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Office of Internal Oversight Services
Internal Audit Division II

Ref: AA-ECA (01/2006)

17 February 2006

TO: Mr. Abdoulie Janneh, Executive Secretary
Economic Commission for Africa

Mr. Warren Sach, Controller
Office of Programme Planning, Budget and Accounts

FROM: Corazon Chavez, Officer In Charge
Internal Audit Division II
Office of Internal Oversight Services

SUBJECT: **Review of ECA Grant to IDEP (AA2005/710/11)**

1. I am pleased to submit the final memorandum on OIOS's review of ECA Grant to IDEP, carried out at the request of the Controller. The review was conducted in October and November 2005 by Mr. Byung-Kun Min. The draft of the memorandum was shared with the Controller of United Nations and the Director of Human Resources and Finance Division on 9 December 2005, whose comments, which were received 22 December 2005 and 9 February 2006 respectively have been reflected in this final memorandum, in italics.

2. I am pleased to note that ECA has accepted the audit recommendations contained in the memorandum and has initiated their implementation. The table in paragraph 37 of the memorandum identifies actions required to close the recommendations, all of which OIOS considers to be of critical importance.

3. I would appreciate it if you could provide Mr. Byung-Kun Min with an update on the status of implementation of the audit recommendations not later than 31 May 2006. This will facilitate the preparation of the twice-yearly report to the Secretary-General on the implementation of recommendations, required by General Assembly resolution 48/218B.

4. Please note that OIOS is assessing the overall quality of its audit process. I therefore kindly request that you consult with your managers who dealt directly with the auditors, complete the attached client satisfaction survey and return it to me.

5. I would like to take this opportunity to thank you and your staff for the assistance and cooperation extended to the audit team.

Attachment: Final Memorandum and client satisfaction survey

cc: Mr. C. Burnham, Under-Secretary-General for Management (by e-mail)
Mr. Y. Suliman, Director, HRFD, ECA (by e-mail)
Mr. S. Goolsarran, Executive Secretary, United Nations Board of Auditors (by e-mail)
Mr. M. Tapio, Programme Officer, OUSG, OIOS (by e-mail)
Mr. C. F. Bagot, Chief, Nairobi Audit Section, IAD II, OIOS (by e-mail)
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Office of Internal Oversight Services
Internal Audit Division II

Audit Memorandum

Review of ECA Grant to IDEP
(AA2005/710/11)

Memorandum date: 17 February 2006

Auditor: Byung-Kun Min

Review of ECA Grant to IDEP (AA2005/710/11)

I. INTRODUCTION

1. In October and November 2005, OIOS conducted a review on ECA Grant to African Institute for Economic Development and Planning (IDEP). The review was an addition to the OIOS work plan at the request of the Controller of United Nations.
2. The draft of the memorandum was shared with the Controller and the Director of Human Resources and Finance Division on 9 December 2005, whose comments, which were received 22 December 2005 and 9 February 2006 respectively have been reflected in this final memorandum, in italics.

II. BACKGROUND AND SCOPE

3. The United Nations, through ECA has been providing US\$942,000 of grant per biennium, since 1994, to support four core professional posts of IDEP as per GA resolutions 45/248 A section V and 46/185 C section XVII. For this purpose, a specific budget line for the grant was established in ECA's account and four posts were created in ECA's staffing table.
4. In June 2005, the then OIC, BFS reported in an Inter-Office memorandum to the Director of Human Resources and Finance Division (HRFD) and to the Controller the following two issues with regard to the grant to IDEP:
 - a) The fund allocated under the grant budget line would not be sufficient to cover the projected expenditure for the four GA funded IDEP posts until the close of the current biennium; and,
 - b) The staff assessment and other staff entitlements have been charged to common staff cost in an organizational unit other than IDEP, which resulted in under-reporting of the expenditure figures for the IDEP grant.
5. Upon receipt of the memorandum, the Controller's office clarified that there was no reference to supplementary support to IDEP and expressed concern on the charging of expenditures to allotment accounts other than the one for the grant. In this regard, ECA was requested to undertake a comprehensive investigation to determine the total amount of incorrect IDEP charges to ECA regular budget accounts since 1996 and to suggest actions for recovering the funds from IDEP. Further, it was also requested to identify the officials who had certified and approved. In parallel with the request to ECA, the Controller requested a review from OIOS on this matter.
6. OIOS conducted a review to provide the Controller with an independent assessment of the adequacy of the IDEP grant arrangements. This focussed on a review of the work that ECA carried out at the request of the Controller; with particular attention to whether ECA's procedures were adequate to ensure identification of accurate and complete IDEP expenditure figures and causes of overrun and incorrect accounting; and whether additional measures were required to prevent a reoccurrence.
7. The review covered expenditures incurred for IDEP since 1996. OIOS validated the

methodology used by ECA to identify expenditures and to confirm that the methodology was correctly used.

III. SUMMARY

(a) Accuracy of IDEP expenditure figures produced by ECA

8. Whilst appreciating the extensive work undertaken by ECA to identify the amount of the overrun, which should be recovered, OIOS determined that the figures were not accurate and that ECA needed to perform several additional procedures to establish accurate figures. OIOS noted that:

- a) The identification of IDEP staff needed to be more accurate;
- b) The identification and analysis of cost other than payroll was not sufficient;
- c) The review and reconciliation with the expenditures actually recorded in IDEP grant budget was required; and
- d) The procedures to identify where the IDEP expenditures were charged needed to be more accurate.

(b) Causes of cost overrun and incorrect accounting

9. ECA attributed the cause of the cost overrun to a mismatch between the grant amount and the actual costs for the four posts supported from the grant. This discrepancy had not been recognised until recently because of the practice of treating the four posts as part of ECA payroll and overall common staff cost. OIOS is of the opinion that the mismatch resulted from the fact that the grant was provided to IDEP in the form of four posts in the ECA staffing table, while ECA did not seek a clarification from OPPBA on the nature of IDEP grant and implications of any surplus or shortfall against actual staff cost arising from the arrangement.

10. OIOS is of the opinion that the cost overrun could have been avoided or detected earlier had IDEP, as an independent entity, managed the grant in its own account with appropriate staffing structure commensurate with the amount of grant and had ECA controlled the grant budget only to ensure that the expenditures remain within the limit.

11. At the time of this review, ECA had initiated certain corrective actions including ensuring that all expenditures would be recorded in the grant budget in 2005 and initiating discussion with IDEP on recovery of overspent amounts, for which ECA and IDEP were in the process of determining the modality for recovery when this draft memorandum was prepared.

(c) Provision of support other than grant

12. In addition to the grant, OIOS noted that ECA had also been providing IDEP with support from its regional advisory budget. The additional support including provision of one L-3 post on a permanent basis was based on the ECA policy of treating IDEP as an institution whose activities were relevant to the needs of Member States and as such ECA would provide technical assistance in its areas of competence.¹

¹ ECA designated IDEP in 2000 as a category 2-institution (there are three categories) in defining ECA's

13. In the opinion of OIOS, provision of technical assistance should have been in the form of an MOU between ECA and IDEP, which would have detailed the form of the assistance and the proof required by ECA to demonstrate that the assistance had been used as intended. This could have helped ECA demonstrate how the assistance provided directly contributed to the achievement of ECA's mandate. Such a formal agreement would have made it much easier for ECA to explain which activities were related to agreed support with an external entity that could be paid by ECA and which were part of the IDEP grant. In the absence of any documentation explaining otherwise, OIOS could only consider that the assistance given by ECA, in particular the provision of an L-3 post, was supplementary assistance to the grant. This would have required approval by OPPBA as it effectively increased the size of the UN grant aid given to IDEP, and did not provide any demonstrable direct benefit to achievement of the ECA mandate.

14. OIOS appreciated the acceptance of and / or comments on the recommendations and findings on the draft of this memorandum from the Controller of the United Nations and ECA, which were received 22 December 2005 and 9 February 2006 respectively. Those comments were incorporated in the section below, in italics.

IV. FINDINGS AND RECOMMENDATIONS

A. ECA's Investigation

15. ECA reported the results of its own investigation on actual IDEP expenditures to OPPBA on 12 October 2005 as summarized in the table below:

Table 1. IDEP Grant – Allotments and Expenditures (in US\$)

Biennium	Allotment	Actual	Difference
1996-1997	942,400	749,228.11	193,171.89
1998-1999	942,400	897,235.48	45,164.52
2000-2001	942,400	986,089.66	(43,689.66)
2002-2003	998,900	1,257,394.96	(258,494.96)
2004-2005 (up to 09/05) ²	942,400	1,227,272.27	(284,872.27)
Total	4,768,500	5,117,220.48	(348,720.48)
Budget lines used	IDEP	Other Org. Unit³	
	2,184,281.80	2,932,938.68	

16. In the same memo, ECA explained the procedures that it had adopted to arrive at the above figures:

relationship with Institutions. The definition of category 2 is "those institutions whose activities are relevant to the needs of member states and for which they may wish to maintain their support. ECA will continue to be represented on their governing bodies provide necessary technical assistance in its areas of competence".

² Additional US\$133,000 of deficit was estimated for remaining three months, bringing the total deficit over the five biennia to US\$482,000.

³ Most of the charges were indicated to have been made to ESPD (Economic and Social Policy Division).

- a) Names and index numbers verified by ECA Human Resources Services Section (HRSS) as IDEP staff.
- b) Data extracted from IMIS and Sun System using index numbers.
- c) Data screened eliminating entries that have no effect on the budget line. These entries include journals and advances.
- d) Remaining data checked to actual IMIS entries for verification.
- e) Allotment verified by the Budget Unit.
- f) Sun system data checked to actual entries in Sun Accounts.

17. OIOS noted several substantial deficiencies in ECA's cost overrun figures and determined that ECA needed to perform several additional procedures (as explained in the following section) including more accurate identification of IDEP staff and review of expenditures actually recorded in the Grant budget line to establish more accurate expenditure figures, which ECA agreed.

B. Additional procedures required to produce more accurate overrun figure

- (a) Recalculation of staff costs

18. OIOS noted errors in the expenditure calculations of staff with index numbers 401714, 475727, 995259, 859176 and 813314, which in total would decrease the reported cost overrun by approximately US\$70,000. For example:

- a) ECA erroneously included approximately US\$200,000 for the staff member with index number 401714 who had been assigned to a regional office in 2000.
- b) Staff member with index 995259 had been encumbering an L-3 lecturer post in IDEP funded from the regional advisor budget of ECA until 1 February 2002 when he was placed on one of the four IDEP posts. ECA had earlier indicated that the provision of an L-3 regional advisor post was legitimate taking into consideration the nature of the budget, which was for technical cooperation at the request of Member States. As such, ECA did not consider the payroll cost of the current incumbent of that post⁴ as IDEP expenditures. However, ECA inconsistently included the expenditures of staff even for the period when he was encumbering the L-3 regional advisor post. OIOS determined that approximately US\$138,000 (all cost until January 2002) needed to be excluded from IDEP expenditures to be consistent in its treatment of the expenditures of the L-3 regional advisor post.
- c) ECA did not identify staff member with index number 813314 as IDEP staff, who was a senior regional advisor of the Economic and Social Policy Division (ESPD) and had been assigned as senior advisor to IDEP effective 28 December 1999. OIOS determined that approximately US\$270,000 of payroll expenditures related to his tenure at IDEP (January 2000 to February 2002), should be included as IDEP expenditure.

- (b) Recalculation of costs arising from staff entitlements

19. ECA could not verify the accuracy and completeness of IDEP expenditures related to

⁴ The provision of regional advisor post is addressed as a separate issue in section D.

various staff entitlements totaling approximately US\$1 million. OIOS noted the following, which ECA should examine further:

- a) Whilst ECA explained that no reliable data on expenditures other than payroll for the period 1996 -1997 was available from the old system used before IMIS, it did not perform any alternative procedures such as a review of the personnel file and reported no expenditures for the said period.
- b) Further, while ECA identified approximately US\$300,000 of expenditures for other cost in 1998 -2000, it appeared incomplete compared to the expenditures in the subsequent years.
- c) ECA only identified disbursement from travel claims but not the other costs such as tickets for home leave, education grant travel or mission travels.
- d) ECA included all expenditures related to the IDEP staff without thorough examination of the nature of the expenditures.

(c) Review of expenditure recorded in IDEP budget line

20. ECA did not perform a detailed review of approximately US\$3 million of expenditures recorded in the grant account. While most of the expenditures were payroll that had been already identified as IDEP expenditure, OIOS took a random sample of disbursements and found approximately US\$163,000 that should have been included in the IDEP expenditures, which suggests to OIOS that ECA should undertake a further review of this expenditure to confirm its accuracy. OIOS findings included: approximately US\$24,000 of consultant charges⁵; approximately US\$122,000 of payment to other UN agencies (mainly to UNDP Dakar office) and US\$17,000 for various vendors. It appeared that the payments to UNDP were related to the travel expenditures for IDEP staff, which ECA did not identify as IDEP expenditures.

(d) Review of budget codes

21. In its memo to OPPBA, ECA indicated that more than half the total IDEP costs were charged to various ECA organizational units including ESPD. However, OIOS determined that only approximately US\$0.6 million might have been charged to other organizational units, mainly to ESPD. ECA had indicated that approximately US\$2 million of payroll cost in 1996 to June 2002 cost was charged to ESPD. This conclusion was based on the payroll location code (which was ESPD) rather than an examination of the actual budget code. Similarly, ECA indicated that all other costs of approximately US\$274,000 from 1996 to 2000 were charged to ESPD without appropriate analysis of budget codes.

Recommendation:

To establish an accurate overrun figure against IDEP grant, ECA should undertake work, in consultation with IDEP, to verify the completeness

⁵ It excluded US\$72,000 of consultant fees paid from the fund from vacant regional advisor post

and accuracy of payroll charges to IDEP and expenditures recorded in the grant budget code (Rec. 01).

22. *ECA accepted the recommendation and commented that Budget and Finance Section is verifying the accuracy and completeness of expenditures incurred by IDEP. The final figures will be communicated to IDEP for their verification by the end of February 2006. The Controller also commented that he fully supports the recommendation. OIOS appreciated the provision of the timeframe for the implementation of the recommendation and will close the recommendation upon receipt of complete and verified IDEP expenditure figures.*

C. Causes for overrun and incorrect accounting

(a) Treatment of IDEP as a sub unit of ECA

23. The main cause of the overrun appears to be ECA's treatment of IDEP as an ECA sub unit, which resulted in certain IDEP expenditures being recorded as ECA common staff costs, rather than as a grant budget. This arises from the fact that the Executive Secretary of ECA served as chairman of IDEP's Governing Council. There had long been an understanding within ECA that IDEP was a part of ECA under ESPD (where the grant budget was allocated before 2004-2005) or as a sub-programme since 2004. For that reason, ECA did not consider IDEP as an independent entity, which would manage the grant received from ECA in its own account with appropriate staffing structure, while ECA would only control the grant budget to ensure that the expenditures remain within the limit. ECA did not seek clarification from OPPBA on the nature of the IDEP grant and the implications of any possible surplus or shortfall against actual staff cost arising from the arrangement that ECA administered the four core posts in its staffing table.

Recommendation:

To resolve the current mismatch between the grant amount and the actual cost involved in supporting four posts as a part of ECA staffing table, OPPBA should modify the arrangement for the provision of the grant to IDEP. OIOS would recommend removing the four posts from ECA's staffing table and instead providing the grant directly to IDEP. ECA should control the grant budget line to ensure that the grant is used for intended purpose and remains within the limit (Rec. 02).

24. *While ECA commented that it is reviewing the recommendation, the Controller commented that he did not share the view of the auditor that the "mismatch resulted" because ECA had construed the grant as four posts rather than an allotment of funds. OPPBA has on file requests from ECA seeking to convert the grant to posts since 2002, which had not been accepted by the General Assembly. This was the particular reason why the staffing tables, issued by OPPBA to ECA and forming an integral part of the regular budget spending authorizations, have never included the four posts in question, which consequently may not be part of the ECA authorized staffing table. On this basis, and given the fact that this subsidy has been established and maintained as a fixed-amount grant since the biennium 1992 - 1993, he is reluctant to concur with recommendation which proposes to base the level of the grant on the actual expenditures of the four posts. At least through the next biennium, we are constrained by the budget to continue the current approach. The first opportunity to present this issue for re-consideration of the General Assembly would be budget exercise for the 2008 - 2009 biennium.*

25. OIOS appreciated the comments and clarifications from the Controller. While welcoming the suggestion to present the issue of converting the grant into normal posts to General Assembly for the 2008 - 2009 biennium, OIOS wishes to reiterate a need to make a change in the current arrangement where ECA administers the IDEP grant in the form of ECA post, which obligates ECA to provide full salaries and other staff benefits and therefore would result in shortfall in the grant. As such, OIOS recommended removing the posts from ECA and instead providing the grant directly to IDEP, while ECA should ensure that the grant is used for intended purpose and remains within the limit. OIOS revised the recommendation to better clarify its position. The recommendation will be closed upon receipt of decision on changes in current administering arrangement for IDEP grant.

(b) Budget code

26. OIOS noted that ECA's investigation did not identify the officials concerned so as to establish how the internal control mechanism (certifying and approving functions) failed to identify and take appropriate action with regard to the inappropriate recording of certain IDEP related expenditures.

27. As education grant costs represented over 50 percent of the cost overrun, OIOS interviewed officials involved in certifying and approving the education grant of IDEP staff that were recorded in the ESPD's common staff cost. As indicated in paragraph 21 above, the officers concerned explained that they thought IDEP was part of ECA and therefore did not undertake any special checks against the IDEP budget code.

28. ECA has already taken action to rectify the situation by bringing the issue to the attention of ECA management and OPPBA, and making sure that certifying and approving officers were aware of what should be charged to IDEP, and as such no recommendation is raised.

D. Support for IDEP from Sources other than Grant

29. ECA directly supported IDEP by assisting in mobilization of extra-budgetary (XB) resources, providing services of a regional advisor on an ad-hoc basis and providing an L-3 lecturer post on a permanent basis since 1996 from the regional advisor budget section. The L-3 lecturer post has been encumbered by three different staff for various periods since 1998 and also used to fund a consultant when the post was vacant 2002 to 2004.

30. These arrangements were established on the basis of a letter dated 26 January 1996 from the former Executive Secretary of ECA to the then Director of IDEP. Further, it appeared that the continuation of such support was based on ECA policy of treating IDEP as an institution whose activities were relevant to the needs of Member States and, as such, ECA should provide necessary technical assistances in its areas of competence.

31. In accordance with General Assembly resolution 2803 (XXVI) of 14 December 1971, provision is made for a system of regional and sub regional advisory services for the purpose of assisting developing countries that are members of the Regional Commissions in solving problems that they may encounter in their national development efforts. The advisory services are made available in response to requests from Governments and involve advisory missions on an individual or joint multidisciplinary basis. In this context, ECA explained that the provision

of the services of regional advisor to IDEP falls broadly under the mandate of the regional advisor and as such it should be considered separate from the grant support to IDEP. With this understanding, ECA excluded the costs related to the provision of regional advisor including the L-3 post but rather focused on the costs related to the four posts under the grant arrangement.

32. However, OIOS understood that the support to IDEP in the form of a grant was a result of a review conducted in the early 1990s at a time when the support from UNDP had been reduced. As such, although it was not clear whether the grant was meant to be an exclusive and comprehensive form of support to IDEP, OIOS was concerned that ECA did not seek clarification from OPPBA as to relation between the grant and provision of additional assistance. Further, in the opinion of OIOS, provision of technical assistances should have been in the form of an MOU between ECA and IDEP, which would have detailed the form of the assistance and what ECA required as proof to demonstrate that the assistance had been used as intended, and also could have helped ECA demonstrate how the assistance provided direct benefit to the achievement of ECA mandates. Such a formal agreement would have made it much easier for ECA to explain which activities were related to agreed support with an external entity that could be paid by ECA and which were part of the IDEP grant.

33. In the absence of any documentation explaining otherwise, OIOS could only consider that the assistance given by ECA, in particular the provision of an L-3 post that appeared to be more than technical assistance as indicated as possible support to category 2 institutions⁶, were supplementary assistance to the grant. The supplementary assistance should have required OPPBA approval as it effectively increased the size of the UN grant aid given to IDEP, and did not provide any demonstrable direct benefit to achievement of the ECA mandate.

34. ECA explained that it had been requesting to convert the grant into regular posts on several occasions (which had not been accepted by GA). However, OIOS did not consider it appropriate that ECA did not establish an appropriate framework upon the non-acceptance of ECA requests.

Recommendation:

To enhance the effectiveness of ECA support to IDEP, ECA should carry out an assessment of the type and nature of support ECA should provide to IDEP. This assessment should have two components - an assessment of whether the current grant aid from the ECA needs to be changed and why; and, an assessment of how IDEP can contribute to the achievement of the ECA mandate with any other additional support and to formulate and enter into an MOU dealing with those issues. In particular, ECA should ensure an appropriate source of fund is used for the provision of an L-3 lecturer post, when such support proves to be valid (Rec. 03).

35. *While ECA commented that it is reviewing the recommendation, the Controller commented that it is recalled that General Assembly resolution 2803 (XXVI), entitled 'Regional and subregional advisory services under the United Nations regular programme of technical cooperation' established a regional component of the regular programme of technical cooperation – "a unified system of regional and subregional advisory services earmarked for*

⁶ Please refer to footnote 1 for the definition of category 2-institutions.

the operations of the regional economic commissions and the UN Economic and Social Office at Beirut”, was subject to the guidelines and modes of operations under the regular programme. As the terms of reference of this budget section provide only for short-term advisory services at the Governments’ request, the assignment to IDEP, on a permanent basis since 1996, of the L-3 regional advisor or consultant, financed from the ECA part of the Regular programme of technical cooperation, was at variance with these terms of reference. The Controller further commented that the provision of technical assistance to IDEP, in the form of an L-3 regional advisor, should have been formalized by an MOU between the two organizations is supported, provided that appropriate sources of funding were used for this purpose. The Controller further commented on the recommendation that he would have expected the recommendation include a more specific reference to this proposed action, rather than only seeking assessments of whether current grant aid from ECA needs to be changed and how IDEP can contribute to the ECA mandate.

36. OIOS appreciated the comments and clarifications from the Controller. OIOS revised the recommendation to include a specific action required for the provision of L-3 lecturer post. The recommendation will be closed upon receipt of the results of an assessment of the type and nature of support ECA should provide to IDEP.

37. *Lastly, the Controller commented that he has not been appraised of which officials certified the expenditures in question and in light of the authority of his office to maintain the list of approved certifying officers, he was most anxious to settle this matter quickly.* OIOS already responded to the Controller that the names of Certifying Officers had not been given because it was not current practice in an audit report to provide names of individuals. OIOS further responded that this issue was discussed with ECA during the audit and understood that ECA was working on a response to the request which OIOS will keep under review.

V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS

38. OIOS monitors the implementation of its audit recommendations for reporting to the Secretary-General and to the General Assembly. The responses received on the audit recommendations contained in the draft memorandum have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Table 2. Required actions for closure of recommendations

Rec. Number	Action Required
Rec. 01	Receipt of complete and verified IDEP expenditure figures.
Rec. 02	Receipt of decision on changes in current administering arrangement for IDEP grant.
Rec. 03	Receipt of the results of an assessment of the type and nature of support ECA should provide to IDEP

VI. ACKNOWLEDGEMENT

39. I wish to express my appreciation for the assistance and cooperation extended to the audit team by the management and staff of ECA.

Corazon Chavez, Officer In Charge
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Office of Internal Oversight Services