



Report on methods of computing reimbursements for services supplied by FAO to the World Food Programme

by

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Joint Inspection Unit*

**Geneva,
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1. The matter at issue

As early as 1966,^{1/} the attention of the United Nations/FAO Intergovernmental Committee of the World Food Programme (WFP) was drawn to differences of opinion between the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Finance Committee of FAO on the reimbursement of FAO for technical and administrative services supplied to WFP:

"While the ACABQ had expressed the general view that the 'parent' organizations should absorb as much of the administrative costs as possible without adversely affecting their regular programs, the FAO Finance Committee, on the other hand, had reiterated the view originally expressed in 1962 at its Seventh Session that the supporting costs to be provided by FAO must be fully reimbursed by the WFP".

2. Request for action by the Joint Inspection Unit

In October 1967, even before the Joint Inspection Unit had begun to operate, the Intergovernmental Committee expressed the hope at its twelfth session that the Joint Inspection Unit would examine the problem and define the best method of budgetary treatment and accountability. It noted that WFP's reimbursements to FAO "covered the cost of 75 identified posts of FAO and unidentified general services, and queried whether it would not be preferable to use another accounting procedure, such as the integration in the FAO budget of the above posts and of the contribution of the WFP to the Regular Program budget".^{2/}

Lastly, in November 1968 the Intergovernmental Committee again expressed the hope that the Joint Inspection Unit would consider the question of reimbursements and define the best method of budgetary treatment and accountability.

The Joint Inspection Unit received a direct request for action in a letter of 9 January 1969 from the Executive Director of WFP to the Chairman of the Joint Inspection Unit. The Survey was carried out in July 1969 at Rome and was continued in 1970.

^{1/} Report of the tenth session of the United Nations/FAO Intergovernmental Committee (WFP/IGC:10/23, November 1966, paras. 81 and 82).

^{2/} Report of the twelfth session of the United Nations/FAO Intergovernmental Committee (WFP/IGC:12/24, October 1967, paras. 99-100).

This is a rapid survey, which can lead only to conclusions on methods of solving the problem but not to a detailed analysis of its substance. In the first place, the overall work programme of the Joint Inspection Unit made it impossible to detach an inspector for the time which would have been needed for a detailed survey involving checking or perhaps even virtually recommencing the surveys already made on this subject by the FAO Organization and Methods Section (in August 1966)^{1/} and by the Consultants of the firm of Booz, Allen and Hamilton, who conducted a general review of the administrative organization of WFP at the request of the Executive Director.^{2/} In the second place, in the absence of a cost accounting system (the adoption of which was recommended in report JIU/69/2)^{3/}, which would have made it possible to provide prompt and precise replies to most of the questions, sufficient basic information could not be obtained without devoting several weeks to a very detailed programme of analysis and interviews.

These considerations account for the form of this report.

3. The extent of the problem

In financial terms, the problem may seem relatively minor, since the value of the services supplied is estimated at some \$1 million a year. Whatever the method of computation and presentation, the resulting differences can hardly amount to more than a few tens of thousands of dollars.

If these figures are compared with the total cost of WFP's activities, which was nearly \$50 million in 1969 and will probably amount to much more in years to come, the question may appear comparatively unimportant.

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- ^{1/} O and M Survey Report No. 122, World Food Program Agency Costs, August 1966.
^{2/} Review of Staffing Levels, Management Systems and Organization Structure of World Food Programme, September 1968.
^{3/} Report on the overhead costs of extra-budgetary programmes and of methods of measuring performance and costs (JIU/REP/69/2).

It appears in a different light, however, when it is borne in mind:

- first, that the cost of these services averages about 25 per cent of WFP's administrative budget;^{1/}

- secondly, that this method of co-operation between two agencies in the United Nations system raises a number of difficult problems, which are a matter of concern both to the authorities which have to approve the budget and to the secretariat which have to prepare and execute it;

- thirdly, that felicitous solution to a problem of this kind is a test of the quality and modernity of the administrative methods applied by the organizations.

4. The main facts of the problem

FAO supplies WFP with a number of services, which may be listed as follows:

- Technical services at various stages of project formulation and execution

These consist of technical advice received by WFP from other organizations both before and during project formulation at the project execution stage and during the evaluation of projects after completion.

Administrative, budgetary, accounting and legal services:

- audic
- translation, revision and printing of documents
- recruitment of staff and various other personnel management services
- accounting
- purchasing
- assistance in budget preparation
- provision of general services.

^{1/} The trend since 1967 has been as follows (millions of dollars):

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Joint United Nations/FAO Administrative Unit	1.82	1.91	2.02	2.32
Services supplied by FAO	0.70	0.79	0.83	1.00
Services supplied by other international organizations	0.34	0.40	0.41	0.44
Miscellaneous	-	0.08	0.09	0.08
<u>TOTAL</u>	<u>2.86</u>	<u>3.18</u>	<u>3.35</u>	<u>3.74</u>
FAO services as a percentage of total budget	25 %	22.6 %	25 %	26.7 %

WFP, of course, has its own administrative services, grouped in three main divisions: the Programme Development and Appraisal Division (WPD), the Programme Operations Division (WPO), and the Division of External Relations and General Affairs (WPR), with a total of 171 posts, of which 64 are professional and 107 general service. Both technically and administratively, however, WFP activities are to some extent integrated with those of FAO, the latter, being much larger, handling a number of matters for WFP in the administrative sectors mentioned above.

There is nothing wrong with this arrangement as such. The two organizations apparently find it satisfactory, and it seems probable that in many cases the services supplied to WFP by FAO cost less than they would if this group of administrative functions were undertaken by WFP itself.

The position varies, however, according to the type of service supplied and a distinction must be drawn between these different types of service before any conclusion is reached on this point.

5. The elements of the problem

This being so, the questions put on this subject were the following:

(a) Composition of the services supplied: Is the composition of the services supplied to WFP by FAO rational? In other words, could some of them not be performed directly by the WFP administration itself?

(b) Legal position: On what basis should the amount to be reimbursed be calculated? Should there be full reimbursement or not? This is the legal issue on which ACABQ and the FAO Finance Committee seem to differ.

(c) The technical method of evaluating the amount to be reimbursed: Is the method of computing the cost of services rendered a good one, or are there other possible methods? In other words, does WFP have adequate control over the "bill" presented by FAO?

(d) The type of budgetary presentation: Should reimbursements to FAO form a separate section of the WFP administrative budget or could they be presented in some other way?

(e) Special problems of expressing services in terms of posts: Should reimbursements to FAO be included as a global sum under income by that organization or should they continue to be expressed in terms of posts in the WFP administrative budget?

These various problems illustrate the difficulties which arise whenever services on a fairly large scale are performed by one organization for another. Similar problems, mutatis mutandis, arise, for example, in calculating the overhead costs which UNDP reimburses to executing agencies, a matter which is still by no means completely settled. The same also applies to WFP's financial relations with other agencies (technical services in the amount of \$430,000 were involved in 1970).

The important point to be noted is that the problems are not limited to financial points or methods of presentation.

In each case, the crux of the matter lies in the quality of the services supplied and the actual performance of the system established in relation to its cost.

This kind of situation is liable to lead not only to the duplication of some activities, but even more to some weakening in the sense of responsibility of staff members or services required to work on tasks other than those with which they are familiar or for individuals (directors or section chiefs) other than those with whom they have a direct relationship. The natural self-sufficiency of each section tends to find expression both in an exaggeration of the difficulties that may arise in providing the services requested of them and in an underestimation of the importance of the work with which they are asked to help. This may lead to delays, to a deterioration in administrative relationships and communications, and eventually to a decline in quality.

Lastly, in the absence of a modern and permanent system of work measurement or cost accounting, it is extremely difficult to be sure that the choice between setting up independent services to perform this type of function (in this case in WFP) or delegating them to a larger and better-equipped organization (FAO) is always made on sound grounds.

I believe it is essential to bear these various points in mind when examining the particular case of the services at present supplied to WFP by FAO.

6. Present method of estimation and composition of services

A description of the present method of estimation will also give a clearer picture of the nature of the services.

A basis for estimation was originally provided by an FAO Organization and Methods Section survey (O and M Survey Report No. 122, World Food Program Agency Costs, August 1966) which gave a total figure for 1966 of \$827,300.

O and M survey No.122 was carried out empirically and non-systematically. No organization-wide questionnaires or systems of work analysis or cost accounting were used. The method employed was to identify posts the incumbents of which performed work directly related to WFP and, through interviews, to obtain estimates of the proportion of their time which was spent directly on WFP support activities.

In some cases, the costs were estimated either directly (by the method of actual cost, where these were known) or by using existing unit cost figures (cost per page impression, translation time per 1,000 words, etc.) or by using cost distribution keys (e.g. vacancy announcements or travel authorizations).

The results of this survey are set out in a table at the end giving a detailed list of the services supplied, an indication of the estimation method used in each case and detailed figures by administrative unit and object of expenditure.

The table sets out in summary form the following costs, classified in order of magnitude:

Office of General Services (drivers, messengers, receptionists, electricians, manual workers of various types, furniture and equipment, telephone and telex, postal services, etc.	\$339,300
Publications Division (translation and printing)	\$154,850
Technical Department	\$ 85,550
Department of Administration and Finance (recruitment, accounting, purchasing, etc.)	\$ 76,850
Department of Economic and Social Affairs	\$ 57,200
Program and Budgetary Service	\$ 28,100
Department of Public Relations and Legal Affairs	\$ 36,400
Other miscellaneous services	\$ 49,050

This survey therefore indicates that:

--- The cost of technical advisory services (technical divisions and Department of Economic and Social Affairs) accounts for a small proportion of the total
(\$85,550 + \$57,200 = \$142,750) 17 per cent

--- The remaining 83 per cent is attributable to the cost of administrative services, made up as follows:

- General service costs (the largest item): \$339,300 orover 40 per cent
- The cost of administrative and financial services (programme, budget, administration, finance, public relations, legal affairs and miscellaneous services): approximately \$198,000 or 23 per cent
- And lastly, publication costs (translation and printing): \$154,850 rather less than 20 per cent

A. Annual budgetary discussions between the WFP secretariat and FAO, based on these figures, lead to corrections and adjustments each year, so that the original percentages given in the O and H Survey seem to have been modified slightly from budget to budget. The descriptive tables in the budgets for 1968, 1969 and 1970^{1/} show that, as a result of this process, the respective shares of

- Technical scrutiny and appraisal of projects (i.e. the work done by the Agriculture Department and the Economic and Social Department plus one liaison officer in the Development Department, or the equivalent of seven professional and nine general service posts, representing the sum of \$219,850) and

- Administrative services (all other services, representing thirteen professional and sixty-two general service posts in the amount of \$783,300) are now 22 (instead of 17) per cent and 78 (instead of 83) per cent; in other words, there has been a slight increase in the share of technical advisory service costs.

The change in the internal breakdown of administrative costs is, however, rather greater.

The number of posts allocated to departments is as follows:

Administration and Finance:	6 professional	19 general service
General Affairs and Information:	4 professional	15 general service
LOMA Washington:	0 professional	1 general service
Office of The Director-General:	2 professional	1 general service
Development Department:	1 professional out of 2	2 general service
General Services:	0 professional	24 general service
Total:	13 professional	62 general service

The thirteen professional posts are distributed as follows:

2 auditors
1 budget officer
1 information liaison officer
3 revisers/translators
6 posts in the Department of Administration and Finance.

^{1/} Tables V, VI and VII of these documents give a breakdown by object of expenditures (table V), general operating expenses (table VI) and breakdown of manning table by segments and offices (table VII).

It would appear from these figures that the share of administrative and financial services (one half of the professional and one-third of the general service posts) has increased considerably in relation to the costs of general services. With this type of presentation, however, the exact share of each type of activity cannot be precisely defined.

It is obvious, in particular, that, in some cases, his expression in terms of posts is purely theoretical and is derived from a workload appraisal, whereas in others - technical advisory service costs, for instance - some professional staff (nutrition and agricultural offices) in fact spend almost 100 per cent of their time on support of WFP project formulation.

Thus, although this type of presentation has an appearance of great precision, it does not give the members of the Intergovernmental Committee, who have to approve the budgets, a very accurate idea of the nature of the services for which payments are made nor does it ensure that WFP can keep an accurate check on the volume of the services provided by FAO.

B. A check of this kind has, however, been made, in part at least, by the consultants of the firm of Booz, Allen and Hamilton, who were commissioned by the Executive Director to make a general study of the staffing systems and organization of the WFP secretariat.

Their comments on the services rendered to WFP by FAO are set out in chapter V of their report (pages 45 - 74). They may be summarized as follows:

The costs allocated to WFP by the FAO Finance Division are overstated by four posts. Two checks were used: a very detailed work distribution schedule by process and a primary document count in each unit. Though the two methods of checking yield slightly different results, the exercise points to some overcharging by FAO. This should simply be construed as an indication of some looseness in the allocation procedure. In order to improve the interprogramme cost accounting and to enable WFP to make some savings, certain changes in FAO organizational arrangements would be desirable.

The workload of the Finance Division fluctuates very considerably and staffing levels have been based on peak periods rather than average load factors. The survey showed that with the introduction of work scheduling, the Division's staffing requirements might be reduced by 20 per cent. The flow of work should therefore be improved.

(b) There do not appear to be sufficient advantages in creating a self-contained accounting unit within WFP at this time. The review drew attention, however, to certain accounting practices which FAO might usefully reconsider. In the first place, the Finance Division places too heavy an emphasis on obligation accounting. The only strong control of financial expenditure lies in the validation of its utility by management, provided, of course, that a financial evaluation of proposed policies has previously been made. Secondly, it would be useful to review the utility of the pre-audits and post-audits carried out by the FAO Finance Division. A basic financial procedure of FAO is to reconcile payment vouchers with the obligating documents. Two alternative procedures might be considered: either the use of computer matching and error rejection or the use of total accounting, ignoring individual inputs on anything more than a sample check basis.

(c) The charges made to WFP for services provided by the FAO Department of Public Relations and Legal Affairs are generally reasonable, but could be reduced by \$29,000 a year, if certain changes were made. The unit costs in the Publications Division are known, and there is no need to convert the total cost of support to WFP into budgeted posts. Instead, WFP should be charged on a unit cost basis, subject to a minimum level of expenditure being reached in each service area. In 1968 the costs charged to WFP for translation increased because FAO was unable to recruit the planned number of translators and had to resort to the free-lance market. A downward adjustment of \$12,000 therefore ought to be made in the charges to WFP so that FAO/WFP accounting reflects only work actually performed. Additional savings of \$17,000 could also be made in the translation and copy-typing areas of the Publications Division if a larger proportion of the work was put out to contract. On the other hand, the cost of services provided to WFP by the Division of Public Information appear reasonable, and no increase in staff is budgeted for in 1969. No charge is made to WFP for legal services provided by FAO.

(d) The services supplied to WFP by the FAO Office of Personnel are open to some criticism, in particular with respect to delays in publishing vacancies and recruiting consultants. Since the review did not cover this Office, no recommendation is made on this subject.

(e) The FAO Office of General Services charges WFP for the salaries of twenty-three general service staff. WFP could reduce this number to sixteen on its own initiative by eliminating messengers, chauffeurs, elevator operators, etc. FAO's method of apportioning charges for general services does not allow for any degree of control by WFP, since the charges are not computed on a direct costs basis.

(f) In conclusion, the shortcomings of the reimbursement method are as follows:

(a) the creation of new WFP posts in FAO is based on estimates of the future work load
(b) the charges made by FAO are derived from estimates of the share of the work load of FAO departments which is attributable to WFP support; they are not generally based on measurable indices of work output; (c) WFP can exercise no control over FAO allocations. To remedy this situation, it is recommended that FAO should establish a baseload commitment to WFP, derived from past experience and expressed in terms of dollars or posts. Where WFP's demand for services is intermittent, charges should be based on the time actually spent in supplying them.

There is no indication in WFP documents that any action has yet been taken on these observations:^{1/}

- The staff responsible for evaluating the services supplied by the Finance Division was not apparently reduced between 1968 and 1970;
- The budgetary presentation of printing costs has not been changed;
- No overall reduction has been recorded.

It would appear, however, from paragraph 65 of document WFP/ICG/16/14 that action on a request by the FAO Finance Division for the establishment of four new general service posts in 1970 has been deferred (pending the results of the management survey). The recommendations made in this survey are at present being considered by a working party set up for the purpose. (WFP/ICG.18/14, para. 20)

^{1/} See paragraph 21 of document WFP/ICG.15/7 of 8 April 1969: "It has not been found possible to arrive at definite findings in respect of them, since the Executive Director has given first priority to reorganization of the administrative structure".

7. The elements of a solution

These being the facts of the problem, the following principles should provide the elements of a solution:

- (a) The system of evaluating the services provided should be as simple as possible, but should enable - so far as this is feasible pending the introduction of cost accounting - WFP and its executive organs to exercise control over the amount of the "bill".
- (b) To this end a distinction should be made between technical and administrative services.
- (c) In the case of technical services, both evaluation and billing should be based on an estimate or measurement of the time spent by the professional staff assigned to such work and the methods used should give WFP an opportunity of expressing an opinion on the value of the observations made.
- (d) In the case of administrative services, a complete review should be made of all the services supplied to see whether some of them could not be performed by WFP itself, and the methods of evaluation and billing should then be selected according to the type of service, direct measurement being used whenever possible. A few simple distribution "keys" should be devised for services not susceptible to such measurement.
- (e) Lastly, the budgetary presentation should give the WFP Intergovernmental Committee a clear picture of the nature and volume of the services supplied and furnish it with detailed explanations of any variations which may occur in the estimates from year to year.

The last three points, (c), (d), and (e), will be considered in greater detail in paragraphs 8, 9 and 10.

8. Technical services

(a) Nature of this work

The work consists of studies, comments and proposals for changes in surveys or operational plans, etc. presented either in the form of written notes or orally at meetings at WFP headquarters.

This work is performed by:

A liaison officer in the Development Department, (a P-5), with a P-2 assistant^{1/}; his function is to co-ordinate the views of the technical divisions, to which he adds his own comments, with particular reference to the implications of the projects in question for FAO field operations;

- Experts selected by the division concerned in the light of the special knowledge required for each project. WFP reimburses FAO for such work by paying the salaries of six professional posts (in addition to the two mentioned above), distributed as follows:

Agriculture Department	One P-3 post
Forestry Department	One P-3 post
Economic and Social Department	Two nutrition officer posts (one P-5 and one P-3)
	One post in the Economic Analysis Division (P-5)
	One post in the Rural Institutions Division (P-3)

The P-5 nutrition officer works full-time for WFP and his office is actually in the WFP building. The other posts are more notional, since the activities they cover can be distributed in various ways within each division, depending on the nature of the project.

Ten general service posts seem to have been added to these eight professional posts for the purpose of evaluating the volume of work performed.

Present method of evaluating the work

Information on the method used in evaluating these technical services was furnished by the appropriate WFP services at our request. Annexes I and II, which they provided show respectively

- FAO divisional participation in the appraisal or evaluation of WFP projects. The annex shows that a total of 112 projects have been the subject of preliminary study or appraisal, that there have been eighty-seven evaluation reports and that twenty-nine missions have been carried out, totalling 537 working days;

- FAO liaison officers' participation. The annex gives a breakdown of the various operations in which they were engaged, an estimate of the man-days theoretically required and actually spent (414 and 303 days respectively, or one man/year).

^{1/} Post requested for the next budget.

These annexes enable a large part, but not the whole, of the activities described to be expressed in terms of man-days. It is thus not possible to estimate whether WFP reimbursements for these activities correspond exactly to the volume of work actually performed.

(c) Method of evaluation proposed

The above description of the services supplied suggests that it would be most desirable for a number of posts for which WFP now reimburses FAO to be re-included in the budget of WFP itself, i.e. to be transferred from chapter II to chapter I. This should apply, in my opinion, to the post of liaison officer in the Development Department and the post of the nutrition officer working full-time for WFP. These are two P-5 posts, i.e. relatively senior posts whose incumbents are in a position to check the quality of the services supplied by FAO. It would seem appropriate for these staff members to be professionally responsible to the Executive Director of WFP.

It should not be impossible for the whole of the work done by experts in the FAO divisions to be estimated in terms of man-days. This method should lead to greater consistency, a better assessment of staff members' work and improved control over these activities as a whole.

9. Administrative services

Nature of this work:

On the basis of the information we have been able to obtain about the nature of this work, it may be described as follows:

Audit

This is only a small item of expenditure, but it appears to call for the following comments:

A distinction must be made here between external audit and internal audit.

Article XX, paragraph 1, of the Additional Financial Procedures of the Programme provides that the annual accounts shall be submitted to the External Auditor of FAO.

In the case of internal audit, which is evaluated at the equivalent of 1 P-4, 1 P-3 and 1 G-6 clerk, the WFP services find it convenient for this to be carried out by the FAO audit unit, which can, particularly in the case of audits abroad deal with all FAO or WFP projects in a given country. It seems to me that this function of internal audit, if carried out efficiently, forms part of the functions over which

the Executive Director should have direct control. I therefore feel that the WFP services should give very serious thought to the possibility of the bulk of the internal audit being carried out directly by staff members responsible to the Executive Director, although in the case of a certain number of projects part of the work might be delegated to the FAO auditors.

Translation, revision and printing

The use of FAO's services by WFP for this type of work is quite rational and very probably economical. The greater part of the work of translation, revision, reproduction, external printing and distribution is concentrated in two periods of the year, corresponding to the sessions of the Intergovernmental Committee - the setting-up of a permanent service in WFP to undertake all those operations would therefore not be justified. The only problem is how the "bill" to be paid by WFP should be calculated. That bill, of which details will be found in annex III, amounted to \$135,111 for 1969. Annex III also shows how this sum is converted into budgeted posts. It will be seen that it is assessed at two professional (two P-4) and fourteen general service posts. This conversion into budgeted posts does not seem to me to be of any value to the WFP administrative or budgetary authorities, and in this connexion, I share the view of the Booz, Allen and Hamilton consultants that there is no need to express the cost of WFP support in this form.

Personnel

WFP staff recruitment and management operations are divided between WFP and FAO as follows:

The services performed directly by WFP are the following:

(i) Appointment of professional staff at headquarters and in the field, and of general service staff. Headquarters staff of both categories are subject to the FAO rules and regulations and appointments are referred to the competent staff selection committees of FAO.

(ii) The establishment and maintenance of leave records for WFP personnel at headquarters, and of personnel files.

(iii) Replies to questions on, and the initiation and despatch for processing by FAO of all personnel actions (e.g., travel authorizations, education grant, salary

statements, etc.). Correspondence with UNDP, Resident Representatives and WFP field staff on all administrative matters.

FAO for its part, undertakes:

The establishment and maintenance of personnel files;

Supervision of the application of the FAO staff rules and regulations to WFP staff members who are subject to the same rules and regulations as FAO staff;

The preparation of personnel action forms for WFP staff (including transfers, salaries, various allowances, home leave, etc.);

Supervision of Pension Fund and social security arrangements, etc., for WFP staff both at headquarters and in the field;

Staff recruitment: the figures for 1969 are as follows:

<u>Headquarters</u>	<u>Professional</u>	<u>General Service</u>
Recruited	5	3
Transfers from:		
FAO	2	7
WFP field projects	1	-
Total	8	10
<u>Personnel in the field</u>		
Recruited	16	1
Transfers from headquarters	4	-
Total	20	1
Grand total	28	11

The annual preparation of a manning table, which is the official document on which all personnel actions are based.

The posts for which WFP at present reimburses FAO on account of these activities are the following: two professional posts (one P-3 and one P-2), and six general service posts: one G-7, one G-6, three G-5 and one G-3. The present method of evaluation appears to be somewhat arbitrary. It seems to me that, in this case, it would be equitable for the value of the services supplied to be calculated by means of a "key" for the distribution of FAO Office of Personnel costs; this might be the share of WFP's total personnel costs in FAO's total personnel costs, all these values being expressed in terms of dollars.

Accounting: The operations carried out by FAO under this heading are the following:

Preparation of the WFP end-of-year accounts;

The making of all payments, including those of staff salaries and the reimbursement of travel expenses, except those incurred by the offices of UNDP resident representatives, which are charged to WFP by inter-office voucher through UNDP at New York;

The management by the FAO Treasury Branch of funds deposited to the credit of WFP: this Branch is also responsible for disbursements throughout the world;

The Office of Controller of FAO (Accounts Branch) produces monthly accounts;

Finally, an analyst-programmer in the Management Services Division is in charge of computer services provided to WFP.

At present, the posts for which WFP reimburses FAO on account of these operations are the following: three professional posts (one P-1, one P-2 and one P-3) and sixteen general service posts.

Here again the present evaluation appears to be arbitrary. A choice of simple distribution "keys" might, for example, be as follows:

Payment of invoices, salaries and travel expenses: unit costs established by FAO on the basis of calculations subject to verification by WFP (division of the administrative costs connected with such work by the total number of operations effected by FAO and WFP), multiplied by the number of operations relating solely to WFP;^{1/}

^{1/} The figures given by the Booz, Allen and Hamilton consultants show that the FAO Finance Division estimates that it requires four times as long to process a WFP payment voucher as an FAO payment voucher: the present percentage distribution reflects that estimate. Adequate justification would, obviously, have to be provided for that estimate before it could be used as a basis for allocation calculations.

Treasury management: the share of WFP in the total costs of the FAO Treasury Branch, calculated by applying to that sum the fraction obtained by dividing the sum of WFP's own funds by the total sum of the funds administered by that Branch;
Monthly and end-of-year accounts: lump-sum estimate on bases communicated to WFP;
Computer services: billing on a piece-work basis or per hour of use.

Purchasing services

The annual volume of purchases (excluding products and related services - sea freight, insurance) made by FAO on behalf of WFP amount to approximately \$50,000 a year. The office furniture and equipment belong to FAO, which supplies them against reimbursement from the credits in chapter II of the budget. The sums charged to WFP for office furniture and equipment under the heading General Operating Expenses (Services provided by FAO) are shown in table VII of the budget document (WFP/IGC: 18/14, page 34), (namely \$17,664 in 1969, \$27,750 in 1970 and \$33,500 in 1971).

The present method of billing would seem to be the only sound one. It is not, however, clear that the furniture, once paid for by WFP, then becomes its property. It would seem logical that it should.

It would appear quite reasonable for FAO's services to WFP in connexion with purchasing operations to be provided free of charge, in view of the modest scale of WFP's purchases of equipment.

Budget preparation

FAO assists WFP in preparing its administrative budget, but not the projects budget.

The evaluation of the services provided at one P-2 professional post appears to be on the high side.

In any event, in view of the nature of the work, it would be normal for this professional post to be allotted to and paid for directly by WFP. Any independent service should be in a position to prepare its own budget.

I therefore suggest that this professional post should be transferred from chapter II to chapter I.

General services

This is a relatively heavy item of expenditure, as it is estimated in terms of the following posts:

24 maintenance and similar staff, namely 5 messengers, 4 chauffeurs, 3 guards, 2 bilingual telephone operators, 5 labourers and artisans, 3 clerks, 1 receptionist and 1 charwoman.

WFP is not housed in a separate building, but shares one with the FAO Department of Fisheries and Administrative Services Division. The area occupied by WFP represents less than a quarter of the available space. In the circumstances, it would be unreasonable for WFP itself to assume responsibility for direct management, cleaning, guards, chauffeurs, etc.

The only rational method of evaluating such costs appears to be to show in the budget the number of staff in this category assigned to the building occupied both by WFP and the two above-mentioned departments of FAO. The distribution "key" between WFP and FAO might consist in applying to the total costs in dollars, a fraction based either on the area occupied in the building by WFP and the other services respectively or on the staffs of those two categories of user.

10. Budgetary presentation

The study of the various categories of services provided suggests:

A. That consideration should be given to transferring a number of activities to Chapter I of the budget

It is proposed, in particular, that this should be done in the case of:

The two P-5 posts for technical services, i.e. the post of liaison officer in the Development Division and the post of nutrition officer;

The P-2 post for budget preparation;

Finally, subject to a more thorough examination by the Executive Director of WFP, all internal audit services.

B. That the presentation of chapter II of the WFP budget should be completely altered

so that the contents of (and the annual changes in) WFP's "bill" from FAO is perfectly clear, comprehensible, and verifiable by the budgetary authority of WFP, in other words, by the Intergovernmental Committee.

That presentation, in my opinion,

should be calculated in dollars and not expressed in terms of budgeted posts; should clearly indicate the items of the bill (or estimated future bill).

The presentation of chapter II of the WFP budget could then be approximately as follows:

Chapter II - Services provided by FAO

Sub-heading 1 - Technical advisory services

A first table might, for example, give the following main items of information:

Nature of service provided	Number of projects	Number of days per operation	Total number of days	Price per day	Value in dollars	Travel and general expenses	Total
Preliminary evaluation of projects							
Final evaluation							
Attendance at meetings							
Missions							
Appraisal							
Evaluation							
Supervision							

A table of that type might be presented:

- (1) for the last year for which complete figures are available (probably two years before the year to which the proposed budget relates) and might give the figures of actual expenditure for that year:
- (2) as a budget estimate for the year to which the budget relates.

It might be followed by explanatory comments

giving all the necessary information about the types of project concerned (or at least the main ones), about the FAO divisions from which help was or would be chiefly obtained, about the impact of the information supplied by FAO, about the actual development of the previous year's operations, etc.; giving reasons for differences between actual expenditure in the anti-penultimate year and the expenditure proposed for the budgetary year in question. A paragraph should deal specifically with the reconciliation of the amount of these technical advisory costs with the projects budget.

Sub-heading 2 - Administrative services

The table to be presented might, for example, be as follows:

Nature of service provided	FAO department	Method of estimating	Bases of calculation	Results shown in dollars
Auditing	External Auditor ODG	Cost of external audit FAO/WFP X fraction obtained by dividing the sum of all accounts audited by the sum of WFP accounts	Figures and fraction corresponding to column 3	\$
Translation, revision, printing	Publications Division	Billing per unit - Price of printed page - Price of translation per 1,000 words - Price of contract translation per 1,000 words - Typing and checking, price per page - Editing per 1,000 words - Distribution, contractual price	Number of pages Number of words Number of words Number of pages Number of words Actual price	\$ Sub-total for this item in \$
Staff recruitment and management	Office of Personnel	Budget of the FAO Personnel Division of FAO X fraction obtained by dividing personnel costs of FAO plus WFP by WFP personnel costs	Figures for column 3	\$
Accounting Payment of invoices, salaries and travel expenses Treasury management Preparation of monthly and annual accounts Computer service	Finance Division	Unit price X number of operations Costs of Treasury Branch X fraction of funds managed Global evaluation Billing per item or per hour	Bases of calculation expressed in figures	\$

Nature of service provided	FAO department	Method of estimating	Bases of calculation	Results shown in dollars
Purchasing services and other general expenses	-	Amount of actual expenses	Presentation of the same type as now	\$
General services Services for the building occupied by WFP	Office of General Services	Total cost of managing the building X fraction of utilization	Bases of calculation expressed in figures	\$
Total				\$

This table, like the first, might be presented either in the form of the accounts for the last complete year, or in that of an estimate for the financial year under consideration.

It might also be followed by explanatory comments, giving all the necessary information on the method of determining unit costs or the sums taken as the basis of calculation, and giving the reason for any differences noted between the figures for the antepenultimate year and the proposals made for the current financial year.

The result would thus be a bill in dollars. This is, of course, the only significant point as far as the WFP authorities and the Intergovernmental Committee are concerned. FAO, which would receive this total amount, would then be free to convert that sum into posts as it thought fit, and the Director-General of FAO would have to account for such use only to his own Executive Board or General Conference. I am of the opinion that the existing system of presenting these costs in the form of posts in the WFP administrative budget is purely arbitrary, of no value to the Intergovernmental Committee, and likely to confuse the presentation of the "bill to be paid".

11. Legal problem

The proposals made in paragraph 7 to 10 above seem to me to meet all the points raised in paragraph 5 (rational composition of the services provided, technical method of evaluating the amount to be reimbursed, type of budgetary presentation, utility of expression in terms of posts), except for the legal point on which there is a difference of opinion between ACABQ and the Financial Committee of FAO, namely, whether or not there should be full reimbursement.

I see no need for a detailed analysis of the existing texts.^{1/}

It would obviously be excessive to interpret these provisions as requiring an extremely precise calculation of all the costs incurred by FAO on account of services provided to WFP. There thus seems to be no need to waste time in elaborating a detailed legal solution. The right conclusion on that point appears to be that the costs in question should undoubtedly be reimbursed, but that FAO should exercise restraint in calculating the amount to be reimbursed, which does not always seem to have been the case with the examples which we have considered. Such a conclusion points to the need for the simplest possible method of calculation, and the one we have proposed seems to us to fulfil that requirement.

12. Conclusion and summary of proposals

As indicated in the introduction to this report, the proposals it contains relate only to the principles which should govern a solution. In other words, they should be viewed by the Executive Director of WFP and by the Intergovernmental Committee in the light of a guide, open to modification after a more thorough study of the details of each problem, by, for example, the working party set up to examine the question (document WFP-IGC 18/14, para. 20).

Subject to the above observation, the proposals made in this report may be summarized as follows:

- (1) That the following operations should be transferred from chapter II to chapter I of the WFP budget, i.e. placed under the direct authority of the Executive Director of WFP:
 - Budget preparation (a P-2 post)
 - Direction and control of the technical support requested from FAO (two P-5 posts)

^{1/} In particular paragraphs 14 (e), (f) and (g) of part C of the General Regulations, which read as follows:

"(e) General financial and administrative services will be provided on a reimbursable basis through the regular FAO administration service, and to this effect the Executive Director shall rely to the fullest extent possible on the existing staff and facilities of FAO.

"(f) For other services the Programme shall rely to the maximum extent on the feasible existing staff and facilities of FAO, the United Nations and/or other intergovernmental agencies. The additional cost involved will be reimbursed from WFP resources.

"(g) Every effort should be made to keep the cost of management and administration of the Programme to a minimum."

- Possibly, insofar as is feasible, internal auditing.

To bring these functions under the authority of the Executive Director of WFP would seem to offer the further advantage of providing him with the necessary means for the development and control of the Programme's policy.

- (2) That a radical change should be made in the existing presentation of chapter II in respect of the services which will continue to be provided by FAO:
 - (a) By discontinuing the evaluation of these costs in terms of budget posts, and by recording them solely in terms of dollars;
 - (b) By specifying for each category of service provided the main cost elements; cost per day, unit costs, total amount of FAO and WFP expenditure on any particular category of service, using simple distribution "keys" of which examples have been given in the report.
- (3) That, from the legal standpoint, it should be recognized that the costs are undoubtedly reimbursable but that FAO should show restraint in their assessment.

The adoption of a system of this kind seems to me the least unsatisfactory method in existing circumstances. It has the additional advantage of being easy to improve once FAO has introduced a modern system of cost accounting.

ANNEXES

- Annex I Divisional participation in WFP projects
- Annex II FAO liaison officers participation in WFP projects
- Annex III Translation and printing - - consumption and costs

ANNEX I

DIVISIONAL PARTICIPATION IN WFP PROJECTS
for the year 1969

JIU/REP/70/7
Annex I

DIVISION	No. of pro- jects studied and advised on for preliminary appraisal	No. of final requests appraisal	Evaluation Reports appraised	M I S S I O N S							
				Appraisal		Evaluation		Supervision		Totals	
				no. of missions	no. of days	no. of missions	no. of days	no. of missions	no. of days	no. of missions	no. of days
AGS (AgS)	14	20	5	5	78	-	-	-	-	5	78
AGL (LA)	12	22	12	-	-	1	21	-	-	1	21
AGP (PL)	10	10	3	-	-	1	10	-	-	1	10
ESC (CO)	5	91	-	-	-	-	-	-	-	-	-
ESE (EA)	27	87	1	-	-	1	15	-	-	1	15
ESN (NU)	20	84	9	$3+\frac{1}{2}+\frac{1}{2}$	69	-	-	$\frac{1}{2}+\frac{1}{2}$	34	5	103
ESR (RU)	14	48	33	3	55	3	66	-	-	6	121
FO (FO)	-	11	6	$2\frac{1}{2}$	43	$3\frac{1}{2}$	76	-	-	6	119
DDA (ASD)	5	25	6	-	-	-	-	-	-	-	-
AGA (AN)	4	11	11	2	31	$1\frac{1}{2}$	35	$\frac{1}{2}$	4	4	70
FI (FI)	-	1	1	-	-	-	-	-	-	-	-
DDLB (IBRD/FAO)	1	1	-	-	-	-	-	-	-	-	-
UNICEF/FAO	-	11	-	-	-	-	-	-	-	-	-
TOTAL	112	422	87	-	-	-	-	-	-	29	537

$1\frac{1}{2}$ means that mission had double purpose, e.g. evaluation and appraisal; this only applies to missions covering more than 1 project: $3+\frac{1}{2}+\frac{1}{2}$ means 3 appraisal missions plus 2 double purpose missions.

ANNEX II

FAO'S LIAISON OFFICERS PARTICIPATION IN WFP PROJECTS
for the year 1969

	Average No. of Divs. <u>involved</u>	Man-days required per unit	Man-days required	Man-days actually spent
<u>Appraisal Evaluation</u>				
48 Preliminary appraisals	4	$\frac{1}{2}$	24	24
75 Final appraisals	5	1	75	75
6 Appraisal missions carried out	4	Travel time + 20%	50	50
30 Organization of FAO's participation in appraisal/evaluation missions	3	2	60	60
75 Planop approval meetings at WFP	-	$\frac{1}{2}$	37	37
50 Commenting on and clearing of draft evaluation reports	-	$\frac{1}{2}$	25	10
<u>Co-ordination of FAO's and WFP's Field Programmes</u>				
111 Studies of all new SF projects on the possibility of strengthening by WFP project and alerting divisions/WFP branches concerned in the affirmative	3	$\frac{1}{4}$	28	5
75 Analysing all new WFP requests and FAO existing field programme on the possibility of part-time support and on the need for reinforcement by full- time, including the proposing of new posts	-	0.2	14	3
33 Assisting in briefing sessions of FAO Reps. on co-ordination of FAO/WFP's programme	-	$\frac{1}{4}$	8	2
46 Assisting in briefing of UNDP Reps.	-	$\frac{1}{4}$	12	2
46 Group briefings of new FAO/WFP personnel on the co-ordination of FAO's and WFP's work in the field	-	$\frac{1}{4}$	11	9
Preparation for and participation in UNDP/WFP review meeting	All	-	10	10
Organizing and keeping a watching brief on agreed FAO support to WFP projects	All Op. Divs. and NU	-	46	2
Inter-Governmental Committees	All Op. Divs.	-	14	14
			<u>414</u>	<u>303*</u>

* Represents one-man year.

ANNEX III

TRANSLATION AND PRINTING - CONSUMPTION AND COSTS

	Consumption	Standard Costs	
		Unit Costs (1969)	Totals
Internal Printing, page-impressions	5,655,000	\$ 3.97/1000	\$ 22,450
Staff translation, words (including dictation service)	632,000	\$ 66/1000	\$ 41,712
Contract translation (words)	772,500	\$18.16/1000	\$ 14,030
Placement of contracts and revision of contract transl.			\$ 7,280
Copy-typing (standard pages) and proofreading	7,000	\$ 1.92/page (typing \$1.62 proofing \$0.30)	\$ 13,440
Processing Control (jobs)	1,500	7% of total	\$ 3,000
Editorial (words)	224,600	\$ 35/1000	\$ 7,861
Distribution (actual)	-	-	\$ 25,338
			\$135,111

(The above figures are substantially stabilized in comparison with 1968.)

On the above basis the following budget estimates are submitted:

ANNEX III (continued)

1.	<u>Salaries - Established Posts (incl. Common Staff Costs)</u> ^{a/}	
	<u>Translation</u>	
	2 Revisers P-4	\$ 36,800
	2 Stenographers G-3 NL	9,600
	<u>Internal Printing</u>	
	1 Phototechnician G-3	6,000
	2 Offset Machine Operators G-2	9,700
	1 Collator G-1 A	4,000
	<u>Composition</u>	
	3 bilingual typists G-3	13,000
	<u>Distribution</u>	
	1 Clerk-typist G-3	4,800
	1 Clerk G-2	4,100
	1 Addressing Group Leader G-3	6,100
	1 Packing Group Leader G-2	5,900
	1 Packer G-1 C	4,600
		<u>\$104,600</u>
2.	<u>Overtime</u>	\$ 6,000 ^{b/}
3.	<u>Contract Translations</u>	\$ 17,000 ^{b/}
4.	<u>Supplies for Internal Reproduction</u>	\$ 15,000 ^{b/}
		<u>\$142,600</u>

a/ Salaries and common staff costs calculated on the basis of status of present incumbents of these posts.

b/ Same figure as for 1970