



United Nations
Educational, Scientific and
Cultural Organization

Organisation
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Memo

To: The Director-General

cc: DDG
ADG/BSP
DIR/ODG
DIR/BFM
ADG/ADM
DIR/ADM/DIT
DIR/ ADM/HQD
DIR/ ADM/CLD

From: DIR/IOS

27 October 2010

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Subject: **Review of UNESCO's common cost allocation (IOS/AUD/2010/21)**

IOS has reviewed the allocation of common costs (such as Headquarters maintenance, IT connectivity, travel agency management fees) to programme and central services. This represents about \$15 million. This process was found to be complex, and sometimes irrational. As a result, budget transparency is impaired and underlying administrative processes could be simplified. IOS recommends that the budget section of BSP develops a new approach for the upcoming C/5.

The impact of a simpler, revised cost allocation system would be that the budget would be more transparent and could be better explained to the Board. Furthermore, it should result in fewer bureaucratic steps.

As part of its 2010 work plan, IOS reviewed UNESCO's common cost allocation mechanisms and charge back mechanisms in order to determine if allocation and chargeback methods are systematic, rational and consistently applied. This memo summarizes findings related to Common Cost Allocations. A report on chargeback mechanisms will be issued separately.

Common costs are overheads that cannot be assigned directly to any programme sector or central service. Cost allocation principles advocate that such costs be pooled and users pay on the basis of rational factors ("cost drivers") that directly determine cost.

Cost sharing at UNESCO largely evolved reactively to compensate for budgetary constraints and shortfalls. Methods for allocating costs are neither documented nor consistently applied, and the associated administrative processes are cumbersome. Programme Sectors and Central Services share common charges in proportion to their activity budgets. Cost allocation can be improved by applying an equitable and more transparent method using logical factors that drive consumption, e.g. square meters occupied or personnel headcount. Conversely, some costs such as corporate software are not allocated even when the cost is driven by the number of users.

These practices impair budget transparency as a share of common costs are borne in activity budgets. Numerous staff interventions and inefficient administrative processes are used, and these should be streamlined.

Recommendation 1: *We recommend that BSP/BAP develop alternative budgeting formulations to meet common cost needs using transparent and efficient cost allocation methods.*

Action plan: *BSP/BAP agrees to review common costs allocation mechanisms in order to improve transparency and efficiency. A matrix of cost allocation will be developed during the preparation of the 36 C/5 and will be consulted with Senior Management. The decision of the Organization will be reflected in the 36 C/5 at the earliest.*

This review was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Our methodology included surveying UNESCO's common cost environment, identifying allocated and non-allocated common costs, reviewing cost drivers, validating and discussing processes with managers. UNESCO's methods were benchmarked against industry standards and comparable international organizations.

Attached is a PowerPoint presentation encapsulating the findings that have been shared and discussed with stakeholders. Possible options for streamlining UNESCO's common cost allocation are also included.


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