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## Internal Oversight Service Audit Section

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# Streamlining UNESCO's chargeback mechanisms

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## EXECUTIVE SUMMARY

### **Key results of the review**

As part of UNESCO's budgeting and administration the costs of some internally provided and externally procured services are charged back to users. These services amount to approximately \$30 million per biennium. The IOS review concluded that UNESCO's chargeback mechanisms are:

- Not systematic as cumbersome administrative actions are being performed to recover costs and there is little upstream planning.
- Irrational, as similar services are subject to segregated management. This impairs collaboration with external parties and creates opportunities for circumvention of rental rates, inappropriate use of UNESCO's facilities and exposes UNESCO to reputational risk. In some cases, budget transparency is impaired as an estimated cost of \$ 11.8 million is not accurately reflected in the C/5.
- Not consistently applied, some costs are not consistently recovered due to absence of guidance e.g. recovery of private use of mobile phones.

To streamline the chargeback mechanisms, simplified administrative procedures and improved upstream planning are recommended. Also, realignment of roles and responsibilities between process owners providing similar services is advocated.

### **Background, Scope and Objectives**

1. At UNESCO, chargeback occurs when: (i) costs (including personnel) are charged back by one internal service provider to a user of services, facilities or commodities, and (ii) when an internal user's consumption of procured services is recovered.

2. UNESCO's chargeback mechanisms encompass 16 processes as shown in Table 1 below. These are managed through special or technical accounts totalling \$30 million during 2008/2009.

**Table 1 – Overview of chargeback processes at UNESCO in \$**

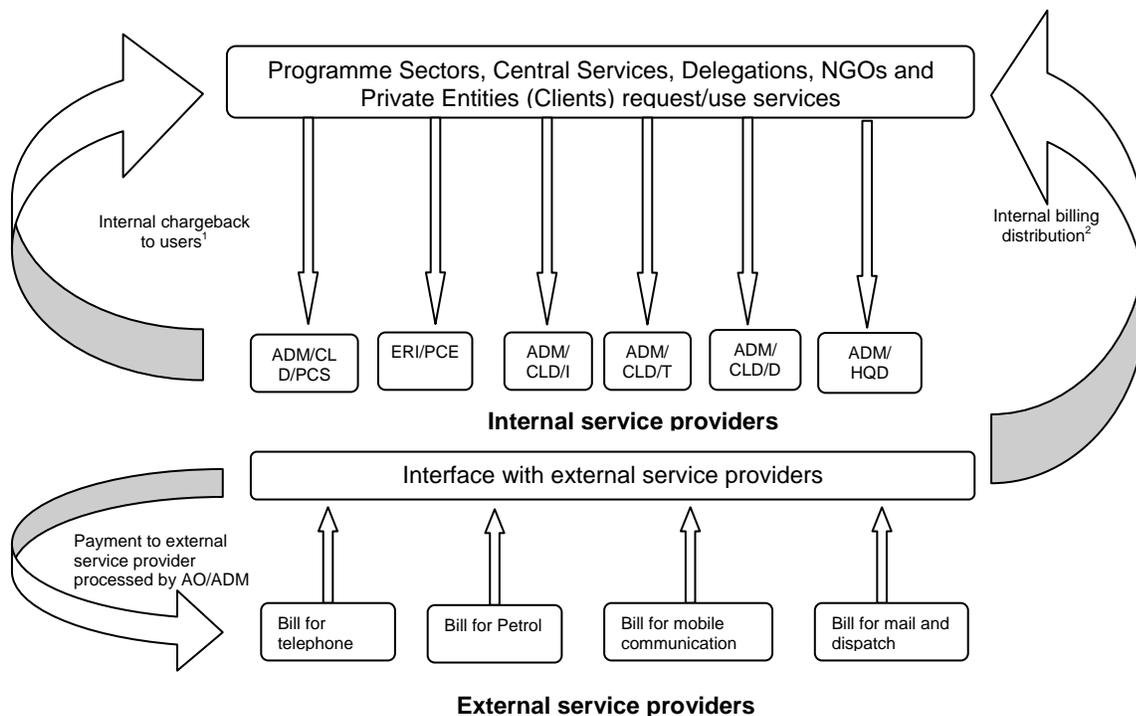
No	Chargeback process	2008/2009 Materiality
1	Translation	4,701,119
2	Document, production and distribution	4,786,048
3	Interpretation	3, 573,700
4	Microsoft Campus Agreement	416,000
5	Other licensing (ADOBE, Acrobat)	87,460
6	HQ related services managed under HQF main account 632HQF9000 (includes rentals of offices, conferences, premises, equipment, parking, and services with renting, petrol cards and alcohol)	13,396,817
7	Telephone (Mobile)	690,448
8	Cultural events managed by ERI under HQF sub-account 632PRC9000	1,056,803
9	Telephone (Fixed)	639,732
10	Mail and dispatch	840,000
	<b>Total</b>	<b>30,188,127</b>

3. The Internal Oversight Service (IOS) reviewed the following chargeback processes in July 2010 to determine if they are (i) systematic, (ii) rational and (iii) consistently applied.

- Internal services:
  - i. Managing cultural events (ERI/DPI)
  - ii. Managing meetings and conferences organized: a) by UNESCO (programme meetings and conferences), b) by outside organizations in close collaboration with UNESCO and c) under the sole responsibility of outside organizations (ADM/CLD/PCS)
  - iii. Renting UNESCO premises for offices (ADM/HQD)
  - iv. Interpretation Services (ADM/CLD/I)
  - v. Translation Services (ADM/CLD/T)
  - vi. Document production and distribution services (ADM/CLD/D)
- External services
  - i. Fixed telephone services (ADM/DIT/SAO/TSS)
  - ii. Mobile phone services (ADM/DIT/SAO/TSS)
  - iii. Mail and dispatch (ADM/HQD/COU)

4. The chargeback processes are depicted below in Figure 1.

**Figure 1: Illustration of chargeback mechanisms at UNESCO**



<sup>1</sup> BFM/TRMS/MO for programme sectors and central services

<sup>2</sup> BFM/TRS/AR for delegations, NGO's and external clients and BFM/TRS/MO for programme sectors and central services

## Methodology

5. This review was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing*. In preparing this report a preliminary scoping of UNESCO's chargeback environment, a review of chargeback processes, procedural guidance, cost structure has been done.

Input from internal stakeholders and personnel in other UN Agencies as well as research of current practices in government, non-profit, and for-profit enterprises has also been included. The sample of processes reviewed was selected on a judgemental basis, where the initial scoping study identified possible areas for improvement that can be applied to the total population.

6. This report is divided into two sections: Section I - Chargeback mechanisms for internal service providers, and Section II - Chargeback mechanisms for external service providers. Issues identified during the review are illustrated by case examples. Annex II of this report presents comparative practices of other international organizations.

#### 7. Key achievements

- UNESCO's chargeback of interpretation services works close to breakeven indicating appropriate chargeback rates without subsidization or accumulation of large surpluses.
- UNESCO's chargeback for documentation production and distribution is well monitored using specialized commercial software.

#### 8. Key challenges

- Administrative steps for managing chargeback processes are bureaucratic, complex and staff intensive and need to be simplified.
- Chargeback rates should be reviewed and periodically updated, where needed and adjusted to reflect actual costs.
- Service delivery should encompass accurate upstream planning and delivery agreements.
- Chargeback systems make the budget opaque and are sometimes designed to present administrative support costs as being lower than they actually are. They should be made more transparent.

#### 9. Table of recommendations

**Recommendation 1:** ADG/ADM and ADG/ERI, with IOS facilitation, to review the activities of ADM/CLD/PCS and ERI/DPI for realigning roles and responsibilities and streamlining use and rental of UNESCO's conference halls and exhibition spaces.

**Recommendation 2:** ERI/DPI and ADM/CLD/PCS to:

- (i) reinforce existing procedural guidance to establish a final approval authority for cases of events where reduced rental rates are sought. Such justification and approval should be obtained prior to hosting the event;
- (ii) with legal assistance, establish a central framework to collaborate with external partners for activities where funds are raised for events at UNESCO premises using UNESCO's name and logo;
- (iii) institute procedures requiring that contracts with external clients be signed and 100 percent of pro forma invoice be paid prior to hosting events.

**Recommendation 3:** ADM/CLD, with assistance from BFM, to review the chargeback structure and rates, establish an accurate accounting methodology to recover actual costs, and update rules of the Special Account for Documents.

**Recommendation 4:** ADM/CLD to establish accurate upstream workload planning and consider introducing simple service level agreements with internal clients

**Recommendation 5:** BSP/BAP to ensure that budgetary provisions to cover the cost of Governing bodies meetings are transparently reflected in C/5.

**Recommendation 6:** BFM to further develop and monitor technical accounts to accept funds from all funding sources (e.g. GEF, OPF, and PFF) so payments to external suppliers can be simplified.

**Recommendation 7:** BFM, with assistance of DIT, to establish corporate guidance on the use of mobile communication devices including a chargeback mechanism for personal calls.