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Notes

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Print Name of Person Submit Images

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JOHN MANFREDI

John Manfredi

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CF/SP/M/1994-001/Ch 10

X. FINANCIAL SYSTEMS

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THE EXECUTIVE BOARD HAS CHALLENGED “TRANSPARENCY” IN FINANCIAL MANAGEMENT, AND A LARGE NUMBER OF SECRETARIAT STAFF BELIEVE THEY ARE RIGHT IN DOING SO

- “Budget allocation is very flexible and can be corrected as the project develops. Basically, you end up needing more money and they give it to you.”

Middle Manager

- “Withdrawals of cash [physical transfer of funds] are not linked to the budgeting process. Accountability is about explaining expenditures after having drawn down the balance. I’d like to see more explicit linkage with the financial planning process.”

Finance Officer

- “There was an era when they were moving things around in the budget in — let’s say — unorthodox ways. ... That may explain why the Board is now inclined to what they call “micromanagement.”

High level UNICEF Manager

- “There’s room for a lot of improvement there. They could and should make a conscious effort to explain themselves better, explaining what’s behind the numbers, which they seem loath to do. The language itself — “UNICEF-ese” — is almost impenetrable.”

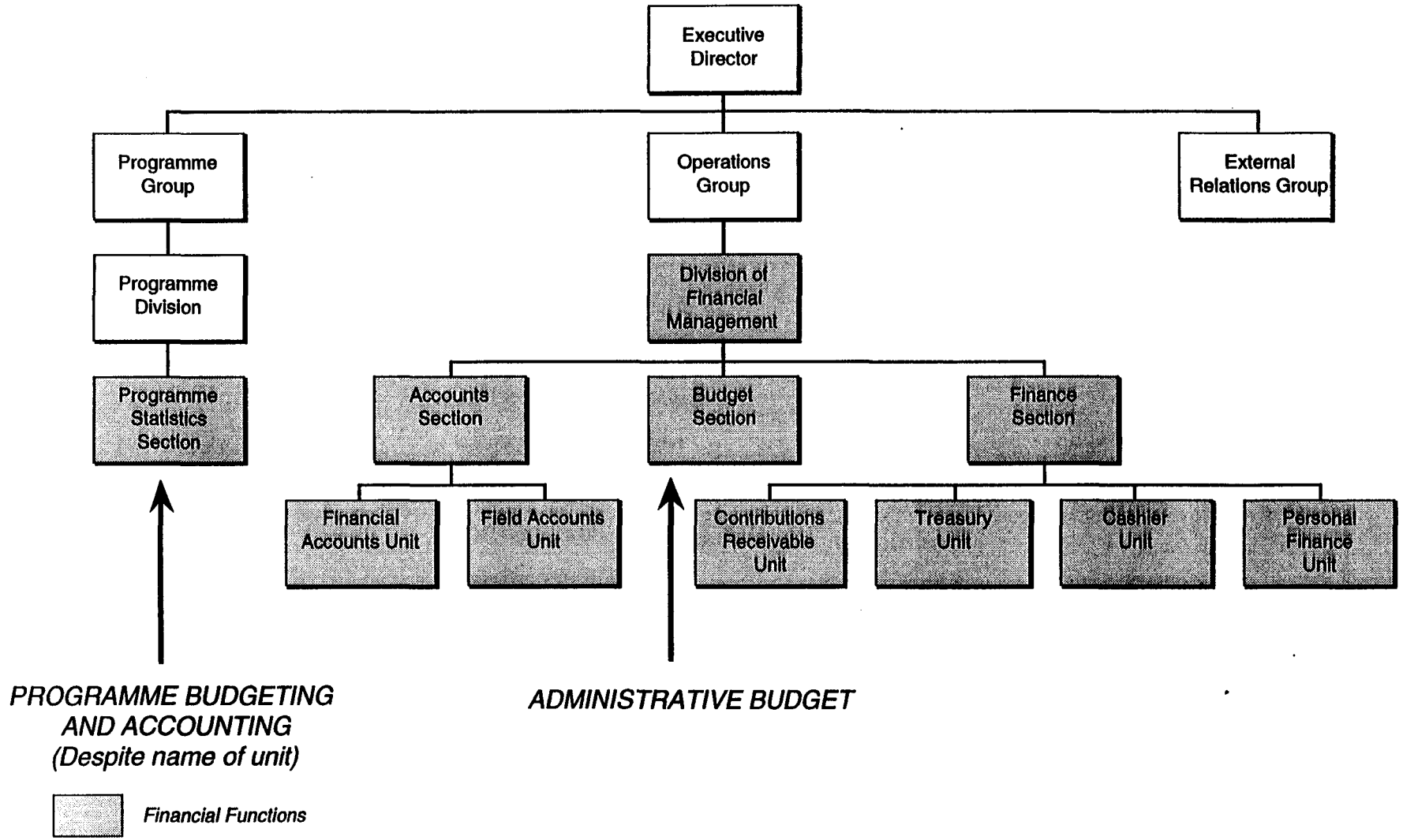
National Committee Leader

OUR EXAMINATION FOCUSES ON THE FOLLOWING TOPICS:

- Organization
- Spending Levels
- Processes and Procedures
 - Accounting Control
 - Budgeting and Reporting
 - Field Financial Management and Systems
 - Cash Assistance Tracking
 - Cash Balance Management

Organization...

AT HEADQUARTERS, FINANCIAL PROCESSES ARE MANAGED BY DFM AND THE PROGRAMME STATISTICS GROUP IN PROGRAMME DIVISION



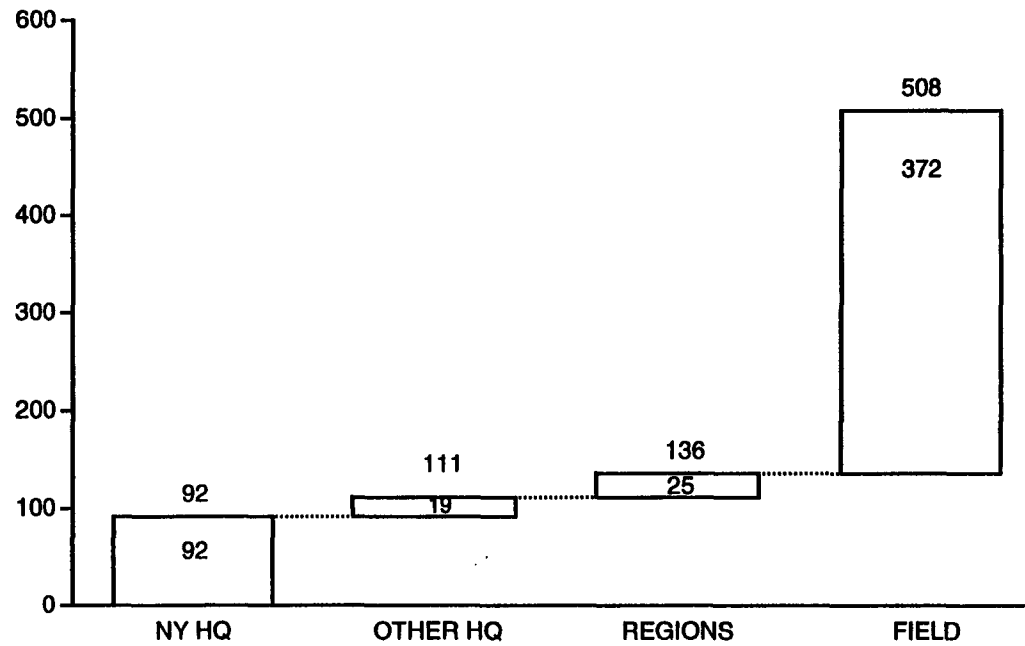
UCFORE (1) FK002.a • 9/94/NY

FINANCE IS CENTRALIZED AT HEADQUARTERS, WITH FIELD FINANCE AND OPERATIONS OFFICERS PROVIDING TRANSACTION INPUT

FUNCTION	ROLE OF HQ	ROLE OF FIELD
<p>BUDGETING</p>	<ul style="list-style-type: none"> • Budgeting policy • Budgeting process • Budget allotments • Expenditures monitoring 	<ul style="list-style-type: none"> • Administrative and programme budgeting • Expenditures monitoring
<p>ACCOUNTING</p>	<ul style="list-style-type: none"> • Accounting policy • Field data validation • HQ transaction coding • Transaction processing • Analysis and reports 	<ul style="list-style-type: none"> • Expenditure processing (GFSS) • Transaction coding
<p>FINANCE</p>	<ul style="list-style-type: none"> • HQ payments • Field payments (special cases) • Bank accounts management • Cash balances management • Income recognition • Accounts receivable 	<ul style="list-style-type: none"> • Field payments

Spending Levels...

UNICEF EMPLOYS ABOUT 500 PEOPLE WORLDWIDE ADDRESSING FINANCE ISSUES – ANNUAL COST IS ESTIMATED AT NEARLY \$20M



UCFORE (1) DB002 • 12/94.NYR

Source: Administrative budget 1992-93; Post Authorization tables, Organograms

ACCOUNTS MANAGEMENT HOPES TO DECENTRALIZE VALIDATION OF FIELD TRANSACTIONS, BUT SO FAR FACES CHALLENGES OF SKILLS AND ACCOUNTABILITY

- "I would like to see all validation and authentication of transactions done in the field. However, we have very low accounting skills in the field. We get a lot of programme people [working] in accounts who are not well qualified in this area."

Senior Manager, DFM

- "Operations officers in field offices have broad responsibilities – administration, personnel, supply, EDP and finance – expertise in any one area is limited."

Manager, DFM

- Errors in timing and coding of field transactions result in suspense accounts which average 3.5% to 4% of expenditures, exceeding the accounting benchmark level by 400%

Senior Manager, DFM

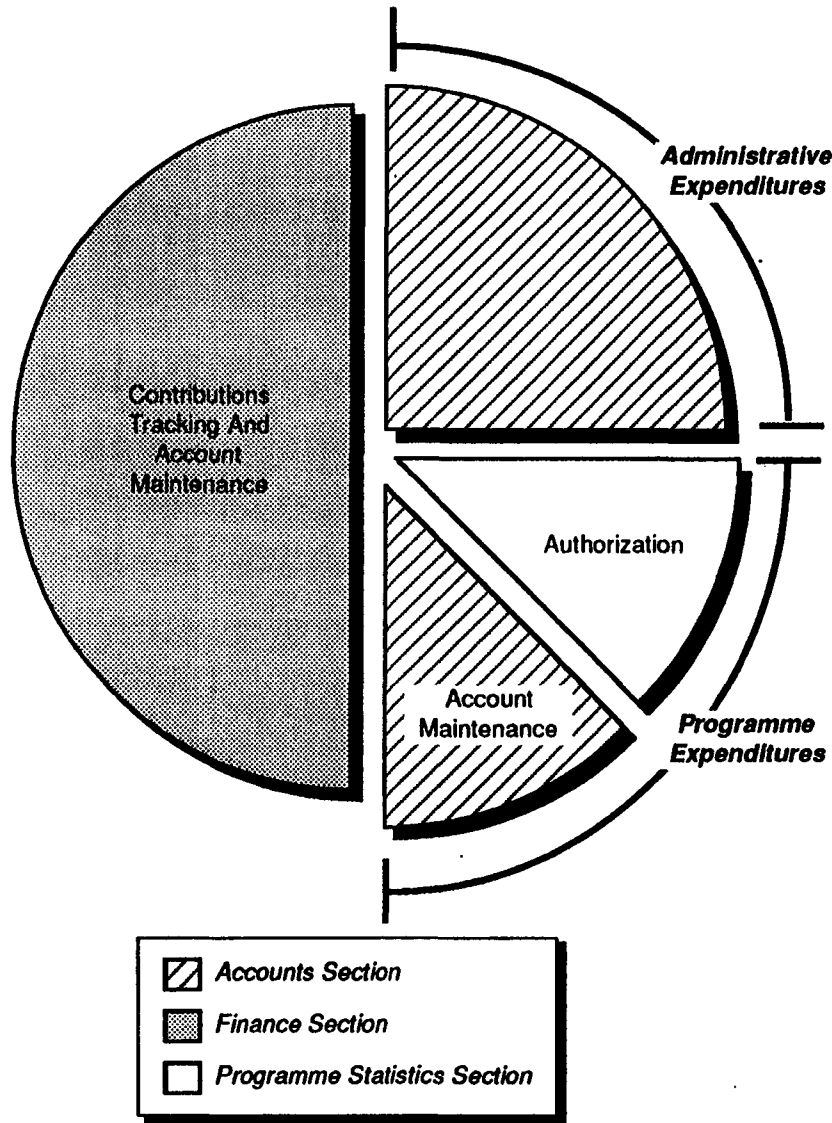
- "In some instances, Operations Officers have rejected the demand of a Programme Officer for cash advances to the government on the basis that there were many advances which were still not liquidated. But the decision can be overruled by the Rep."

Manager, DFM

- "We need to put more competent people in the Operations Officer position in the field. We then also need to make sure that the Rep does not "overrule" the Operations Officer's decision when the Rep does not like it."

Senior Manager, DFM

THE DIVISION OF ACCOUNTING RESPONSIBILITIES WITHIN UNICEF LEAD TO CONTRADICTIONS OF STANDARD INTERNAL CONTROL AND ACCOUNTABILITY MECHANISMS



- Normal accounting standards include separation of custody and accounting for assets
- However, violations of this practice occur within UNICEF
 - Finance section has both custody and accounting responsibility for contributions
 - Programme Division authorizes Programme budget allotments and also plans and oversees implementation of the programmes

UCFORE (1) MK007 • 11 / 94 / NY.R

BUDGETS AT UNICEF ARE PRIMARILY DERIVED BASED ON HISTORICAL SPENDING AND FUNDS RAISED – CHANGING COSTS OF ACTIVITIES PLANNED ARE NOT FACTORED INTO THE EQUATION

- Forecasts tend to be based on straight line extensions of historical levels – one example of this is the recent headcount forecast
- Programme budgets are based on projections of funding availability and country need:
 - Programme Statistics Unit allocates anticipated funds based on a country need formula which includes such factors as GNP, child population and child mortality
 - From this calculation, a country ceiling is derived, reflecting general resource allocations and potential supplementary donations
 - Board approves organizational spending priorities by sector
 - Country programmes prepared, approved by Board
 - Each country representative is expected to spend the full budget available
- Budgeting processes more appropriately consider both demand and cost issues
 - For example, the budget for Personnel would consider the underlying drivers of workload, such as total staff, frequency of transfer, etc.
 - Programme budgeting would reflect not just relative country need, but also relative costs of different programmes

THE EXISTENCE OF TWO BUDGETS, WHICH ARE ONLY LOOSELY LINKED, CLOUDS TRANSPARENCY

BUDGETING BEHAVIOR	IMPLICATIONS FOR TRANSPARENCY
Programme Budget funds Administrative and Programme Support Posts	Budgetary funding does not signal the nature of staff activities
Administrative and Programme Budgets are not linked	The relationship between programme activity and required administrative support is not discernible
Field Administrative and Programme Budgets managed separately	Cannot look at a single office and see the total being spent at a point in time
Programme Budgets are done on 5 years cycle; Administrative Budget 2 years	Administrative Budgets cannot be activity driven

"When a country is preparing an Administrative budget at the end of a program cycle, it faces difficulty because it does not know what kind of activity to expect."
 DFM Manager

THE TWO BUDGET APPROACH COMPLICATES THE DEFINITION AND RECOGNITION OF OVERHEAD: A MAJOR BLOCK TO TRANSPARENCY

To limit the growth of "overhead," the Board focuses on the Administrative Budget



Overhead spending migrates to the Programme Budget



Definitions have been gravely compromised – the word overhead becomes meaningless

OVERHEAD CALCULATION

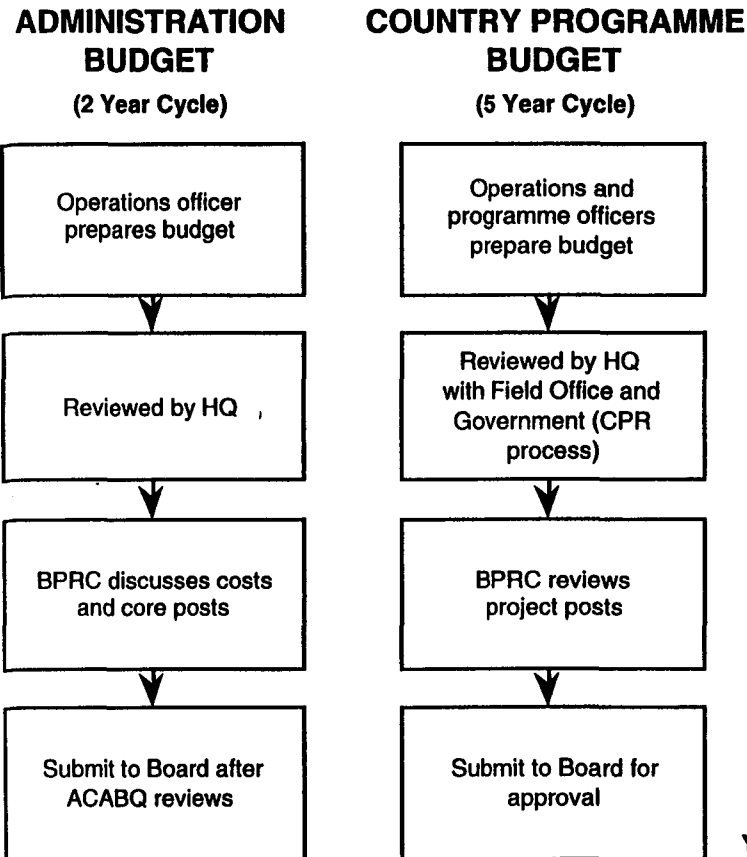
	Current Method	Alternate Method (1)
Definition	By Function: Some functions are considered overhead no matter where the staff is located	By Location: Irrespective of function, all HQ locations and regional offices are considered overhead
Applied to	Administrative Budget Only	Administrative and Programme Budgets
Resulting Overhead Ratio	11.6%	15.2%

UCFORE (1) FK007 • 9/94/NY

(1) A similar method, but only applied to the Administrative Budget, has already been proposed and discussed by senior DFM managers

DOUBLE BUDGETING ADDS TO COSTS, BECAUSE IT REQUIRES PARALLEL PROCESSES AND WORKLOAD

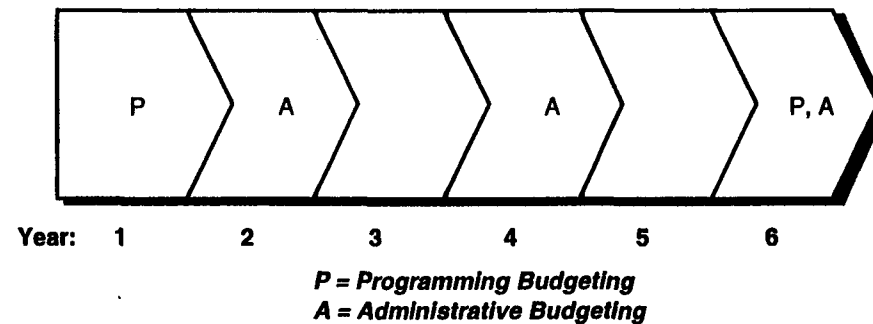
THE TWO BUDGET PROCESSES HAVE SIMILAR STEPS ...



... LEADING TO SUBSTANTIAL DUPLICATION OF WORK

Resource	How it is Duplicated
• Systems	Different systems for monitoring
• Budgeting	Field offices prepare two complimentary budgets
• Budget Monitoring	Done separately by two separate groups at HQ
• Accounting	Done in DFM for both but in separate units

... AND DISJOINTED BUDGETS IN FIELD OFFICES



UCFORE (1) FK011 • 9/94/NY

GLOBAL FUNDS, CREATED FROM THE PROGRAMME BUDGET, INTRODUCE ANOTHER OBSTACLE TO TRANSPARENCY

- Budgeting and reporting on expenditures for global funds is done independently from the regular administrative and programme budgeting processes
- In addition, documentation mixes headquarters and country allocations, so tracking to a complete funding picture for any headquarters unit or country office is not possible

GLOBAL FUND TYPE	CURRENT REPORTS	IDEAL REPORTS
Interregional	Describe activities supported, such as: <ul style="list-style-type: none"> • Studies and promotion • Knowledge generation, networks and experience exchange 	<ul style="list-style-type: none"> • Itemize totals allocated to each headquarters division • Can be summed against administrative budgets to determine total spending by division
Regional	Provide total funding for each region A few special funds shown separately	<ul style="list-style-type: none"> • Itemize for each region amounts allocated for regional office and for each country • Can show regional office spending; can be added to programme budgets to build to total spending by country
Programme Funds	Show total funds by programme sector; some detail provided within health Multiple health objectives grouped together under mortality reduction	<ul style="list-style-type: none"> • Itemizes totals allocated by particular goal; also provides totals allocated to each country • Can be added to programme budgets to build to total spending by country
Emergency	Total spending as one sum	<ul style="list-style-type: none"> • Indicates allocations to specific countries

Budgeting and Reporting...

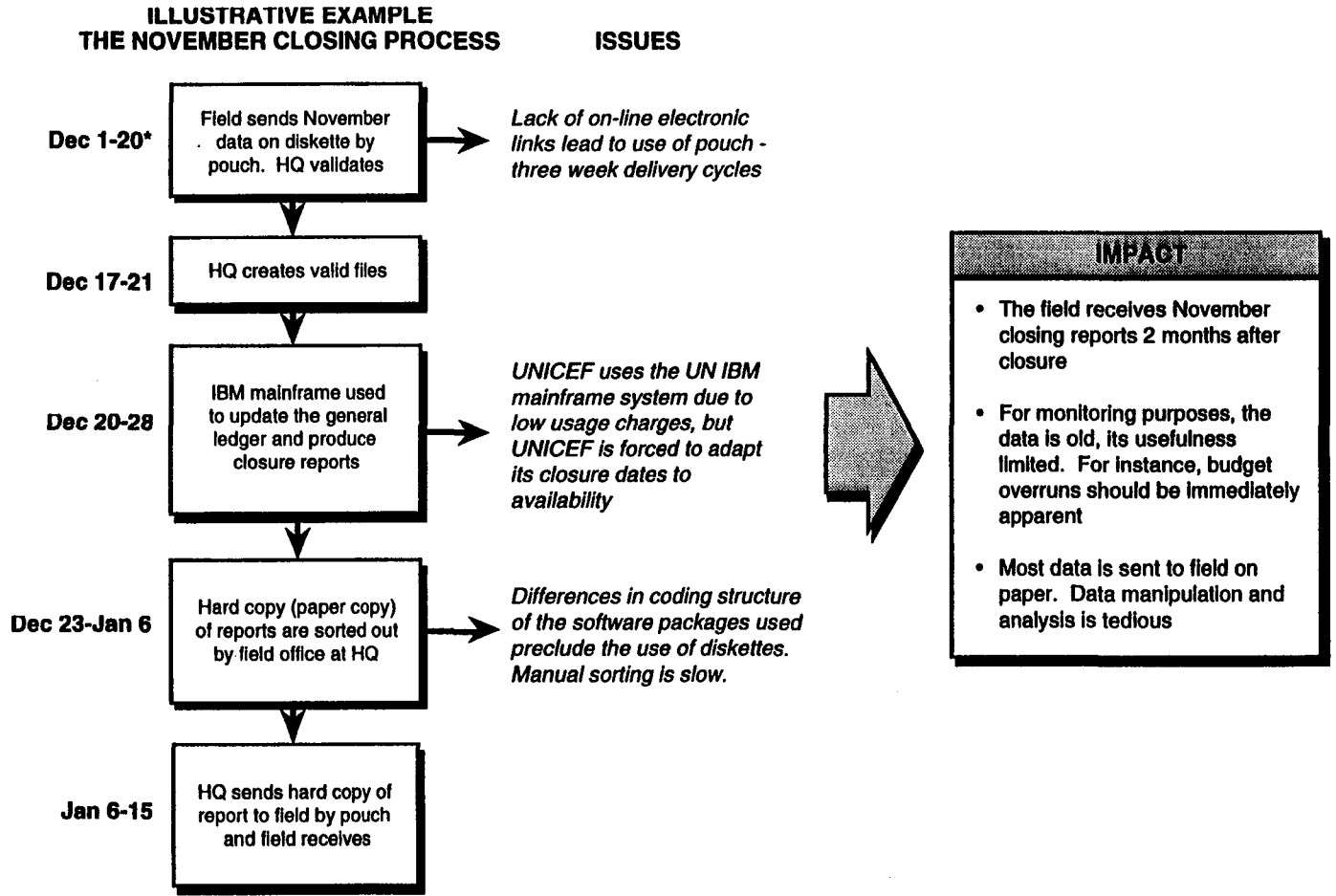
THE MEANS BY WHICH THESE MULTIPLE BUDGETS ARE PRESENTED TO THE EXECUTIVE BOARD FOR REVIEW DOES NOT SUPPORT TRANSPARENCY OBJECTIVES

BUDGET	THE BOARD APPROVES...	THE BOARD SEES...	TRANSPARENCY ISSUES
Administrative Budget	<p>...the <u>Administrative and Programme Support Budget</u></p> <ul style="list-style-type: none"> • Once every biennium • Global information (country level detail provided as backup) • Aggregate cost data • Count of core posts 	<p>...the <u>Financial Report and Statements</u></p> <ul style="list-style-type: none"> • Officially once every biennium (interim reports presented in alternate years) • Funding information by donor country • Expenditures from the Administrative Budget at the aggregate UNICEF level: 	<ul style="list-style-type: none"> • Total expenditure per country not identifiable because: <ul style="list-style-type: none"> – Administrative expenditures not presented by country – Global funds allocations not presented by country • Spending by division not identifiable – only aggregate Administrative spending presented
Programme Budget	<p>...the <u>Country Programme Recommendation (CPR)</u></p> <ul style="list-style-type: none"> • Usually once every 5 years (emergencies and bridging programs may be 3 or 4 years) • Country level information • By source of funding • By type of Programme • Includes expenditures under current Programme • Count of project and core posts <hr/> <p>...the <u>Global Funds Programme Recommendation (GFPR)</u></p> <ul style="list-style-type: none"> • Once every biennium 	<ul style="list-style-type: none"> – Staff costs – General Operating Costs – Packing and Assembly • Expenditures from the Programme budget at the country level: <ul style="list-style-type: none"> – By sector – By region – By source of funding • Aggregate balance sheet, cash flow, receivables, inventory and funding levels statements 	<ul style="list-style-type: none"> • Expenditures by type – e.g., staff, travel, etc. – is not transparent in the programme budget: more transparency here would resolve questions such as: <ul style="list-style-type: none"> – office staff travel? – travel for technical and other HQ advisers? – supplies? – publications? etc. ...

FIELD OFFICES RELY ON FINANCIAL INFORMATION FROM NEW YORK RATHER THAN TRACKING BUDGETS AND EXPENDITURES LOCALLY – LEADING TO SOME UNINFORMED DECISION MAKING

- Organizational financial management typically includes both local and central responsibilities:
 - Local records maintenance to support local decision making
 - Central checking and processing for “corporate” level reports
- Field offices at UNICEF usually rely on the “official” feedback from NY for financial tracking
 - so either decisions are delayed, or more typically, are made in the absence of the relevant financial figures
- The intent of the Programme Manager system in development is to bring relevant financial information into the field office, in a way that can be linked with programme activity
 - Budgetary implications of programme decisions will become transparent and easy to access
 - While this information exists in GFSS, working with the system with this objective is difficult since GFSS was designed for reporting purposes, not programming

SO LONG AS FIELD OFFICES CONTINUE TO RELY ON HEADQUARTERS INFORMATION, SYSTEMS DEFECTS WHICH DELAY PROCESSING AND TRANSPARENCY WILL CONTINUE TO BE A PROBLEM



* Approximately 20% of field accounts make this window. The remaining 80% are held over the next months closure, causing a further 1 month delay

Source: Interviews with DFM staff

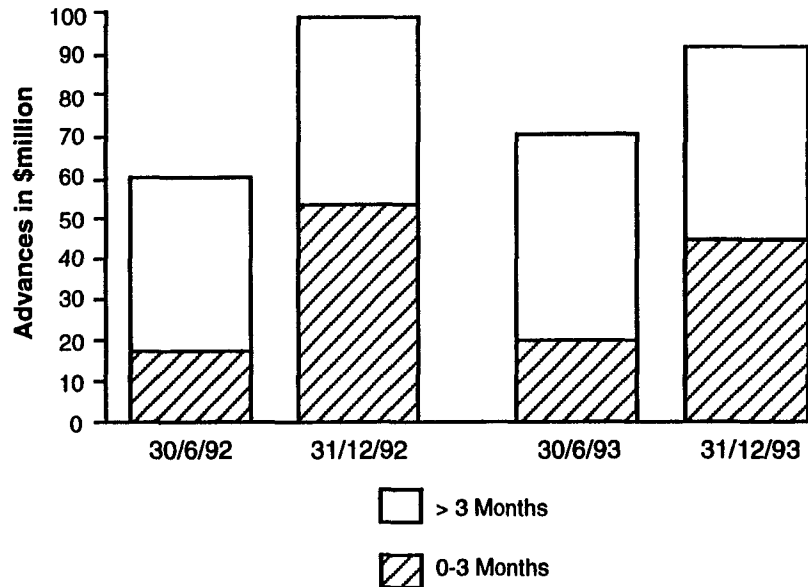
UCFORE (1) FK006 • 9/94/NY

DIRECT CASH ASSISTANCE TO GOVERNMENTS, ABOUT 11% OF 1993 PROGRAMME EXPENDITURES, DOES NOT APPEAR ADEQUATELY DISCIPLINED - SOME MAY NEVER BE PROPERLY DOCUMENTED

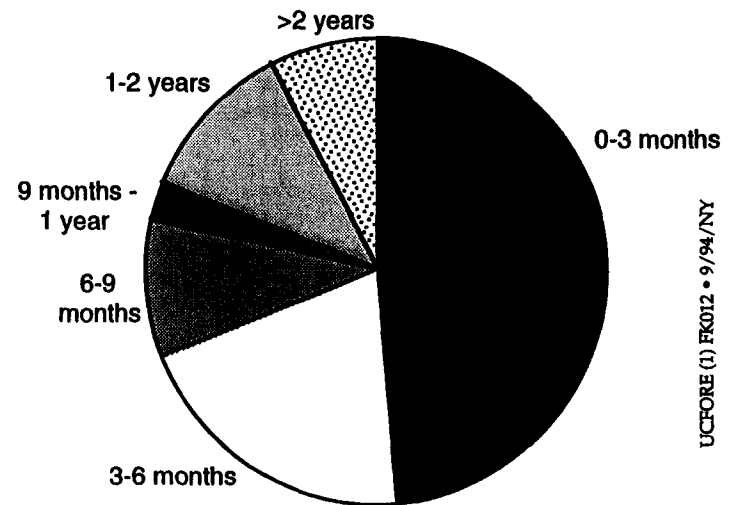
End of Year increases in cash advances are widely attributed to attempts to spend full budget - achieve "100% implementation"

Lack of discipline in reporting use of cash advances led to aging of balances beyond the 2-year mark*

CASH ADVANCES TO GOVERNMENT



AGING OF CASH ADVANCES (EOY 1993)



Total 1993 EOY advances: \$92.1 million

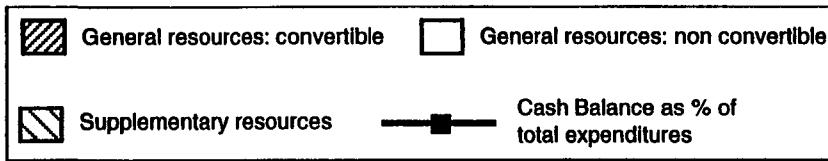
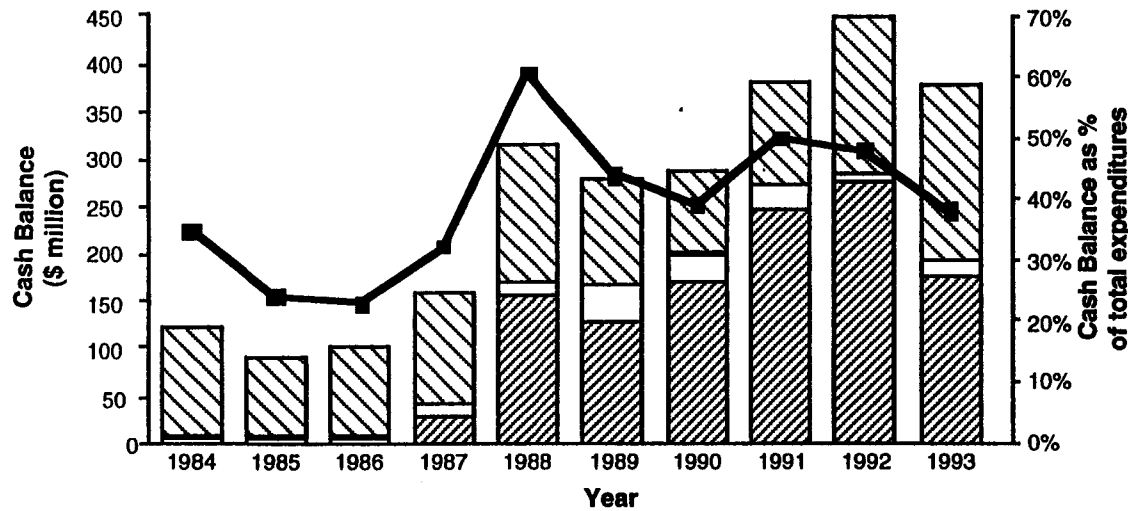
Source: UNICEF data, BAH analysis
 * Policy "requires" documentation within 6 months; a 3 month grace period is typical

UCFORE (1) FK012 • 9/94/NY

Cash Balance Management...

CASH BALANCES, PERPLEXING TO DONORS, LAST YEAR WERE 40% OF TOTAL EXPENDITURE, AFTER 1988 HIGH OF 60%. MAIN REASONS: FUNDING CHANGES AND INFORMATION LAG-TIME

CASH BALANCES



REASONS FOR GROWTH IN SIZE OF CASH BALANCE

- Between 86 and 92, fundraising substantially exceeded expenditure (not true in 93) - this reflects the necessary time lag in revising programmes to fully use newly available funds
- Proportion of supplemented donations increased - this cash cannot be used for discretionary purposes - remains in cash balance until spent for intended use

UCFORE (1) FK014 • 9/94/NTY

Source: UNICEF data, BAH analysis

SEVERAL IMPROVEMENT OPPORTUNITIES HAVE EMERGED

	POTENTIAL IMPROVEMENT	VALUE FOR UNICEF
BUDGETING AND REPORTING	<ul style="list-style-type: none"> • Integrate administrative and programme budgets for country offices • Introduce more analytically-based budgeting processes • Integrate reporting for administrative, programme and global funds expenditures • Clarify definition of overhead and apply consistently; recognize programme budget overheads 	<ul style="list-style-type: none"> • Increased transparency in budgeting and reporting • Improved ability to enforce accountability • Reduced budgeting costs
ACCOUNT CONTROL	<ul style="list-style-type: none"> • Empower field (building skills as needed) to perform transaction processing and monitoring • Deploy headquarters staff against financial analysis • Modify the headquarters organization to include all accounting functions in the Accounts unit 	<ul style="list-style-type: none"> • Increase accountability of field offices for financial management • Allow more value added analysis to be done • Improved internal controls – separation of asset custody and accounting • Improved accountability – accounts section fully accountable
FIELD FINANCIAL MANAGEMENT AND SYSTEMS	<ul style="list-style-type: none"> • Upgrade information systems to allow proactive financial management in the field (programme manager) • Improve the communications infrastructure worldwide 	<ul style="list-style-type: none"> • Easier field monitoring, which increases accountability • More timely communications between field and headquarters
CASH ASSISTANCE TO GOVERNMENTS	<ul style="list-style-type: none"> • Improved enforcement of policies (requires joint effort by DFM and Programme Division) 	<ul style="list-style-type: none"> • More cost effective use of UNICEF resources; reduction of potentially inappropriate uses of funds

Recommendations...

INTEGRATE PROGRAMME AND ADMINISTRATIVE BUDGETS FOR COUNTRY OFFICES AND DEVELOP MORE ANALYTIC BUDGETING PROCESSES

- **Develop a field office budget**
 - Include sections for both programme and administrative–type expenditures on the one budget
 - Develop the programme and administrative plans in coordination – since administrative expenses fund support for programme activities, spending levels are necessarily related
 - Prepare on the same cycle as the country programme
 - Present this comprehensive view of country office spending to the Board for review, rather than the fragmented approach used today
- **For headquarters locations, continue the current process of administrative budgeting**
- **For all budgets, consider underlying drivers of activity level and spending rather than making historically-based projections. For example:**
 - For administrative units, consider levels of UNICEF staff, number of office locations, number of programme areas, etc.
 - For country offices, consider different project commitments, level of support from government, involvement of NGOs and other partners, etc.

Recommendations...

**INTEGRATE REPORTING FOR ALL EXPENDITURE TYPES TO PROVIDE FULL TRANSPARENCY –
IN THE IDEAL CASE, EACH OF THESE BOXES WOULD HAVE A “√” MARK**

FULL TRANSPARENCY APPROACH

(√ = Available Today)

	Each HQ Div.		Each Field Office		Total UNICEF
Admin Budget	√		√*		√
Country Programme Budget			√		
Global Funds Allocation					
<hr/>					
Total		+		=	
Admin Budget					
Country Programme Budget			√		√
Global Funds Allocation					√
<hr/>					
Total		+		=	

* Cannot be linked to programme figures due to different cost categories and timing

UCFORE (1) RM004•8/94/NY.R

Recommendations...

BUILD FIELD SKILLS TO HANDLE TRANSACTION PROCESSING AND MONITORING; FOCUS HEADQUARTERS RESOURCES ON ANALYSIS FOR MANAGEMENT

- Develop a concrete set of skill requirements for field finance staff, and use for placement
 - Seek individuals who are adept with figures and computers, detail-oriented, and ideally have accounting credentials; upgrade skills through training
 - Resist rotating programme staff with limited finance skills into these positions
 - In accordance with other measures to increase country representative accountability, ensure reps support finance and operations staff in following appropriate policies
- Once DFM headquarters staff need less time for reviewing field work, institute additional financial analyses

TYPE OF ANALYSIS	BENEFITS TO UNICEF
Expenditures desegregated by cost items	Better managerial decision making. Support for negotiation with suppliers (travel cost)
Isolation of overheads in field offices	Determination of best practice. Can also be used for performance appraisal
Cost-benefit: investments vs. results achieved (improvement in indicators)	Understanding cost effectiveness of various programmes; data for improved decision making
Cost of supplies by source and type	Identification of best supply source for a given product and/or location

- Consider deploying “unit controllers” as a check on accountability
 - DFM staff focusing on a division or region could remind decision makers of budgeting concerns before action is taken (unlike auditors who arrive after the fact)
 - The idea could be “piloted” to test effectiveness before widespread rollout

MODIFY THE HEADQUARTERS ORGANIZATION STRUCTURE TO INCLUDE ALL ACCOUNTING FUNCTIONS IN THE ACCOUNTS UNIT; ALL BUDGETING WITHIN DFM

- Moving responsibility for contributions accounting from Finance to Accounts is within the power of the Controller, since both are DFM units – plans for this are being discussed
- The less straightforward issue is moving the Programme Budget Management function from Programme Division into DFM:
 - Programme Division should retain authority over defining the budget allocation process by country and the programme priorities by sector
 - The allocation process and programme priorities should then be passed to a unit in DFM – which might properly include individuals currently employed in the Programme Statistics Unit
 - DFM would then have responsibility and accountability for all budgeting and accounting in UNICEF; eliminates risks of shifts of funds without transparency

Recommendations...

UPGRADE INFORMATION SYSTEMS IN BOTH FIELD AND HEADQUARTERS LOCATIONS

- The Programme Manager system in development is anticipated to provide the tool for linking actual programme activities to spending and financial records at the field level – but it is unlikely to be ready for widespread use for two years or more
- Communications between headquarters and field are generally difficult and slow – financial management, along with other aspects of UNICEF operations, would benefit from global electronic communications
 - Field data submission to headquarters could be virtually instantaneous, rather than requiring up to three weeks in pouch mail
 - Headquarters financial closures could be sent back to field offices with equal speed, allowing the figures to be more useful for field decision making

DISCIPLINE IN REPORTING ON CASH ASSISTANCE MUST BE IMPROVED ONCE AND FOR ALL

- DFM has clearly articulated policies regarding reporting on use of cash assistance:
 - Documentation is “required” within six months of providing assistance
 - A three month “grace period” is standard, with DFM becoming concerned as cash assistance reaches the nine month mark without documentation
- Enforcement will require coordinated effort by DFM and (the new) Field Group:
 - Currently, Programme Division is not perceived to support DFM's policy – representatives who have outstanding documentation for previous cash assistance are still allowed to provide more cash assistance through the programme budgeting system
 - Assuming programme budgeting is integrated into DFM, enforcement of cash assistance policies will become easier
 - Additionally, country representative accountability for compliance with cash assistance policies must be increased – as part of the overall rep accountability effort, priority for regions and auditors

Recommendations...

INCREASE TRANSPARENCY REGARDING CASH BALANCES, BUT RESIST PRESSURE TO LINK PROGRAMME ACTIVITY TOO CLOSELY TO FLUCTUATING DONATIONS

- Given the volatile nature of funding, either cash balances or country programmes will need to change year-to-year
 - A surge in donations cannot be effectively drawn down immediately in view of UNICEF's five year country planning process
 - Annual revision of country programmes based on fundraising results (positive or negative) would be disruptive to local communities and UNICEF staff alike
 - Maintaining stability in programmes by using a temporary cash balance cushion is the more appealing alternative
- In any reporting regarding cash balances, distinguish between general and supplemental funds available
 - Eliminate any possible misconceptions about discretionary allocation
 - Improve systems as needed to make this information readily available

THE CRITICAL FIRST STEP IS MOBILIZING FOR CHANGE

- Set a change agenda as a component of the master change plan (Chapter XV)
- Identify and mobilize the change leadership team
- Then the team can take action:
 - Retain external experts
 - To lead decentralization of accounting and ensure adequate checks and balances
 - To provide guidance on overhead
 - Identify and deploy internal inter-divisional workteams
 - To design the merged country budget, consolidated budget reports
 - To instill discipline in cash assistance reporting
 - Develop new policies internal to DFM
 - Activity – driven budgeting