



AUD II-7-4:5 (AE64/05)

22 March 2005

TO: Mr. Sergei Ordzhonikidze, Director-General
United Nations Office at Geneva

FROM: Egbert C. Kaltenbach, Director
Internal Audit Division II
Office of Internal Oversight Services

SUBJECT: **OIOS Audit of UNOG Memoranda of Understanding with Users
(AE2004/311/04)**

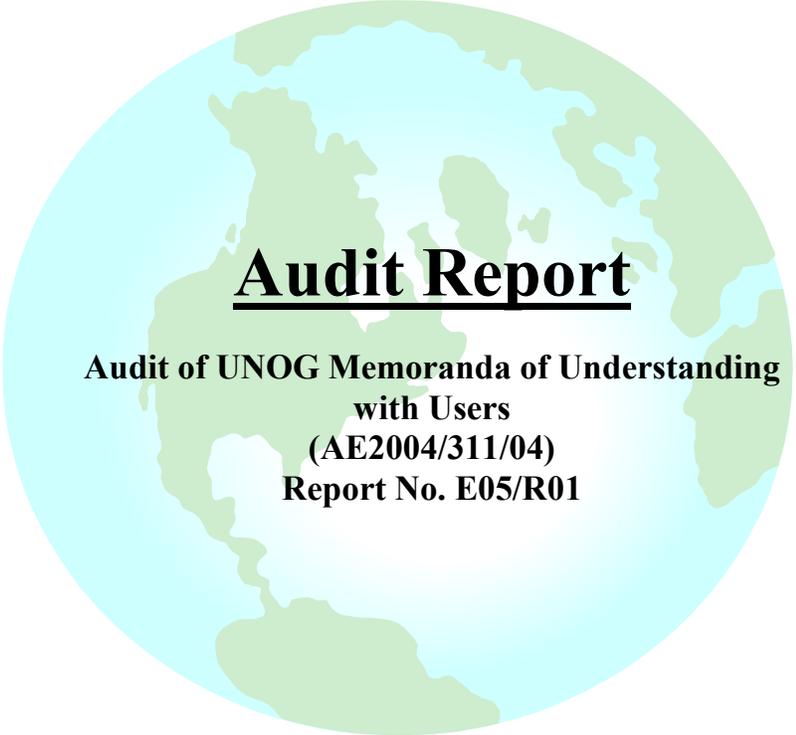
1. I am pleased to submit the final report on the audit of UNOG MOUs with users, which was conducted in August and September 2004 by Anita Hirsch and Diomedes Tiñana.
2. A draft of the report was shared with the Director, Division of Administration on 21 December 2004, whose comments, which were received in January 2005, are reflected in the final report.
3. I am pleased to note that most of the audit recommendations contained in this final report have been accepted and that the Division of Administration has initiated their implementation. The table in paragraph 57 of the report identifies those recommendations, which require further action to be closed. I wish to draw your attention to recommendations 1, 2, 7 and 8, which OIOS considers to be of critical importance.
4. I would appreciate if you could provide me with an update on the status of implementation of the audit recommendations not later than 31 May 2005. 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.
5. 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 form and return it to me under confidential cover.
6. Thank you for your cooperation.

Attachment: Client Satisfaction Survey Form

cc: Ms. C. Bertini, Under-Secretary-General for Management (by e-mail)
Mr. S. Goolsarran, Executive Secretary, UN Board of Auditors
Mr. T. Rajaobelina, Deputy Director of External Audit (by e-mail)
Mr. B. Juppín de Fondaumière, Director, Div. of Administration, UNOG (by e-mail)
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**United Nations
Office of Internal Oversight Services
Internal Audit Division II**

A stylized globe with a light blue background and green landmasses, centered behind the main title text.

Audit Report

**Audit of UNOG Memoranda of Understanding
with Users
(AE2004/311/04)
Report No. E05/R01**

- **Report date: March 2005**
- **Auditors: Anita Hirsch, Diomedes Tiñana**

UNITED NATIONS



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Office of Internal Oversight Services
Internal Audit Division II

OIOS AUDIT OF UNOG MEMORANDA OF UNDERSTANDING WITH USERS
(AE2004/311/04)

EXECUTIVE SUMMARY

From August to September 2004, OIOS conducted an audit of the Memoranda of Understanding (MOUs) signed by UNOG with other UN entities for the provision of support services for extrabudgetary activities. Such agreements were initiated by UNOG to formally list the services and billing conditions. Performance measurement was later introduced. UNOG total expenditure for these services amounted to \$24.4 million in the 2002-2003 biennium, while income amounted to some \$26.3 million.

OIOS met with UNOG Services and client entities to assess the efficiency of MOU management and client satisfaction. Most of the clients regarded the services per se as satisfactory and the implementation of the MOUs as an improvement, but considered the billing process as complex and too late.

At the exit conference on 20 October 2004, UNOG presented OIOS with a copy of a revised delegation of authority on financial matters dated 27 July 2004. On this basis, UNOG plans to change the manner it charges UN Secretariat entities for services to extrabudgetary funded activities and the format of written agreements for these services. While taking this recent development into account, OIOS maintains that UNOG, regardless of the type of agreement, could benefit from findings and recommendations to improve the MOU format, cost accounting process and tools to further develop communication with and reporting to client entities.

UNOG, Division of Administration, has accepted most of the recommendations made and is in the process of implementing them.

Entities serviced by UNOG

- ST/SGB/2000/4 dated 24 January 2000 entitled "Organization of the United Nations Office at Geneva" does not give a complete view of the UNOG's client entities serviced by UNOG and the extent of the services provided to them. OIOS recommends an updated ST/SGB to reflect that UNOG provides administrative and other support services to a variety of UN entities. *The UNOG Division of Administration indicated that it had submitted to the Director-General the proposed revision of Section 5, Division of Administration, of the ST/SGB/2000/4.*

Content of the MOU

- Not all services to certain client entities financed by extrabudgetary resources were covered by an MOU or other written agreement. Among those existing, some have expired or did not include current services. *UNOG concurred with OIOS that it would ensure that all*

administrative and support services are covered by pertinent written agreements.

- Clauses of the MOU providing for joint reviews of performance were seldom complied with. In practice, formal reviews were the exception rather than the rule. The content of the MOU and the implementation should be reviewed with the aim to establish clear communication and reporting lines with client entities. *UNOG agreed to OIOS recommendations to review the frequency and format of the joint performance reviews.*

Performance measurement

- Performance indicators, a measure of performance toward the achievement of planned outputs, should be reduced to a few representative ones, targeting priorities or focus areas that are agreed with the client entities, and regularly monitored. Performance measurement should aim for cost efficient and quality services. *UNOG agreed to OIOS recommendation to reduce, simplify and monitor performance indicators.*

Cost accounting and billing

- There was no standard methodology for monitoring workload and time spent in providing the services. The cost accounting process is complex and cumbersome but yet not as accurate as planned. This delayed the final billing for services for several months after the end of the year. *UNOG noted OIOS' recommendation to streamline the methodology to use appropriate cost drivers and considered the difference between actual and standard costs as insignificant.*
- In its plan to charge a single support cost ratio to some of its clients, UNOG should try to keep a unique cost recovery formula, based on clear indicators, to avoid duplicating work and/or introducing more complexity to the system. *UNOG plans to obtain the approval of the UN Controller for a simplified way to charge support costs.*
- The calendar of the billing process and the issuance of the final adjustment figures to the client in July-August of next year are not satisfactory. OIOS recommends that the process be expedited and that prior agreement on the charges shared be reached with the clients. *UNOG replied that it would expedite the process in order to issue bills by the end of June at the latest.*

Assessing client satisfaction

- UNOG last undertook a client satisfaction survey in 2000. Although this exercise covers wider clients and services than just MOUs, the resumption of such an exercise would allow UNOG to identify possible areas for improvement and priorities for action. *UNOG plans to launch the Client Satisfaction Survey shortly.*

TABLE OF CONTENTS

CHAPTER	Paragraphs
I. INTRODUCTION	1-5
II. AUDIT OBJECTIVES	6
III. AUDIT SCOPE AND METHODOLOGY	7-8
IV. AUDIT FINDINGS AND RECOMMENDATIONS	9-56
A. Entities serviced by UNOG	9-11
B. Content of the MOU	12-19
C. Performance measurement	20-24
D. Cost accounting and transparency	25-41
E. Billing for support activities	42-54
F. Client satisfaction monitoring	55-56
V. FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS	57
VI. ACKNOWLEDGEMENT	58

I. INTRODUCTION

1. From August to September 2004, OIOS conducted an audit of UNOG MOUs with Users. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. As stated in ST/SGB/2000/4 on the organization of the United Nations Office in Geneva, one of its main functions, through its Division of Administration, is to provide administrative and other support services. In 2004, UNOG provided such services to 19 UN offices and units and 22 other entities of the UN common system¹. The coordination and monitoring of agreements in this regard rest with the Programme Planning and Budget Section, within the Financial Resources Management Service. The most comprehensive agreements on the services are Memoranda of Understanding (MOUs), which list the terms and conditions governing the provision of these services to UN entities financed on extrabudgetary funds. UNOG total expenditure for such services amounted to \$24.4 million in the 2002-2003 biennium.
3. Subsequent to the audit, UNOG presented to OIOS copies of a delegation of authority on financial matters dated 27 July 2004 and a memorandum from the UN Controller dated 12 October 2004 on how to adapt MOUs and cost recovery accordingly. As a result, UNOG is anticipating major changes in the cost recovery methodology applied for UN Secretariat clients and is reconsidering the principle of signing MOUs with those clients. For client entities outside the UN Secretariat, the situation should not vary, or if it does, only slightly.
4. OIOS has considered these subsequent developments in finalizing the report. While some observations refer to past events and should only be noted, others should be considered in the light of new arrangements with UN Secretariat clients or as improvements in current services to non UN Secretariat entities.
5. The findings and recommendations contained in this report have been discussed during the Exit Conference held on 20 October 2004 with the Director, Division of Administration, the Chief, Financial Resources Management Service (FRMS), and the Chief, Programme Planning and Budget Section (PPBS). A draft of this report was shared with the Director, Division of Administration, on 21 December 2004, whose comments have been reflected in the report in italics. *UNOG, Division of Administration has accepted most of the recommendations made and is in the process of implementing them.*

II. AUDIT OBJECTIVES

6. The main objectives of the audit were to evaluate the existing monitoring and reporting tools as well as procedures related to MOUs to assess:
 - The adequacy and efficiency of UNOG MOU management;
 - The transparency and accuracy of the reporting process;
 - The satisfaction of UNOG clients.

¹ Proposed Programme Budget for the biennium 2004-2005, Section 29E Administration, Geneva.

III. AUDIT SCOPE AND METHODOLOGY

7. The review focused on MOUs signed between UNOG and other UN entities and the implementation thereof since 2002. Considering the multiplicity of clients and the variety of services rendered, the review was not one of specific UNOG services and processes or accounts, but an assessment of each party's role and controls in implementing the MOU.

8. Using the provisions in the MOU as standards that the signing parties had set for themselves, OIOS compared them with existing practices and processes. In meeting with UNOG services, OIOS also assessed the tools in place to monitor the activity, cost drivers and performance in rendering the pertinent services. OIOS' review of the billing process aimed to understand the calculation of costs and the invoicing timeframe. OIOS also met with most MOU clients to collect their views on the quality and performance of services and on the MOUs themselves.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Entities serviced by UNOG

9. ST/SGB/2000/4, dated 24 January 2000, entitled "Organization of the United Nations Office at Geneva" states in Section 2.1 that "The United Nations Office at Geneva (UNOG) [...] provides administrative and other support services for the Office of the United Nations High Commissioner for Human Rights (OHCHR)" and "conference services for the United Nations meetings held at Geneva and other locations, as well as for the specialized agencies understanding or special arrangements." Actually, per Section 29E Administration, Geneva, of the Proposed Programme Budget for the biennium 2004-2005, UNOG services "19 UN offices and units as well as [...] 22 other entities of the United Nations common system".

10. As already recommended by the Board of Auditors in its Management Letter dated 22 May 2002, UNOG should clarify its responsibilities vis-à-vis other UN entities through an updated ST/SGB, setting out the entities and the personnel, financial and general services provided. UNOG mentioned that to include all services in the ST/SGB would require frequent revisions as the entities they service constantly could change. OIOS does not expect the ST/SGB to list each and every entity serviced by UNOG but to clearly reflect that UNOG provides services to a variety of entities within and outside the Secretariat.

Recommendation:

- The UNOG Division of Administration should initiate a revision of the January 2000 ST/SGB on the Organization of UNOG to properly reflect that UNOG provides administrative and other support services to a variety of UN entities within and outside the Secretariat (Rec. 01).

11. *UNOG Division of Administration indicated that it had initiated the revision, submitting a new draft of the Section 5, Division of Administration of the ST/SGB/2000/4 to the Director-General.* To record this implementation as implemented, OIOS requests a copy of the revised ST/SGB/2000/4 once issued.

B. Content of the MOU

12. Starting 1999, UNOG initiated Memoranda of Understanding (MOU) as a way to formally list the services provided on a cost recovery basis to UN client entities, financed from extrabudgetary funds, and billing conditions. Performance indicators were later included in the agreement.

13. From the list of third parties, which UNOG bills for administrative support activities (under a special account), OIOS noted that several entities (UNEP, UNCTAD, ECE) had no signed MOU with UNOG, which represented that they were under negotiation. Furthermore, out of the ten existing MOUs, five had expired and at least two (UNHCR and UNDP) did not reflect recent major changes in the level of services provided. Specialized agencies in Geneva, which make use of Mail and Pouch services had no updated agreement detailing the conditions. Smaller organizations, from which UNOG retains the full programme support, have no MOUs.

14. *UNOG Division of Administration replied that only two MOUs could be considered expired at the time, as all other agreements were either open-ended or contained a clause for the annual review of the MOU either through correspondence or by calling for a joint review meeting.* Related exchanges of correspondence were, however, not provided to the auditors.

15. UNOG explained that the overall policy is to implement MOUs with UNOG's major clients as a priority. Services representing the most significant income for UNOG are covered under a signed agreement. UNOG further advised OIOS that following its revised delegation of authority, and the Controller's preference for an agreed "annual apportionment of programme support resources" with UN Secretariat clients, the practice of MOUs with such clients would be discontinued and replaced by a letter to UN Departments. MOUs would then only apply to non-UN Secretariat clients.

16. OIOS does not object to the discontinuation of MOUs with UN Secretariat entities, as long as services provided and cost to be reimbursed have been agreed in writing.

Recommendation:

- The UNOG Division of Administration, as set forth in UN Financial Rule 105.11(b), should ensure that "each management and support services arrangement shall be covered by a written agreement between the UN and the entity on whose behalf the services are to be provided. Such agreement shall, inter alia, specify the services which the United Nations is to provide in return for full reimbursement to the United Nations of any costs incurred by it in providing the services." (Rec. 02).

17. *UNOG concurred with the policy recommended.* OIOS would consider this recommendation as implemented when it receives copies of the seven signed agreements (UNEP, UNCTAD, ECE, UNCCD, UNSSC, OCHA, UNHCR and UNDP).

Joint review clause

18. Existing MOUs generally provide for an annual joint review and/or joint working groups. However, no joint review took place although the MOU with UNHCR allowed

replacing the joint review with an exchange of correspondence in the event of force majeure. OIOS was provided only with minutes of a meeting with UNHCR in 2002, and another one with OCHA in 2003. PPBS explained that the reviews were more of an informal kind and that formal meetings were the exception rather than the rule. UNOG further explained that *ad hoc* performance reviews involved managers and administrators, particularly for ICT and financial services with an established protocol. OIOS appreciates the explanation given. Nevertheless, if an annual joint review is considered to be too frequent or is to be replaced by a less formal exchange of views, the clause in the MOU should be amended to reflect that reviews and meetings are optional, UNOG could also avail itself of regular meetings with a group of clients to improve communication as well as mutual understanding of all parties' expectations.

Recommendation:

- The UNOG Division of Administration should reconsider the frequency and format of the annual joint reviews foreseen in the standard MOU and should amend the MOU, as appropriate, in order to bring it in line with existing practices (Rec. 03).

19. *UNOG indicated they intend to carry out a review of the frequency, the format and level of joint reviews and that clients would be consulted to ensure that they agree with the new procedure to be consistently reflected in all MOUs.* OIOS will record this recommendation as implemented upon receipt of copies of minutes or results of discussions of UNOG with client entities.

C. Performance management

20. A table of performance indicators for each action is annexed to all MOUs. UNOG FRMS regarded these indicators as an improvement of those used for Results Based Budgeting. However, OIOS found that the indicators listed were not always adequate, as some of them were not measurable and were mere indications of actions to be taken by UNOG to perform the services. Of the measurable indicators, no update was available and the clients did not monitor performance either. Therefore, the use of performance indicators, as a tool to monitor or review arrangements as planned in the MOUs, did not materialize. Although maintaining that the majority of the performance indicators of the current MOUs are measurable, UNOG would revise those that are not in amending the MOUs.

21. UNOG started to monitor indicators in 2004 for some services, with no reporting to the client so far. FRMS has developed scripts to extract data from IMIS. FRMS monitors the standard deadline for each action and analyses actions that do not meet the targets. The Mailing and Pouch Section has developed and plans to circulate a questionnaire to users to assess their satisfaction of the services. ICTS is also considering performance monitoring with the creation of a baseline and plans to undertake a needs assessment. As UNHQ is planning to monitor performance, future steps to implement performance measurement in the ICTS area shall be determined in a concerted manner.

22. In OIOS' opinion, beyond cost recovery, the implementation of the MOU should be reviewed with the aim to ensure clear communication and reporting lines with client entities. As other UN entities are contributing increasingly, through cost reimbursement mechanisms, to the budget of UNOG administrative services and are not only seen as users, but also as

clients, UNOG should develop client orientation as well as increase accountability and transparency.

23. UNOG is currently using numerous performance indicators. Performance indicators, a measure of performance toward the achievement of planned outputs, are more efficient if only a few are established and monitored. UNOG should thus reduce its indicators to a few representative ones, targeting priorities or focus areas identified and agreed with the client entities. UNOG could then regularly monitor them and, as provided for in some of the MOUs, use them for discussion with the clients to improve existing arrangements. Performance measurement would then turn into efficiency and quality drivers.

Recommendations:

- The UNOG Division of Administration should consider reducing the number of performance indicators used for administrative and other support services to limit the cost and time of collecting data and reporting results, focussing on a few performance indicators that can be generated with a reasonable investment of time (Rec. 04).
- The UNOG Division of Administration should develop processes for the measurement of their performance as well as controls for initiating corrective actions in case performance targets are not met (Rec. 05).
- The UNOG Division of Administration should clarify with clients its approach for performance measurement and reporting, and the use of the results of performance evaluation to refine performance indicators and targets in subsequent periods, through a joint exercise with the clients (Rec. 06).

24. *UNOG concurred with the recommendations and the proposed courses of action.* OIOS will record this recommendation implemented when it receives a copy of the amended performance indicators, targets and related monitoring processes.

D. Cost accounting and transparency

25. Services provided by UNOG are billed based on the following factors:

- Direct costs for services provided by dedicated staff or for directly invoiced goods and services;
- Indirect costs through an apportionment of staff costs for common services.

26. While the first factor is a simple cost transfer exercise, the second results from a multiple layer cost-accounting exercise, using workload indicators, work months and standard staff costs. OIOS reviewed the various factors.

(a) Cost drivers for the reimbursement of services

Workload indicators

27. Apart from a very limited number of services for which the criteria for cost accounting

is available (payroll based on the number of staff payrolled), the basis for cost accounting for common services rests on workload statistics: specific actions required to perform the service are identified and summed up to reflect the annual workload of a unit.

28. In the same area, but for different services, the criteria used to apportion the cost varied and could be streamlined:

- Payroll services provided by FRMS were charged on the basis of a ratio of the serviced entity's number of staff to grand total of staff payrolled. Payroll related services by IMIS were charged on the basis of the number of instances a staff member went through payroll to the total number of instances for IMIS support to the payroll module;
- Human resources services were charged based on a ratio of personnel actions performed for the client to total personnel actions performed by HRMS. IMIS support for the HR module was recovered based on a ratio of number of months of post occupancy for staff of a serviced organization to the total number of months of post occupancy for IMIS support to the Human Resources module.

29. The above examples show that the current workload indicators are overly complex and could be streamlined from Service to Service.

30. Workload statistics for IMIS support, as updated in 2002, and provided to PPBS for annual invoicing to clients show a different basis for calculation from the workload indicators in the latest version of the MOU.

Work months calculation

31. Together with the workload statistics, each service needs to provide the work months spent in each service for delivering the work. In some instances, the methodology to determine the work months could not be documented. Altogether OIOS observed that there is no UNOG-wide policy for estimating the work months. As a result some services include in their calculation of workload a provision for management overhead (HRMS), while some do not (Mail & Pouch). The decision appears to be left at the discretion of the Chief of each Service.

32. *UNOG stated that such overhead costs are appropriate for some services and not to others.* However, going by the definition of overhead as “incurred in the upkeep or running of premises or a business”, OIOS is of the opinion that all services provided by UNOG induce overhead costs, at least with the Service general management, and the issue lies with their invoicing to client entities or not.

33. OIOS compared in Table 2 work months and workload statistics for a given unit from one year to the other to assess their consistency and found no clear relationship between the two. *UNOG emphasized that changes, such as technology / procedures, can have an impact on the output of a unit.* OIOS concurs with UNOG's statement but is still not certain of the correlation between the outputs and the related inputs.

Table 1
Workload and work months statistics for UNOG support services in
2002 and 2003

UNOG Services	Total work months in 2002 *	Total work months in 2003 *	Workload statistics 2002 *	Workload statistics 2003 *
Pouch Kg shipped	90	94	371,187	364,534
Mail Items processed	40	46	319,117	247,745
PTS No. of Purchases	140	140	3,325	4,054
No. of Tenders	26	26	113	105
No. of COC	37	37	49	63
Travel Authorizations	45.7	54.2	19,829	20,981
Travel claims	9.3	9	10,087	9,709
Visa processed	32.1	30.3	3,889	3,936
Laissez-Passer	32.1	40.6	12,677	17,164
Visa UN Cert.	6.5	6.2	1,523	1,497
Visa Family Cert.	2.5	2	764	525
Petrol cards	10	10.5	4,897	5,746
CD Car Number Plates	3	1	226	169
Transport and Customs Bills and Claims	12.5	12.5	1,515	1,417
Movers & Freight	54.8	47.5	4,583	3,890
Customs Formalities	4	4	7,226	7,739
HRMS PA Actions	167.65	184.47	8,692	9,427
Travel Authorizations	12.67	8.39	659	430
LOA/Contracts/P20	70.84	92.6	3,894	4,745
Attestations	20.54	19.7	1,065	1,010
PA (200 Series)	21.58	No data available	241	N/A
TA (200 Series)	1.26	No data available	14	N/A
LOA/Contracts/P20	12	No data available	134	N/A
Attestations (200 Series)	1.17	No data available	13	N/A
Local IT and Staff Development Training	48	19	2,418	1,132
Language Training	24	46	2,078	2,501
Compensation claims/JAB/JDC	60	60	207	100
ICTS IMIS Finance	54.32	55.08	78,800	96,373
IMIS Personnel	113.26	62.23	4,506	4,672
IMIS Payroll	38.53	36.80	49,446	55,632
FRMS Account UNHQ IOV	15		3,258	
MOD approval	7.5		6,351	

*Data were based on the workload statistics provided by each of the services concerned to PPBS.

Recurring ICTS Service Fee

34. In addition to MOUs, Service Level Agreements (SLAs) have been developed for Information Technology services. Whenever an MOU is finalized, any existing SLA is attached to the agreement. The SLA provides detailed information on the IT services to be provided by UNOG and is specific to each client.

35. In all SLAs, a fixed recurring service fee per workstation has been determined, based on the New York fixed fee. As the Chief of ICTS explained, a clear standard had to be used to start with. This fee should be reviewed to better reflect cost incurred at UNOG since the cost structure and staff costs are different in Geneva.

(b) Formula for the calculation of reimbursement costs

36. As stated in the UN Finance Manual (12.036), “the level of services provided and reimbursement received is based on workload statistics reflecting the percentage of a given UN service used by relevant organizations”, cost recovery for UNOG services is mostly based on such workload statistics. UNOG is currently using the following formula:

Table 2
Formula for cost recovery of support services provided under an MOU agreement

W_m	x	Standard salary costs	=	C (total cost for one action)
W_m :	work/months for each staff grade involved in the process of a given action			
A	/	Total number of actions performed	=	S (client workload) in percentage
A:	number of actions performed for the client			
C	x	S	=	Σ (Total cost for the client)
Σ	x	percentage of XB funds	=	Amount to be billed

37. To be accurate, standard salary costs are used bearing in mind that “the actual workload may not necessarily be applied to the actual staff costs of the entire account (representing one full organizational unit)”. OIOS wishes to highlight that the existing cost calculation formula, as shown in Table 2 above, despite its complexity, does not reflect actual cost incurred by UNOG in delivering the services, but is only an approximation, based on standard salary costs. Even with the most sophisticated workload statistics, the result will always contain a certain deviation from actual costs. The benefit of overly detailed and complex workload statistics, which are time and resource intensive, may therefore be questionable.

38. In meeting with the clients, OIOS noted that most of the clients considered the billing process as complex. In three instances, clients welcomed a simplified system based on a

fixed fee or a single ratio. Such a simplified system should soon apply for UN Secretariat clients as the UN Controller has recently recommended, and UNOG agreed, “an annual apportionment of programme support resources based upon a straight forward assessment of the proportion of programme support costs/functions incurred/performed by UNOG in relation to the proportion of programme support/functions incurred/performed by the client”. *UNOG commented further that the simplified version of charging regular and extra budgetary funds for support activities would be submitted to the Controller for his approval.*

39. It is OIOS’ understanding that such a simplified ratio of support cost for UN Secretariat clients will need to be justified and that a parallel billing system for other client entities such as UNICEF, UNDP or UNFCCC will continue. To avoid duplication and additional complexity to the system, the same cost assessment should be used for both categories of clients.

40. The most accurate cost accounting would be based on time accounting, which would call for the implementation of a special system and significant time investment on the part of UNOG Services. Another option would be to introduce unit pricing (an approach similar to UNDP’s Universal Price List), obtained after an in-depth cost study, an approach UNOG has already adopted for language training charges. A third option would be to determine a fixed percentage of expenditure as a fee for certain standard service packages (e.g. personnel administration; financial services; procurement; payroll), regardless of the number of actual transactions involved. Such an approach would also require an in-depth workload and cost study to determine the reasonableness of the percentage rates to be applied.

Recommendation:

- The UNOG Division of Administration, when implementing a simplified method for reimbursement of cost for support services to UN Secretariat clients, should seize the opportunity to modify its cost accounting system also for non-Secretariat clients, taking into account the following:
 - Apply a consistent methodology of cost accounting for the same type of services provided to different clients;
 - Develop a simple streamlined pricing method based on (a) time monitoring or (b) documented and justified unit prices or (c) fixed percentage of expenditure (Rec. 07).

41. *UNOG noted the recommendation that UNOG should develop a simple and streamlined pricing methodology. UNOG considered that the use of actual costs is overly complex and thinks that the deviation from standard costs was insignificant. UNOG should review and evaluate variances to ensure accuracy and fairness of their bills to client entities. OIOS will consider this recommendation implemented upon receipt of a copy of the simplified methodology for cost accounting.*

E. Billing for support activities

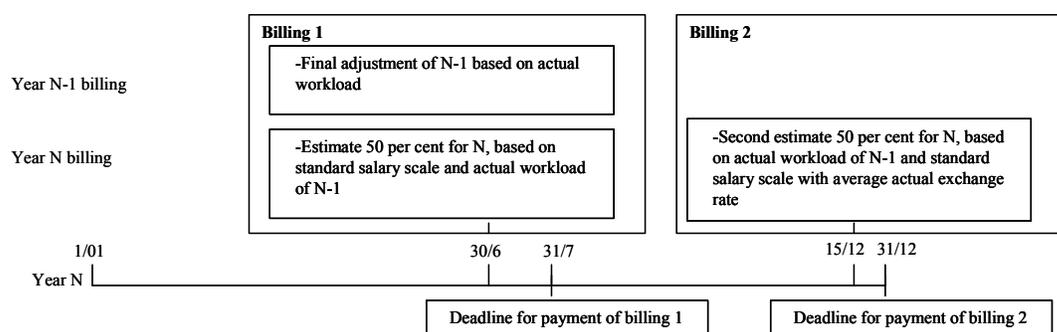
42. All income generated under MOU arrangements is recorded under a special account for administrative support activities (ZEB). For the 2002-2003 biennium, income totalling \$26.3 million was generated from cost reimbursement, versus \$24.4 expended. The reserve of \$6 million at the beginning of the period thus increased to \$8 million as at 31 December

2003. PPBS explained that the excess of income over expenditure results from administrative support to conference services income.

(a) Calendar for billing

43. The most frequent modality for payment for MOU clients are two billing exercises per year (OHCHR, ITC, UNFCCC, UNCC, UNICEF, UNDP). Every semester the client is invoiced for half of the estimated cost of services provided. Table 3 below illustrates the billing timeframe.

Table 3
Standard calendar for the MOU billing process



44. This billing timeframe results in delay of several months after the year-end cut off for financial reporting of client entities and therefore causes non-compliance with the cut-off principle set out in the United Nations Accounting Standard 37. As the final billing is only made in June of the following year, client entities cannot fully account for the cost of the services rendered in the preceding financial year. The Board of Auditors has already raised this problem on several occasions, but it still remains to be addressed.

45. On the basis of the Memoranda for the reimbursement of services sent to the clients, we checked the compliance with the above timeframe.

Table 4
Calendar for the issuance of the billing memoranda to MOU clients in 2003 and 2004

	First billing memo 2003	Receivable recorded	Second billing memo 2003	Receivable recorded	First billing memo 2004*
ITC	22.10.03	10.2003	17.12.03	12.2003	Not issued
UNCC	16.09.03	09.2003	15.12.03	12.2003	Not issued
UNICEF	07.07.03	10.2003	11.12.03	12.2003	Not issued
UNCCD	10.07.03	10.2003	16.12.03	12.2003	Not issued
UNFCCC	10.07.03	10.2003	16.12.03	12.2003	Not issued

* As of 15 August 2004.

46. As shown in Table 4, in several cases, the transmission of the Billing Memorandum for the reimbursement of services was delayed. As of mid-August 2004, clients had not yet received the final 2003 adjustment and the first 2004 estimates. OIOS does not view as satisfactory the billing process, and the underlying cost accounting process, which requires more than half a year to issue actual data.

Recommendation:

- The UNOG Division of Administration should expedite the process for consolidating actual workload statistics and issuing the final billing to its clients (Rec. 08).

47. A preferable solution, as also mentioned by the UN Controller, in his memorandum to UNOG FRMS dated 12 October 2004, would be to agree on the charges prior to the beginning of each year. *However, UNOG does not believe that this would result in an improvement in the accuracy of the data provided.*

48. *UNOG replied further that it would endeavour to expedite the process in order to issue the billings at the latest at the end of June. Collection and analysis of workload data of previous year takes time if accuracy has to be ensured.* OIOS is of the opinion that if UNOG could achieve accuracy and timeliness as it simplifies its costing and billing processes. OIOS will assess the implementation of the recommendation when it receives copies of the 2005 billing memoranda to client agencies.

(b) Specific billing conditions

49. OIOS observed that, contrary to the provisions of the MOU with UNCCD for a funding document to be issued at the end of the year against programme support funds, the billing is done on the 50/50 basis as described above.

50. MOUs signed with UNHCR and UNICEF set the Swiss Franc as the billing currency. OIOS noted, however, that the billing is done in US Dollars.

Recommendation:

- The UNOG Division of Administration should review the billing provisions of all signed MOUs to ensure that they are implemented as required or amend them as necessary (Rec. 09).

51. OIOS requests a copy of the decision of the client agencies to be billed in a certain currency or amended MOUs.

(c) Recovery of administrative support related expenses

52. OIOS reviewed long outstanding receivables on the ZEB account, the highest one being from UNOPS in the amount of \$12,324. However UNOPS' overall indebtedness to UNOG amounts to \$3.7 million comprising uncleared charges for services for 2000 onwards and unrecovered costs related to payroll processed by UNOG on behalf of UNOPS.

53. UNOPS receives services under the MOU signed with UNDP for the UNDP family units. Starting in 2000, UNDP requested that UNOPS be responsible for settling its own bills with UNOG. UNOPS certifies the invoices received from UNOG and transmits them to UNDP for payment. UNOPS stated that they had requested UNDP to pay upon receipt, liaised with UNOG to reconcile the accounts, but had to review carefully UNOG billings to avoid double payments. In the view of OIOS, it is not acceptable that invoices are still disputed years later. In future billings, UNOG should stipulate a deadline until when amounts billed can be disputed.

54. *UNOG indicated that it succeeded in bringing down the outstanding amount to \$2.4 million as of 31 December 2004 and that UNOPS was reviewing remaining items with a view to settle the balance in the coming months.*

F. Client satisfaction monitoring

55. In March 2000, UNOG carried out a client satisfaction survey, covering services provided in 1999 to all its clients. Although not focusing on MOU clients, it also related to services provided to them. No such survey has been performed since 2000, and client satisfaction has been measured very informally using such statistics as number of specific claims submitted to substantive services. However, only a formal client satisfaction survey that sufficiently covers pertinent services and performance indicators may identify areas of improvements and priority of action. In addition, Section 27 of the 2004-2005 Programme Budget mentions that one of the performance indicators is client satisfaction. UNOG should therefore resume the client satisfaction survey.

Recommendation:

- The UNOG Division of Administration should resume the client satisfaction survey and use the data gathered applicable to MOU clients to improve the quality of services to them (Rec. 10).

56. *UNOG informed OIOS that a Client Satisfaction Survey will be launched shortly, including MOU clients.*

V. **FURTHER ACTIONS REQUIRED ON RECOMMENDATIONS**

57. 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 report have been recorded in our recommendations database. In order to record full implementation, the actions described in the following table are required:

Recommendation No.	Action/document required to close the recommendation
1*	A copy of the revised ST/SGB/2000/4 once issued.
2*	Copies of outstanding agreements once signed.
3	Copy of minutes and reports of discussions and joint UNOG-Clients decision on the process review to be included in the MOU.
4 to 6	A copy of the revised set of indicators and procedures for their monitoring and sharing with clients.
7*	A copy of the simplified methodology for cost accounting.
8*	Copies of billing memoranda sent in 2005 to assess the improvement in the billing process.
9	Decisions of UNHCR, UNICEF and UNOG on preferred currency for billing and amended related MOUs or billing memoranda.
10	A copy of the Client Satisfaction Survey once launched, analysis of responses and actions taken.

* Critical recommendations

V. ACKNOWLEDGEMENT

58. I wish to express my appreciation for the assistance and cooperation extended to the auditors by the management and staff of UNOG.

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