indicate untimely bank reconciliation and investigation of the reconciling items in the prior periods. In 2006, the accounting practice was to keep the unidentified amounts on the reconciliation forms only; AU did not record these amounts in the Fund's books and thus, the bank balance per GL did not reflect the actual cash balance in the bank. The untimely investigation of the reconciling items may prevent detection of possible errors and lead to misstatement of accounting records. Currently, reconciliation of bank accounts is the responsibility of the Accounting Assistant in AU, FSS. The Deputy Chief of AU is responsible for reviewing the bank reconciliations.

33. OIOS also found that there was no audit trail to review the subsequent disposition of reconciling items. The bank reconciliation form was not cross referenced to the journal entry and supporting documentation to provide an audit trail of how each reconciling item was cleared. Additionally, bank reconciliations were not reviewed and duly signed by a staff member not involved in the preparation thereof.

Recommendations 9 and 10

(9) The UNJSPF Financial Services Section should perform bank account reconciliations prior to the general ledger closing to ensure the recording of reconciling items in the proper accounting period, while ensuring that long

outstanding items in the bank reconciliations are properly investigated and followed up in a timely manner; and

(10) The UNJSPF Financial Services Section should develop and implement detailed bank reconciliation procedures that would include documenting an audit trail of the disposition of reconciling items, and a requirement for all bank reconciliations to be reviewed and signed off on by a staff member not involved in their preparation.

34. *The UNJSPF Secretariat accepted recommendation 9 and stated that all identified transactions in the schedules have been recorded and cleared from the schedules, and that all future similar items will be cleared at each year-end. Also, the UNJSPF Secretariat stated that most of the reconciling items were part of the two groups below:*

- i) *Items recorded by the Fund, but not charged by the bank: These items have already a reference number and have a status "Open" in the cash book. When they are charged by the bank, the transaction status is set to "Reconcile" and is removed from the schedule. At any time, an open transaction report can be run to see what is unreconciled;*
- ii) *Items charged by the bank, but are not recognized by the Fund. Up to 2007, they would remain on the schedule, and would not be recorded. When they are recorded and cleared from the schedule, a transaction number is assigned to them. Copies of the transaction entries are attached to the reconciliation book as an audit trail.*

35. Based on the action taken by the UNJSPF Secretariat, OIOS has closed recommendation 9.

36. *The UNJSPF Secretariat accepted recommendation 10 and stated that for the sign-off of the reconciliation, this was a staffing issue that was resolved in 2007. The Deputy Chief of AU was hired in August 2006 and was relieved of bank reconciliations duties in order to implement the Accounts Receivable Module. As of 2007, all bank reconciliations have been reviewed by a person who did not prepare them. In relation to the comments elsewhere in this report, this is a further illustration of the potential scope of the recommendations being promulgated by the auditors. There are a limited number of professional posts within FSS and even fewer with the relevant accounting qualifications and experience that would be required for the formal approach to financial accounting. That such an approach is an ideal is not in question, whether it is realistic within current constraints is debatable. The cost associated with expanding those constraints would need to be carefully balanced against real, as opposed to perceived, benefits. Recommendation 10 remains open pending receipt of formalized bank reconciliation procedures.*

Foreign currency bank accounts reconciliation

37. The auditors found that the bank reconciliation process for accounts denominated in currencies other than the base currency, US Dollar, did not follow good practice, which requires comparing and agreeing the balance per GL to the balance per bank statements. Currently, the Lawson accounting system does not show beginning and ending balances in the foreign currency for these bank accounts. The GL balance of these accounts in the original currency has to be calculated manually and rolled forward from the previous month's bank reconciliation on an Excel spreadsheet. This practice may lead to inaccuracies in the reconciliation since the beginning balance in the original currency has to be calculated manually.

Recommendation 11

(11) The UNJSPF Financial Services Section should request the Lawson Accounting System support team to program the software to show beginning and ending balances in the original currency on the bank accounts denominated in foreign currencies at any given time.

38. *The UNJSPF Secretariat accepted recommendation 11 and stated that as part of a larger project to improve bank reconciliation, as of November 2007, the Fund has implemented a Lawson report that reports balances of non-USD accounts in their respective currencies.* Based on action taken by the UNJSPF Secretariat and subsequent verification by OIOS, OIOS has closed recommendation 11.

D. Accounting for contributions, administrative expenses and monthly benefit payments

Monthly contribution accounting

39. Despite continuing improvement, the audit found that during 2006, the process of accounting for monthly contributions was not monitored sufficiently. OIOS observed that 17 out of 252 expected monthly contribution statements (MCS) for the year 2006 were not received. According to AU, staffing difficulties during 2006 led to the misfiling of some MCS and reduced effective monitoring. OIOS noted improvement in the process for the accounting for contribution income from the member organizations in 2007. OIOS observed a few instances when the member organizations did not provide the required MCS despite several official requests. In such cases, if the payment had been received, the payment advice was accepted in lieu of the MCS. For example, there were no MCS on file from the World Food Program for 6 months (February – July 2006); instead, payment advices were on file. Effective January 2007, one new professional staff joined AU, assisted by 2 general service staff, whose duties include accounting for contribution income, monitoring receipt of MCS, and following up on missing or inaccurate statements. OIOS will continue to monitor progress in this area.

Participant reconciliation exceptions

40. At the end of each year, the Fund identifies participant reconciliation exceptions (PRE) in the year-end schedules. These exceptions represent the differences between the pension contribution amounts reported by the member organizations in the schedules and the contributions estimated independently by the Fund using personnel record information provided by the organizations. OIOS observed that there were no documented procedures on the PRE reconciliation process. Documented procedures in the form of a comprehensive list of detailed instructions would serve as an easy reference guide and enable staff reconciling the PRE to carry out this process more diligently and efficiently.

41. The Fund does not operate on the basis of billing for the contributions due, but has to wait for the year end schedules from the member organizations to ascertain income from contributions. The limited automated interfacing between the systems of the Fund and the member organizations precludes the Fund from having on-line, real-time access to the relevant personnel records of the member organizations to enable the Fund to calculate the amount of the contributions receivable. The Fund is therefore not in a position to independently verify the accuracy of the reported contribution amounts in a timely manner.

42. Data from PENSYS as at 31 December 2006 showed that there were 9,911 outstanding PRE, which is approximately 10 percent of the total number of active participants. Such a large number of exceptions, some of which have been outstanding for more than 25 years, could potentially have a significant adverse impact on the accuracy and integrity of the Fund's financial statements, as well as increases the risks of substantial delays in the processing of the final benefit entitlements of the participants. Based on the analysis performed by OIOS, as at 31 December 2006, total income from contributions could be potentially overstated by more than USD 12 million (see Table 1). The PRE issue has been long outstanding, and has been previously addressed by both OIOS and the United Nations Board of Auditors.

43. The Fund is currently embarking on an interface between member organizations and the UNJSPF Secretariat, which would facilitate data-mining. However, this project has not been completed within the planned time frame, and according to management, a target of about 75% completion was envisaged by December 2007. The Fund needs to take a more aggressive approach in finalizing the interfaces with the member organizations, in order to complement the actions taken by the member organizations to resolve PREs.

Table 1: Actual Versus Estimated Contributions as of 31 December 2006

Type	No of records	Actual Contribution	Estimated Contribution	Difference
Regular	7,793.00	116,711,464.00	106,554,612.00	(10,156,852.00)
Transfer	2,118.00	83,249,790.00	81,291,830.00	(1,957,960.00)
Total	9,911.00	199,961,254.00	187,846,442.00	(12,114,812.00)

Amounts in US Dollars

Recommendations 12 to 14

(12) The Financial Services Section should develop detailed procedures for the participant reconciliation exceptions process and disseminate them to all accounting staff;

(13) The UNJSPF Secretariat should fully implement the data mining project and finalize interfaces with the member organizations; and

(14) The UNJSPF Secretariat should carry out a feasibility study for implementing direct billing for contributions of the member organizations.

44. *The UNJSPF Secretariat accepted recommendation 12 and stated that Accounts Unit had a staff issue in the area of monitoring monthly contributions in 2006. Since then, the control has been substantially enhanced with a new professional staff member in charge of the task. The Fund is moving towards revising its procedures with the member organizations, with regard to contributions which should substantially improve reporting and eliminate PREs. However, as has been reported in response to this and many other audit observations, this is an issue which the Fund cannot resolve on a unilateral basis. Recommendation 12 remains open pending receipt and review of the detailed procedures for the participant reconciliation exceptions process.*

45. *The UNJSPF Secretariat accepted recommendation 13 and stated that the Fund has recognized and acknowledged during this, and prior audits, that in ideal circumstances, there would be a monthly reconciliation of contribution remittance and collection. However, if the Fund were to adopt current practice as is and to reconcile monthly contributions, it would require an upload of information into PENSYS on a monthly basis and that would in effect create 12 year-end exercises for which the Fund is simply not equipped. In addition, organization information from the field may not be accurate or verifiable in the monthly time frame. Under this scenario and with the present IT infrastructure, the adjustments and errors would exceed those we have now. In short, it is not practical. Recommendation 13 remains open pending receipt of documentation showing that it has been implemented. OIOS will closely monitor progress in this area in the future, in the context of the data mining project and the finalization of interfaces with the member organizations.*

46. *The UNJSPF Secretariat accepted recommendation 14 and stated that until recent years a fundamental component has been missing in order to develop a revised system and it has only recently become a trend for member organizations to move away from maintaining local records to a centralized system, which can be accessed worldwide using the internet. The larger of the Fund's member organizations have selected or are in the process of selecting one of three major ERP system providers, namely SAP, Oracle and Peoplesoft. The Fund itself is in the early stages of upgrading to a Pension Administration*

System. As part of this development, the Fund has had contact with the three ERP providers to work on a non-profit benefit system, which would allow their clients to interface their systems to the Fund's PENSYS. While existing interfaces only interface HR data, this new interface would allow the downloading of payroll information, which would theoretically permit the Fund to calculate and reconcile contributions on an ongoing basis 365 days a year. This process would largely remove the need for monthly and yearly contribution reconciliations as well as the annual PRE process. However, in view of the complexities and resource issues involved, the potential for a pilot study in collaboration with a member organization is being planned and scoped to examine the feasibility of such a system. Recommendation 14 remains open pending the results of a feasibility study for implementing direct billing for contributions of the member organizations.

E. Investment accounts

Investment accounting system

47. IMS is responsible for the accounting and reconciliation of the GL accounts that pertain to investments and the income derived from investments. As described in OIOS report AS2006/801/01 - Audit of global custodian and master record keeping operations, IMS had engaged a single bank (the Bank), to serve as both the global custodian and master record keeper (MRK). As custodian, the Bank provides safekeeping and settlement services in multiple jurisdictions, either through its own branches and subsidiaries, or by way of sub-custodial arrangements with non-related parties, for all securities and cash on hand. The Bank maintains physical control of security instruments and other assets deposited with the bank, processes investment transactions, collects income, and provides consolidated reporting of all securities and financial instruments. As MRK, the bank maintains detailed records and balances of investment transactions and submits through IMS, to the Fund Secretariat, the required reports for accounting and management purposes.

48. The audit found that IMS did not have an internal system of accounting for investment transactions and balances. That is, there is no separate system that has portfolio data, records trades from the trading system(s), and an external feed of dividends, interest, pay downs and corporate actions. Such a system would enable IMS to reconcile with the global custodian daily, including reconciling the checkbook with bank statements. Currently, IMS only uploads the GL feed provided monthly by the MRK.

49. The audit noted that IMS had embarked on an initiative to procure and implement a data warehousing system. However, OIOS observed that this system did not include an accounting module. The data warehousing system will focus on the income side, compliance and corporate actions. Management explained that inclusion of the accounting module was deferred for consideration within the context of the ERP project, which is being carried out collaboratively by the Fund Secretariat and IMS.

Recommendation 15

(15) The Investment Management Service should ensure that the proposed ERP system provides for an accounting module and an automated reconciliation tool for the investment general ledger accounts in order to independently verify the custodial records.

50. *The Investment Management Service accepted recommendation 15 and stated that it was the understanding of IMS that the UN ERP project currently underway was a long-term exercise. In the current biennium IMS will procure a portfolio accounting module including a reconciliation tool that will interact with ERP once it will be completed. Recommendation 15 remains open pending the installation of an accounting module that would enable automated reconciliation of the investment general ledger accounts.*

Investment accounts reconciliation

51. In accordance with the established procedures, monthly reconciliation is performed by the Operations Section of IMS. During the fieldwork, OIOS identified delays in reconciling the GL feed, management reports and the balance proof for 2006 and 2007. For example, as of the end of September 2007, IMS was reconciling the June and July 2007 GL accounts, and the May 2007 GL reconciliation had just been signed off on. According to IMS, several factors cause delays in the reconciliation of the investment GL accounts. Opening balances for the next accounting period are therefore not available due to delays in closing the GL by the Secretariat and finalization of the annual financial statements by AU. Lack of resources has been cited as another contributing factor, as the Fund's operations have increased rapidly without a corresponding increase in staffing. According to IMS, the reconciliation work load has increased since IMS no longer has an MRK independent from the custodian. The current MRK utilizes the same data systems as the custodian; hence, more intense reconciliation is being done manually by IMS. For example, there is no longer an "exception report", which details any differences between MRK and the Custodian bank resulting in additional reconciliation work for IMS.

52. OIOS has concluded that there is a need to improve the process for closing the investment accounts in Lawson to enable timelier issuance of the financial statements and to reduce the delay in beginning the accounting for the subsequent years. Furthermore, the inability of the Fund to fill the cash desk staff post in IMS for more than one year has implications for insufficient segregation of duties, where existing accounting assistants have had to carry out the cash desk functions. At the time of the audit, there were three posts to be filled in the Operations Section. OIOS also observed that there had been a significant proposed staffing increase in the front office of the Investment Section of IMS without a commensurate increase in the back office (Operations Section), which could further compound delays in the reconciliation process, particularly as IMS embarks on initiatives such as indexation.

Recommendations 16 and 17

The Investment Management Service should:

(16) Request copies of monthly reconciliation statements from the external investment managers that should be reviewed by the Operations Section to determine materiality and to investigate any discrepancies; and

(17) Aggressively pursue the filling of the vacant posts in the Operations Section, and reassess staffing needs within the context of any automation enhancement initiatives.

53. *The Investment Management Service did not accept recommendation 16 and stated that IMS did not receive daily trading information regarding the externally managed (Small Cap) accounts. It would not, therefore, be feasible for IMS to determine or reconcile any trading discrepancies for these funds. It is standard industry practice that the Fund managers reconcile their portfolio to the custodian as IMS does for Large Cap activity. It is standard practice for the external managers to reconcile the UN portfolios to the global custodian files on a daily, weekly basis. In addition, IMS has requested and received a report on Internal controls, as reviewed by an external accounting firm, from one of the external managers. This report has been reviewed to assure that the portfolio manager's controls are in place to safeguard the assets of the Fund. Although it is standard practice for fund managers to reconcile their portfolios to the custodian records, OIOS is of the view that as a desirable control, IMS should obtain and review copies of the reconciliation statements. This would provide the means for the Fund to identify any unusual transactions or long outstanding interest and/or dividend payments. Recommendation 16 remains open pending the implementation of a procedure for IMS to review the monthly reconciliation statements of the fund managers.*

54. *The Investment Management Service accepted recommendation 17 and stated all previous vacant posts have been filled. As at 22 February 2008, one new post of an Accounting Assistant at a G-7 level was vacant in the Operations Section of IMS. The post has been approved by the GA for the 2008-2009 budget period. The vacancy announcement was issued on 20 February 2008 with the deadline of 21 March 2008. The intention of IMS is to interview candidates and fill the new post as soon as possible once the list of candidates is released by OHRM in late March 2008. Recommendation 17 remains open pending receipt of the outcome of a reassessment of the Operations Section's staffing needs within the context of automation enhancement initiatives.*

F. Staff performance and development

Annual action plans and job descriptions of accounting staff

55. During the audit, OIOS noted that the job descriptions were not updated to reflect the current duties and responsibilities of accounting and finance staff within FSS. OIOS also found that the functions of timely closing of the books

and reconciliation of the GL accounts were not reflected in the job descriptions of accounting and finance staff. Job descriptions represent a management tool that provides a written description identifying a job by title, essential functions and requirements, thus providing an outline for reporting relationships and work duties and responsibilities.

56. OIOS also reviewed annual action plans that form part of the Performance Appraisal System (PAS) of staff involved in financial accounting. The PAS links individual work plans with those of departments and offices, and entails setting goals, planning work in advance and providing ongoing feedback. An important function of the PAS is to promote two-way communication between staff members and supervisors on the goals to be achieved and the basis on which individual performance will be assessed and staff held accountable. OIOS found, with one exception, that the plans for the staff of FSS did not appropriately reflect their responsibility for timely closing of the books and reconciliation of the GL accounts. The exception was the PAS of the Chief of AU, which only listed as one of the goals, the timely and accurate production of biennial financial statements. In the view of OIOS, PAS should reflect the key functions outlined in the job descriptions.

Recommendations 18

(18) The UNJSPF Secretariat should revise the job descriptions of accounting and finance staff to reflect the current essential job functions and requirements, including the reconciliation process, and timely closing of the books.

57. *The UNJSPF Secretariat accepted recommendation 18 and stated that the broader capabilities of staff within the overall structure is inferred from the posts encumbered, and the relevant job descriptions for which, although the details evolve, the overall functional roles differ marginally from year to year.* OIOS is of the view that the job descriptions should reflect the current essential job functions and requirements to which the goals in the work plan should be aligned. Recommendation 18 remains open pending revision of the job descriptions for positions within FSS.

Training

58. The audit observed that the Fund did not identify specific training needs of the finance personnel on a regular basis. Additionally, there was no formal training plan linked to individual performance goals and specific to the accounting functions of staff, including reconciliations. Without assessing specific training needs and formalizing a training plan to meet those needs, management cannot ascertain that staff possesses the knowledge and skills necessary to carry out the functions assigned to them. The need for training was also raised by some staff across the Fund.

59. For example, the Accounting Assistants in IMS are not trained in the Lawson accounting system although they have limited use of it for printing out the general ledger reports, trial balances and lists of accounts. IMS runs an

interface to upload the GL feed provided by the master record keeper to the Fund's Lawson accounting system, so the staff should have a good working knowledge of Lawson. Training on multi-currency investment accounting could also enhance skills of IMS accountants. FSS staff could benefit from cross-training that would provide them with a greater degree of understanding of their role in the Fund's operations, provide back-up in the event of absence or turnover, and also provides an additional motivational tool to many employees by diversifying their skills.

Recommendation 19

(19) The UNJSPF Secretariat should assess the specific training needs of the finance personnel and prepare a formal training plan that is linked to the individual performance appraisal system and to the key functions assigned, to ensure continual upgrading of staff skills.

60. *The UNJSPF Secretariat accepted recommendation 19 and stated that with regard to training, a training plan for each unit is to be evolved as part of an overall training plan for the Fund as part of its talent management project. As part of this, in the immediate work periods, remedial and revised training for all staff in FSS is integrated within the Lawson upgrade project. Within the Accounts Unit, further specific training plans will be developed with regard to the specific features of the year-end exercise. Recommendation 19 remains open pending receipt of a formalized training plan.*

V. ACKNOWLEDGEMENT

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

STATUS OF AUDIT RECOMMENDATIONS

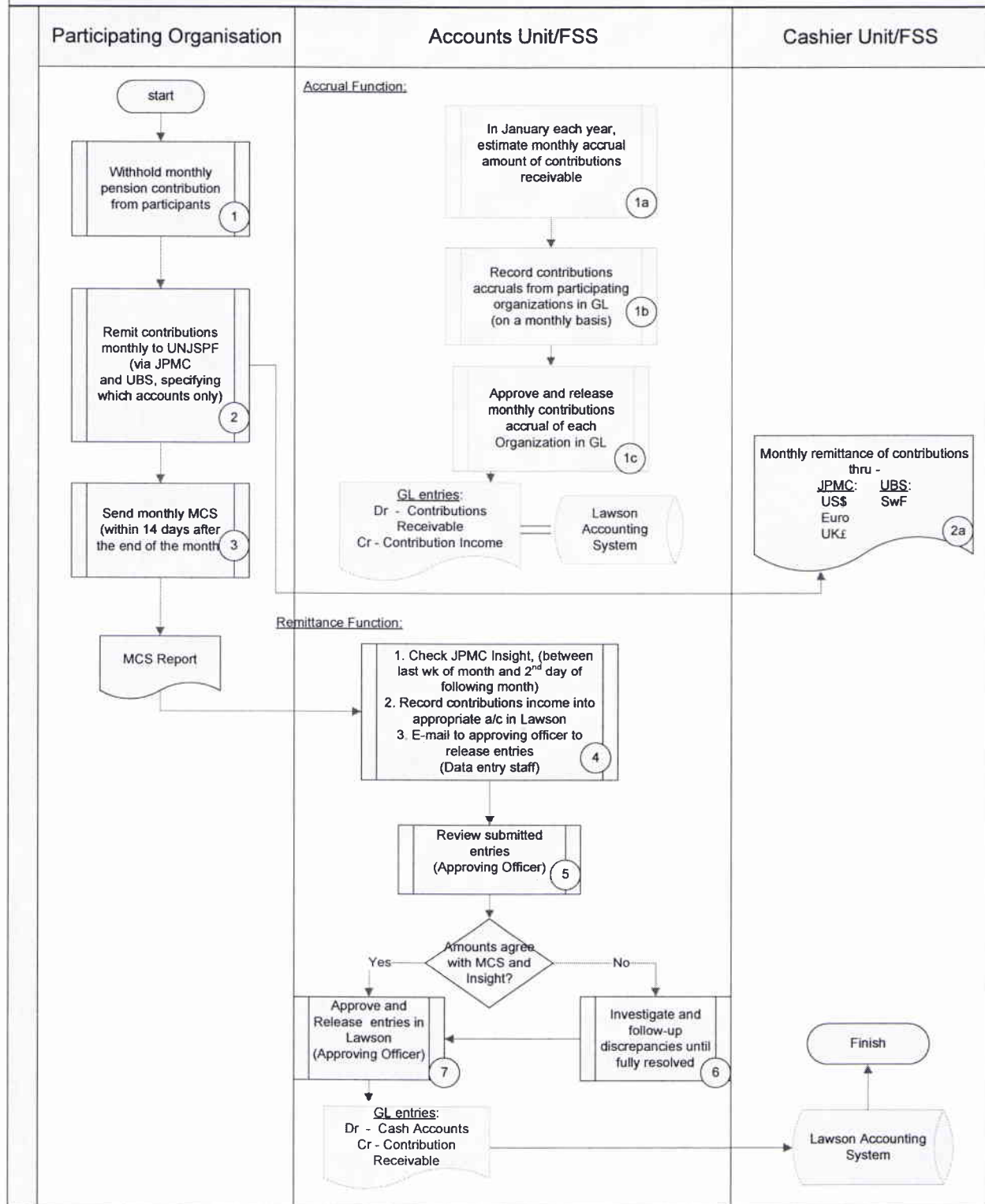
Recom. No.	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	O	Submission of the outcome of the proposed “whole office review” and the revised Memorandum of Understanding between the Investment Management Service and the Fund Secretariat, addressing the responsibilities for the accounting and reconciliation process.	Not provided
2	O	Submission of the terms of reference for establishment of a separate unit within the Financial Services Section.	Not provided
3	O	Submission of the formalized procedures, as approved by management, and narrative descriptions for critical accounting processes including reconciliation of the general ledger accounts.	Not provided
4	O	Submission of an updated accounting manual and the finalized process flowcharts prepared by PricewaterhouseCoopers.	Not provided
5	O	Submission of the documented procedures for periodic monitoring and analytical review of the trial balance and the general ledger accounts as an operational function within the Accounts Unit of FSS.	Not provided
6	O	Submission of the formalized procedures for reconciliation of the general ledger accounts that clearly define the responsibility for such function to appropriate staff.	Not provided
7	O	Submission of documentation on decisions taken based on the outcome of the whole office review.	Not provided
8	O	Submission of the formalized policy on inactive general ledger accounts, upon the conclusion of the Lawson upgrade.	July 2008
9	C	Action completed.	Implemented
10	O	Submission of formalized detailed bank reconciliation procedures.	2007
11	C	Action completed.	Implemented
12	O	Submission of the detailed procedures for the participant reconciliation exceptions process.	Not provided
13	O	Submission of documentation showing the finalization of the data mining project and interfaces with the member organizations.	2011
14	O	Submission of the results of a feasibility study for implementing direct billing for contributions of the member organizations.	Not provided
15	O	The installation of an accounting module that would enable automated reconciliation of the investment general ledger accounts.	31 December 2009
16	O	Submission of documentation showing that IMS reviews the monthly reconciliation statements from the fund managers.	Not provided
17	O	Submission of the results of the reassessment of Operations Section’s staffing needs within the context of automation enhancement initiatives.	30 June 2008
18	O	Submission of the revised the job descriptions of accounting and finance staff to reflect the current essential job functions and requirements, including the reconciliation process.	Not provided
19	O	Submission of a formal training plan that is linked to the individual performance appraisal system and to the key functions assigned.	2008

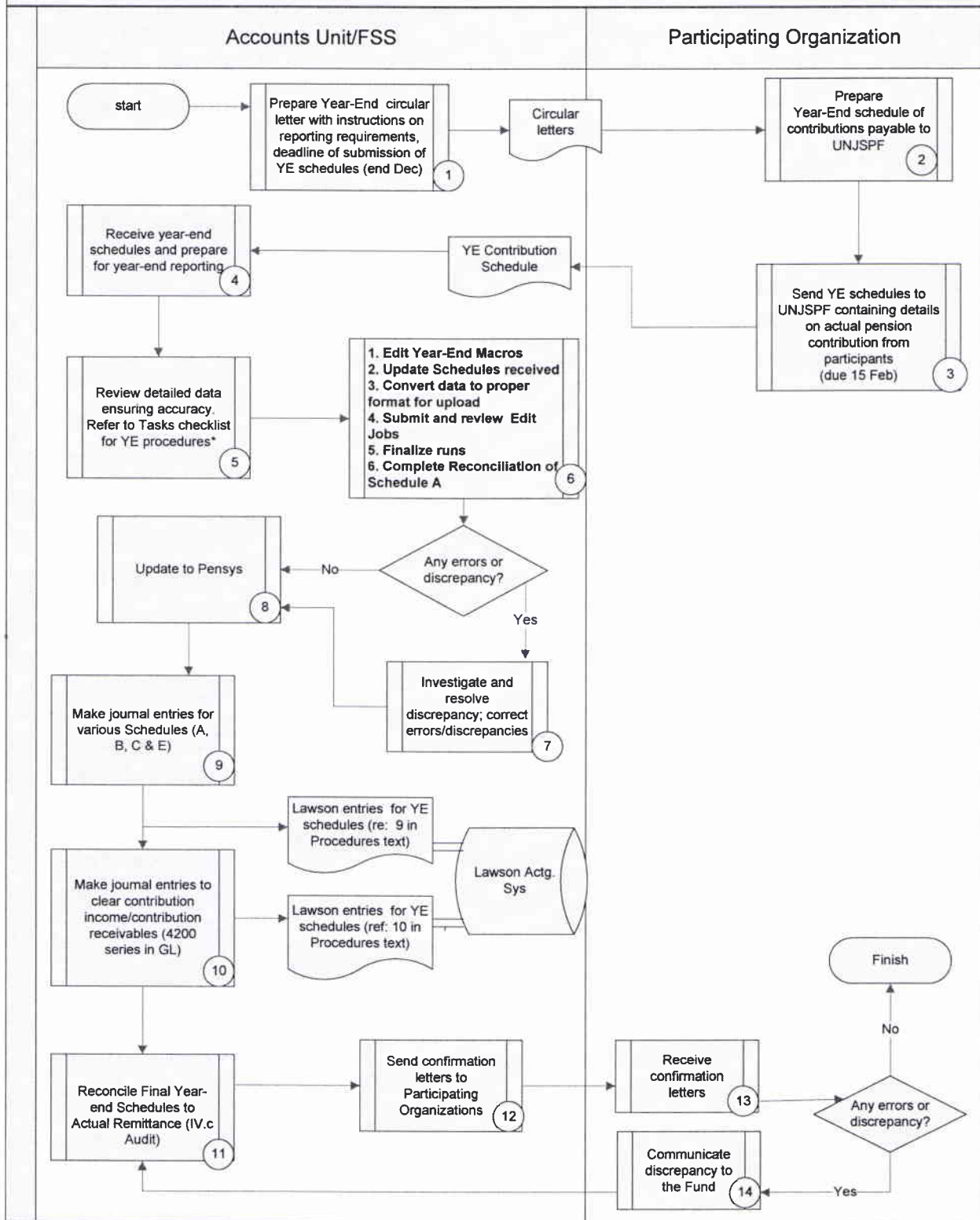
1. C = closed, O = open

2. Date provided by [client] in response to recommendations. [Insert “Not provided” where date is not provided; “Implemented” where recommendation is closed; (date) given by the client.

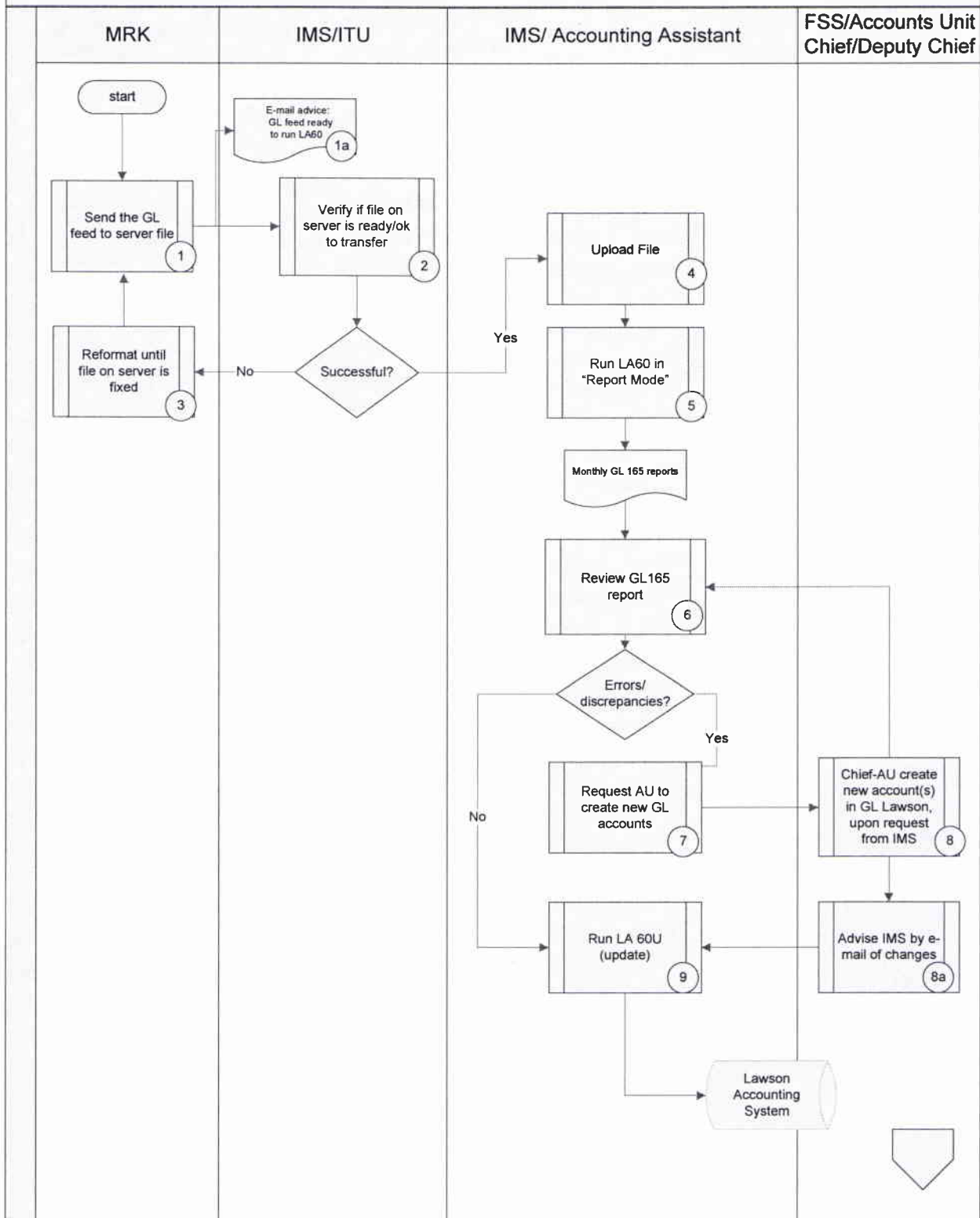
PROCESS FLOWCHARTS

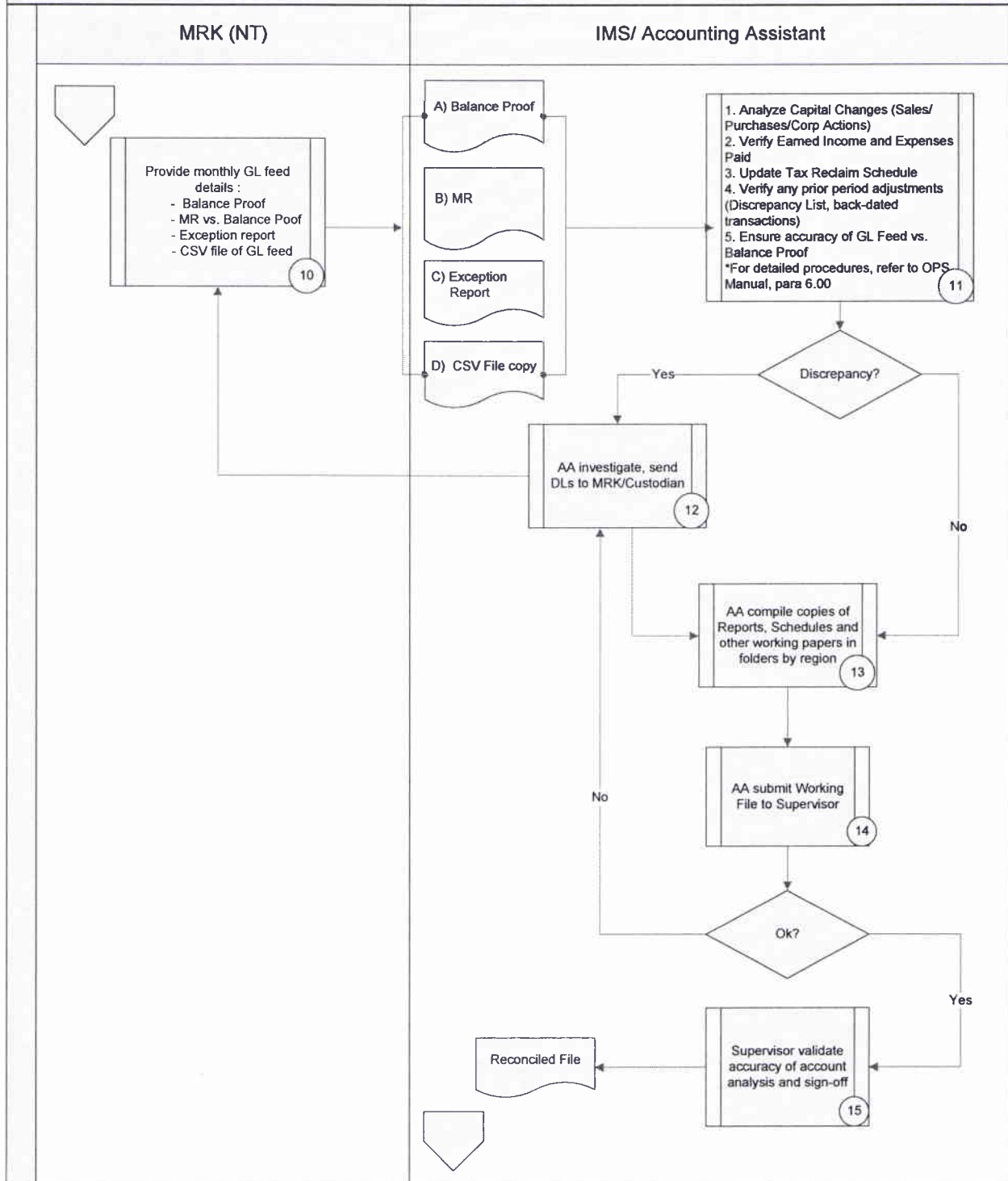
- (a) Monthly Contribution Income Accounting**
 - (b) Year-End Contributions Reconciliation**
 - (c) IMS General Ledger Reconciliation**
-

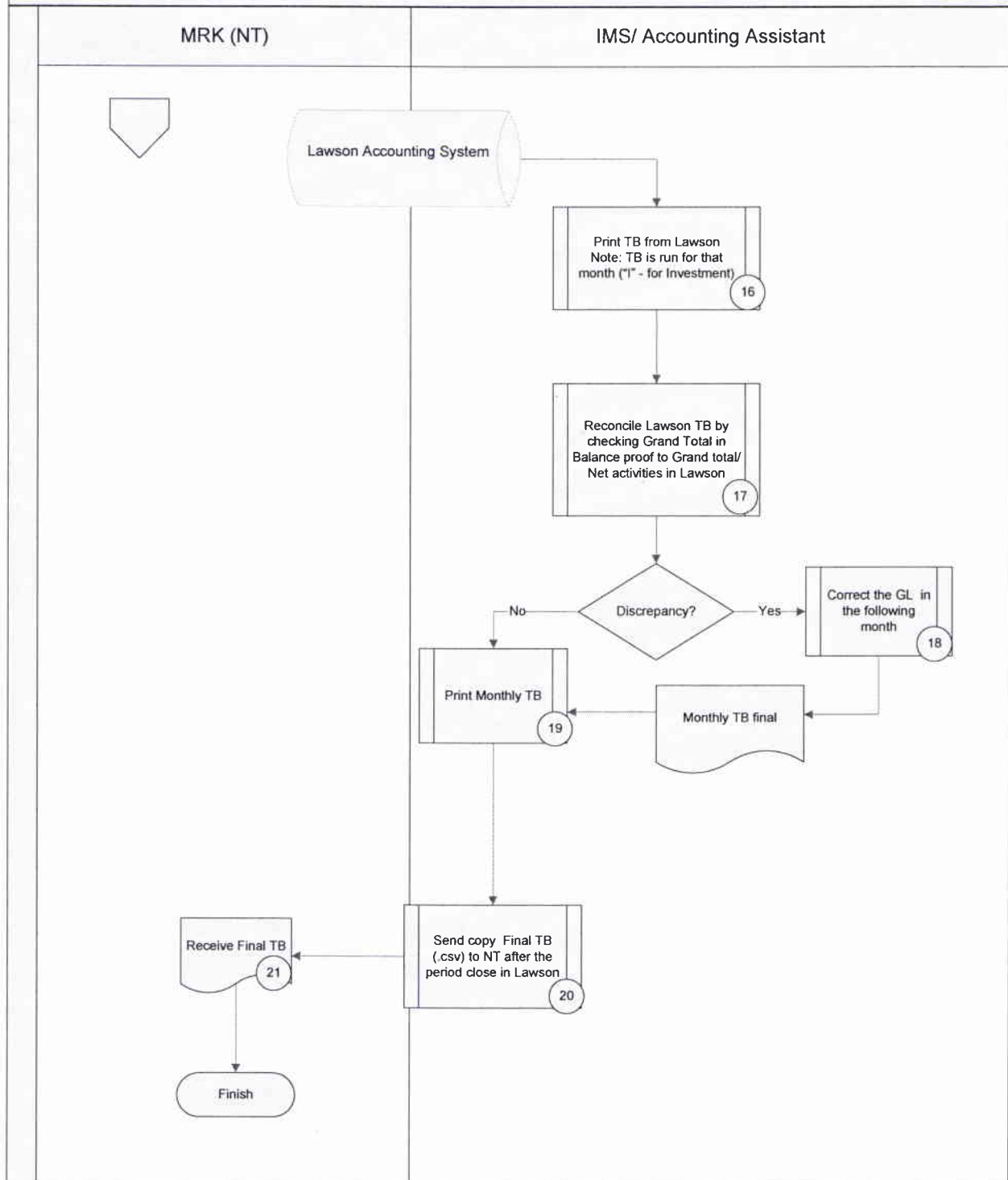




IMS General Ledger Reconciliation







Flowcharting Symbols



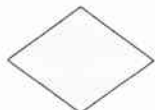
Start/end of phase/
process



Description of
process



Document



Decision box



Description of
process



Predefined process



Direct Data



Process flow direction



Text step reference



Off-page reference

Abbreviations

AU -	Accounts Unit
CSV-	CSV File
DL -	Discrepancy List
FSS -	Financial Services Section
GL -	General Ledger
JPMC -	JP Morgan Chase Bank
IMS -	Investment Management Service
IMS/AA -	Investment Management Service Accounting Assistant
IMS/IT -	Investment Management Service/Information Technology Unit
IT/A -	Information Technology Assistant
LA 60 -	IMS/Lawson Accounting System Data Interface Report
LA 60 U -	IMS/Lawson Accounting System Data Interface Report Update
MR -	Management Reports (Northern Trust) (on-line reports)
MRK -	Master Record Keeper (currently Northern Trust)
MCS -	Monthly Contributions Statement
TB -	Trial Balance
UBS -	Union Banque Suisse
