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INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

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

INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Annick Van Houtte, Chairperson
A: United Nations Joint Staff Pension Board

DATE: 17 July 2018

REFERENCE: OIOS-2018-01300

FROM: Eleanor T. Burns, Director
DE: Internal Audit Division, OIOS

SUBJECT: **Report of OIOS on a comprehensive audit of the governance structure and related**
OBJET: **processes of the United Nations Joint Staff Pension Board (Assignment No. AS2018/800/01)**

1. Attached please find the above-mentioned report. The report is marked "provisional" because it may undergo some editorial changes before it is published by the Department for General Assembly and Conference Management as requested in General Assembly resolution 72/262.

2. Please also note that OIOS will post a complete version of the final report on its website in due course, in line with General Assembly resolution 69/253.

3. OIOS wishes to express its appreciation to the management and staff of the Board, the United Nations Joint Staff Pension Fund, and the Executive Office of the Secretary-General for the assistance and cooperation extended to the auditors during this assignment.

cc: Ms. Maria Luiza Ribeiro Viotti, Chef de Cabinet, Executive Office of the Secretary-General
Mr. Sergio Arvizu, Chief Executive Officer, UNJSPF
Mr. Sudhir Rajkumar, Representative of the Secretary-General for Investments of the UNJSPF
Mr. Vladimir Yossifov, Chairperson, Standing Committee of the UNJSPB
Mr. Thomas Repasch, Chairperson, Audit Committee of the UNJSPB
Mr. Paul Dooley, Deputy Chief Executive Officer, UNJSPF
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Ms. Cynthia Avena-Castillo, Professional Practices Section, Internal Audit Division, OIOS

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Report of the Office of Internal Oversight Services on a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board

Summary

Pursuant to General Assembly resolution 72/262, the Office of Internal Oversight Services (OIOS) conducted a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board.

The audit showed that the Board needs to strengthen its governance in critical areas such as: (i) fair and equitable representation of member organizations on the Board; (ii) entrusting its Standing Committee to provide more effective oversight of the United Nations Joint Staff Pension Fund's operations; (iii) separation of functions of its Secretary and the Fund's Chief Executive Officer (CEO) to ensure the Board's independence from the Fund's management; (iv) effective performance management to promote a culture of accountability; and (v) setting the appropriate tone with regard to integrity and ethical values.

The Board also needs to take additional steps including: (i) facilitating transparent and democratic representation of beneficiaries; (ii) retiring its Assets and Liabilities Monitoring Committee which duplicated the work of the Investments Committee and the Committee of Actuaries; (iii) ensuring that the Fund's Secretariat utilizes resources in accordance with legislative decisions; and (iv) proper succession planning for the positions of CEO and Deputy CEO to allow adequate time for their competitive selection.

Contents

I. Introduction

1. Pursuant to General Assembly resolution 72/262, the Office of Internal Oversight Services (OIOS) conducted a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board (hereafter referred to as "the Board") from February to May 2018. The objective of the audit was to: (a) determine whether the governance structure of the Board and related processes are optimally designed and operating effectively; and (b) assess the checks and balances between the Board and the leadership of the United Nations Joint Staff Pension Fund (UNJSPF).

2. The audit scope included a review of: (a) the structure, composition and functions of the Board including its committees and working groups; (b) regulations, rules, policies and procedures relating to governance of the Fund; (c) decision-making and consultative processes through which the Board discharges its responsibilities; and (d) related processes and activities of UNJSPF. The audit methodology included: (a) interviews with process owners and stakeholders; (b) review of relevant documentation; and (c) questionnaires/surveys, analytical reviews and tests of controls. The audit did not include review of the General Assembly's role in the overall governance structure.

3. *The Chairperson of the sixty-fourth session of the Board stated that since OIOS timelines for finalizing this report do not allow for the Board to discuss and provide its full comments before the OIOS report is published, the Board will review the OIOS report at its forthcoming sixty-fifth session in July-August 2018 and provide its response in the Board's next report to the General Assembly.*

II. The United Nations Joint Staff Pension Board

A. Roles and responsibilities of the Board

4. In its resolution 248 (III) of December 1948, the General Assembly established UNJSPF and decided that the Fund shall be administered by the Board, whereas the investment of the Fund's assets shall be decided upon by the Secretary-General, after consultation with an Investments Committee and after having heard any observations or suggestions by the Board concerning the investments policy. Article 4 (a) of the Fund's regulations states that the Fund is administered by the Board, a staff pension committee (SPC) for each member organization, and a secretariat to the Board and to each such committee. The Board is accountable to the General Assembly for its primary responsibility to serve the Fund's participants and beneficiaries. The UNJSPF accountability statement states that the Board plays the role of an oversight, policy-making, and decision-making body of the Fund's Secretariat in pension administration. According to UNJSPF regulations and rules, the responsibilities of the Board include: (i) reporting to the General Assembly and member organizations on financial and operational matters relating to the Fund; (ii) making recommendations to the Secretary-General on the appointment of the Secretary/Chief Executive Officer (CEO) and the Deputy Secretary/Deputy CEO; and (iii) monitoring the Fund's solvency through actuarial valuation. The Board is also ultimately responsible for establishing and maintaining an effective internal control system and setting the Fund's expectations on integrity and ethical values.

B. Terms of reference, competency requirements and performance evaluation

5. Good governance practices recommend that given the considerable responsibility and decision-making authority vested in them, boards and their committees should have clear terms of reference for their members, defining their roles and responsibilities, desirable competencies, and performance expectations. While the Board had established terms of reference for its various committees, there were no specific terms of reference for Board members. Some responsibilities are described in the Fund's regulations and rules but these do not cover aspects such as desirable competencies and performance evaluation.

6. The Board's members represent one of three constituent groups: governing bodies (the General Assembly and similar governing bodies of member organizations), executive heads (the Secretary-General and chief administrative officers of member organizations), and participants of member organizations. Establishment of formal terms of reference, including the desirable competencies, may help these constituents to make more informed choices concerning their representatives on the Board. The absence of clear terms of reference may undermine consistency in performance and cause misinterpretation of issues such as term limits and conflict of interest.

7. Many private and public organizations set some post-employment restrictions on their employees for specific periods of time, such as those in the Secretary-General's bulletin ST/SGB/2006/15 concerning staff involved in the procurement process, to ensure that their positions of authority while in the employ of the Organization, including access to confidential or privileged information that became available to them due to their positions, are not put to improper use. Currently, there are no restrictions on such former staff of the Fund from becoming SPC members or representatives of the Federation of Associations of Former International Civil Servants (FAFICS) on the Board after their separation from the Fund. The Board had prevented two staff members of the Fund's Secretariat, who were elected by participants through a process conducted by the United Nations Staff Union, from attending its 2017 session on the grounds that such participation gave rise to conflict of interest but this decision was vacated by the United Nations Appeals Tribunal.

8. However, there were no restrictions or time limits on former staff (particularly senior managers) of the Fund's Secretariat or the Investment Management Division (IMD) from becoming Board members after their separation from the Fund, and no restrictions or limitations on former Board members from potentially seeking regular employment in the Fund. The Board needs to consider these aspects and establish appropriate rules.

9. Since 2010, the Board has used surveys to evaluate its performance. The surveys were primarily meant to help identify areas of expertise and whether the Board or its individual members were lacking any critical skills. However, the survey design did not assist in identifying the areas of expertise or the lack thereof. For example, in the survey conducted in 2016, 41 per cent of respondents agreed that the ongoing process could identify the expertise needed for the Board but did not indicate specific areas of expertise or competency that needed improvement. The benefits of such self-evaluation would be limited unless specific areas for improvement are identified and followed through.

Recommendation 1

The Board should: (i) establish clear terms of reference for its members outlining, inter alia, the desirable competencies for their appointment and any appropriate restrictions or limitations; and (ii) review its current methodology for self-evaluation to make the exercise more effective and useful.

C. Size and composition of the Board

10. Article 5 of the UNJSPF regulations states that the Board shall consist of 33 members, equally representing the tripartite structure comprising the governing bodies, executive heads, and participants.

11. In 2006, after considering various options, a working group of the Board recommended that the Board consist of 21 members. The working group put forward a second option to retain the existing 33-member Board if the recommended size of 21 was not accepted. Eventually, the Board decided to maintain its size at 33 members and adopted annual rotation schedules for Board and Standing Committee membership for the next five years. Member organizations who did not have a seat on the Board were not included in the rotation schedule. The Board's decision in 2004 that "any member organizations already with a seat on the Board should not lose that seat even if its participant population

decreased over time" inhibits an objective review and adjustment of the Board's size to assure economy, efficiency, and effectiveness in its operations.

12. In addition to the 33 Board members, there were 29 alternate members, 25 representatives accredited by SPCs of member organizations, and 6 representatives of FAFICS, besides observers and secretaries of SPCs. Representatives of SPCs and FAFICS enjoy the rights of Board members, except the right to vote. There was no evidence of any decision made by the Board by vote during the last five years. Since the Board made its decisions by consensus, these non-voting members virtually wielded the same powers as voting members. Also, alternate members were allowed to attend the Board's sessions even when their respective primary members were in attendance. Therefore, it appeared that the Board's decisions were practically made by not just 33 members with voting rights but by 93 "de facto members" (33 Board members, 29 alternates, 25 SPC representatives, 4 FAFICS representatives and 2 alternates of FAFICS) even though the Fund's rules of procedure state that Board decisions shall be taken by a majority of the members present and voting.

D. Representation of participants and beneficiaries on the Board

1. Representation of participants

13. The size of the Board has increased over the years from 12 members in 1949 to 33 in 1987. By resolution 42/222 of 21 December 1987, the General Assembly approved a 33-member Board comprising 12 members appointed by the United Nations and 21 members appointed by other member organizations. When this was implemented with effect from 1 January 1989, the United Nations had 27,740 active participants. General Assembly resolutions 42/222, 46/192, 57/286, 59/269 and 61/240 repeatedly emphasized the importance of fair representation of participating organizations in the Board and its Standing Committee to make such representation more equitable to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations.

14. Table 1 shows the progressive increase in the number of active participants in the Fund from 54,006 in 1988 to 128,262 in 2016.

Table 1: Increase in number of participants

Member organization	***1988***	***1995***	***2002***	***2009***	***2016***
United Nations	27,740	44,059	56,287	82,576	87,111
ILO	3,098	2,823	2,863	3,642	3,706
FAO	6,909	5,735	5,447	6,011	10,318
UNESCO	2,908	2,561	2,437	2,602	2,412
WHO	5,887	6,125	8,181	11,029	10,724
IAEA	1,865	2,146	2,168	2,245	2,681
UNIDO	1,727	1,455	821	825	669
IOM	-	-	-	3,134	4,624
Others	3,872	3,804	4,511	5,516	6,017
Total	**54,006**	**68,708**	**82,715**	**117,580**	**128,262**

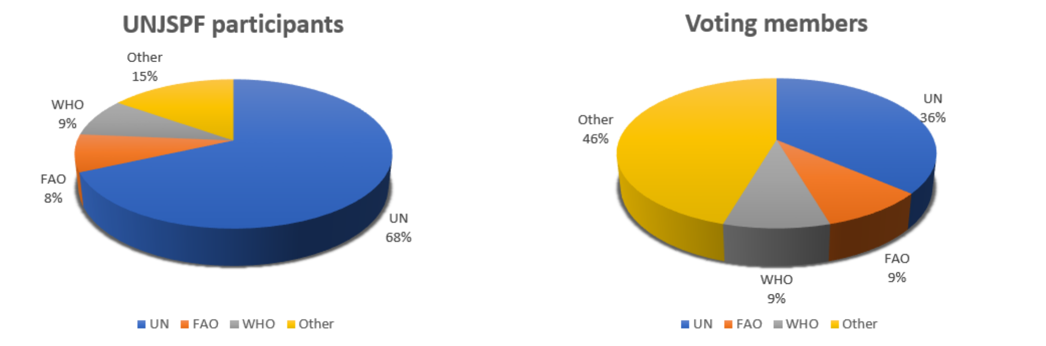
15. The current representation of member organizations on the Board is shown in Table 2.

Table 2: Representation of member organizations as at 31 December 2016

Member organization	*Year of admission*	*Number of participants*	*Number of Board seats (since 1988)*	*Percentage of participants compared to total*	*Percentage of seats on the Board*	*Average number of participants represented by a Board member*
United Nations		87,111	12	67.92	36.36	7,259
WHO	1949	10,724	3	8.36	9.09	3,575
FAO	1950	10,318	3	8.04	9.09	3,439
ILO	1953	3,706	2	2.89	6.06	1,853
IAEA	1958	2,681	2	2.09	6.06	1,341
UNESCO	1951	2,412	2	1.88	6.06	1,206
IOM	2007	4,624	0	3.61	0	
WIPO	1977	1,225	2	0.96	6.06	613
ICC	2004	1,099	0	0.86	0	
ICAO	1951	798	2	0.62	6.06	399
ITU	1960	768	1	0.60	3.03	768
UNIDO	1986	669	1	0.52	3.03	669
IFAD	1977	595	1	0.46	3.03	595
STL	2009	462	0	0.36	0	
WMO	1952	351	1	0.27	3.03	351
IMO	1959	284	1	0.22	3.03	284
ICGEB	1996	168	0	0.13	0	
WTO	1996	91	0	0.07	0	
IPU	2005	47	0	0.04	0	
ITLOS	1997	39	0	0.03	0	
ICCROM	1981	37	0	0.03	0	
ISA	1998	35	0	0.03	0	
EPPO	1983	18	0	0.01	0	
Total		**128,262**	**33**	**100**	**100**	

16. As of 31 December 2016, the number of active participants of the United Nations reached 87,111 (or 68 per cent of the total). However, the United Nations' representation on the Board (12 seats) was only 36 per cent of the voting members, as shown in Figure 1. The Board's decision in 2004 that "any member organizations already with a seat on the Board should not lose that seat even if its participant population decreased over time" caused inequitable seat distribution among member organizations. For example, ICC never had a Board member since its admission to the Fund in 2004 even though it has a higher percentage of participants than six other member organizations with voting rights (ICAO, ITU, UNIDO, IFAD, WMO and IMO). As shown in Table 2, a Board member of the United Nations represents 7,259 participants on average whereas a Board member from IMO represents 284 participants. Furthermore, there has been no Board member representing the 4,624 participants of IOM which was admitted to the Fund in 2006.

Figure 1: Distribution of participants by member organization versus voting members on the Board



17. In response to the General Assembly's requests, the Board conducted reviews of its size and composition. In 2002, the Board recommended increasing its size from 33 members to 36, with the allocation of three additional seats to the United Nations. By resolution 57/286, the Assembly took note of the Board's report and requested it to study the representation of member organizations so as to clarify the criteria adopted for that purpose, and submit further proposals at the Assembly's fifty-ninth session.

18. Some of the criteria adopted by the Board while conducting its reviews were not aligned to the principle of fair representation as emphasized by the General Assembly. For example, while the review conducted in 2004 stressed that the size of the Board should be truly representative of the membership of the Fund, it also advanced the argument that the Fund is a joint venture of organizations, rather than participants or individuals. The Board's approach has resulted in maintaining the status quo of 1987 which was already inequitable and since then, the proportion of active participants of the United Nations has further increased from 51 per cent in 1988 to 68 per cent in 2016.

19. General Assembly resolution 61/240 noted that the Board recognized that its decision to retain its current size, composition and allocation of seats did not fully respond to the Assembly's resolution 57/286 to achieve fairer representation. The Assembly also noted that the Board agreed to review its size and composition after it had had adequate time to assess the results of its other decisions under this item. Since then, the Board has made no further proposal to address the obvious inequity in representation of member organizations, as well as the appropriateness of its size.

Recommendation 2

The Board should implement: (i) the General Assembly's request to submit proposals for fair and equitable representation of member organizations on the Board to reflect the actual distribution of active participants in the Fund, present and future trends in Fund participation, and the changing nature of the Fund's member organizations; and (ii) a rotation scheme that allows eligible member organizations to share the rotating seats in a fair and equitable manner.

2. Representation of beneficiaries

(a) Need for democratic representation of beneficiaries

20. Representatives of the Fund's beneficiaries do not have full member status on the Board and its Standing Committee. Under the UNJSPF rules of procedure, FAFICS has been accorded official status to represent beneficiaries at meetings of the Board and its Standing Committee with the same rights as members, except the right to vote.

21. In connection with a study on its size, the Board concluded in 2006 that beneficiaries should continue to be represented on the Board. General Assembly resolution 61/240 took note of the Board's decision that the costs related to two beneficiary representatives attending the Board's sessions and one beneficiary representative attending the Standing Committee's meetings would be absorbed by the Board on a provisional basis until 2008, at which time the Board would consider means for duly electing the beneficiaries' representatives. In 2007, the CEO presented a note to the Board on a possible process for election of beneficiaries' representatives. One of the scenarios was to conduct elections (such as the annual world-wide elections of directors of the United Nations Federal Credit Union) through an experienced vendor at an estimated cost of $50,000 to $150,000 per election. A formal nomination process was explained, whereby beneficiaries would be asked to submit nominations for candidates with the support of a minimum number of other beneficiaries.

22. However, the CEO's note supported the continuation of the current arrangement of FAFICS' representation instead of direct election of retiree representatives on the grounds that holding of elections would not necessarily result in a higher degree of participation, and the extent of their interest in such elections is impossible to predict. OIOS is of the view that this is a speculative conclusion that is not based on any assessment or survey of beneficiaries' aspirations. With web-based tools, it is possible to ascertain whether beneficiaries prefer direct election of their representatives on the Board instead of the existing arrangement of limited, indirect representation through FAFICS. In 2008, after debating the issue, the Board deferred the subject and has since maintained the status quo; FAFICS continues to sit on the Board in a non-voting capacity even though it represents only 18,500 beneficiaries (approximately 25 per cent) out of a total beneficiary population of 74,788 as of 31 December 2016.

23. Under a defined benefit pension plan, beneficiaries are guaranteed their benefits whereas active participants are exposed to a higher degree of uncertainty in relation to the pension fund's long-term financial health and sustainability. It is the participants, not the beneficiaries, who would have to bridge the funding gap if the pension fund anticipates significant deficits. Therefore, such pension plans must have a proportionately larger representation of active participants on the board than beneficiaries. Examples from governance structures of large public sector defined benefit pension funds indicate that beneficiary representation is limited to one or two seats. OIOS is of the view that the Board needs to determine the appropriate number of seats to be allotted, with voting rights, to beneficiaries' representatives who are directly elected through a transparent and democratic process similar to participants' representatives so that the elected individuals are accountable to beneficiaries and fully represent their interests on the Board.

Recommendation 3

The Board should determine the number of seats to be allotted to retiree representatives and facilitate their direct election as full Board members with voting rights to ensure transparent and democratic representation of beneficiaries and their interests.

(b) Role of FAFICS

24. FAFICS is a federation of 61 associations that currently represents approximately 25 per cent of beneficiaries. It is governed by a council on which its member associations are represented. FAFICS appoints four representatives and two alternates to attend the Board's annual sessions as non-voting members. The Board's report of 2017 listed 10 FAFICS representatives (primary or alternate) who were either non-voting members on the Board or members of the Board's committees and/or working groups. The FAFICS president was invited to attend seven out of 14 meetings held by the Assets and Liabilities Monitoring Committee even though she was not a member of the committee, whereas the same privilege was never accorded to any other Board member or representative.

25. As noted in General Assembly resolution 61/240, in 2006, the Board decided that it would absorb the costs related to two retiree representatives attending the Board's sessions and one retiree representative attending the Standing Committee's meetings. However, budget documents of the last two biennia (2016-2017 and 2018-2019) show that expenses relating to the participation of six FAFICS representatives (four primary, two alternate) in each Board session were absorbed by the Fund. There was no evidence that the Board's budget working group raised questions about this discrepancy.

26. General Assembly resolutions 70/248, 71/265, and 72/262 repeatedly expressed concern at the delays in receipt of benefits by some new beneficiaries of the Fund. The reports of the Fund's internal and external auditors likewise raised concern about delays and inefficiencies in pension processing, including understatement of the "backlog" reported by the Fund's Secretariat. However, in a letter of January 2018 to beneficiaries, FAFICS stated that delays in pension processing were "largely a thing of the past" even though Fund's Secretariat was able to process only 52 per cent of the initial separation cases in January 2018 within 15 days of receipt of all required documents against the target of 75 per cent set by the Board. Furthermore, the Fund acknowledged in March 2018 that some 15,000 workflows were pending because key separation documents were missing. The Board of Auditors recently concluded that there was an overall drop in the Fund's efficiency in benefit processing during 2017 with the Fund processing 703 fewer cases in 2017 as compared to 2016.

27. The same letter of FAFICS questioned the General Assembly's authority to undertake a governance review without prior discussion with the Board; it also stated that the Board has the "sole authority" for appointment and reappointment of the CEO whereas the Secretary-General only has the "administrative function to issue the contract". The Fund's Secretariat circulated this letter electronically to all registered beneficiaries, including the vast majority who were not members of FAFICS. The circulation of such a letter by the CEO's staff gave the appearance of collusion between FAFICS and the Fund's Secretariat to challenge the authority of the Secretary-General and the General Assembly in governance matters of the Fund, even though the CEO was to be appointed/reappointed by the former on the recommendation of the Board, and ultimately accountable to the latter. In a letter of February 2018, the outgoing president of a retiree association affiliated to FAFICS informed her constituents that "the FAFICS leadership should be strongly reminded by its members that its task is to protect, defend and advance the rights of all United Nations retirees, not those of the CEO …". This statement is consistent with complaints from other retirees that FAFICS was engaged in protecting the CEO's interests instead of retirees'.

28. Furthermore, based on a proposal made by FAFICS in 2017, the Board approved an amendment to the rules of procedure and terms of reference for SPCs and their secretaries to allow for two retiree representatives to attend the meetings of SPCs which are essentially a forum for participants. This further increased the influence of FAFICS in the Fund's governance structure.

Recommendation 4

The Board should establish appropriate mechanisms to avoid conflicts of interest between FAFICS representatives and the Fund's management.

E. Frequency of Board meetings

29. According to UNJSPF rules of procedure, the Board shall meet in regular session not less frequently than once in every two years. Prior to 2006, the Board met biennially for a period of approximately 7-8 working days in even-numbered years. The Standing Committee, which is smaller in size (15 members) and has the authority to act on behalf of the Board when the latter is not in session, usually met for 4-5 days in odd-numbered years. In 2006, the Board decided to revert to annual sessions. Since then, the Board met for 5 working days in odd-numbered years and 7 working days in even-numbered years. The Standing Committee also met during each annual session of the Board for one day, primarily to deal with appeals.

30. The current term of office for members of the Board and its Standing Committee is one year; they are selected every year at the beginning of each Board session from among the SPC representatives and they remain in office only until the next Board session. Although there were some common members, not all members of the Standing Committee were Board members. The Chairpersons of the Board and its Standing Committee were different individuals.

31. Before the Board's annual session, information from various sources is presented to Board members usually two weeks prior to the session, or later. For example, in 2017, about 1,944 pages of information relating to 39 agenda items were presented to the Board in the form of 47 documents and 16 presentations. Neither the Board nor its Standing Committee received periodic reports or updates from the Board's other committees (such as the Audit Committee and the Assets and Liabilities Management Committee which usually met several times each year) and the Fund's Secretariat. Neither the Board nor its Standing Committee had any meetings between the annual sessions except one virtual meeting of the Standing Committee in 2017. The combination of one-year terms for Chairpersons of the Board and its Standing Committee, their discrete composition, the absence of a common Chairperson, and the lack of ongoing oversight over the Fund's operations does not represent the best arrangement to provide effective governance of the Fund.

32. The Board's sessions are held annually with a large number of individuals in attendance. Increasing the frequency of Board meetings would therefore entail significant additional expenditure. The need for appropriate oversight over the Fund's operations could be met by empowering the Standing Committee to meet more frequently on the Board's behalf between its annual sessions, through video/teleconferencing to minimize costs. This would also help in reducing the burden on the Board's annual sessions and enable the Board members to take the necessary time to study the sizeable volume of documents presented to them a few days or weeks before the annual sessions. The Board could identify the specific subjects delegated to the Standing Committee for this purpose to ensure that the Board's own authority to make decisions on major policy issues is not compromised or diluted.

Recommendation 5

The Board should strengthen its governance of the Fund by: (i) increasing the frequency of meetings of the Standing Committee to provide more effective oversight of the Fund's operations; (ii) entrusting the Standing Committee to act on the Board's behalf during periods when the Board is not in session; and (iii) requiring the Board's other committees and the Fund's Secretariat to periodically submit their reports to the Standing Committee for better oversight and to reduce the burden on the Board's annual sessions.

F. Role of the United Nations Appeals Tribunal

33. Article 48 of the Fund's regulations states that applications alleging non-observance of these regulations arising out of decisions of the Board may be submitted directly to the United Nations Appeals Tribunal. In the event of a dispute as to whether the Tribunal has competence, the matter shall be settled by a decision of the Tribunal. The decision of the Tribunal shall be final and without appeal. However, in a note of 13 February 2018 to the United Nations SPC, the Secretary/CEO informed the committee that the "Board, not the Tribunal, has sole authority to interpret the Fund's regulations … therefore, the [Tribunal's] judgments cannot provide any basis for reversing the decisions of the [Board], which concern the governance and administration of the Fund …".

34. OIOS is of the opinion that the note by the Secretary/CEO mischaracterizes and diminishes the role of the Tribunal on the incorrect premise that the Board has "sole authority" to interpret the Fund's regulations and rules. As part of the governance structure, the role of the Tribunal is to ensure fairness and act as a check on arbitrary actions of the Board and the Fund's Secretariat. While the Board has the authority to propose to the General Assembly appropriate amendments to the Fund's regulations

and rules to bridge gaps in law arising from the Tribunal's judgments and/or interpretations, such amendments cannot be premised on the notion that the Board enjoys supremacy over the Tribunal, its jurisdiction, or jurisprudence. Doing so or creating a perception to that effect would set a tone that shows lack of commitment to the principles of justice and fairness in the Fund. The Board cannot operate arbitrarily, free from judicial review.

III. Committees of the Board

A. Standing Committee

35. At each regular session, the Board appoints a Standing Committee which shall act on its behalf when the Board is not in session. The committee shall decide individual cases referred to it, exercise general control on the Fund's operations, and may initiate preparatory work on any policy questions to enable their effective consideration by the Board.

36. Since 2006, the committee only met during each annual session of the Board for one day, primarily to deal with appeal cases, with one exception in June 2017. It was not acting on behalf of the Board when the Board is not in session. Instead, functions that should have been performed by the committee, such as the CEO's performance evaluation and the search panel for the Deputy CEO, were performed by ad hoc groups which did not have broad representation of the Board's constituent groups as the Standing Committee.

37. In the context of recommendation 5 above, the rules of procedure for the committee to fully operate on behalf of the Board between the Board's annual sessions need to be clarified so that important matters are entrusted to the committee acting on behalf of the Board, rather than to ad hoc groups.

B. Staff Pension Committees

38. SPCs and their secretariats service the needs of participants from their respective organizations and provide the Fund's Secretariat with the required information pertaining to staff members' participation in the Fund and their separation from service. The UNJSPF Secretariat provides central secretariat services to all SPCs (including the United Nations SPC) and local secretariat services to the United Nations as the secretariat of the United Nations SPC.

39. As reported in a previous OIOS audit (Report 2017/002), the Fund receives approximately $20 million per biennium from the United Nations for the SPC secretariat services it provides. However, no metrics were defined to measure and monitor the Fund's performance of this role. The audit had also showed that 11,128 pension cases were pending as of July 2016 due to incomplete documentation. The Fund's stated position that the responsibility for missing documents rested with the member organizations was contrary to its quality management policy which required the Fund to be more proactive in following up such missing documents. The percentage of cases with missing documents pertaining to the United Nations SPC was 39 per cent compared to 13 per cent for other SPC secretariats. An OIOS recommendation that the Fund's Secretariat should address these deficiencies is still under implementation.

40. SPCs have the authority to review disability cases relating to their respective participants. There was a high volume of disability cases requiring the attention of the United Nations SPC whereas the SPCs of other member organizations mostly focused on governance matters due to low number of disability cases requiring review. The United Nations SPC primarily reviewed disability cases except for 2018 when participant representatives requested discussion on policy matters in preparation for the Board's session. The exclusive focus on disability cases does not allow the United Nations SPC to fully play its role in the Fund's governance. The committee could mitigate this situation by meeting more frequently to allow adequate time to discuss policy issues concerning the Fund.

C. Committee of Actuaries

41. The Committee of Actuaries consists of five independent actuaries appointed by the Secretary-General for a three-year term upon the recommendation of the Board, subject to an overall limit of five terms. The function of the committee is to advise the Board on actuarial questions arising out of the Fund's operations. The committee's terms of reference allow for the addition of ad hoc members for a term of two years. In 2006, two ad hoc members were added to the committee in view of their special skills in asset liability management. In 2017, the Board approved the addition of two more ad hoc members considering the upcoming retirement of one member and commencement of three other members' final term.

42. The committee met once a year and since 2002, it held joint sessions with the Investments Committee every two years to maintain and enhance the link between the Fund's assets and liabilities, including assessing the continued reasonableness and achievability of the real rate of return of 3.5 per cent. The committee consistently reported to the Board that its joint meetings with the Investments Committee were effective in achieving that purpose.

D. Assets and Liabilities Monitoring Committee

43. In 2005, the then CEO proposed to establish this committee to achieve more systematic and regular interaction between the Investments Committee and the Committee of Actuaries. The Board's Standing Committee concluded that such a committee was unnecessary, considering that joint meetings of those two expert committees on assets and liabilities were already being held regularly. In 2007, the CEO proposed that he assume full responsibility for investment management. This proposal coincided with another joint proposal by the participants' representatives and FAFICS for the CEO to hire an independent investment adviser or create an additional investments committee under the Board. The Board did not approve these proposals because the Fund's existing governance set-up was considered adequate.

44. In 2012, the Board established a "working group on sustainability" to study measures to ensure the Fund's long-term sustainability. The working group recommended, inter alia, the establishment of a regular Assets and Liabilities Monitoring Committee of the Board, which was approved in 2013. Eight members were appointed to serve on the committee with a four-year term, renewable once.

45. From a governance perspective, mechanisms were already in place to monitor solvency risk or the balance between assets and liabilities, including joint meetings of the two expert committees, actuarial evaluations and asset liability management studies conducted every two and four years, respectively, and collaborative mechanisms established by the Fund for this purpose. Creation of the committee duplicated the existing mechanisms. From a technical perspective, given the Fund's long-term investment horizon, well-funded status, negligible risk to liquidity and relatively stable pension liabilities, there was no need to manage or monitor solvency risk on a frequent, short-term basis.

46. Currently, none of the committee's members has voting rights on the Board and four members are essentially outsiders. Since most of them are not investment experts, they required the CEO, the Representative of the Secretary-General for the Fund's investments (RSG), two members from each of the two expert committees, and the Consulting Actuary to support their work.

47. Article 19 of the Fund's regulations allows the Board to make "observations and suggestions" on the investment policy and examine investment accounts. However, the committee's work far exceeded the scope of Article 19. It essentially functioned like an oversight committee over IMD through its extensive review of investment matters. Some of its observations and recommendations were technically questionable and contradicted those of the Investments Committee. For instance, the committee repeatedly suggested that IMD should use more tactical asset allocation during a period whereas the Investments Committee had advised otherwise. Coverage of liability topics was limited and largely repeated the work of the Committee of Actuaries.

48. OIOS is of the opinion that there is no need for a permanent committee for asset liability monitoring due to the Fund's strong long-term funding status and effective governance mechanisms already in place for the same purpose. If necessary, the Board can include asset and liability management in its agenda and require the Fund's management to provide assurances as needed.

Recommendation 6 **The Board should retire its Assets and Liabilities Monitoring Committee and reinforce the interaction between the Committee of Actuaries and the Investments Committee to safeguard the Fund's long-term solvency.**

E. Audit Committee

49. The Board established its Audit Committee in 2007 to assist in fulfilling its oversight responsibility. The committee comprises of nine members appointed by the Board including two independent experts and a FAFICS representative. The committee followed the good practice of performing self-evaluations. There are a number of areas where the committee can strengthen its role and improve its effectiveness, as discussed below.

50. The committee needs to strengthen the criteria and procedures for selection of its members. The committee's selection procedures were informal, and there was no documented assessment as to whether the members nominated by the three constituent groups of the Board fulfilled the criteria for membership as defined in the committee's terms of reference. The committee could benefit from considering the practice followed by the Independent Audit Advisory Committee of the General Assembly, whose members are selected from a pool of candidates after the respective Member States have attested their qualifications based on pre-defined criteria.

51. Leading practices and trends indicate that audit committees should, inter alia, ensure the independence of its members, focus on the tone at the top, culture and ethics, and provide oversight of compliance with the organization's code of ethics/conduct. Since 2008, the committee's members have been complying with the requirement to file conflict of interest declarations before each meeting. However, in the absence of an independent secretariat for the committee, there was no procedure to independently verify or evaluate these declarations. There were instances where the committee could have applied a higher standard in managing perceived conflict of interest situations relating to its members by exercising its own judgment instead of referring the matter to another office or resorting to recusals which may not necessarily be the best solution. The committee's demonstration of adherence to a higher ethical standard by its members would strengthen its effectiveness and set an example for the Board and the Fund in establishing an ethical tone at the top.

52. In the opinion of OIOS, the committee needs to be more sceptical about the information and proposals provided to it by the Fund's Secretariat. For instance:

(i) In November 2014, the Board of Auditors stated that they were "taken aback" when they learned that the proposed amendments to Article 14 of the Fund's regulations relating to external audit had been presented to the General Assembly without any consultation. Eventually, the amendments were rejected by the Assembly. This may have occurred due to inadequate explanation to the committee of the rationale for the proposed amendments and confirmation that management had appropriately consulted with the Board of Auditors before proposing the changes.

(ii) In 2016, the committee reviewed the fraud policy prepared by IMD but not the fraud policy of the Fund's Secretariat. The Fund's Secretariat policy required UNJSPF senior management, including the CEO and Deputy CEO, to initiate the analysis of fraud-related concerns and determine the nature of any investigation, involvement of other offices, or an independent fact finder. Unlike the policy prepared by IMD, the Fund Secretariat's policy lacked the necessary safeguards to protect staff who report fraud, which may discourage them from reporting fraud for fear of retaliation. This issue assumes significance in view of the three complaints of retaliation filed by UNJSPF staff against the Fund's Secretariat, which the Ethics Office found to be substantiated.

(iii) As explained later in the present report, the CEO accepted an award from a vendor in February 2016 and informed the committee about it. However, the committee was not informed that acceptance of the award contravened the administrative instruction which requires that any honour, decoration, favour or gift from any individual or entity doing business with the Organization must be declined or returned.

(iv) The Fund's management informed the committee in 2017 that the internal audit function (performed by OIOS) was rated as "high risk" in the Fund's risk register. Evidently, the committee was not informed that the Fund had engaged an accounting firm at a cost of $101,810 to review/update its risk register, and that there was no known deliverable produced by the firm that could be deemed to be an updated risk register. Seemingly based on assertions of the Fund's management, the committee informed the Board that the non-acceptance of several audit recommendations suggested that management had lost confidence in OIOS. Further, in its meeting in November 2017, the committee concluded that the risk of not implementing the unaccepted recommendations was not clear from OIOS' reports (Report 2017/104 and 2017/110 which contained unaccepted recommendations). OIOS is of the view that such conclusions may have come about due to the committee's reliance on management's assertions without challenging them adequately to glean the facts.

Recommendation 7

The Board should, in consultation with its Audit Committee, strengthen the criteria for the committee's membership, its independence, and means to hold the Fund's management accountable for accuracy and completeness of information presented to it.

IV. Management structure of UNJSPF

A. Overview

53. UNJSPF was created as a subsidiary organ of the General Assembly by its resolution 248 (III) of 1948. The Fund's legal status remains unchanged with the admission of new member organizations. The General Assembly remains the Fund's supreme governing body and the United Nations remains its lead organization and host. Several mechanisms established since the Fund's inception continue to provide institutional linkages between the United Nations and the Fund, including the authority of the Secretary-General over the appointment of the Fund's CEO and Deputy CEO on the recommendation of Board, oversight by OIOS, the role of the Ethics Office which reports directly to the Secretary-General, and the role of the Fund's Secretariat as the secretariat of the United Nations SPC. IMD, which manages the investments of the Fund's assets, is also under the authority of the Secretary-General. Therefore, UNJSPF is not entirely independent from the United Nations.

54. However, the Fund had repeatedly asserted otherwise. For instance, in a 2014 report submitted to the Board, the Secretary/CEO asserted, inter alia, that the Fund is an "inter-agency body" and that the Secretary-General, as the executive head of a member organization of UNJSPF, must respect that independence. Similarly, the Fund disputed the discretionary authority of the Secretary-General over the appointment of the CEO and Deputy CEO and maintained that the Secretary-General was required to necessarily accept the Board's recommendation and implement it.

55. OIOS is of the view that the Secretary-General has discretion over the appointment of the CEO and Deputy CEO under Article 101 of the Charter of the United Nations which requires him/her to

uphold the necessity of securing the highest standards of efficiency, competence and integrity, which are the paramount consideration in the employment of staff. If the Secretary-General receives information from other offices which report to him – such as OIOS or the Ethics Office – which may cause him to believe that the principles of Article 101 of the Charter may be compromised by accepting the Board's recommendation to appoint or reappoint the CEO or Deputy CEO, the Secretary-General has the duty to act in a manner that upholds the principles of the Charter.

B. The Fund's Secretariat

56. The UNJSPF Secretariat is headed by the CEO who is appointed by the Secretary-General on the recommendation of the Board and manages the Fund's Secretariat under the authority of the Board. The Deputy CEO is similarly appointed. The UNJSPF Secretariat is primarily responsible for pension administration, including monitoring of actuarial valuations and contributions from member organizations and participants, and processing and paying pension benefits. The Secretariat also assists the CEO in his roles as Secretary of the United Nations SPC and the Board. Internally, the Secretariat provides administrative services such as human resources, travel and facilities management to IMD.

C. Investment Management Division

57. IMD is responsible for managing the investments of the Fund's assets. Under the authority of the Secretary-General, the RSG has a fiduciary responsibility to manage the investments in the best interests of participants and beneficiaries. IMD assists the RSG in fulfilling his/her responsibilities by: (i) executing the investment strategy in accordance with investment policies; and (ii) monitoring, evaluating and reporting on asset allocation, investment performance, and risk and compliance. Until the creation of a full-time position of RSG in 2014, IMD was headed by a representative designated by the Secretary-General on a part-time basis. The first full-time RSG was appointed in 2014 at the rank of Assistant Secretary-General.

V. Checks and balances between the Board and the Fund's management

A. Dual role of the Fund's CEO

1. Best practices in governance

58. The Internal Control Integrated Framework published by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) defines the concept of "control environment", which sets the tone of an organization and influences the control consciousness of its staff. One of the principles of the COSO control environment requires that the board demonstrates independence from management and exercises oversight of the development and performance of internal control. Best practices recommend that for good governance, the same person should not be appointed as the CEO and secretary because their responsibilities may conflict with each other.

2. Established practice in UNJSPF

59. Article 7 of the UNJSPF regulations states that the CEO shall also serve as the Board's Secretary. All sessions of the Board are convened by the Secretary, who also places on the agenda the items proposed by any Board member or SPC. All documents are presented to the Board with a note by the Secretary, who is also responsible for preparing the Board's reports. The records and correspondence of the Board are private and kept in the care of the Secretary.

60. The substantial authority given to the CEO as the Board's Secretary poses significant risks to the individual's objectivity and inhibits the "arm's length principle" in dealings with the Board, particularly with regard to accountability for the Fund's operations as its CEO. OIOS' review showed

that the dual role performed by the Secretary/CEO is not a sound governance practice, as explained below:

(i) The Secretary reviews the survey questions for the Board's self-evaluation and controls the compilation and distribution of its results. This arrangement poses a conflict because the Board is responsible for assessing the performance of the Secretary/CEO.

(ii) The Fund had established a quality management policy in 2002-03 as a key component of the "management charter" presented to the Standing Committee in 2001. This policy contained important metrics to measure the performance of the CEO and hold him accountable for the quality of service provided to participants and beneficiaries. In March 2017, the CEO abolished the policy without approval of the Board or the Standing Committee, thereby compromising his accountability to the Board.

(iii) The CEO controls the performance evaluations and promotions of all staff who provide secretariat support to the Board's committees. This arrangement could interfere with their independence and compromise the confidentiality of the committees' deliberations, particularly their closed/private sessions.

(iv) The dual role of Secretary/CEO enabled the incumbent to conceive and present proposals to the Board which sought to alter the Fund's governance. In 2007, one of the proposals was to end the Fund's bifurcated structure by creating one unified operational entity under his own authority. The Board did not accept the proposal. In 2012, the Secretary/CEO attempted to empower himself to amend the Fund's administrative rules, but the Board did not agree. In 2014, the Secretary/CEO tried to restrict the authority of the Board of Auditors by proposing an amendment to Article 14 (b) of the Fund's regulations which was endorsed by the Board but was not approved by the General Assembly. Had the Board's Secretariat been independent from the Fund's management, the CEO's proposals would have been scrutinized and challenged before being presented to the Board.

(v) In 2013, the Secretary/CEO established a project on human resources management and appointed a Board member as the project leader in his personal capacity on a pro bono basis. Although this individual was not eligible for business class travel and daily subsistence allowance at the special rate of 140 per cent, the CEO approved this deviation from the rules. The Board member reported to the CEO during the project. Later, the Secretary/CEO presented a report to the Board on this project. In appointing the Board member as project leader, the Secretary/CEO compromised the principle of management maintaining an arm's length from the Board.

(vi) The Secretary/CEO presented incorrect/incomplete information to the Board and the General Assembly on the actual status of the Fund's Executive Office, which was unilaterally dissolved by the CEO in June 2015. The CEO moved the Executive Officer and an Administrative Officer to another office in the United Nations Secretariat and distributed their functions internally. The dissolution was not reflected in the Board's report to the General Assembly. The salaries and allowances of the two staff members, which OIOS estimated at \$2.4 million for the period July 2015 to April 2018, continued to be paid by the Fund even though they ceased working for the Fund since June 2015. This was not disclosed to the Board. The disbanding of the Executive Office impacted IMD operations and led to unnecessary expenditures on unutilized office space and failure to recover the landlord's share of renovation costs amounting to \$923,880 for more than two years, as reported in OIOS Report 2018/002. The loss from the Fund Secretariat's failure to initiate the recovery is estimated at between \$100,000 to \$220,000 as of May 2018.

(vii) In 2016, the Secretary/CEO presented a report to the Board on the post-implementation of the Integrated Pension Administration System (IPAS), a project that he was responsible for implementing as CEO. The report was prepared by a consulting firm hired by the CEO at a cost of \$291,200 by improperly utilizing a contract for accounting services (see OIOS Report 2017/110). Based on the consulting firm's report, the Secretary/CEO reported to the Board that the implementation of IPAS was successful. The Board accordingly reported the project's success to the General Assembly, which the

Assembly welcomed (resolution 71/265). A subsequent audit by the Board of Auditors found several issues relating to IPAS, including anomalies in the data provided to the Fund's actuaries which led to unreliable actuarial valuation. The Assembly noted with serious concern (resolution 72/262) the shortcomings in IPAS implementation and requested the Board to address them. In this instance, the CEO exercised his authority to hire a vendor, who may have lacked independence and objectivity due to the conflict inherent in such a relationship, to prepare the report and then exercised his authority as Secretary to present it to the Board.

(viii) In June 2018, the Secretary/CEO proposed to amend the Fund's regulations by adding a new Article 4 (c) as follows: "The Board shall adopt its own Rules of Procedure which shall be reported to the General Assembly and the member organizations". This amendment is unnecessary because rule A.5 of the Board's rules of procedure states: "Subject to the provisions of the Regulations and of these Rules, the Board shall adopt its own procedures". The proposed addition of a new Article 4 (c) by omitting the words "subject to the provisions of the Regulations and these Rules" raises questions about the rationale for such an amendment.

61. The above conditions strongly indicate that the combination of the roles of Secretary to the Board and CEO of the Fund in one individual significantly compromises checks and balances. It fails to ensure the CEO's accountability to the Board because too much authority is concentrated in the same individual who, as the Board's Secretary, controls the information provided to the Board including its content and accuracy. Since the Board meets only once a year, submission of bulky documents to its members just a few days or weeks before the Board's annual sessions does not permit their independent vetting and scrutiny. Separation of the two roles would require the CEO to submit proposals or documents to the Board's Secretary for the latter's independent review before presentation to the Board for consideration.

62. Such separation of roles would require the creation of the Board's own independent secretariat to serve the Board and its committees on a full-time basis. OIOS is of the view that any additional costs arising from this new arrangement should be outweighed by the benefits which would include strengthening the accountability of the CEO to the Board and increased focus of the CEO in improving the quality of services delivered to the Fund's stakeholders.

Recommendation 8

The Board should: (i) separate the roles of its Secretary and the Fund's CEO; (ii) establish its own secretariat that is independent from the Fund's management; and (iii) reconstitute the Executive Office such that it is directly responsible to both entities of the Fund for provision of administrative services.

B. Performance management and accountability

63. Performance management and accountability is a critical component of good governance. The pension industry uses two major categories of indicators to measure pension administration performance: quality of service (effectiveness) and cost per participant (efficiency).

1. Performance management in the Fund's Secretariat

(a) Strategic objectives, priorities and performance indicators

64. The strategic objectives and priorities of the Fund's Secretariat were often abstract with no clear deliverables and measurable performance indicators linked to its core services. These issues have been reported in previous audits, such as OIOS Report 2017/002 in which control weaknesses pertaining to pension processing, including timely processing and follow-up of missing separation documents, were identified. Most of the audit recommendations in that report were still under implementation.

(b) Performance reporting

65. There was significant underreporting of performance issues relating to the Fund's Secretariat. For instance, it was only in January 2018 that the Fund reported more than 15,000 cases as outstanding due to various reasons, more than two years after the Fund had reported the successful implementation of IPAS. Until then, the Fund was reporting only some 3,000 cases as "backlog" which represented cases where all the three documents required for pension processing were received. The Fund was not reporting these 15,000-odd cases on the grounds that it was not responsible for them until all three documents were received. The Fund was not following up on the missing documents even though IPAS had an automated feature to trigger automatic reminders, and its quality management policy acknowledged its responsibility to proactively pursue these missing documents to mitigate the hardship caused to unpaid beneficiaries.

66. Although the Fund started computing and reporting the 'cost per participant' since 2012, it has not formally adopted this as a performance indicator. In 2015, the then Chairperson of the Board pointed to the relevance of this indicator while presenting the Fund's proposed budget for 2016-2017 to the General Assembly, projecting that the Fund's cost per participant for 2018-2019 would drop to the 2006 level following the efficiency gains brought by IPAS implementation. The Fund's methodology for calculating the cost per participant excluded the portion of the Fund's administrative costs borne by the United Nations, despite the inseparability of the SPC secretariat role from the Fund's operations. The actual cost per participant would be much higher if those costs were included: $233 for 2017 as compared to the $184 calculated by the Fund. Furthermore, the cost per participant projected by the Fund for 2018 ($192) is 28 per cent higher than that of 2006 ($150). The Fund's Secretariat was yet to conduct a benchmarking exercise to determine the reasonableness of its costs.

(c) Performance evaluation of the CEO and Deputy CEO

67. In 2013, the Board decided that its "bureau" would evaluate the performance of the CEO every two years with reference to the Fund's strategic objectives. In 2016, the "bureau" conducted the evaluation for the 2014-15 cycle. OIOS considers this evaluation to be inadequate because: (i) the CEO's performance was not measured based on clear deliverables and indicators; (ii) quality of core services, operational efficiency and implementation of critical projects were not prioritized; and (iii) his performance as Secretary of the United Nations SPC was also not assessed. The evaluation relied significantly on a self-appraisal submitted by the CEO which understated performance issues such as delays in benefit processing and overstated achievements such as implementation of IPAS.

68. The performance of the Deputy CEO was never evaluated. The Board's session in 2017 did not discuss the reappointment of the Deputy CEO, nor did it initiate a search process for his succession even though it was known that his first term would also expire in 2018.

(d) Performance evaluation of staff

69. The Board of Auditors reported that in May 2014, 46 per cent of the Fund's staff had not completed their performance appraisals for the 2012-13 cycle, and 47 per cent of staff members were awarded salary increment without proper performance evaluation for the year. The Fund accepted the Board's recommendation to effectively monitor and oversee the performance evaluation process and hold all managers and supervisors accountable. However, OIOS noted the completion rate of staff performance evaluation in the Fund has since deteriorated. As of April 2018, 43 per cent of staff in the Fund's Secretariat (more than 80 per cent for two sections under operations) had not completed their performance evaluation for the 2016-17 cycle. Also, there were several cases where the roles of first- and second-reporting officers were performed by the same supervisor, which weakened the checks and balances in managing the performance of staff.

2. Performance management in IMD

70. IMD had consistently defined its strategic objective as achievement of the long-term actuarial real rate of return of 3.5 per cent. IMD also measured and reported its performance against its policy benchmark which was regularly published on the Fund's website. The RSG signed a performance agreement with the Secretary-General every year and performance was evaluated accordingly. Those performance indicators cascaded down to IMD managers and staff. The completion rate of performance evaluation of IMD staff was 86 per cent for the 2013-14 cycle which had improved to 99 per cent for the 2016-17 cycle. IMD also conducted two benchmarking studies in 2012 and 2017.

Recommendation 9

The Board should: (i) establish mechanisms to ensure that annual performance evaluations of the CEO and Deputy CEO are conducted and documented based on clear metrics to hold them accountable; and (ii) ensure that the Fund's Secretariat is held accountable for annually appraising the performance of its staff.

C. Control environment

1. Best practice in governance

71. According to the COSO internal control framework, control environment is the set of standards, processes, and structures that provide the basis for internal control across the organization. Control environment is also the overall culture, tone and attitude of the organization. The Board is ultimately responsible for the control environment through effective oversight and setting the tone for integrity and ethical values.

2. Culture, tone and attitude of the organization

(a) Transparency and accountability

72. Transparency is regarded as a key feature for good governance and a precondition for accountability. The Board currently places restrictions on distribution of its documents; its handbook states that all documents for Board, Standing Committee and SPC meetings are restricted and confidential. Members of the Board and its committees sign a declaration which requires them to maintain the confidentiality of all non-public information entrusted to them or otherwise obtained by them in the discharge of their responsibilities. The confidentiality requirement precludes the Board members from obtaining any independent advice, in good faith, from others who may have the required expertise to suitably apprise them of the implications of the proposals before the Board and the potential consequences of its decisions thereon. OIOS is of the view that many of the "restricted" documents are not confidential in nature and should be made available to the Fund's stakeholders who may not be assured of accountability if the required transparency and access to information is absent.

73. The Fund's Secretariat repeatedly resorted to the practice of proposing amendments to the Fund's regulations and rules without consulting or even informing the concerned stakeholders within the Fund's governance structure who would be impacted by such amendments. This practice raises serious doubts about its commitment to transparency and fairness, as well as the underlying motives in adopting such an opaque approach while altering the Fund's regulatory framework. This situation is facilitated by the combination of roles of the Board's Secretary and the Fund's CEO.

(b) Independence and impartiality

74. In February 2016, the CEO accepted an award from a vendor with whom the Fund had established a contract for its basic services. The contract was entered into in March 2012 by the former

CEO against the advice of the Headquarters Committee on Contracts which resulted in rejecting the lowest acceptable proposal and incurring an additional commitment of $1 million, as described in the OIOS Report 2016/136. The current CEO, who was the Fund's Deputy CEO when the Fund awarded this contract to the vendor in 2012, had worked for the same vendor before he was first appointed in the Fund. In his self-evaluation in 2016, the CEO highlighted this award as a significant achievement.

75. Acceptance of the award from the vendor contravened the administrative instruction which requires that any honour, decoration, favour or gift from any individual or entity doing business with or seeking to do business with the Organization must be promptly declined and returned. The Fund's Secretariat explained that it had reported the receipt of the award to the Board and the Audit Committee, who did not provide any advice or suggestions but acknowledged the achievement. OIOS is of the view that such an endorsement does not set the appropriate tone as to the standards of conduct expected of the Fund's management and staff.

(c) Integrity and ethical values

76. COSO principles relating to the control environment state that organizations must demonstrate a commitment to integrity and ethical values. OIOS came across a number of instances where the Fund's Secretariat may have failed to do so. For example, the CEO did not intervene to prevent conflict of interest in recruiting a senior manager where the latter was a candidate for the post but also involved in correspondence relating to the post's classification. In another instance, a senior manager copied a staff member in his email with assessment questions for a post for which the latter had applied. In both cases, the Fund's Secretariat proceeded to select these staff members.

77. The current Chief Information Officer (CIO) of UNJSPF serves as vice-chairperson of the management committee of a United Nations agency which provides services to several United Nations entities including UNJSPF. The management committee decides the agency's catalogue of services and the rates to be charged for them. In his role as CIO, he directly supervises the requisitioning of services from the agency, currently amounting to $7 million per annum. The CIO is a former OIOS staff member who, in 2009, had supervised an OIOS audit of services provided by the agency to several United Nations entities including UNJSPF. That audit gave rise to a recommendation which asked for a department of the United Nations Secretariat (Department A) to determine and recover overpayments made to the agency for services not requested or not delivered. Department A recently indicated that it had withheld payments of approximately $5 million to the agency, pending resolution of the disputed charges. Department A further stated that the agency had recently requested the CIO to assist as an intermediary to review and advise both parties on how to resolve the disputed $5 million. The combination of roles performed by one single individual – as OIOS auditor who made the recommendation to Department A, as CIO and requisitioner of services from the agency on behalf of UNJSPF, as vice-chairperson of the agency's management committee, and now as intermediary in the dispute between the agency and Department A which he had previously audited – gives rise to multiple conflicts of interest which could impair his independence and impartiality.

78. Information provided to OIOS indicates that there were three complaints filed by UNJSPF staff alleging retaliation by the Fund's Secretariat. The Ethics Office had determined that retaliation was established in all three cases. These instances point to the need for the Board to restore confidence among staff and promote ethical conduct without fear of reprisal.

Recommendation 10

The Board should take effective measures to ensure that the Fund's Secretariat sets the appropriate tone at the top with regard to integrity and ethical values.

3. Organizational structure

(a) Resource distribution

79. OIOS review of the resource distribution for seven biennia from 2004-2005 to 2016-2017 showed that the Fund's Secretariat used more resources for support functions than for its programme of work. According to industry standards, functions relating to legal, policy interpretation, actuarial valuation and risk management are all considered as support services. On this basis, the resource distribution for programme of work and programme support for the 2016-2017 biennium was 46 per cent and 48 per cent respectively which indicated an apparent prioritization of support functions over programme activities.

80. The number of established posts for P-5 and D-1 in programme support, including the Risk Management and Legal Services (RMLS) which was created in 2014, had increased by 250 per cent from the 2004-2005 biennium to 2016-2017. The number of established posts in the Professional category for legal officers increased by 500 per cent between 2004-2005 and 2016-2017, representing the largest increase among all functions/sections in the Fund's Secretariat.

(b) Combination of diverse functions under RMLS

81. Prior to 2014, the risk management function had a direct reporting line to the CEO. With the new structure since 2014, the Fund Secretariat's risk officers report to the Chief of RMLS. The post of Chief of RMLS (D-1) was approved after several unsuccessful attempts by the CEO over three consecutive biennia to either create a new D-1 post or reclassify the existing P-5 in the Legal Section to D-1. Given that the main responsibility of the incumbent is to direct, manage and provide guidance to all services under RMLS (including actuarial valuation and risk management), it is unclear whether this is being achieved effectively because the incumbent's background is predominantly in legal services. The CEO's rationale for creating RMLS was that it would "enhance the Fund's ability to understand and oversee key solvency issues and provide adequate and professional integrated analysis for informed decision-making at the legislative and managerial levels." These functions require specialized knowledge and skills that are distinct from the skill set for legal services. The consolidation of diverse, specialized functions within RMLS whose head is essentially a legal officer may not be desirable from a governance standpoint and could lead to application of a legal perspective to non-legal functions. This, for instance, has been evident from the Fund's responses to oversight reports, prepared for the CEO by RMLS, which indicate a distinctly legalistic approach towards risk and control, rather than a managerial one.

(c) Questionable use of temporary resources

82. In June 2016, the Fund hired a senior officer at P-5 level on a temporary basis to support its strategy for public communication. In July 2016, the Fund requested a regular P-5 post for this function but the request was rejected by the ACABQ. In 2017 the Fund's Secretariat requested the same post again, with a slight change in title. The ACABQ rejected the request again stating that "the focus of the Pension Fund should be primarily on improving its operations". Despite the advice of the ACABQ in 2016 and 2017 which was endorsed by the General Assembly, the Fund's Secretariat continued to fund the post through general temporary assistance (GTA) resources which were provided for other purposes. Similarly, in 2015 the Fund's Secretariat requested reclassification of a post of programme officer from P-4 to P-5 which was rejected by the ACABQ. Despite this, the Fund hired a staff member for this function using GTA resources provided for other purposes. Also, since May 2015, the Fund's Secretariat has hired a senior manager (D-1) on a temporary basis to support its administrative functions. However, resources for this post were never requested or approved. OIOS is of the view that such circumvention or overriding of legislative decisions by the Fund's Secretariat does not set the appropriate tone for the Fund's staff.

Recommendation 11

The Board should: (i) determine the appropriateness of the distribution of resources between programme and support functions; and (ii) strengthen monitoring to ensure that the Fund's Secretariat utilizes resources in accordance with legislative decisions.

4. Search panel for the Deputy CEO

(a) Shortcomings in the search process

83. In February 2018, the Board's Chairperson established an ad-hoc "Deputy CEO search panel" comprising 8 members to fill the upcoming vacancy arising from the incumbent's decision to separate from the Organization on 30 June 2018. The Board's Chairperson asked the spokespersons of the three constituent groups and FAFICS to coordinate the nomination of two representatives from their groups to the search panel. Some Board members representing the United Nations objected to this approach and requested to follow the rules to convene the Standing Committee (which should act on the Board's behalf when the Board is not in session) to oversee the search panel's work for which the related procedures were previously accepted by the Board in 2004. However, the Chairperson of the Standing Committee declined to convene the committee stating that the request should come from the SPC, not from individuals. There was no evidence that the Deputy CEO, who was acting as the secretary of the United Nations SPC and also the Secretary of the Board and the Standing Committee, made such a request to the Standing Committee.

84. In a note to the Board in 2004, the CEO had summarized the procedures followed in 1998 for the same purpose and emphasized on establishing selection procedures that could also be used in future. Accordingly, the Board had decided at the time to use the same procedure as in 1998; it had authorized the Standing Committee to appoint a search group and requested the Board's Secretary to circulate the draft of a job description and vacancy announcement to SPCs and Board members for comments before they were finalized by the Standing Committee. However, for the 2018 search for Deputy CEO which was ongoing during the audit, the job opening was prepared by the search panel without circulation to SPCs, the Standing Committee or Board members. After the job was advertised, some Board members raised concern that the Deputy CEO's duties relating to his/her dual role as the Deputy Secretary of the United Nations SPC were missing in the job opening.

85. Apart from the procedural deviations indicated above, OIOS has additional concerns relating to the search panel, as follows:

(i) During previous searches for the CEO and Deputy CEO, the secretary/rapporteur of the search panels were independent and free from any apparent conflict of interest. In the present case, however, according to information known to OIOS, a P-4 staff of the Fund's Secretariat was assigned to this role, which raises concern because some senior managers of the Fund may be candidates for the post. Given the staff member's junior level in the Fund's hierarchy, the integrity of the process may be compromised by the potentially conflicting role as secretary of the search panel.

(ii) The job opening issued by the Office of Human Resources Management (OHRM) on 2 March 2018 had an additional section titled "salary and benefits" (not normally found in other job openings) which indicated the post's "net annual salary" as $108,189 after staff assessment. It also provided a web link to another page which gave information on United Nations system salaries and benefits. Even though OHRM defines "salary" as comprising of two elements (base salary and post adjustment), the figure of $108,189 indicated in the job opening did not include annual post adjustment amounting to $72,378. External candidates had to delve through layers of information to ascertain the actual salary for the post whereas such basic information should be available upfront, as in the vacancy notice for the CEO's post issued in September 2011 which indicated the "net annual salary" inclusive of post adjustment. The provision of incomplete information on such an important condition of service may be seen as an unfair practice aimed to give an advantage to internal candidates.

86. The search process has been mired in controversy and disagreement among Board members and members of the Standing Committee which does not reflect favourably on the Fund from a governance perspective. The deviations from established procedures, combined with the appearance of arbitrariness and conflict of interest, raise questions about fairness and may undermine the credibility of the selected candidate.

> **Recommendation 12**
>
> **The Board should assess the composition and procedures of the search panel for the Deputy CEO in light of the deviations and apparent arbitrariness in the process and determine whether the search should be restarted to ensure the integrity and fairness required in a competitive exercise.**

(b) Lack of succession planning

87. The current CEO's performance was evaluated for the first time in 2016, some 18 months before expiry of his first term, apparently to determine whether the incumbent's performance was adequate to be recommended for a second term starting 1 January 2018. Had this not been done then, the Board would have had to appoint a search panel for a new CEO sufficiently in advance to allow it to recommend an appointee during its 2017 session. However, no such consideration was given in the Deputy CEO's case even though it was known that his first term would end on 31 August 2018. In December 2017, the Board's Chairperson advised Board members of the Deputy CEO's decision to retire on 30 June 2018, two months before the end of his first term and one month before the Board's 2018 session. This decision by the Deputy CEO, which came at a time when it was well known that the CEO was on extended sick leave with no definitive date of return to duty, triggered a succession crisis in the Fund's Secretariat. Eventually, the Deputy CEO agreed to serve until 31 August 2018. The job opening was issued on 2 March 2018 with a closing date of 15 April 2018 (just 4.5 months before the incumbent's impending retirement and 3.5 months before the Board's 2018 session). The Board needs to prevent recurrence of such situations through proper succession planning and formalizing the search procedures based on good practices followed in 1998 and 2004 rather than devising new procedures each time.

> **Recommendation 13**
>
> **The Board should ensure proper succession planning for the positions of CEO and Deputy CEO to allow adequate time for their competitive selection based on pre-established procedures.**

Annex

Comments received from the Chairperson of the sixty-fourth session of the United Nations Joint Staff Pension Board on the draft report of the Office of Internal Oversight Services on a comprehensive audit of the governance structure and related processes of the United Nations Joint Staff Pension Board

1. I acknowledge receipt of your memorandum dated 2 July 2018 and have taken note of the draft report enclosed therewith, which you sent to me for review. As you are aware, the draft report has been sent to the Board Members and the Secretaries of the Staff Pension Committees of the member organizations of the Pension Fund. Furthermore, the Board Members have been invited to communicate to you any comments they may have on the draft report's factual accuracy.

2. Since OIOS timelines for finalizing this report do not allow for the Board to discuss and provide its full comments before the OIOS report is published, I wish to re-confirm herewith that the Board will review the OIOS report at its forthcoming 65th session in July-August 2018 and provide its response in the Board's next report to the General Assembly. We would appreciate if your office would note this in the OIOS report to the General Assembly.

3. Further to my communication of 18 June 2018 and your response of 20 June 2018 on the Detailed Audit Results, *inter alia*, officially inviting you to present the draft report at the forthcoming 65th Board session (Rome, 26 July – 3 August), *the* governing body of the Pension Fund and *the* auditee, the impossibility of OIOS to address the Board is deeply regretted by Board members. However, I am informed that OIOS will present the draft report, by video conference to the Board and the members will, in turn, have an opportunity to put questions to you and your team on that occasion.