



OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Financial management of the Office for the Coordination of Humanitarian Affairs Central Emergency Response Fund (CERF)

**OCHA and OPPBA need to urgently address
weaknesses in financial management of CERF in
order to strengthen internal controls**

8 September 2008

Assignment No. AN2007/590/02

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Mr. John Holmes, Under-Secretary-General and
A: Emergency Relief Coordinator
Office for the Coordination of Humanitarian Affairs

DATE: 8 September 2008

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

REFERENCE: IAD: 08- 01728

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



SUBJECT: **Assignment No. AN2007/590/02 – Audit of the Office for the Coordination of Humanitarian Affairs Central Emergency Response Fund (CERF)**
OBJET: **Affairs Central Emergency Response Fund (CERF)**

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the 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. OCHA's response indicated that they neither accepted nor rejected recommendation 7. In his response, the Controller did not specifically agree or disagree with Recommendation 9 and did not accept recommendation 10. In OIOS' opinion however, these recommendations seek to address significant risk areas. We are therefore reiterating them and request that OCHA and the Controller reconsider their 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 3, 4, 5, 8 and 9, in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Maria Gomez Troncoso, Officer-in-Charge, Joint Inspection Unit Secretariat
Ms. Christina Post, 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).

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EXECUTIVE SUMMARY

Audit of the Office for the Coordination of Humanitarian Affairs Central Emergency Response Fund (CERF)

OIOS conducted an audit of the Office for the Coordination of Humanitarian Affairs Central Emergency Response Fund (CERF). The overall objective of the audit was to provide assurance that CERF funds were managed efficiently and effectively in compliance with the financial rules and regulations and relevant instructions. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

In 2006-2007, the CERF Secretariat processed approximately 750 disbursements and 16 loans disbursing \$610 million. OIOS' review of sample project proposals indicated that disbursements under the Rapid Response and Under Funded Emergency mechanisms took an average of 21 and 34 days respectively. The high volume of disbursements placed a lot of pressure on the limited staff resources and the CERF Secretariat's focus was on substantive review rather than on the financial review of projects. Additionally, there were a number of systemic issues relating to harmonizing a single Letter of Understanding (LoU) and formats for budgets in the application or for example, operating expenses in the reporting process that required resolution between the agencies and the UN Secretariat. In OIOS' view, both the CERF Secretariat and the Controller's office needed to improve their coordination to resolve these issues.

The major findings are as follows:

- The roles of the parties involved in the CERF project proposal review and approval process (including the Humanitarian Coordinator/Resident Coordinator in the field, the CERF Secretariat, the Coordination and Response Division (CRD) and the Emergency Relief Coordinator (ERC) has not been fully clarified and may be redundant in some instances.
- OCHA did not have the in-house capacity required to monitor the utilization of CERF funds. Also, matters referred by OCHA to the Office of Programme Planning, Budget and Accounts (OPPBA) for resolution were not attended to in a timely manner. There was a need to (i) clearly assign responsibilities for financial review of the utilization of funds between OPPBA and OCHA and (ii) streamline the budgeting, accounting and reporting frameworks in order to clarify accountability and allow obtaining a clear and accurate picture of how agencies were spending CERF funds.
- The costs of the CERF Secretariat were directly charged to the Fund's operational account instead of its overhead account, contrary to dispositions in the report of the Secretary-General to the General Assembly and the Economic and Social Council (ECOSOC) (A/62/72-E/2007/73). Ensuring proper financial accounting for the CERF is crucial in order to maintain donor confidence. The Controller assured

OIOS that corrective adjustments would be made before the closing of the accounts for the biennium 2006/07.

- The CERF Secretariat was using a number of different LoUs between OCHA and the operating agencies and had not finalized a standard LoU. This situation affected the establishment of and compliance with a harmonized reporting framework. Since the audit, the draft umbrella LoU has been prepared and will be circulated to the operating agencies for their comments very soon.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Office for the Coordination of Humanitarian Affairs (OCHA) Central Emergency Response Fund (CERF). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The Central Emergency Revolving Fund was established by the Secretary-General under his authority in accordance with General Assembly resolution A/46/182 dated 19 December 1991 as a cash flow mechanism to ensure a rapid and coordinated response to humanitarian emergencies. Pursuant to the report of the Secretary-General on the improvement of the Central Emergency Revolving Fund (A/60/432) dated 20 October 2005, the General Assembly, in its resolution A/60/124, dated 8 March 2006 decided to add a grant element to make resources immediately available to support a rapid response to humanitarian crises and address critical humanitarian needs in under-funded emergencies. The fund established in 2006 was renamed the Central Emergency Response Fund and is managed by the Under-Secretary-General for Humanitarian Affairs/Emergency Relief Coordinator (ERC), on behalf of the Secretary-General. Financial information for CERF is presented in Table 1 for the years 2006 and 2007. The CERF Secretariat consisted of four professionals and one general service staff in 2006. In 2007, an additional four professional and three general service staff were approved. One professional post through an inter-agency loan was also in place.

Table 1: 2006-2007 Financial highlights for CERF

Year	Contributions in \$ millions	Grants disbursed in \$ millions			Loans in \$ millions
		Total	RR	UFE	
2006	299	259	182	77	53
2007	385	351	228	123	41

Figures from CERF website.

RR: Rapid Response, UFE: Under-funded emergencies.

3. In accordance with the Secretary-General's Bulletin on the establishment and operation of CERF (ST/SGB/2006/10), the loan element is aimed at strengthening humanitarian coordination efforts to address humanitarian needs. The grant element shall be used primarily to provide immediate finances to ensure a rapid response to core emergency humanitarian needs due to the sudden onset of emergencies, which include natural disasters and urgent requirements due to rapid deterioration within an existing crisis, and to provide support for chronically under-funded emergencies.

4. Comments made by OCHA and the Controller are shown in *italics*.

II. AUDIT OBJECTIVES

5. The main objectives of the audit were to provide assurance that:
- (a) CERF funds were managed efficiently and effectively in compliance with the financial rules and regulations and relevant instructions; and
 - (b) CERF operations were supported by adequate internal controls.

III. AUDIT SCOPE AND METHODOLOGY

6. The audit covered the period from March 2006 to December 2007 and tested a sample of 20 voluntary contributions to CERF, 31 case files for CERF grants and 2 case files for CERF loans approved by the ERC. Details of the selected sample are presented in Table 2.

Table 2: Sample selection

Sample Item	Number selected	Amount of the sample (US\$ million) ^a	Total amount (US \$ million) ^a	Percentage
Voluntary Contributions	20	361	628	57
Grants Disbursed	31	120	505	24
Loans Disbursed	2	33	94	35

^a Amounts in US\$ million as of end of 3rd Quarter 2007.

7. The sample was established using statistical and judgmental sampling methods to obtain a reliable picture of the CERF operations for the period under review. The audit also involved interviews with key personnel and a review of documentation. The audit was conducted at UN Headquarters and did not include field office visits.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

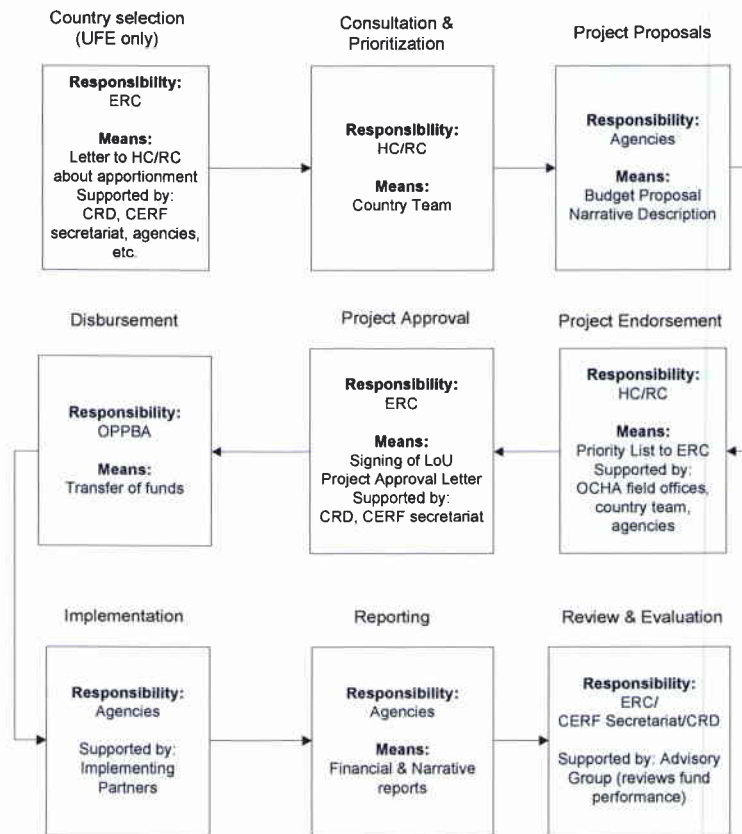
A. Project clearance process and distribution of responsibilities

Distribution of responsibilities between Coordination and Response Division and the CERF Secretariat needs to be clearly defined

8. ST/SGB/2006/10 on the establishment and operation of CERF lays down the main responsibilities for the management and operation of the Fund. Figure 1 illustrates the responsibilities and key steps performed under the Rapid Response

and Under Funded Emergencies mechanisms. The CERF Secretariat processed approximately 300 disbursements and 10 loans in 2006, and 450 disbursements and 6 loans in 2007. OIOS' review of sample project proposals indicated that disbursements under the Rapid Response and Under Funded Emergency mechanisms took an average of 21 and 34 days respectively.

Figure 1: Key steps and responsibilities



9. OIOS reviewed the current distribution of responsibilities, consulted with three operating agencies, namely, the United Nations High Commissioner for Refugees (UNHCR), the United Nations Children's Fund (UNICEF) and the World Food Programme (WFP), and obtained feedback from selected Humanitarian Coordinators/Resident Coordinators (HC/RC) in order to get their views on whether CERF funds were managed effectively and efficiently. Under the current set-up, project proposals are established by the agencies operating in the field in consultation with OCHA country offices, and are approved by the HC/RC. Due to their presence in the field, OCHA country offices and the HCs/RCS are knowledgeable and readily informed of the humanitarian situation and resulting needs. After approval by the HC/RC, project proposals are sent to the ERC and are then marked for re-evaluation by two divisions at headquarters, namely the CERF Secretariat and the Coordination and Response Division (CRD). Both divisions review the project proposals simultaneously and recommend either accepting or rejecting the project to the ERC who takes the

final decision. Since the project proposals have already been reviewed and approved by the HC/RC, the necessity for the CRD to substantively review the project proposal was not clear to OIOS. Further, no formal procedures or criteria exist for the CERF Secretariat and CRD to separately assess the project proposals.

Recommendation 1

(1) OCHA/CERF Secretariat should assess the necessity for the Coordination and Response Division (CRD) to substantively review project proposals when the project proposal has already been reviewed by the Humanitarian Coordinator/Resident Coordinator in consultation with the country teams. If OCHA finds it necessary to include a CRD review, it should delineate the specific criteria that are to be used by the CERF Secretariat and CRD to separately review the project proposals.

10. *OCHA accepted recommendation 1 and stated that preliminary Standard Operating Procedures (SOP), which include the roles of the CERF Secretariat and CRD, have been developed for the review of project proposals. The preliminary SOP needs to be refined to include specific criteria that are to be used by the CERF Secretariat and CRD to separately review the project proposals. It should be noted that distinct task lists are being developed for project review by the CERF Secretariat and CRD, which provide the delineation of roles to ensure no replication. Recommendation 1 remains open pending receipt of the formal refined SOPs and task lists for use by the CERF Secretariat and CRD.*

11. Feedback from the HCs/RCs indicated that the roles and responsibilities of CRD and the CERF Secretariat are not fully understood by the OCHA country offices. Furthermore, the roles and responsibilities of the OCHA country offices in supporting the operating agencies and the HC/RC in finalizing the project proposals were not clear in terms of their support for the needs assessment, review and appraisal of project proposals, and monitoring the implementation of CERF projects. OCHA country offices could serve a critical role in guiding the operating agencies in preparing their project proposals in line with the established “Life Saving Criteria” guidelines. Since emergencies occur often in remote areas without the means of communication, OCHA country office staff should widely disseminate the criteria to assist the operating agencies in the field to prepare thorough project proposals. OCHA stated that CERF was established in March 2006 with extremely limited resources. In the first year of CERF operations, funding was not made available for training. According to OCHA, there had been significant improvements in the quality of proposals as a result of training on the use of CERF, which began five months after the inception of the fund.

Recommendation 2

(2) OCHA/CERF Secretariat should clearly establish the roles and responsibilities of OCHA country offices in terms of their support for the needs assessment, review and appraisal of project proposals, and monitoring the implementation of CERF projects.

12. *OCHA accepted recommendation 2 and stated that although the ERC only recently declared humanitarian financing a core function for OCHA, he is currently in the process of incorporating the functions listed in this recommendation into the terms of reference of OCHA country and regional offices. High staff turnover in OCHA country offices has been a challenge to ensuring the continuous understanding of roles and responsibilities concerning CERF in the field. As a remedy, OCHA has developed and begun delivering a training workshop on CERF specifically tailored for OCHA field staff. Additionally, the CERF Secretariat is currently participating in a number of ongoing initiatives to improve needs assessments in the field. Recommendation 2 remains open pending receipt of updated terms of reference for country and regional offices detailing their responsibilities for supporting CERF proposals.*

Inconsistent use of Letter of Understanding (LoU) format

13. OIOS reviewed the LoUs for 20 CERF projects. Table 3 highlights the five different formats used and their specific financial reporting requirements. Out of the five formats, only one (format 4) was fully consistent with the ST/SGB/2006/10.

Table 3: Differences in reporting requirements as stipulated in the LoU

Formats	Financial Reporting Requirements	Number of Projects using this format
1	Submit an interim certified financial report by 31 January of each year.	1
2	Submit provisional financial statements by 15 February of each year.	1
3	Submit provisional financial statements of project activity funded from the grant by 31 January of each year.	2
4	Submit an interim certified financial report by 15 February of each year. Submit final certified reports by 30 June of each year.	1
5	Submit financial income statements 6 months after disbursement. Submit an interim certified financial report by 15 February of each year. Submit final certified reports by 30 June of each year.	15
Total cases reviewed		20

14. The CERF Secretariat informed OIOS that currently three different formats of LoUs were used because UNICEF and the United Nations Development Programme (UNDP) did not agree with the wording in the LoU

used for all other operating agencies. The main provision, which was not consistently applied in all LoUs, was that operating agencies should submit financial statements 6 months after disbursement for projects funded under the Rapid Response mechanism. UNICEF did not agree to this requirement, which is also not included in the ST/SGB/2006/10. Additionally, the provision for the repayment of unencumbered amounts was not consistent. In the LoU for UNDP and UNICEF prompt repayment was required, whereas repayment was required at the end of three months Rapid Response (RR) mechanism and one year Under-Funded Emergencies (UFE) from the other operating agencies. OCHA informed OIOS that many of the LoUs were in use before the ST/SGB 2006/10 existed. In addition, the Director of the Accounts Division bilaterally agreed with agency finance personnel to specific wording in LoUs, thereby changing some LoUs from the standard format which was originally agreed. The CERF Secretariat learned of these changes from the agencies post facto.

15. At the end of 2006, discussions on an umbrella LoU began among OCHA, the Controller's office and the operating agencies in order to establish a single umbrella LoU acceptable to all operating agencies and the United Nations. An agreed reporting format would be included in the umbrella LoU. The Advisory Group, established to provide broad policy advice to the ERC, had also advised OCHA about the necessity for prompt finalization of an umbrella LoU a number of times. More than one year later, in January 2008, the latest draft version was forwarded to the Office of Legal Affairs (OLA) requesting their assistance in developing the draft into a formal document. OIOS was informed by the operating agencies that the finalization of an umbrella LoU is highly desirable and that they should be involved in its establishment since they have to agree on the final version of the umbrella LoU. The operating agencies were not aware of the details of the final version that was pending with OLA. OCHA informed OIOS that reporting requirements are set forth by the Controller. OCHA has requested formally and informally on numerous occasions for the Controller to meet with finance personnel of the operating agencies in order to resolve the issues which prevent clear and accurate reporting of CERF expenditures. One meeting took place, chaired by the Director of the Accounts Division, in January 2007, and he committed to chair future meetings until the reporting could be harmonized to ensure proper financial reporting. Despite requests from OCHA and the agencies from February 2007 to the present, no other meetings took place to the knowledge of OCHA.

Recommendation 3

(3) OCHA/CERF Secretariat should, in coordination with the Controller, the Office of Legal Affairs and the operating agencies, expeditiously finalize an umbrella Letter of Understanding which is to be used by all operating agencies and specifies the financial reporting requirements in accordance with the ST/SGB/2006/10.

16. *OCHA accepted recommendation 3 and stated that a draft umbrella LoU has been developed and will be circulated to the operating agencies for comments very soon. OCHA noted that the Accounts Division has been*

delegated authority from the Controller for oversight of financial reporting requirements. OCHA has not received this delegated authority regarding CERF funds. As a result, finalization of the umbrella LoU rests upon agreement among the Controller's Office and the operating agencies regarding the text relating to financial reporting requirements. The Controller agreed with the recommendation that there is a need for a standard LoU. In this regard, OPPBA has provided the financial reporting requirements that should be incorporated therein. Recommendation 3 remains open pending receipt of the finalized LoU.

B. Financial review

Financial review of utilization reports not being conducted

17. ST/SGB/2006/10 states that "Interim certified financial reports as at 31 December ... shall be submitted to the Controller not later than 15 February of each year. The final certified reports as at 31 December shall be submitted to the Controller by 30 June of each year." Further, it is stated that "the Operational Organizations shall transmit to the Coordinator an annual report providing information on and analysis of the activities undertaken and the outcomes achieved against objectives set. The report shall also include financial information on expenditures." The financial reporting requirements are further detailed in the LoU and agreed upon by the ERC and the operating agencies.

18. Since the inception of the grant mechanism, approximately \$610 million has been disbursed through the grant window. According to the letters of the ERC to the operating agencies (sent on 17 January 2008), reports for \$138 million were overdue as of 31 December 2007. However, the operating agencies did not agree that all these reports were overdue, as the due dates for the financial statements were not in accordance with the dates required by the ST/SGB/2006/10. The Controller informed OIOS that after processing the financial reports for 2007, the outstanding advances as of 31 December were reduced to \$89 million.

19. In 2006, the reported expenditures of CERF were \$133 million, which primarily consisted of the operating agencies' expenses to implement the projects (\$125.5 million). The other expenses included the programme support costs at 3 per cent retained by the United Nations (\$6.7 million), expenditures related to the CERF Secretariat and other obligations. Out of the sample of 31 projects reviewed by OIOS, 14 financial reports were received, including expenditures of \$74 million. In the 14 reports, total reported expenditures were substantially different from the budgeted expenditures in 57 per cent of the cases. Furthermore, individual budget lines were under-spent by up to \$4 million and others were overspent by up to \$5.5 million. The case files did not contain any justification for the variations.

20. The CERF Secretariat informed OIOS that it could not provide an explanation for the differences because it does not systematically review financial reports and investigate differences between budgets and reports due to a lack of human resources. It was also not clear to the CERF Secretariat whether the responsibility to review the financial statements rested with them or with the

Accounts Division in the OPPBA. The Accounts Division informed OIOS that they did not review the financial reports but were responsible for ensuring the correct classification of expenditures. The result is that financial reports are not systematically reviewed in the context of their budget proposals. Substantial differences between budgeted and reported expenditures are not followed up by the CERF Secretariat. Therefore, no assurance can be given by the CERF Secretariat or the Accounts Division on the correct utilization of CERF grants by operating agencies.

21. OCHA commented that delegation of authority to redeploy funds below 10 per cent of a class line falls to the fund receiving agency, as stipulated in the draft umbrella LoU. The ability to detect discrepancies between the approved budget and the reported expenditures depends on the use of the same standards of classification of expenditures between the agency budget and the agency report and between the agency and the UN Secretariat. Further, OCHA stated that although the Accounts Division has specified that the agencies are responsible for ensuring the correct classification of expenditures, the agencies are not using a unified classification in the reporting of CERF expenditures. Therefore, it is impossible to properly label which discrepancies are a result of using funds differently than they were approved and which are a result of using a different classification system in the expenditure reporting than in the application budget. OCHA has no authority to change the financial reporting format although it agrees that they need to be harmonized. In addition, the roles and responsibilities of OCHA in the administrative arena were never made clear in any guidance documents from OPPBA.

Recommendation 4

(4) OCHA/CERF Secretariat should, in consultation with the Controller, dedicate resources for the systematic review of financial reports and follow-up on reports where reported expenditures significantly deviate from budgeted expenditures.

22. *OCHA accepted recommendation 4 and stated that it agrees that deviations between reported expenditures and project budgets approved by the ERC should be minimized in order to increase financial accountability, transparency, and the efficient use of resources. OCHA also stated that increased resources are also necessary in order to review financial reports and resolve differences between approved costs and reported expenditures. OCHA noted, however, that a reduction in deviations requires a harmonized and agreed upon classification system of both project cost estimates and CERF project expenditures, in order to eliminate the possibility that classification errors and differences would be recorded as deviations.*

23. *The Controller agreed with the recommendation that OCHA should review the expenditure reports and seek explanations for budget variances, but stated that this recommendation will require further review together with the OCHA Administration/CERF Secretariat, to determine the level of resources required. Recommendation 4 remains open pending receipt of the*

documentation indicating the Controller's approval for increased OCHA staff resources to be deployed for the review of financial reports.

Inconsistent use of budgetary format in applications for CERF grants

24. OIOS reviewed 31 case files for project proposals (14 World Food Programme (WFP), 5 UNICEF, 5 UNHCR, 3 World Health Organization (WHO), 2 Food and Agricultural Organization (FAO), 1 IOM and 1 United Nations Relief and Works Agency (UNRWA) project proposals) to evaluate their compliance with the budget format outlined in the application template for CERF funds. The template requires agencies to provide a budget for the proposed project, which includes a cost breakdown into seven cost categories (Staff, Travel, Contractual Services, Operations, Acquisitions, Other, and Programme Support Costs). Additionally, budgeted expenditures for operations should be itemized. OIOS found that the CERF Secretariat does not consistently enforce compliance with the budgetary format required in the application template and about half of the budget proposals in the selected sample were not compliant with the budget format.

25. WFP, which has been one of the major recipients of CERF funds in 2006 and 2007, consistently uses its own budget format. UNICEF's budget formats were customized for each individual project. Table 4 shows the budget template required, the budget format used by WFP, and one example of a budget format as customized by UNICEF.

Table 4: CERF budget template vs. WFP and UNICEF budget formats:

CERF budget template	WFP budget format	UNICEF budget format
Staff costs	Commodities	Personnel
Travel	(External) Transport	Supplies
Contractual Services	Landslide Transport Storage and Handling	Logistics and Operating Costs
Operations	Other Direct Operational Costs	Coordination and Programme Support
Acquisitions	Direct Support Costs	
Other grants		
Indirect Programme support costs	Indirect Programme Support Costs	Recovery Cost

26. OIOS was informed that the operating agencies budget cost structures differ from the ones used by the United Nations Secretariat and cannot be converted electronically to the required format. Their accounting systems do not support an electronic conversion to the required format. The manual conversion to the UN cost class structure is a time consuming and cumbersome process and is said to increase the agencies transaction costs. However, in OIOS' view, the required format is not special in its nature and covers common expenditure classes. Therefore, operating agencies should be able to report within this framework and to electronically convert their financial reports to the required format by using adequate IT tools.

Inconsistent formats for reporting on operating expenses

27. CERF's operating expenses totalled approximately \$86 million in 2006, which included both, operating expenses of the CERF Secretariat and operating expenses reported by the agencies. OIOS reviewed the 14 financial reports received from the operating agencies for the sampled projects. In one case, no operating expenses were reported at all; in two cases, there was no breakdown of categories of operating expenses; and in three cases, operating expenses were shown as one lump sum line item. When the operating agencies do not provide a detailed breakdown of operating expenses, the adequacy of utilization of CERF funds cannot be assessed.

28. Direct support costs are part of the operating expenses. In case file WFP-045, OIOS noted that WFP spent almost \$7 million on direct support costs out of \$10.5 million of total project costs (excluding programme support costs). A detailed explanation was neither provided by WFP nor sought by the CERF Secretariat as to why the direct support costs constituted 67 per cent the total cost of the project.

Recommendations 5 and 6

(5) The Controller should, in consultation with the OCHA/CERF Secretariat and the operating agencies, establish a common budget format in the application for CERF grants, and a standard classification and reporting format for operating expenses that is acceptable to the United Nations and the operating agencies. The agreed upon formats should be enforced by OCHA as a grant requirement.

(6) OCHA/CERF Secretariat should review the reported direct support costs for projects 06-WFP-045 in order to ensure the correct utilization of CERF funds.

29. *The Controller accepted with recommendation 5 and indicated that there is a need for a standardized budget format that should be agreed upon by all concerned, and subsequently enforced by OCHA. The budget format should then form the basis for the actual expenditure reports. OPPBA has consistently asked UN agencies to report expenditures using the UN's standard six line expenditure classifications. However, given the wide range of reporting systems and expenditure classifications in use, and the crosswalk effort required, the Agencies have not usually provided these expenditure breakdowns in the UN format. This issue has been discussed bilaterally and also at the January 2007 meeting with UN Agencies, but conclusive agreements were not reached.*

30. *In early 2008, OPPBA retroactively changed the UN's reporting of CERF expenditures for the 2006-7 biennium to a single line item as "grants." Therefore, the lack of expenditure breakdowns is not a financial accounting issue per se, and in this regard there is no impact on the financial statements. Nevertheless, expenditure breakdowns in standard formats and comparisons to*

budgets should be provided by all UN agencies, for monitoring purposes. Recommendation 5 remains open pending adoption of a common budget format in the application of CERF grants and a standard reporting format for operating expenses acceptable to all agencies.

31. *OCHA accepted recommendation 6 and stated that it will investigate the nature of the expenditures regarding WFP-045. However, it indicated that WFP has been clear about the severe difficulties regarding the remapping of expenditures between their classification structure and the structure required for reporting on CERF funds. As only the Controller has authority to change the financial reporting requirements, OCHA continues to request meetings with the Controller on this topic. Recommendation 6 remains open pending the receipt of results of OCHA's investigation into the expenditures of the project.*

Framework for narrative reports not defined

32. Under the terms of the LoU, operating agencies are required to provide substantial narrative information about the utilization of CERF grants and the impact that the CERF funds had on the ground. Agencies submit to the CERF Secretariat their annual reports. In addition, the HC/RC provides the CERF Secretariat with country level reports, which elaborate on the impact of the CERF grants at the country level. In OIOS' opinion, the requirements for narrative reports could be simplified to show the substantive statistical results achieved by the project. In case there is a deviation from the budgeted expenditures, a narration should justify the reasons for the deviation.

Recommendation 7

(7) OCHA/CERF Secretariat should, in consultation with the operating agencies, agree on a framework for reporting substantive statistical results on CERF funded projects. In respect of projects where there has been a deviation from budgeted expenditures, the narrative should justify the deviation.

33. *OCHA neither accepted nor rejected recommendation 7, stating that while it agrees that deviations from approved budgeted expenditures should be justified and decreased, a reconciliation of narrative and financial reporting is not possible at this time as financial reports are completed at the CERF disbursement level while narrative reports are submitted at the country level due to the volume and the pooling of CERF funds with other funds for large projects. OCHA is currently considering interventions to offset this gap, including making it a requirement to seek approval for redeployment of approved funds in the LoU and requesting a cover letter which would accompany financial reports and state the reasons for expenditures which deviated from approved budgetary funds. The Controller agreed that there is a need for a framework for reporting substantive results and justification for any deviation from budgeted expenditures, and recommended that this issue be covered under the umbrella LoU. Recommendation 7 remains open pending resolution of the agreed*

reporting framework and the requirement to seek redeployment of funds where there is a deviation from budgeted expenditures.

C. Financial capacity in the CERF Secretariat

Financial oversight capacity in the CERF Secretariat is limited

34. The CERF Secretariat's current focus is on substantive review of projects rather than financial review of projects receiving funds from the CERF. Deviations from budgeted expenditures are not followed up, and compliance with reporting requirements is not enforced. Furthermore, there are delays in resolving outstanding issues relating to a standard LoU, inconsistent financial reporting requirements, and different accounting classifications internally within the Secretariat, between OCHA and the Controller's office. The financial authority for the Fund resides with the Controller and OCHA does not have the delegation of authority to resolve these issues. In OIOS' opinion, the focus needs to shift to the resolution of financial control issues and to support the expeditious disbursement and review of the utilization of grant funds. However, this cannot be achieved with the CERF Secretariat's current structure and limited financial oversight capacity.

35. OCHA informed OIOS that in order to address the above mentioned issues, the CERF Secretariat requires an augmentation of staff capacity at a senior level with significant UN experience and financial background. Responsibilities of this staff member would include the financial review of fund utilization, and authority should be delegated by the Controller, as appropriate. OCHA stated that the hire of additional senior staff without changes in the financial structure would change little, noting that resolution of financial issues cannot be achieved with the CERF Secretariat's limited financial oversight capacity. Currently, and in the past, the Finance Officer has been reassigned to lower level tasks in order to get disbursements completed due to the severe under-capacity of the Finance Unit in the CERF Secretariat at the lower levels, including the levels of GSOL and P-2. An increase in capacity at these junior levels in the Finance Unit is required in order for the Unit to complete all tasks, including the review of financial reports. It should also be noted that the current Chief of the CERF Secretariat (P-5), who has a significant financial background, has not been able to resolve the issues surrounding the financial reporting classifications, as OCHA has no delegation of financial authority regarding the financial reporting format.

Recommendation 8

(8) OCHA/CERF Secretariat should, in consultation with the Controller, propose an enhancement of the CERF Secretariat's financial management capacity in accordance with the established budgetary review process.

36. *OCHA accepted recommendation 8 and agreed that the CERF Secretariat requires an increase in overall capacity, including financial capacity. To this end, additional capacity will be requested in the next CERF Secretariat*

budget proposal. OCHA also noted that additional capacity without additional authority over the CERF finances, including the CERF Secretariat staffing levels, financial requirements, and redeployment of funds, will have minimal impact regarding the current administrative challenges facing the CERF as a whole.

37. *The Controller agreed that the systematic review of financial reports and follow-up on any deviation in expenditure is complementary to substantive reviews, and is therefore necessary. A review of the financial capacity of the Secretariat should be performed, in order to determine the need for augmentation. Such a review would be subject to the established budgetary review process for offices funded from extrabudgetary resources. However, the Controller did not agree with the request for delegation of authority to OCHA because there is no link between the strengthening of the CERF Secretariat financial management capacity and the delegation of authority. Recommendation 8 remains open pending receipt of documentation indicating augmentation of financial capacity in the CERF Secretariat.*

D. Programme support costs

Allocation of programme support costs not transparent

38. The Controller has determined that 3 per cent of the allocations/expenditures are to be retained by the United Nations Secretariat as Programme Support Costs (PSC). In the report of the Secretary-General to the General Assembly and the Economic and Social Council (ECOSOC) (A/62/72-E/2007/73) on the Central Emergency Response Fund, it is stated that “the 3 per cent retention by the United Nations Secretariat will cover all costs associated with administering the Fund, including the costs of its Secretariat.” ST/AI/286 on “Programme Support Accounts” specifies that “offices utilizing programme support resources should ensure an equitable distribution among project management, programme management and the central administration functions.”

39. For the biennium 2006-2007, the retained 3 per cent PSC for CERF amounted to approximately \$17.2 million. The total expenditures of the CERF Secretariat (e.g. staff, travel, etc.) for the biennium were approximately \$2 million or 11.6 per cent of the overall PSC retained by the United Nations.

40. OIOS requested a detailed breakdown of the utilization of the retained PSC from OPPBA. OPPBA explained that the revenues obtained from the retention of the PSC are reported on a pooled basis. Several common functions are paid out of this pool. This accounting principle is applied to all trust funds, including CERF. For this reason, it is not possible to provide a breakdown of costs relating to the utilization of the programme support resources generated from the CERF.

41. The costs of the CERF Secretariat were being charged to the fund (Project Code: 4444) rather than to the overhead account (OKA account) as stated in the report of the Secretary General to the General Assembly and ECOSOC (A/62/72-E/2007/73). Upon OIOS' discussion of this matter at the exit conference, the Controller agreed that the costs of the CERF Secretariat should

not be charged to the fund, but rather to the OKA account. The Controller assured OIOS that this correction would be carried out before the closing of the accounts for the biennium 2006/07. This would release additional funds that can be utilized as grants for CERF projects.

42. OIOS' review of CERF has also shown that the CERF Secretariat is currently not systematically performing some vital functions (e.g. review of financial reports) due to a lack of human resources. Additionally, OIOS was informed by OCHA that donor countries frequently request clarification on the utilization of the 3 per cent PSC retained by the UN Secretariat and that this has not been provided to them.

Recommendation 9

(9) OPPBA should ensure the correct allocation of CERF Secretariat expenditures to the overhead account.

43. *The Controller commented that the costs of the CERF Secretariat were charged to the OKA account for the period from 1 June to 31 December 2007. OPPBA noted that, for 2008, two allotments have been issued for costs of the CERF Secretariat, one under the OKA account and the other under the CERF account. Recommendation 9 is kept open pending receipt of documentation showing that the CERF Secretariat expenditures are being charged to the overhead account.*

E. Inspections and audits

On-site inspection clause to be included in LOU

44. The current arrangements for CERF grants do not provide the United Nations the right to conduct on-site inspections to ensure the appropriate utilization of CERF funds as in case of some other similar funds. Comparatively, the United Nations Democracy Fund's (UNDEF) and the United Nations Fund for International Partnerships (UNFIP) agreements with their implementing partners include their right to undertake evaluations and on-the-spot checks, respectively.

Recommendation 10

(10) OCHA/CERF Secretariat should, in consultation with the Controller and the operating agencies, incorporate a clause in its umbrella Letter of Understanding reserving the right to conduct on-site inspections of CERF financed projects in the field as and when deemed necessary.

45. *OCHA accepted recommendation 10 and stated that it has incorporated a clause in the draft umbrella LoU reserving the right to conduct on-site inspections of CERF financed projects in the field as and when deemed necessary. The draft umbrella LoU will be circulated to the operating agencies for comments soon.*

46. *The Controller did not agree with recommendation 10, stating that in view of the "single audit" principle, and the mutual reliance that the Organizations must place on each other's systems and controls, OPPBA suggested that the right to inspect agency records not be included in the umbrella LoU. OIOS reiterates this recommendation since an inspection is not the function as an audit and is more in the nature of an on-the-spot check for project implementation. Also, the provision has already been included in the draft umbrella LoU which had been approved by the Controller. Recommendation 10 remains open pending receipt of documentation indicating the adoption of the draft umbrella LoU.*

Audit certificates on utilization of CERF grants not shared between agencies

47. The General Assembly Resolution 60/432 on the improvement of CERF states that the operating agencies will complete their own audits for individual projects in accordance with their current agreements with their respective management boards. In the case of CERF, in OIOS' opinion, the operating agencies' audit reports pertaining to CERF funds should be shared with the CERF Secretariat by the operating agencies so that corrective action may be taken, if required.

Recommendation 11

(11) OCHA/CERF Secretariat should, in consultation with the Controller and the agencies, include a clause in the Letter of Understanding requiring that audit reports pertaining to CERF projects be shared with OCHA as soon as they are available.

48. *OCHA accepted recommendation 11 and stated that it has incorporated a clause in the draft umbrella LoU requiring that audit reports pertaining to CERF projects be shared with OCHA as soon as they are available. The draft umbrella LoU will be circulated to the operating agencies for comment soon. The Controller agreed with the recommendation that the LoU should have a clause requiring agencies to submit their audit reports on CERF projects. Recommendation 11 remains open pending receipt of documentation indicating the adoption of this provision in the LoU.*

V. ACKNOWLEDGEMENT

49. We wish to express our appreciation to the Management and staff of OCHA and OPPBA for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	OCHA/CERF Secretariat should assess the necessity for the Coordination and Response Division (CRD) to substantively review project proposals when the project proposal has already been reviewed by the Humanitarian Coordinator/Resident Coordinator in consultation with the country teams. If OCHA finds it necessary to include a CRD review, it should delineate the specific criteria that are to be used by the CERF Secretariat and CRD to separately review the project proposals.	Operational	Medium	0	Receipt of the formal refined SOPs and task lists for use by CERF Secretariat and CRD.	30 June 2009
2	OCHA/CERF Secretariat should clearly establish the roles and responsibilities of OCHA country offices in terms of their support for the needs assessment, review and appraisal of project proposals, and monitoring the implementation of CERF projects.	Operational	Medium	0	Receipt of updated terms of reference for country and regional offices detailing their responsibilities for supporting CERF proposals.	30 June 2009
3	OCHA/CERF Secretariat should, in coordination with the Controller, the Office of Legal Affairs and the operating agencies, expeditiously finalize an umbrella Letter of Understanding which is to be used by all operating agencies and specifies the financial reporting requirements in accordance with the ST/SGB/2006/10.	Operational	High	0	Receipt of the finalized LOU.	30 June 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
4	OCHA/CERF Secretariat should, in consultation with the Controller, dedicate resources for the systematic review of financial reports and follow-up on reports where reported expenditures significantly deviate from budgeted expenditures.	Financial	High	O	Receipt of the documentation indicating the Controller's approval for increased OCHA staff resources to be deployed for the review of financial reports.	30 June 2009
5	The Controller should, in consultation with OCHA/CERF Secretariat and the operating agencies, establish a common budget format in the application for CERF grants, and a standard classification and reporting format for operating expenses that is acceptable to the United Nations and the operating agencies. The agreed upon formats should be enforced by OCHA as a grant requirement.	Financial	High	O	Adoption of a common budget format in the application of CERF grants and a standard reporting format for operating expenses acceptable by all agencies.	Not provided
6	OCHA/CERF Secretariat should review the reported direct support costs for projects 06-WFP-045 in order to ensure the correct utilization of CERF funds.	Financial	Medium	O	Receipt of results of OCHA's investigation into the expenditures of the project.	Not provided
7	OCHA/CERF Secretariat should, in consultation with the operating agencies, agree on a framework for reporting substantive statistical results on CERF funded projects. In respect of projects where there has been a deviation from budgeted expenditures, the narrative should justify the deviation.	Operational	Medium	O	Resolution of the agreed reporting framework and the requirement to seek redeployment of funds where there is a deviation from budgeted expenditures.	Not provided
8	OCHA/CERF Secretariat should, in consultation with the Controller, propose an enhancement of the CERF Secretariat's	Financial	High	O	Receipt of documentation indicating augmentation of financial capacity in the CERF Secretariat.	30 June 2009

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	financial management capacity in accordance with the established budgetary review process.					
9	OPPBA should ensure the correct allocation of CERF Secretariat expenditures to the overhead account.	Financial	High	O	Receipt of documentation showing that the CERF Secretariat expenditures are being charged to the overhead account.	Not provided
10	OCHA /CERF Secretariat should, in consultation with the Controller and the operating agencies, incorporate a clause in its umbrella Letter of Understanding reserving the right to conduct on-site inspections of CERF financed projects in the field as and when deemed necessary.	Operational	Medium	O	Receipt of documentation indicating the adoption of the draft umbrella LoU.	31 December 2008
11	OCHA/CERF Secretariat should, in consultation with the Controller and the agencies, include a clause in the Letter of Understanding requiring that audit reports pertaining to CERF projects be shared with OCHA as soon as they are available.	Operational	Medium	O	Receipt of documentation indicating the adoption of this provision in the LoU.	31 December 2008

1. C = closed, O = open
2. Date provided by OCHA or OPPBA in response to recommendations.