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REPORTS OF THE JOINT INSPECTION UNIT

Report on the overhead costs of extra-budgetary  
programmes and on methods of measuring performance and costs (E/4905)

Addendum

Note by the Advisory Committee on Administrative  
and Budgetary Questions

1. On 6 July 1970 the Advisory Committee on Administrative and Budgetary Questions received from the Secretary-General a report by Mr. Maurice Bertrand, a member of the Joint Inspection Unit, on overhead costs of extra-budgetary programmes and methods of measuring performance and costs (JIU/REP/69/2, dated January 1969). The Advisory Committee also received a note from the Secretary-General containing his preliminary comments on that report and the preliminary comments of the Administrator of UNDP.
2. In accordance with the supplementary arrangements for handling the reports of the JIU described in the seventh report of the Advisory Committee to the General Assembly at its twenty-fourth session<sup>1/</sup>, the Committee immediately transmitted Mr. Bertrand's report to the Economic and Social Council<sup>2/</sup>, and encloses herewith the note by the Secretary-General.
3. The Advisory Committee notes from paragraph 6 of the comments by the Secretary-General that he considers that the inspector's report arrives at recommendations with which he can express general agreement, and that many of the specific points contained in the report therefore require no further comment by him. For his part the Administrator of UNDP states that in his report to the June session of the Governing Council on "Strengthening the Capacity of UNDP, Part A: the Management and Programming of Enlarged Resources"<sup>3/</sup> he proposed that he undertake discussions with the specialized agencies on the basis of a uniform rate for the two components of the Programme, with the hope that a set of agreed proposals can thereafter be considered in consultation with the Advisory Committee.
4. The report of the Tenth Session of the UNDP Governing Council to the Economic and Social Council contains the following paragraph on agency overhead costs:

"The Administrator will consult with the Participating and Executing Agencies and the Advisory Committee on Administrative and Budgetary Questions with a view to arriving at new methods for calculating appropriate reimbursement for project implementation and for advisory services involving programming, project formulation

<sup>1/</sup> A/7738

<sup>2/</sup> E/

<sup>3/</sup> DP/L.134

and policy development. The prospect of entering into general compensatory arrangements for advisory services and separate specific arrangements for reimbursements of costs in connexion with project execution will be explored. The solution worked out should not be considered as binding until it has been submitted to the Council for consideration and approval, accompanied by a report on the kinds of services to be reimbursed.<sup>4/</sup>

5. The Advisory Committee for the time being reserves its position on the entire matter, and looks forward with interest to the outcome of the discussions. Unless developments warrant the submission of an interim report, it will withhold comment until after it has received and considered the proposals referred to above.

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<sup>4/</sup> E/4884, para. 33.

Comments of the Secretary-General  
and the Administrator of UNDP

(Note by the Secretary-General)

1. The above-mentioned report was prepared by Inspector Maurice Bertrand of the Joint Inspection Unit, and transmitted to the organizations of the United Nations system in February 1969. In view of the subject matter dealt with in the report and the technical nature of the subject, the Executive Heads of the organizations felt that it would be appropriate to consider this report within the arena of the Administrative Committee on Co-ordination (ACC), and to submit comments after appropriate inter-agency consultation, and after the ACABQ Consultant's study on standard budget presentation in the UN system and the UNDP Capacity Study, both of which were in progress, had been promulgated and the views of the UNDP Governing Council and the General Assembly on these matters had become available.
2. Although the final views of the UNDP Governing Council and the General Assembly are still to be determined, the Secretary-General feels that the Advisory Committee might find the JIU report on overhead costs of positive value in considering the problems related to overheads and that Member Governments thereafter might benefit from having available the contents of the report. Accordingly, he transmits the report in question herewith, together with the following comments:

Comments of the Secretary-General

1. The report prepared by Inspector Maurice Bertrand of the Joint Inspection Unit has stimulated a great deal of useful discussion within the United Nations family on the subject of overhead costs of extra-budgetary programmes and on methods of measuring performance and costs of secretariat services utilized in providing assistance to developing countries. The report has made a major contribution to a systematic consideration of this broad problem.
2. The Secretary-General agrees with the opinion expressed in the Inspector's report that the problem of arriving at an average rate to be used in the reimbursement of overhead costs for support to operational activities is insoluble in the absence of an itemized cost accounting system or some other system of measurement which would provide the necessary information upon which to base the determination of such reimbursement rate. The Secretary-General notes the view "that a calculation of real overhead costs is a technical impossibility as matters now stand" and that the Joint Inspection Unit is therefore unable to contribute even a technical basis towards the solution of this problem". The Secretary-General believes that the installation of an itemized cost

accounting system could also serve broader purposes and deal with other problems which are not being handled at the present time. Such a system might improve the quality and speed of management decisions and administrative informational needs.

3. The problem of "modernizing a vast array of administrative techniques in most of the organizations in the United Nations family" continue to be of major concern to the Secretary-General, bearing in mind the Inspector's comment to the effect that studies would have to be made before it became possible to tell whether the performance to be expected from such machinery [cost accounting system] would outweigh its cost. The Secretary-General believes that this question should be considered in a broader context. Member Governments are aware of a number of related studies under various stages of discussion within the United Nations system. The UNDP Capacity Study, by Sir Robert Jackson,<sup>1/</sup> the Advisory Committee on Administrative and Budgetary Questions Consultant's Report on Budget Presentation in the UN System by Mr. W.F. McCandless,<sup>2/</sup> the Report of the Joint Inspection Unit on Programming and Budgets in the United Nations Family of Organizations by Mr. M. Bertrand<sup>3/</sup> are already available to Member Governments and have a direct relation to the issues raised in the present report on overhead costs. With these in mind, the Secretary-General intends to continue to study the many useful comments and recommendations contained therein in an effort to determine what might best be done to further improve the programming, budgeting and accounting systems of the United Nations.

4. To that end, the Secretary-General is considering the possibility of engaging the services of specialized consultants, using resources available under both the regular budget and UNDP Special Fund overheads, to study the technical feasibility and possible methodology related to the design and installation of an integrated system, including itemized cost accounting, envisaged as encompassing not only operational technical assistance activities, but other activities that would be intimately related to such a system once it was developed.

5. The use of such consultants will be in conjunction with the recently strengthened Administrative Management Service, the resources of which will be progressively directed

1/ DP/5

2/ A/7821

3/ A/7822

to these questions, upon the completion of the Manpower Utilization Survey which is now in process. It is anticipated that the experience gained by the Administrative Management Service during the conduct of the Manpower Utilization Survey and the invaluable knowledge collected on the organizations' activities, how they presently are conducted, and how they might be improved, would provide a sound basis upon which to undertake the above-mentioned study under the aegis of the Administrative Management Service, and in co-operation with other Secretariat units. It would be the Secretary-General's intention to submit such completed studies, when available, to the General Assembly, through the Advisory Committee for consideration by Member Governments. Should the conclusions of the studies indicate the practical feasibility of adapting a cost accounting system to United Nations activity, and should there be a general expression of support by Member Governments, the Secretary-General would take appropriate action towards the modernization of the present programming, budgeting and accounting systems possibly utilizing electronic data processing equipment. The Secretary-General expects to issue a preliminary report to the 25th session of the General Assembly on the future form of the budget of the United Nations and the programming and budgeting cycle, which may include proposals relating to broad question of overhead cost and methods of measuring performance and cost.

6. The Secretary-General considers that the Inspector's report arrives at recommendations with which he can express general agreement. Many of the specific points contained in the report, therefore, require no further comment by the Secretary-General. In this connexion, the Secretary-General would add that two points which relate to the UNDP, as contained in (a) paragraph 1.10 that "all that seems to be needed is that the UNDP, over and above the percentages currently paid should undertake to earmark special credits to finance the studies" on overhead determination and (b) paragraph 2.9 "It is extremely likely that the percentages at present paid by UNDP to the principal organizations fall well short of the real costs", would not require comments on his part. It will be noted that the comments of the Administrator of UNDP are given below.

7. Since the report on overhead costs was based upon replies to questionnaires received by the Joint Inspection Unit from the United Nations and the specialized agencies, the Secretary-General is providing the complete text of the United Nations reply to the questionnaire as Annex I to this note.

Comments of the Administrator of UNDP

1. The Administrator welcomes this involvement of the Joint Inspection Unit in the question of overhead costs of extra-budgetary programmes which has resulted in a serious and comprehensive study of the complex issues involved. He has taken note of the proposals made by the Inspector on the matter of overhead costs and methods of measuring performance and costs, with great interest. Further, the Administrator believes that the report may be useful in connexion with the continuing study and consideration of the capacity of the United Nations Development System.
2. In his report to the June session of the Governing Council on "Strengthening the Capacity of UNDP, Part A - the Management and Programming of Enlarged Resources" (DP/L.134), the Administrator has stated with respect to overhead costs:

"37. The question of agency overhead costs requires further study in consultation with the agencies and organizations concerned. The Administrator is anxious to arrive with them at a satisfactory solution to this question. An essential first step, in his view, is to eliminate the present disparity between the 14 per cent rate applied to Technical Assistance projects and the 11 per cent rate applied to Special Fund projects. He proposes to undertake discussions with the agencies on the basis of a uniform rate, with the hope that a set of agreed proposals can thereafter be considered in consultation with the Advisory Committee on Administrative and Budgetary Questions.

38. In this connexion, and subject to any advice which may be offered by the Governing Council, the Administrator would explore with the organizations participating in the Programme whether it would be mutually advantageous to enter into general agreements covering the organization and financing of services of an advisory nature not directly related to project execution, including programming, project formulation, and policy development".

Comments on the questionnaire on "Overhead  
Costs" presented by Mr. Maurice Bertrand of  
the Joint Inspection Unit

General

1. The United Nations welcomes the interest shown by the Joint Inspection Unit in the question of "Overhead Costs" of extrabudgetary programmes. At the instance of the General Assembly, this question has been on the agenda of the Advisory Committee on Administrative and Budgetary Questions since 1954. The first of the Advisory Committee's reports is contained in document A/2661, of June 1954, and the latest is A/5842 of 4 January 1965.
2. In examining the question of overhead costs, it should be noted that besides programmes financed through UNDP, the United Nations administers not only a technical assistance programme financed from the regular budget (known as the regular programme), but also a variety of programmes financed through ad hoc funds-in-trust arrangements (e.g. the trust fund for population programmes; the Congo fund; the fund for West Irian, etc.).
3. The "regular programme" had its origin in General Assembly resolution 58(I) dated 14 December 1946 relating to the transfer to the United Nations of the Advisory Social Welfare functions of the UNRRA. To implement this resolution, the General Assembly appropriated an amount of \$670,186 for 1947, exclusive of the "administrative" requirements which were covered separately through the budget of the then Department of Social Affairs.
4. Over the years the "regular programme" has been added to by specific decisions of the General Assembly as listed below:
  - Resolution 200(III) relative to technical assistance for economic development.
  - Resolution 246(III) relating to training in public administration.
  - Resolution 418(V) relating to advisory welfare services.
  - Resolution 723(VIII) relating to extension of technical assistance activities to the field of public administration.
  - Resolution 926(X) relating to advisory services in the field of human rights.
  - Resolution 1024(XI) relating to public administration.
  - Resolution 1256(XIII) relating to the programme for operational and executive public administration personnel (OPEX).



Resolution 1395(XIV) relating to technical assistance in Narcotics Drugs Control.

Resolution 1527(XV) relating to technical assistance in newly-independent and emerging states.

The annual appropriations for the regular programme have also grown to a level of \$6.4 million exclusive of costs for the administration of the programme. This level was reached in 1962, and compares with the level of approximately \$14 million for 1968 for the UN allocation under UNDP - TA.

5. The Expanded Programme of Technical Assistance for economic development of under-developed countries, as the precursor of the present United Nations Development Programme was established in 1950, in pursuance of resolution 222(IX) of the Economic and Social Council as endorsed by General Assembly resolution 304(IV). Annex I to ECOSOC resolution 222(IX) which sets out the guiding principles for the conduct of the programme, envisages, *inter alia*, that "... the work undertaken by the participating organizations under the Expanded Programme of Technical Assistance should be such as to be suitable for integration with their normal work", and that "... within the wide range of activities envisaged the participating organizations should practise, especially in the initial stages of their programmes, concentration of effort and economy. The participating organizations should also ensure the fullest use of any existing facilities".

6. Provision was made in the 1951 budget estimates (A/1.57) for the establishment of a Technical Assistance Administration (TAA), which was given the responsibility for dealing with the "regular programme" as well as the UN share in the Expanded Programme. The initial establishment of the TAA comprised 40 posts at an estimated cost of \$300,000. Apart from this, the 1951 budget did not provide for the rest of the expenses, such as consultants, temporary assistance, overtime and travel on official business in the expectation that these would be financed from the Special Account for the Expanded Programme.

7. The Special Fund was established in 1959 pursuant to General Assembly resolution 1240(XIII). Paragraph 29 of part B of this resolution states:

"The Managing Director shall rely as far as possible on existing facilities of the United Nations, the Specialized Agencies, the International Atomic Energy Agency and the Technical Assistance Board. These facilities should be made available to the Special Fund without charge, except where clearly identifiable additional expenses are involved ..."

Though by the time the Special Fund came into being, the Technical Assistance Administration had been "merged" with the Department of Economic and Social Affairs, in setting up organizational arrangements in this (new) Department for providing support to EPTA and Special Fund programmes the principles of "integration" of technical assistance activities with "normal work" and the "fullest use of existing facilities" and "clearly indentifiable additional costs" for reimbursement of support costs continued to be applied.

8. On 22 November 1965, by its resolution 2029(XX) the General Assembly decided on the consolidation of the Special Fund and the Expanded Programme of Technical Assistance in a United Nations Development Programme. Operative paragraph 2 of this resolution - "Reaffirms the principles, procedures and provisions governing the Expanded Programme of Technical Assistance and the Special Fund not inconsistent with the present resolution, and declares that they shall continue to apply to relevant activities within the United Nations Development Programme."

9. As none of the legislative texts relating to technical co-operation activities have as yet laid down specific norms relative to the question of overhead (or support) costs, the guideline has remained that established in ECOSOC resolution 222(IX), as subsequently interpreted by the Technical Assistance Board in October 1950, namely, "Chargeable expenditure should be limited to those direct additional and exclusive costs".<sup>1/</sup>

10. In a series of studies, the first of which was done in 1954, the Advisory Committee on Administrative and Budgetary Questions has examined the question of administrative and operational expenses relative to technical co-operation activities. In paragraph 22 of its report<sup>2/</sup> of 21 June 1954 to the General Assembly, the Advisory Committee suggests the figure of 12 to 14 per cent as a reasonable one for calculating the amounts payable from the voluntary funds towards "support costs":

<sup>1/</sup> The TAB did not establish any criteria for calculating these "direct additional and exclusive costs".

<sup>2/</sup> A/2661 - Expanded Programme of Technical Assistance for the Economic Development of Under-Developed Countries - First Report of the Advisory Committee on Administrative and Budgetary Questions - Official Records of the G.A. 9th session.

"... as a first step, efforts should be made to reduce the level of administrative costs by the end of 1955 to 12 to 14 per cent in the case of participating organizations ..."

11. Following up on this first study, and pursuant to General Assembly resolution 884(IX) of 14 December 1954, the Advisory Committee undertook, during the period 1956-1959, the preparation of detailed reports on matters relating to administrative and budgetary co-ordination between the United Nations and the Specialized Agencies, with particular reference to the operation of the Expanded Programme of Technical Assistance. In the concluding report<sup>3/</sup> of this series, the ACABQ observed:-

"The Advisory Committee has since studied this question further and has suggested (A/4130) that barring substantial changes in the size of the programme, and subject to a measure of flexibility of application, the lump sum contribution from the Special Account to the regular budget of the organization towards meeting its administrative "overheads" should be brought down, over the next few years, to 12 per cent of the project allocations to the Organization."

12. The third and most recent study of the Advisory Committee was published in January 1965 (A/5842). This study covers both the Expanded Programme of Technical Assistance and the Special Fund. In this report the ACABQ notes that

- (a) in general, the participating organizations consider that their regular programmes are the backbone of their field operations;
- (b) the growth of field programmes, while enhancing the opportunities for the United Nations system of organizations, to render valuable services to Member States, has served to place an increasingly heavy burden upon the organizations in terms of administrative support;
- (c) from the inception of EPTA and the Special Fund, the assumption has been that the fullest possible use would be made of the facilities provided under the regular budget, for the support of these programmes, and only clearly identifiable additional costs, or part of them, would be charged to the voluntary funds in order that maximum resources could be available for operations;

<sup>3/</sup> A/4172 - Paragraph 8, Official Records of the General Assembly, Fourteenth Session, Annexes, Agenda Item 49.

- (d) the problem is to determine exactly what is the absorptive capacity of the participating organizations in order to guard against an undue concentration of resources on operations leading to a deterioration in the performance of other important tasks.

After reviewing the experience with EPTA over the years, and taking note of the experimental time-and-work studies undertaken in FAO and UNESCO, the ACABQ recommended that the rate for reimbursement of overhead costs (a) in the case of EPTA be increased to 13 per cent of project costs for 1965, and thereafter to 14 per cent; and (b) in the case of the Special Fund to 11 per cent of total project costs, commencing with the June 1965 programme. It further agreed that these rates should be reviewed after not more than five years.

13. Apart from the "regular programme", and its participation in the United Nations Development Programme, the Organization administers a number of other extra-budgetary programmes for economic and social development. Such programmes can perhaps be grouped into three categories:

- (i) Programme for pursuing or intensifying the work of the Organization in a specific sector. Such programmes could cover augmentation of Secretariat resources for research and studies or augmentation of field projects or both. Examples of such arrangements are the Population Trust Fund, the Netherlands Trust Fund for development, planning and projections, etc.
- (ii) Programmes for aid to specified geographic regions: e.g. The Trust Fund for assistance to West Irian; the Congo Trust Fund for assistance to the Republic of Congo (Kinshasa).
- (iii) Funds deposited with the Organization by individual Member Governments (e.g. Iran, Kuwait, Libya, etc.) towards procurement of specialist or expert services for assisting the country in its development plans.

14. While, in the case of these extra-budgetary programmes, the respective trust accounts have been charged for 'support' costs the levies have varied from "no charge" to a maximum of 14 per cent (derived presumably from the rates for reimbursement for EPTA overhead costs).

15. As regards the manner in which amounts reimbursed to the Organization for support costs are accounted for, the practice has been varied:

- In the case of EPTA, pursuant to a recommendation of the ACABQ in 1958 (A/3832), which was endorsed by the ECOSOC in resolution 702 (XXVI), steps were taken to consolidate administrative and operational services expenses in the regular budget, and to show under "miscellaneous income" the lump-sum payment received from EPTA towards these expenses. Consolidation of the "support" costs into the regular budget, automatically brings them under the same legislative scrutiny as the regular budget;
- Payments received towards support costs for Special Fund projects are carried in a separate "S.F. overheads" account. The direct use made of this "overhead" account, and the norms applied in authorizing support expenses from this account are briefly set out in the Information Annexes to the 1969 Budget Estimates (A/7205),
- Administrative or service expenses in respect of other extra-budgetary operations are charged to an overhead "pool" account established through recoveries made against the respective extra-budgetary programmes for support costs. The "support" expenses authorized against the trust accounts are reflected in the Information Annexes to the 1969 Budget Estimates (A/7205).

16. Having regard to the growth of programmes financed from voluntary funds and their impact upon the normal work of the Secretariat and on the administrative support services, the basic issues to be resolved are:

- (i) Should support services be fully covered in the regular budget, without any reimbursement from the voluntary funds? This would permit the use of voluntary funds entirely for field projects.
- (ii) Should support costs be completely reimbursed by the voluntary funds, and can the complete costs be computed with precision?
- (iii) Should the principle of "clearly identifiable additional costs" continue to apply? (It is desirable to have an agreed definition of "additional" costs for this purpose).

As a corollary to the above, a decision is also necessary as to how reimbursements, if any are made, should be accounted for. In other words, should support costs be consolidated into the regular budget and reimbursements treated as "Miscellaneous Income" or should reimbursements be credited to an "overhead-pool" account and support services costs charged against this "overhead-pool" account.

17. If alternative (i) is adopted, the Organization will have to forgo the reimbursements it now receives towards its participation in both the Technical Assistance and the Special Fund components of UNDP, and consolidate these requirements into the regular budget. In the case of the technical assistance component, since support costs are already consolidated in the regular budget, the related reimbursement (estimated at \$1.82 million for 1969) will have to be given up. In the case of the Special Fund, the usage of the overhead payments in 1969 is estimated at \$2.3 million. Consolidation, therefore, means an addition of \$4.12 million to the 1969 budget (since the income of \$1.82 million for the technical assistance component will have to be given up). This figure of \$4.12 million will increase from one year to another, as additional projects are assigned to the Organization, until the point at which the increase in the programme level of the Special Fund component in any one year approximately equals the number of projects completed in that year.<sup>4/</sup> If Member Governments are disposed to consider an increase of this order of magnitude in the annual budget of the Organization, it would be possible to consolidate support services requirements into the regular budget, and forgo any reimbursements from the UNDP funds.

18. As regards (ii), the "complete" reimbursement of support services costs from voluntary funds presupposes that such costs can be estimated precisely. While existing procedures for estimating support requirements have not reached the degree of precision necessary for this purpose, it is conceivable that the institution of a time-and-work recording system could provide a more accurate basis for computing the costs of staff support (including supervision) provided for the programmes financed from voluntary funds. In order, however, to arrive at the total costs of these support services, it will be necessary to estimate as well the costs of items such as office supplies, furniture and equipment, space, utilities, travel, documentation and printing etc. relative to the programmes administered by the Organization. Since from inception of technical co-operation activities, efforts have been directed towards the integration of assistance activities with those financed from the regular budget (a principle to which Member Governments have attached great importance), the degree of precision achievable in calculating the total costs of support-services can hardly be absolute. Furthermore, major assumptions will have to be made concerning the

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<sup>4/</sup> At present rates of growth in UNDP funds, this plateau might be reached in 1974-75.

appropriateness, adequacy and efficiency of the organizational arrangements and procedures as well as the performance-standards applied to personnel. Because of the limiting factors the application of a cost-accounting system over a period of time could provide a breakdown of expenses by source of funds or by programme, but it would shed little light on the appropriateness of the level of effort utilized to support the operations. In these circumstances, the institution of a costly and difficult operational accounting system for determining more precisely the actual cost of support services seems neither necessary nor desirable.

19. Reimbursement of support costs on the principle of "clearly identifiable additional costs" can only provide for payments which are partial and not directly related to the Organization's responsibility for the proper execution of the projects assigned to it. Inasmuch as the Organization's work-load will increase with the number and complexity of the projects assigned to it, though not in direct proportion, there is an obvious need to review the rates of reimbursement in order that neither the efficiency of support services for the implementation of approved projects, nor the normal work of the Organization is adversely affected.

20. The consolidation in the regular budget of the reimbursements received towards support costs - with a corresponding credit in the Miscellaneous Income part of the budget - would bring these expenses under review by the legislative bodies concerned with budget approval (namely, the ACABQ and the Fifth Committee of the General Assembly), and would thereby ensure that they are looked at from the point of view of the overall efficient utilization of the Organization's staff and other resources. On the other hand, consolidation would limit the flexible use of these (overhead) funds in responding to situations where the normal delays in securing revisions to the budget would affect programme-implementation. Either course of action is technically feasible. The decision as to which of them should be adopted needs to be geared to the basic problem which is not so much the level of support-costs as the steps needed to obtain effective and efficient services.

#### Documents

21. Copies of the studies prepared by the Administrative Management Service in 1965 on

- Administrative Support to programmes of Technical Co-operation
- Financing arrangements for overhead costs, and
- Bureau of Technical Assistance Operations

are sent herewith. These contain factual background information on secretariat arrangements and procedures for providing support to technical co-operation programmes. It is assumed that Mr. Bertrand has already seen the series of studies undertaken by the ACABQ, starting with A/2661.

22. Copies of the Information Annexes to the 1969 budget estimates containing data on extra-budgetary programmes and support costs have already been furnished to Mr. Bertrand. Copies of the 1968 accounts and the audit reports thereon, (A/7206 and Adds. 1 to 5) and the report on budget performance in 1967 (A/7125) are sent herewith.

Support costs

- A.1 Please see paragraphs 18 - 20 under "General" comments. For a  
and determination of an appropriate rate which would cover completely the  
A.2 expenses incurred by the organization in providing support to UNDP programmes, it is necessary to have (a) a clear definition of the expenses which would qualify as support costs for reimbursement purposes, and (b) the establishment of an accounting system which would provide the basis for calculating costs. Accurate cost accounting will at the least require that all staff who are engaged on providing support to UNDP programmes (including supervisory personnel) maintain accurate time-sheets on a continuing basis in order that this information can be processed for the apportionment of the related staff services costs. In addition, records will have to be maintained in great detail of travel and of the use of office supplies, office equipment, office space etc. Not only will the time-reporting system be difficult to enforce on staff but the results achieved through establishment of such a system seem hardly commensurate with the expenditure of energy, effort and time. Nor is such an effort in consonance with the principles of "integration with the organization's normal activities", "fullest use of existing facilities", and "clearly identifiable additional costs" enunciated and reaffirmed in the legislative texts relative to the UNDP programmes.

Attention is invited to the Information Annexes to the 1969 Budget Estimates (A/7205 Vol.II, Annex II page 62) which provide details of the



reimbursements recovered under the formula of "identifiable additional costs", and of how these amounts are applied. The rate of reimbursement to UN of support costs, as calculated from these details is 12.4%.

A.3  
and  
A.4

While it is true that the extent of support needed varies with the nature of the project; there is little doubt that if the total amount of extra-budgetary programmes was substantially increased, support costs would certainly increase, and at some point a substantial increase in the regular establishment (substantive as well as other) will be inescapable. It is difficult to predict how these increased requirements will affect the percentage rate for reimbursement. (See also paragraph 19 of "General" comments).

A.5

Since the organization must estimate, record and keep a record of counterpart contribution by host countries some additive costs is involved but the amount of these costs is not material.

A.6

It is very doubtful whether the detailed cost accounting can be accomplished with sufficient accuracy in order to determine actual cost. This is not a problem of accounting processing, but a matter of accurate time recording by staff charged with overhead services for extra-budgetary programmes. The monthly time sheets for which detailed guidelines need to be given, indicating among other things the task and project classification for which the time spent need to be reported separately, require close review by supervisors. The time sheets then need to be punched and verified on punch cards and these cards are then to be processed on a computer according to a computer programme which will multiply the five or fifteen minute periods with the salary, allowances and common staff costs of the staff member by task and project classification, and will produce the necessary reports. (Please see also paragraph 18 of "General" comments).

A.7

The UN does not have a computerized system of cost accounting, but has a computerized system of payrolling, allotment accounting and general ledger accounting. We never experimented with any computerized system of cost accounting.

A.8

It is impossible to make any estimate in the absence of any precise criteria.

- A.9 Reservations on time-reporting for purposes of calculating support costs have been expressed in the preceding paragraph. A sampling method, while it might be simpler, has even greater limitations, (e.g.) the degree of attention paid to support activities varies as between staff members, and as between organizational units; the support services required by projects vary in time as well as in priority (e.g. when a series of meetings is to be served by the staff, these services will undoubtedly have a higher priority than the support services for a survey project).
- A.10 The UN has at Headquarters a large computer (an IBM 7044 and an IBM 360/model 30) which is being used for accounts processing for about 20 per cent of a full and one quarter shift. The processing will itself most likely present no problem. We foresee, however, a serious problem in obtaining timely, complete and correct original data of time reporting from the staff involved.
- A.11 The answer is in the negative.
- A.12 An itemized operational accounting procedure could be an integral part of the overall accounting system producing informational analyses as required with a minimum of duplication. Such a system could provide the bases for evaluating the required support cost to implement particular programmes. The system should provide a comparison of the planned expenditures and actual expenditures for each accounting period in addition to totals covering the complete implementation period. It could provide information for the total time spent by staff to the extent of the task and project classifications provided in the time sheets. It could thus be used to up-date the job classifications and to review staff utilization. However, it is felt that only a very small amount of such a mass of information will be used on a selective basis for these purposes and that any up-dating and review of job classifications and staff utilization could be better performed on a selective basis and in depth as part of a management review which would require only the amount of information necessary within the scope of such review.

A.13 While it is feasible to draw up a common questionnaire and develop common methods of processing, we do not believe in the usefulness of any cost accounting as contemplated and in a monthly questionnaire being sufficiently accurate. The method of processing is a pure technical matter of information processing which could be geared to the existing organizational pattern and resources.

A.14 It is one thing to determine the total overhead services' cost for all extra-budgetary programmes in one figure. But, if time sheets are used for staff, it is necessary as well to have a breakdown by the different types of extra-budgetary programmes and by types of task-classifications (e.g. attending meetings, servicing meetings, replying to observations of review, audit or inspection bodies, etc.)

A.15 In an ideal sense, the comparative and standardized interpretation of the results obtainable from an itemized operational accounting system could be very useful as one tool for improving working methods of the administration and support of extra-budgetary programmes. However, the exercise has serious limitations, because of the number and nature of the variables and factors over which the Administration has little control. Consequently, it is doubtful whether the considerable amount of staff and other resources required to analyse the data and to come up with findings which could help in an improvement of overall efficiency, are commensurate with the costs and efforts of the exercise.

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REPORTS OF THE JOINT INSPECTION UNIT

Report on the overhead costs of extra-budgetary  
programmes and on methods of measuring performance  
and costs (JIU/REP/69/2)

Addendum

COMMENTS OF THE DIRECTOR-GENERAL OF THE UNIVERSAL POSTAL UNION  
(UPU) AND ACTION BY ITS EXECUTIVE COUNCIL, AND PRELIMINARY  
OBSERVATIONS OF THE DIRECTOR-GENERAL OF THE UNITED NATIONS  
EDUCATIONAL, SCIENTIFIC AND CULTURAL ORGANIZATION (UNESCO)

UPU

Comments of the Director-General

"At its April 1969 session, the ACC noted that several of the fields dealt with in this report were being studied by other United Nations bodies. Such work included the study on capacity and the study by the Advisory Committee on Administrative and Budgetary Questions (ACABQ) on budget presentation in the organizations of the United Nations system.

As these studies have not yet led to concrete provisions in their respective fields, the International Bureau considered that it should refrain from preparing a definitive commentary on report JIU/REP/69/2.

However, in view of the implications which the question of overhead costs has for the UPU's finances, I have seen fit to submit to Committee 2 (Finance) a memorandum concerning the inspector's report (cf Document CE/C 2 - Doc 10)."

GE.70-15893

Resolution approved by Executive Council, May 1970

Relations with the United Nations and other international organizations

Reports of the Joint Inspection Unit

The Executive Council,

Having considered the Director-General's report on the following reports of the Joint Inspection Unit:

Report on the overhead costs of extra-budgetary programmes and on methods of measuring performance and costs (JIU/REP/69/2);

Report on some aspects of technical assistance activities of the United Nations (JIU/REP/69/5/Rev.1);

Report on programming and budgets in the United Nations family of organizations (JIU/REP/69/7);

Report on a visit of inspection to Malaysia and Singapore (JIU/REP/69/8);

Report on selected ideas for improving field operations (JIU/REP/69/9);

Having also considered the revised procedures laid down for transmitting and handling reports of the Joint Inspection Unit, adopted by the Economic and Social Council in its resolution E/1457 (XLVII),

Approves the Director-General's comments and observations on the 5 reports submitted to the Executive Council;

Accepts the revised procedures laid down for transmitting and handling reports of the Joint Inspection Unit, it being understood that, if so required in order that the prescribed time-limits can be observed, the Director-General will submit his provisional comments to the Secretary-General of the United Nations for transmission to the Economic and Social Council through the Committee for Programme and Co-ordination, pending their examination by the Executive Council; after they have been examined by the Executive Council, the Director-General's definitive comments and the Executive Council's decision will be communicated to the United Nations Secretary-General for transmission to the Economic and Social Council through the Committee for Programme and Co-ordination;

Decides to hold the above-mentioned 5 reports of the Joint Inspection Unit at the disposal of member countries of the Union in the International Bureau's Documentation service;

Requests the Director-General to forward his report and the Executive Council's decision to the Secretary-General of the United Nations, for transmission to the Economic and Social Council through the Committee for Programme and Co-ordination, as well as to the auditor of the Universal Postal Union's accounts and to the Chairman of the Joint Inspection Unit.

UNESCO

Preliminary observations of the Director-General

The Director-General concurs in general with the finding that the calculation of a reasonably accurate rate of overhead requires instituting modern methods of performance and cost measurement and control, and that such a system might eventually contribute towards enlightenment of a number of other problems facing organizations.

As reported by the Inspector, the studies and estimates of various Agencies indicate that the actual cost of planning, supervising, servicing and administering UNDP projects amounts to 20% or more of the project costs. Experience has shown that this percentage is insufficient to permit fully effective project planning and execution.

The report of Inspector Bertrand points out that the studies made cannot be considered to have provided a truly scientific basis for assessing Agency costs. A more scientific methodology would have required an investment for system analysis and administrative staff which was beyond the budgetary possibilities of the Agencies.

However, it is significant that estimates of the Agencies, independently arrived at, show that Agency Costs invariably amount to 20% or more of project costs while UNDP contributes only between 11% and 14%. This fact would seem to justify an interim increase in Agency Costs percentages pending the study and introduction of more accurate and uniform methods for assessing Agency Costs. In this connexion the report of the Joint Inspection Unit states in paragraph 2.9: "It is extremely likely that the percentage at present paid by UNDP to the principal organizations fall well short of the real costs."

The Director-General, in this connexion, finds significant the Inspector's view that any refinement in the fixing and incidence of overhead cost percentages of extra-budgetary programmes would not have far-reaching financial implications for Member States since any consequent adjustments between amounts they now pay and those they would have to pay to regular budgets and extra-budgetary programmes for this purpose would be negligible. The main concern should be to establish whether these programmes are efficiently administered.

As regards the institution of a modern method of measurement and control, the Director-General agrees with the Inspector on the desirability of some organizations taking the initiative of moving towards it, with a view to adopting eventually a methodology of such a nature as to make the findings among organizations comparable.

He feels that Unesco, with imminent introduction of the use of a computer into its administrative system, finds itself in a favourable position to attempt experiments on the validity of various measuring methods, including the possibilities of adopting the suggested itemized cost accounting system.

The Director-General notes with satisfaction the suggestion of the Inspector that a fraction of overhead costs be made available by the UNDP to organizations who wish to carry out modernization.