

United Nations  Nations Unies  
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

INTERNAL AUDIT DIVISION I  
OFFICE OF INTERNAL OVERSIGHT SERVICES

TO: Mr. Jean-Marie Guéhenno, Under-Secretary-General  
for Peacekeeping Operations

DATE: 21 February 2006

Mr. Christopher Burnham, Under-Secretary-General  
for Management

REFERENCE: AUD-7-1.9 00109  
106)

FROM: Dagfinn Knutsen, Chief   
DE: Peacekeeping Audit Service, Internal Audit Division I, OIOS

SUBJECT: **OIOS Audit No. AP2005/600/19: Management audit of DPKO -- Financial management  
and Budgeting**

1. I am pleased to present herewith the final report on the above-mentioned audit, which was conducted during September to December 2005.
2. We are pleased to note from your responses of 3 February 2006 that DPKO and DM have accepted most of the recommendations. Based on the responses, we have revised recommendations 1, 2, 7, 8 and 22, and recommendations 9, 18, 20 and 27 have been withdrawn. In order for us to close the remaining recommendations (i.e., 1 to 8, 10 to 17, 19, 21 to 26, and 28 to 32), we request that you provide us with the additional information as discussed in the text of the report and a time schedule for their implementation. Please note that OIOS will report on the progress made in implementing its recommendations, particularly those designated as critical (i.e., recommendations 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 14, 15, 17, 19, 22, 23, 30, 31 and 32) in its annual report to the General Assembly and semi-annual report to the Secretary-General.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who dealt directly with the auditors and complete the attached client satisfaction survey form.
4. I take this opportunity to thank the management and staff of DPKO, OPPBA, MONUC, and ONUB for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to: Mr. Warren Sach, Assistant Secretary-General, OPPBA/Controller  
Ms. Jane Holl Lute, Assistant Secretary-General, OMS/DPKO  
Mr. Philip Cooper, Acting Director, ASD/DPKO  
UN Board of Auditors  
Programme Officer, OIOS

# Office of Internal Oversight Services

## Internal Audit Division I



### **Management audit of DPKO: Financial Management and Budgeting**

---

**Audit no:** AP2005/600/19  
**Report date:** 21 February 2006  
**Audit team:** Andrea Charles-Browne, Auditor-in-Charge  
Feruza Khaydarova, Associate Auditor  
Kemal Karaseki, Associate Auditor  
Steve Ferrell, Audit Assistant

## EXECUTIVE SUMMARY

### Management audit of DPKO: Financial Management and Budgeting (AP2005/600/19)

As part of the management audit of the Department of Peacekeeping Operations (DPKO), OIOS conducted an audit of financial management and budgeting aspects pertaining to peacekeeping operations during September to December 2005. The major objectives of the audit were to determine whether peacekeeping budgets were prepared, presented and monitored in accordance with the UN Financial Rules and Regulations, Results Based Budgeting (RBB) requirements and the requirements of legislative bodies; to identify risks and exposures to duplication and abuse of authority; to determine whether the roles, responsibilities and accountability for finance and budget functions are clearly defined, and whether effective coordination exists among the Finance Management and Support Service (FMSS) of DPKO, Peacekeeping Finance Division (PFD) of the Office of Programme Planning, Budget and Accounts (OPPBA) and field missions.

#### Overall conclusion

FMSS' core functions include performing a coordinating role in the preparation of missions' budget proposals and participating in the deliberations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Fifth Committee. However, in OIOS' opinion, in practice, the coordination function as carried out by FMSS for the missions' budget submissions and budget performance reports entails a level of review that duplicates the reviews carried out by PFD, and responsibility and accountability for the complex budget process were unclear. Another area of duplication was noted in the review of missions' financial statements at Headquarters (i.e., by FMSS and Accounts Division of OPPBA), as well as data entry in the Integrated Management Information System (IMIS) at Headquarters and the SunSystem in field missions. The absence of an integrated financial management system to facilitate effective monitoring and control was noted. In terms of administrative support, OIOS is of the view that more guidance was needed to ensure tighter and more effective financial management controls

It is OIOS' overall conclusion that immediate steps are required to streamline the budget process, consolidate the related functions, implement an integrated financial and budget management system, and redefine the roles, responsibilities and administrative arrangements in order to increase efficiency, avoid duplication of efforts, and improve internal controls. Particular focus should be on removing the duplication of functions between OPPBA and FMSS. It is clear from the findings of this audit that the role of FMSS needs to be critically addressed in this regard. It is also OIOS' view that DPKO's role in budgeting matters should be restricted to providing missions with technical advice and guidance on the assessment of the operational requirements as well as conducting financial management of approved budgets, whereas budget and performance review should be the focus of OPPBA. Additionally, lessons learned should be incorporated throughout the process. In the context of holding the Heads of Mission and senior mission management accountable for budget submission and implementation, the budget proposals should be submitted, after the appropriate coordination by DPKO, by the missions to PFD. The processing of all troop-contributing countries' (TCC) related claims should also be reviewed and consolidated into one functional area to achieve greater economy and efficiency.

## Budget process

The roles, responsibility and accountability for the budget process are vague, both at the mission level and at Headquarters. Accountability at the mission level was unclear, in that the Head of Mission is considered accountable for the budget but financial authority is delegated to the Director of Administration. A major drawback in the budget process is the mismatch between the organizational structure and cost centers to which funds are allotted, and whose managers are delegated certifying authority for implementing the budget.

The budget process is long, complicated, time consuming and involves many parties. As such, deadlines given for preparing the budget were not always met. Changes in mission mandates, and consequential changes in resource requirements, necessitate flexibility in the budget process; however, the process is the same for revised and off-cycle budgets with the same time consuming procedures. This poses significant challenges to missions in estimating their operational needs in a highly changing environment.

There is a duplication of efforts in FMSS and PFD in the review of ongoing missions' budget submissions and budget performance reports as carried out by FMSS and OPPBA. There was little evidence that FMSS consistently and systematically monitored budget implementation, as well as carried out analysis of financial performance, although the Funds Monitoring Tool was designed for that purpose.

There were improvements in the RBB framework since it was introduced in the 2003/04 budget cycle. However, in the two missions selectively reviewed (MONUC and ONUB), together with survey results conducted in all peacekeeping missions and review of previous audit findings, OIOS found that RBB was carried out as a separate exercise from budgeting for the cost estimates. Whereas the substantive areas prepare the former, the mission Administration does the latter, sometimes in isolation. Also, the RBB framework was often treated as a substitute for strategic planning as there is no requirement for a mission strategic plan to be prepared and submitted to DPKO prior to preparing the RBB framework and cost estimates. As such, the strategic guidance assumptions issued by DPKO are used as the basis for developing the RBB framework. There was no clear link between the RBB framework and the mandate implementation plans.

The absence of an integrated financial management system and lack of interface among existing systems rendered it difficult to effectively monitor budget implementation and perform financial analysis, and also resulted in duplication of data entry, delay in access to real time information, and much time being spent on budget preparation.

There is need for more transparency and clarity in the budget and expenditure reports to enable Member States and legislative bodies to better analyze the information. For example, the cost of transporting COE by air, which is a significant item (estimated at \$87.6 million for all peacekeeping missions in 2004/05), is not disclosed in the existing budget format. Since the cost of air transportation is about seven times the cost of sea transportation, significant cost savings could be achieved if mission needs are properly planned in advance.

The procurement process is long, and has the inherent risks of ordering more goods than needed. Also, there was usually a mismatch between the financial period in which the items are budgeted for and the period in which these items are actually received. Another implication of the long procurement process is the risk of not being able to utilize the funds effectively.



Expected vacancy rates are reflected in the civilian staff portion of the budget submission. However, there is no systematic approach of doing the same for operational costs, where staff strength is used as the baseline for cost calculations, such as supplies, which might inflate the requirements. Similarly, there were certain ratios for vehicles and communications and information technology equipment that should be adhered to but these are not taken into consideration while calculating the ratios.

More capacity building and training is needed for mission staff. This requires the development of a strategic approach to training, to improve the overall quality of budget preparation, monitoring and self assessment, particularly in the context of the high staff turnover in missions. Budget and finance officers, as well as officers in the substantive areas charged with developing the RBB framework, were not always sufficiently trained to effectively perform their functions, resulting in less than desirable quality of budget proposals and accountability.

#### Financial management and accounting

There was duplication of functions both at Headquarters and in the missions. At Headquarters, both OPPBA and FMSS reviewed missions' financial statements for completeness, accuracy and compliance with the established instructions and guidelines. The manual re-entry of data into IMIS at Headquarters, owing to the absence of interface with SunSystem used in the field, resulted in duplication of data recording, with the risk of human error. Similarly, there is duplication of data entry in field missions, resulting from the lack of interface between Mercury (procurement application) and SunSystem (accounting application). Also, both Procurement and Finance Sections did invoice matching in missions.

Notwithstanding the various Standard Operating Procedures (SOPs) developed by DPKO, there is a need for mission specific SOPs to assist regional finance officers in carrying out their daily functions. Although this is primarily the responsibility of the mission management, FMSS did not ensure that such was in place. In MONUC for example, there is need to strengthen internal controls in view of a large decentralized regional office structure operating in areas where the banking system was weak. Critical vacancies in some regional finance offices resulted in control weaknesses.

#### Support Account and Peacekeeping Reserve Fund

There were no reliable criteria or benchmarks for determining an optimum level of staff resources required for providing support at Headquarters based on a ratio of support staff to the number of personnel in field missions. A realistic model needs to be developed by also considering mission drawdown and liquidation and related decrease in the level of support required of DPKO.

The budget for the Support Account lags behind the establishment of new missions, which means that adequate resources for supporting the new missions are not readily available at Headquarters. To deal with the 2004/05 surge in missions, the Controller approved DPKO's request to use 58 vacant posts in the field at Headquarters to provide adequate support. This meant that the missions' already short but much needed capacity was further reduced.

Financial Regulation 4.6 restricts the individual approval limit for commitment authority to \$50 million and the aggregate to the value of the Reserve Fund. In OIOS' opinion, the limit of \$50

million may no longer be relevant in the context of significantly large missions, some of which have annual budgets close to \$1 billion or more. Furthermore, the amount also includes replenishment towards Strategic Development Stocks, leaving very little flexibility to fund critical programmes pending approval of the mission budget. Flexibility was also hampered by the absence of a single pool for peacekeeping funds.

## TABLE OF CONTENTS

Chapter		Paragraphs
I.	INTRODUCTION	1 – 9
II.	AUDIT OBJECTIVES	10
III.	AUDIT SCOPE AND METHODOLOGY	11 – 12
IV.	OVERALL ASSESSMENT	13 – 14
V.	AUDIT FINDINGS AND RECOMMENDATIONS	
	A. The budget process	15 – 88
	B. Financial management and accounting	89 – 107
	C. Support Account and Peacekeeping Reserve Fund	108 – 114
VI.	ACKNOWLEDGEMENT	115
	ANNEX I	Budget Process Flow Chart for ongoing missions
	ANNEX II	Budget Process Flow Chart for new missions and expansion of existing missions

## I. INTRODUCTION

1. OIOS conducted an audit of financial management and budgeting aspects pertaining to peacekeeping operations during September to December 2005. The audit was conducted in accordance with the standards for the professional practice of internal auditing in United Nations organizations.

2. The General Assembly in its resolution 59/296 (Section IV, paragraph 4) requested the Secretary-General "...as a matter of priority, to entrust the OIOS with a comprehensive management audit to review the practices of the Department of Peacekeeping Operations and to identify risks and exposures to duplication, fraud and abuse of authority in the following operational areas: finance, including budget preparation; procurement; human resources, including recruitment and training; and information technology, and to report thereon to the General Assembly at its sixtieth session."

3. In addition, in Section III, paragraph 6 of resolution 59/296, the General Assembly requested the Secretary-General "to entrust the Office of Internal Oversight Services with conducting a business process review of the preparation of peacekeeping budget proposals, including the respective roles of staff in missions and Headquarters and to submit its findings, including recommendations to streamline the process, to the General Assembly in the context of the report requested in section IV of the present resolution."

4. In accordance with the purposes and principles in the Charter of the United Nations, DPKO is charged with assisting Member States and the Secretary-General in their efforts to maintain international peace and security. The Department's mission is to plan, prepare, manage and direct UN peacekeeping operations, so that they can effectively fulfill their mandates under the overall authority of the Security Council and General Assembly, and under the command vested in the Secretary-General. DPKO is therefore responsible for providing political and executive direction to UN peacekeeping operations, maintaining contact with the Security Council, troop and financial contributors, and parties to the conflict in the implementation of Security Council mandates. DPKO is also responsible for providing administrative and logistical support to missions in the field through the deployment of quality equipment and services, financial resources and personnel.

5. DPKO provides logistical and administrative support through its Office of Mission Support (OMS). OMS comprises two divisions – the Logistics Support Division (LSD) and the Administrative Support Division (ASD). The Finance Management and Support Service (FMSS) is part of OMS; a Chief who reports to the Director of ASD heads it. FMSS is primarily responsible for the financial management and budgeting for peacekeeping operations. The core functions of FMSS, as stated in ST/SGB/2000/9 of 15 May 2000 on the organization of DPKO, are as follows:

- a) Coordinate, prepare and submit to the Controller proposals for missions' resource requirements for new, expanding or ongoing field missions, for review, finalization and submission to legislative organs;
- b) Participate in related deliberations of Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Fifth Committee on matters relating to peacekeeping budgets and finance;
- c) Monitor field and headquarters accounts to ensure compliance with authorized budget/allotment authorizations;



- d) Provide support to substantive departments and field missions to ensure effective resource management, control and adherence to UN Financial Regulations and Rules;
- e) Provide report on financial performance including disposal of assets;
- f) Certify and process claims from troop contributing countries;
- g) Administer financial liquidation of existing missions; and
- h) Serve as focal point for internal control and audit matters within DPKO and relating to field missions (this function was later shifted to another section in DPKO).

6. In addition to the core functions outlined in ST/SGB/2000/9, FMSS, in conjunction with Logistics Support Division (LSD), Military and Police Divisions of DPKO, is the focal point for the coordination, negotiation and finalization of the Memorandum of Understanding (MOU) with Troop Contributing Countries (TCCs).

7. There are currently 16 peacekeeping missions with a combined strength of over 75,000 civilian and military personnel and a budget of over \$5 billion, 15 special political missions and 9 residual missions in liquidation, all to which DPKO provides logistical and administrative support. The missions' role is to administer the budget, finance and accounting functions to achieve their respective mandates.

8. The Office of Programme Planning, Budget and Accounts (OPPBA) carries out the central service relating to programme planning, budgeting and accounting, ensures compliance with the UN Financial Regulations and Rules, and establishes budgetary and accounting procedures for financial management of all resources made available to the Organization. The role of Peacekeeping Finance Division (PFD) is to review, monitor and submit the budget submissions from field missions, as well as to ensure that they conform to the specific mandates and requirements of the legislative bodies. Its functions also include the monitoring the cash flow relating to receipt of Member States contributions and assessments and clearing of payments relating to Contingent owned equipment (COE) and submission of the Support Account for peacekeeping operations. The Accounts Division is responsible for the preparation of financial statements of peacekeeping operations. Accounting systems include the Integrated Management Information System (IMIS) at Headquarters and the SunSystem in the field, and the Funds Monitoring Tool (FMT), which is intended for use at both Headquarters and in field missions.

9. The comments made by DM and DPKO on the draft audit report have been included in the report as appropriate and are shown in italics.

## II. AUDIT OBJECTIVES

10. The major objectives of the audit were to:

- (a) Identify risks and exposures to duplication and abuse of authority in the financial management and budgeting processes;

- (b) Determine whether peacekeeping budgets are prepared in accordance with the UN Financial Regulations and Rules, requirements of the Results Based Budgeting (RBB) methodology, and leading industry standards;
- (c) Determine whether clear roles, responsibilities and accountability regarding finance and budget functions are defined and that effective coordination exists among FMSS, PFD and field missions;
- (d) Determine whether the budget process is efficiently monitored;
- (e) Assess the appropriateness of the use of information technology in the budget process and accounting functions; and
- (f) Assess the level of support provided by FMSS to field missions in the area of financial management.

### **III. AUDIT SCOPE AND METHODOLOGY**

11. The audit was conducted at Headquarters and in the two selected field missions<sup>1</sup> to analyze the interrelationship between DPKO and the missions it supports. A survey of all missions was also conducted and prior audits referenced. In addition, OIOS reviewed the interrelationship between DPKO and other departments at Headquarters such as PFD and Accounts Division in order to assess any duplication of functions. At Headquarters and in the selected peacekeeping missions, OIOS conducted interviews, reviewed documents, tested processes to assess the economy and efficiency of the operations being audited.

12. The audit covered the budget period 2004/05 and cost estimates for the budget period 2005/2006, making reference to previous budgetary periods as necessary, and the processing of claims. The audit included a review of policies and procedures and an examination of cost estimates, financial performance reports and related records maintained by DPKO.

### **IV. OVERALL ASSESSMENT**

13. FMSS' core functions include performing a coordinating role in the preparation of missions' budget proposals and participating in the deliberations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the Fifth Committee. However, in OIOS' opinion, in practice, the coordination function as carried out by FMSS for the missions' budget submissions and budget performance reports entails a level of review that duplicates the review carried out by PFD, and responsibility and accountability for the complex budget process were unclear. Another area of duplication was noted in the review of missions' financial statements at Headquarters (i.e., by FMSS and Accounts Division of OPPBA), as well as data entry in the Integrated Management Information System (IMIS) at Headquarters and the SunSystem in field missions. The absence of an integrated financial management system to facilitate effective

---

<sup>1</sup> The selected missions were the United Nations Organization Mission in the Democratic Republic of the Congo (MONUC) and the United Nations Operation in Burundi (ONUB).

monitoring and control was noted. In terms of administrative support, OIOS is of the view that more guidance was needed to ensure tighter and more effective financial management controls

14. Immediate steps are required to streamline the budget process, consolidate the related functions, implement an integrated financial and budget management system, and redefine the roles, responsibilities and administrative arrangements in order to increase efficiency, avoid duplication of efforts, and improve internal controls. Particular focus should be on removing the duplication of functions between OPPBA and FMSS. It is clear from the findings of this audit that the role of FMSS needs to be critically addressed in this regard. It is also OIOS' view that DPKO's role in budgeting matters should focus on providing missions with technical advice and guidance on assessing their requirements, whereas budget and performance review should be the focus of OPPBA. In the context of holding the Heads of Mission and senior mission management accountable for budget submission and implementation, the budget proposals should be submitted, after the appropriate coordination by DPKO, by the missions to PFD. The processing of all troop contributing countries' claims should also be consolidated into one functional area to achieve greater economy and efficiency.

## **V. AUDIT FINDINGS AND RECOMMENDATIONS**

### **A. The budget process**

#### Authority and responsibility for submission and approval of peacekeeping budgets

15. Article 17 of the UN Charter states that: (i) The General Assembly shall consider and approve the budget of the Organization; (ii) The expenses of the Organization shall be borne by the Members as apportioned by the General Assembly; and (iii) The General Assembly shall consider and approve any financial and budgetary arrangements with specialized agencies referred to in Article 57 and shall examine the administrative budgets of such specialized agencies with a view to making recommendations to the agencies concerned.

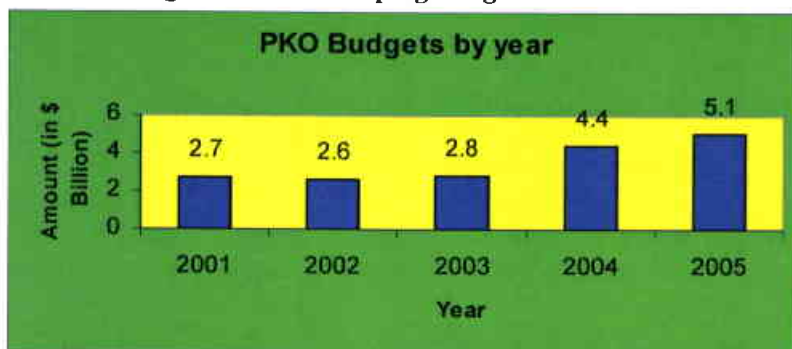
16. United Nations Financial Regulation 2.12 stipulates that the budgets for peacekeeping operations setting out objectives, expected accomplishments and outputs shall be prepared by the Secretary-General for consideration and approval by the General Assembly. Financial Regulation 2.13 requires that the Secretary-General submit twice a year to the General Assembly a table summarizing the budgetary requirements of each peacekeeping operation for the financial period from 1 July to 30 June, including a breakdown of expenditure by major line item and the total resource requirement.

17. Financial Rule 102.8. states that (a) the Secretary-General shall decide on the objectives, expected accomplishments, outputs, activities and resource allocation in all peacekeeping operation budgets submitted to the General Assembly; and (b) budget estimates for peacekeeping operations shall be prepared at such times and in such detail and form as the Under-Secretary-General for Management may prescribe and in accordance with the requirements of the General Assembly.

18. In the recent years, there has been an increase in the number of peacekeeping operations, and consequently, the resource requirements have also increased. At the time of the audit, there

were 16 peacekeeping operations worldwide. Figure 1 shows the growth in resource requirements for peacekeeping operations during the last five years.

**Figure 1: Peacekeeping budgets from 2001 to 2005**



#### Peacekeeping budgeting process for ongoing missions

19. The budget cycle for ongoing missions starts with the issuance by DPKO of strategic policy and operational requirements guidance to the missions by May. Upon receipt of the strategic guidance, the missions prepare their RBB budget frameworks with a completion time line in June/July and submit them to DPKO for review. PFD issues budget instructions through DPKO to missions by mid July and sets the deadlines for submissions by DPKO to PFD. In coordination with DPKO Headquarters, the missions start preparing their annual cost estimates and performance reports. FMSS sets the deadlines for cost estimates/performance report submissions by the missions to DPKO. Missions first send their performance reports and cost estimates to FMSS by end of August/early September. DPKO reviews the submissions, justifies the requirements and finalizes them for transmittal to PFD by end of September. PFD again reviews the cost estimates submissions and performance reports, checks the justifications of requirements and seeks clarifications as necessary from the missions through FMSS. After clarifications and revisions, the cost estimates and the performance report is sent to ACABQ by December in a report of the Secretary-General. ACABQ reviews the submissions and raises questions as necessary about the justification for the requested requirements. Thereafter, the cost estimates and performance reports are submitted to the Fifth Committee for review. Finally, they are submitted to the General Assembly for approval and after adoption of the financing resolution by the Assembly, PFD issues allotments and authorized staffing tables to the missions. A flow chart depicting the budget process for ongoing missions is given in Annex I.

#### Peacekeeping budgeting process for new missions

20. Before the establishment of a new mission, DPKO sends a technical team to the field for an estimation of financial resources for a 12 month period and a financial implications report is prepared by FMSS based on the team's assessments. After review by PFD, this report is sent to the Secretary-General, who attaches it as an annex to his report to the Security Council proposing the establishment of the peacekeeping operation. If the Council does not yet approve the mandate, a pre-mandate commitment authority is sought as a short-term measure for financing of the new mission. Such commitment authority requests of up to \$50 million, including Strategic Deployment Stocks, are approved by the ACABQ and amounts over \$50 million are first reviewed by the ACABQ and the Fifth Committee and then submitted to the General Assembly for approval.

21. After the Security Council's approval of the mandate of the new mission, FMSS estimates the mission's requirements for the first annual budget and submits it to PFD for review and analysis. After review by PFD, the Secretary-General submits the first annual budget to the ACABQ for review. ACABQ, after clarifications of justifications and queries, forwards the budget to the Fifth Committee, which adopts a draft resolution on the financing of the new mission for approval by the General Assembly. After the draft resolution is adopted by the General Assembly, PFD issues allotments and authorized staffing table to the mission. A flow chart depicting the budget process for new missions is given in Annex II.

#### Need for clearer accountability, reporting lines and roles/responsibilities

22. ST/SGB/2000/9, which outlines the core functions of DPKO (including FMSS), has not been revised since May 2000 although DPKO has since undergone significant restructuring following the implementation of the recommendations of the Panel on United Nations Peace Operations. According to ST/SGB/2000/9, as part of its core functions, FMSS is responsible for coordinating, preparing and submitting to the Controller proposals for missions' resource requirements for new, expanding or ongoing field missions, for review and submission to legislative bodies. FMSS also participates in ACABQ and Fifth Committee deliberations on matters relating to peacekeeping budgets and finance.

23. Notwithstanding the description of FMSS' functions in ST/SGB/2000/9, the responsibility and accountability for the whole budget process are vague, both at the mission level and at Headquarters. According to the ACABQ's report A/59/532/Add1, the ultimate responsibility for submission of the mission budget to OPPBA lies with mission's Special Representative of the Secretary-General (SRSG), who as Head of Mission is accountable for implementing the mandate. However, since the Department of Management and DPKO are also involved in the budget process, the ultimate responsibility for the budget is unclear. Furthermore, accountability has not been clearly defined for implementing cost centers in field missions (who have been delegated certifying responsibility) and other responsible officials such as the Chief Budget Officers, especially where there are opposing views. Additionally, programme managers of substantive operations in missions are required to prepare the RBB framework, but they are not held accountable in anyway for the use of budgeted resources and achieving overall efficiency. OIOS opines that responsibility for the mandate, accountability for the RBB framework should not be distinct from the accountability for implementation of the budget.

24. There is therefore a need for this requirement to be properly articulated in the UN Financial Regulations and Rules and promulgated through an appropriate Administrative Instruction, especially in the context of the financial delegation of authority that is given by the Controller to the Director of Administration (DOA)/Chief Administrative Officer (CAO) for implementing the budget. The Financial Regulations and Rules do not stipulate any responsibilities of the SRSG as Head of Mission. The structures of various missions vary, and although some have been revised to show the DOA as reporting directly to the SRSG, there is no established and clear link to the financial authority delegated to the DOA by the Controller. For example, this delegation of authority states the expenditure limits that should be adhered to, but does not clearly outline any accountability of the SRSG for the Mission's budget (including the RBB framework). Also, it does not outline the levels of accountability for implementing the budget within the Mission.



25. Budget instructions are issued to field missions by the Controller's Office through DPKO. Missions submit their budgets initially to DPKO for review before transmittal to PFD. This practice creates ambiguity regarding the ownership of the budget. DM and DPKO agreed to provide detailed guidance on the responsibilities and accountability of the SRSG for the budget process in the form of an ST/AI. DPKO commented further that a clearer definition of the role of SRSG and that of DPKO will necessitate consultation with the Secretary General. Various DPKO units, including FMSS and the missions are assumed to be one party in the budget submission process. In OIOS' opinion, FMSS' role needs to be re-assessed to streamline the process and improve the quality and efficiency of the budget process.

26. The budget process is long, complicated and time-consuming. Communication and coordination among the various parties involved in the process add to its complexity; missions, several functional areas in DPKO, including FMSS, LSD, Office of Operations (OO), PMSS etc. and OPPBA including PFD and Accounts Division are the parties involved in budget preparation. Various logistics sections in DPKO interact directly and/or through FMSS with the missions in determining the mission's needs. These sections within DPKO also issue budget instructions directly to missions regarding their functional area and this practice, as mentioned in missions survey and during interviews in MONUC and ONUB, sometimes causes confusion. It could be avoided by better coordination within DPKO.

27. In the budget submissions, excessive communication in the Mission-FMSS-PFD chain weakens control over data and follow-up. Also, when a change is made to an expenditure line either by PFD or ACABQ, the details as to how the new figure was derived is not always communicated back to the mission and/or the concerned DPKO unit who had provided their input. This causes difficulty in missions and requires additional efforts for appropriate adjustments to the RBB framework and allocations to cost centers. For example in MONUC, although a change was made by PFD (or ACABQ) in certain budget lines for the 2005-2006 budget (revision of the total budget from the Mission's submission of \$1,266,827,000 to \$1,150,733,000), details explaining how the new figure was calculated was neither shared with FMSS nor with MONUC. There needs to be a standardized and transparent approach in budget revisions to avoid additional work. Even FMSS loses control when there are many submissions from a specific mission. For example, FMSS had no final version of the 2005-2006 budget submission of MONUC, and it was PFD who consolidated all of MONUC's submissions into one final version.

#### Duplication of tasks in the budget process

28. OIOS found that there is duplication of efforts in FMSS' and PFD's reviews of cost estimates submitted by ongoing missions, as carried out by DPKO and OPPBA. As already described (and shown in the flow chart at Annex I), missions first send their cost estimates to FMSS by early September. DPKO reviews the submissions, justifies the requirements and finalizes them before sending to PFD by end of September. PFD again reviews the submissions; checks the justifications of requirements and asks clarifications from missions through FMSS. This duplication needs to be addressed to streamline the budget process for efficiency.

29. Another task for FMSS, in coordination with other DPKO units, is to prepare the Headquarters' portion of the missions' budget performance report. This report is sent to missions for inclusion in their performance reports, and the consolidated performance report sent by the mission is reviewed by DPKO before submission to PFD. This procedure is similar to the cost

estimates process whereby there is duplication in the review of the submissions both by FMSS and PFD.

#### Mismatch between organizational charts and cost centers

30. A major drawback in the budget process is the mismatch between organizational charts and cost centers to which funds are allotted. Budgets of certain units are executed in other cost centers. OIOS recognizes that structures would vary from one mission to another, but maintains that the reporting chain of command should be clear and organization charts are shown along functional lines. For example, in MONUC, the training function is under the Mission's Personnel Section – which prepares a training budget – but is not a separate cost center. Training costs are charged to two separate cost centers under two budget lines. The Training Office controls the training fees budget line, but does not control and monitor the 'Travel for training' budget line. Also, MONUC's General Services Section controls this budget line and the DOA approves travel requests relating to training. The same is true for the Public Information Office in MONUC, which is not a separate cost center and its budget lines are charged to two separate cost centers fewer than two budget lines. Although the DOA has the delegated authority to create cost centers and make allotments accordingly, there should be a standardized approach in all peacekeeping operations. A budget manual could be a source of reference for such decisions. Also, there is a need for clear criteria for creating cost centers, from which deviations should be on an exceptional basis.

#### Other core functions

31. FMSS is also supposed to monitor the implementation of the budget at the mission level and at Headquarters. In general, compliance of the expenditures with the allotments was monitored for the Headquarters portion of the budget, but there was little evidence that this function was performed for the field portion of the budget. Moreover, there was no evidence indicating that additional monitoring functions such as tracking trends in expenditures to identify abnormalities were being done. Although the Funds Management Tool (FMT) indicates the budget expenditures and transaction details (by month) for missions and Headquarters and enables trend analysis of expenditures, OIOS found from the access logs to FMT that there was poor utilization of the monitoring tool by FMSS staff.

32. Requisitions for goods and services are raised in IMIS by the cost centers at DPKO and the Procurement Service issues purchase orders relating to these requisitions. For miscellaneous expenditures and letters of assist for goods and services, requisitions are first sent to FMSS; funds are obligated by FMSS and then approved by the Accounts Division of OPPBA. FMSS is itself also a cost center and raises requisitions and obligates funds for certain expenditures – mainly COE related payments. This is one area in which there is direct interaction is with Accounts Division.

33. Yet another core function of FMSS is to respond to questions from the ACABQ and Fifth Committee. Much time is expended by FMSS in this regard, especially when the level of questioning by the Fifth Committee is as detailed as that of the ACABQ, which had already reviewed the budget proposals and made a recommendation to the Committee. This suggests the need for clearer understanding of the requirements of both committees at the time of preparation and review of the budget to reduce the volume of queries.

34. The quality of support provided by FMSS to field missions could be improved by disseminating lessons learned in the budgeting process to all missions. For example, in one case,

MONUC budget officers asked guidance about how the allotments/expenditures for elections could be separately accounted for, and how other missions had addressed this issue. At the time of the audit, there was no evidence that this request was clearly addressed. DM and DPKO informed that it was resolved in December 2005. The concept of incorporating lessons learned is also applicable to the IT tools used in missions; each mission for internally managing the budget uses different in-house systems.

35. OIOS is of the view that FMSS' contribution to the budgeting process would be more effective in the preparation phase, including the RBB framework, rather than as an added layer of review. There should be one submission directly from the mission to PFD, and review of the mission's budget should be performed by PFD. The preparation and issuance of the DPKO Standard Cost and Ratio Manual (2005), which is a quite comprehensive document, should contribute to more consistency and improved quality of submissions, and result in better control over the whole process. In OIOS' opinion, DPKO's role in budgeting matters should be restricted to providing missions with technical advice and guidance on assessing their operational requirements, whereas budget and performance reviews should be the focus of OPPBA. Additionally, lessons learned should be incorporated throughout the process.

### **Recommendation 1**

The Department of Management, in consultation with DPKO, should reorganize the budget process for peacekeeping operations with particular attention to eliminating duplication of tasks between FMSS and OPPBA. Steps should also be taken to reassess the resource requirements from the Support Account as a result of eliminating the duplication in the budget review process (AP2005/600/19/01).

36. *DM and DPKO partially accepted this recommendation and indicated that both departments would find ways to streamline the budget process for peacekeeping operations and eliminate any duplication between FMSS and OPPBA. However, neither Department accepted that there is duplication as a result of the involvement of both parties, which fulfill distinct roles. While the missions, under the direction and guidance of DPKO Headquarters, translate mandates into RBB frameworks, work plans and resource requirements, DM fulfills the role of scrutinizing the proposals created in this exercise. It is important that such a review is based upon mission proposals, which have the full support of DPKO Headquarters in as much as these reflect DPKO substantive policies and procedures. Accordingly, while DPKO checks for this latter factor, DM checks for consistency with organization-wide financial and resources policies and procedures including the application of standard budgetary formats and costing factors.*

37. *DPKO also indicated that it will not accept a budget process where missions submit their budgets directly to PFD. As Programme Manager, DPKO must have control of the resources required to implement the mandates it is given by the Security Council. Both departments indicated an implementation date of December 2006. Recommendation 1 has been partially modified based on the comments provided by DM and DPKO. OIOS reiterates that the duplication in the review of mission budgets and performance reports needs to be addressed. Recommendation 1 remains open pending receipt of documentation from DM and DPKO showing that it has been implemented.*

## **Recommendation 2**

DPKO should review and revise ST/SGB/2000/9 to establish clear lines of authority, responsibility and accountability for the peacekeeping budget process (AP2005/600/19/02).

38. *DPKO accepted recommendation 2 and indicated that ST/SGB/2000/9 would be reviewed in consultation with DM, to establish clear lines of authority, responsibility and accountability for the peacekeeping budget process. DPKO stated that this recommendation would be implemented by March 2007. Recommendation 2 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

## **Recommendation 3**

The Department of Management should clearly define the responsibility and accountability of the SRSG/Head of Mission for the budget process in the context of the delegation of financial authority to the DOA/CAO in the missions (AP2005/600/19/03).

39. *DM accepted recommendation 3 and indicated that detailed guidance would be provided on the responsibilities and accountability of Special Representatives of the Secretary-General for the budget process in the form of an ST/AI. This would be done by March 2007. Recommendation 3 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

### Lack of flexibility in the budget process

40. The budget process for peacekeeping operations has built-in challenges. The dynamics of the mission and its changing operational requirements necessitate flexibility in the budget process, however, the process is the same for revised and off-cycle budgets and the same time-consuming procedures are followed when there is a change in the mandate with resultant financial implications. Also, the requirements of the Mission are estimated almost one year in advance (for a period covering the next 12 to 24 months). It is a challenge for missions to estimate their operational needs in a highly changing environment, and to establish the RBB framework.

41. In the case of MONUC, there have been seven Security Council resolutions on mandates and 13 financing reports issued since the Mission's inception in 1999. At the time of the audit (October 2005), the 2005-2006 budget had not yet been approved.

## **Recommendation 4**

The Department of Management should seek approval of legislative bodies to develop a new and shorter budgeting model in situations where there is a change in a mandate or when operational requirements necessitate substantial revision of the budget, so that repetition of the same process of preparing annual budgets is avoided (AP2005/600/19/04).

42. *DM accepted recommendation 4 and indicated that a simple and succinct proposal for approval by the legislative bodies will be developed by June 2007. Recommendation 4 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

### Unclear terms of reference for budget process in missions

43. Based on the comments of the field missions, the current practice of sending budget instructions is not sufficient to guide them in preparing the budget, particularly regarding guidance on how the process should commence within the mission. There are no standard operating procedures (SOPs) for the budget process. Guidance is provided through the budget instructions and template files issued by the Controller's Office and the separate budget-related communications from various logistics sections in DPKO, including the "Field Standard Cost and Ratio Manual", which has been recently updated, and is useful for reference. However, a clearly defined budget preparation process in the form of a Manual would contribute to the quality and timeliness of submissions, especially in getting inputs from substantive offices that are sometimes not familiar with budgeting and financial matters, particularly in the context of RBB.

#### **Recommendation 5**

The Department of Management should develop standard operating procedures for the budget process and a budget manual to standardize budget submissions (AP2005/600/19/05).

44. *DM accepted recommendation 5 and indicated that Standard operating procedures are embodied in the budget instructions, which are revised every year and issued by the Controller to peacekeeping operations and DPKO comprising budgeting guidelines, timelines and legislative decisions on administrative and budgetary policies to be reflected in future budget proposals. Likewise DPKO and DM will develop, by March 2007, an introduction to the DPKO Standard Cost Ratio Manual (2005) outlining the standard budgeting process.* Recommendation 5 remains open pending receipt of documentation from DM showing that it has been implemented.

### RBB needs further improvement

45. OIOS recognizes that there has been improvement in RBB since its introduction in the 2003/04 budget cycle and that it has raised the awareness of managers in terms of efficiency; these improvements were duly welcomed by the ACABQ. DPKO recently instituted the use of a focal point for RBB, as a level as high as the Chief of Staff to better reflect substantive issues and has established a Working Group. However, as a managerial tool, RBB could be improved further in order to enable an objective assessment of the level of achievement of the mission mandate. Such impact analysis is not currently assessed. In the two missions sampled (MONUC and ONUB), OIOS observed that the RBB framework was carried out as a separate exercise from budgeting and preparing cost estimates. Furthermore, the RBB framework was treated as a substitute for strategic planning by the missions. There was no clear linkage between planning and budgeting as required in FMSS/DPKO's strategy for 2006/07. Moreover, ownership of the RBB framework was not clear in the missions. In both the missions sampled, the substantive managers primarily prepared the RBB frameworks and the cost estimates for resources were prepared by the Administration, in some cases without input from substantive areas. As such, managers of substantive areas were expected to be accountable for RBB without having any responsibility and accountability for input. In other words, there was no linkage between the reports submitted to the Security Council and the RBB framework submitted to the General Assembly and not enough opportunities to determine economy and efficiency. In fact, the current accounting system does not support this quest.



46. There is no requirement mission to prepare a Strategic Plan after having received the Strategic Guidance from Headquarters and prior to the preparation of the budget, including the RBB framework. That is, the Mission's Strategic Plan should drive the budget preparation instead of using the strategic guidance assumptions, which is broad, issued by DPKO as the driver for developing the RBB framework. Although a standard format is used for preparing the RBB framework for each mission, the quality of the frameworks was inconsistent across missions, indicating a need for more effective controls to ensure more consistency in quality.

47. While it is acknowledged that the short-term mandates of peacekeeping missions pose challenges in long-term planning, it is necessary that mission-specific strategic plans should drive the mission's budget preparation, especially as it relates to the broad and sometimes unclear mandates, which are subject to varying interpretations, and which could result in frequent adjustments to finalized budget estimates. Also, there is need for a holistic approach to integrate operational, logistical and financial aspects fully in the planning phase of peacekeeping operations by linking RBB to the mandate implementation plans of each mission. Currently, there is no established strategy for budgeting in the context of the unified/integrated mission approach to ensure that existing resources within the UN system are considered, some efficiency gains achieved and redundancies minimized.

48. Furthermore, at the operational level, there is a need for linking the work plans of the Sections/Programmes, and by extension individual work plans, as documented in the Electronic Performance Appraisal System (e-PAS), to the RBB framework to establish accountability. OIOS recognizes the challenges arising from the mismatch of e-PAS with RBB in terms of the cycle, format and requirements, but believes that efforts should be made to establish the linkage between RBB and e-PAS. For example, recent attempts were made at MONUC to link individual work plans to the Section Work plan for 2005/06, but they were not linked to the Mission's RBB framework.

49. In both the sampled missions, there was a lack of adequate capacity for developing the RBB frameworks, which resulted in much time being spent by DPKO to achieve the desired quality. Although DPKO and PFD have conducted joint workshops prior to the budget cycle, formal training on RBB for both substantive and cost center managers has not been provided to enable them to keep pace with the high turnover of staff.

### **Recommendations 6 and 7**

DPKO should:

(i) In addition to the existing strategic policy guidance it provides, develop a template for strategic mission planning and ensure that missions prepare a strategic plan prior to preparing the budget, which would be the basis for developing the RBB framework (AP2005/600/19/06); and

(ii) Establish an implementation plan for linking RBB to Section work plans and individual e-PAS work plans to achieve the objectives of RBB, transposing expected results in order to measure the level of cost and achievement (AP2005/600/19/07).

50. *DPKO accepted recommendation 6 and noted that this approach was being taken in the development of the DPKO Integrated Mission Planning Process (IMPP), which would be completed*

by December 2006. Recommendation 6 remains open pending receipt of documentation from DPKO showing that it has been implemented.

51. *DPKO accepted recommendation 7 in principle and indicated that RBB, section work plans and e-PAS can not be linked without a major policy and procedural shift throughout the organization, including synchronizing of time cycles. There is, however, already an informal correlation between these entities in many missions. Recommendation 7 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

Performance reports are not always comprehensive and the link with RBB is not strong

52. Although some improvements have been made, including in the area of measurability, there is still a need for further improvement to achieve more consistency in presenting indicators of achievement for RBB, both within and across missions, in the context of their respective mandates, goals and objectives. In some cases they were not easily measurable. The use of manual calculation also makes it challenging to effectively carry out comprehensive trend analysis of RBB components. Furthermore, the format used for the RBB framework does not include a comparison between the desired versus actual results to establish a trend and show the impact of the results on the objectives and/or mandate. There was also an absence of baseline indicators and sufficient guidance on methodology for missions to for data collection and development of appropriate baselines and trends.

53. There is no clear link between RBB and the budget performance reports, which are restricted to explanation of variances between the budgeted and actual expenditures. Moreover, expected results are not verified at the end of one cycle to sufficiently inform the next. Variance analysis requires an explanation under each budget line for all over-expenditures and under-utilizations of more than 5% or \$100,000. This variance analysis does not provide feedback regarding efficiencies. Moreover, the link with RBB is not always clearly established. The “efficiency” and “savings” concepts were not clearly defined to ensure implementation. For example, in ONUB and MONUC 2004-2005 performance reports, there was no detailed explanation about estimated and actualized consumption in terms of quantity (e.g. liters). Merely mentioning the variance in monetary value is misleading and does not indicate efficient and effective use of resources. However, PFD has recently issued “Efficiency Gains Guidelines for Peacekeeping Budgets” in July 2005 as part of the instructions for the 2006-2007 budgets. OIOS observed that in performance reports, comparisons between apportionments and expenditures are reflected by object codes; however, funds are allocated to different cost centers under many classes or common costs are pooled in one cost center. Therefore, in such an exercise, individual performances of cost centers disappear, and only the overall performance of the mission is evaluated. Consequently, accountability at the cost center level is lost, even though cost center managers are key staff for executing the budget. As noted previously, this is accentuated by the accounting system that does not support this need.

54. OIOS also found that the justifications in the budget performance reports were not always addressing the variance thoroughly. For example, in MONUC’s 2004-2005 performance report, the over expenditure of \$891,099 on stationery and office supplies was explained by and linked to additional recruitment of 369 staff on GTA. However, this additional recruitment at best only accounted for \$121,770 of the variance based on the Standard Cost Ratio Manual. Although the explanation should have been that either the Mission overstocked stationery and office supplies or paid higher prices for the items purchased, this was not indicated in the variance report.

55. To enable better evaluation, it would be meaningful to show trends in the performance reports instead of mere comparison of the financial year's budgeted and actual figures. A trend analysis would show increases and/or decreases in expenditures over a period of time and enable the establishment of baselines. FMT enables such analysis but OIOS found that the utilization of the tool was very poor, both at Headquarters and at the mission level.

### **Recommendation 8**

The Department of Management and DPKO should identify means to further improve the quality of budget performance reports, ensuring transparency, showing efficiency gains and serving as a more effective financial management tool (AP2005/600/19/08).

56. *DM did not accept recommendation 8, indicating that it has already been implemented. DM commented that it reported on the performance of the budget as a whole against approved appropriations by the General Assembly. In the performance reports, these variances are fully justified and explained. In addition, where efficiencies are identifiable, they are included in the report. The performance monitoring at the individual cost center level is an internal management process of peacekeeping operations and DPKO, and forms the basis for the overall performance reports. DPKO accepted the recommendation, but noted that considerable emphasis was already given to ensuring variances were fully justified and explained. Based on DM's and DPKO's comments, OIOS has revised recommendation 8 as above and will remain open pending receipt and review of the 2006/2007 budgets addressing efficiency gains.*

### Deadlines for submission of budgets needs to be revisited

57. The deadlines for annual budget submissions are set by the Controller and communicated to DPKO. FMSS internally sets the missions' budget submission deadlines. OIOS' survey of missions and interviews with responsible mission staff indicated that the time given to prepare the budget was not sufficient. The total time allocated for DPKO and OPPBA reviews of the missions' budget submissions was more than twice the time given to missions to prepare their budgets, and more than three times when combined with the six months allocated for review and approval of the budgets by legislative bodies. Also, setting strict deadlines for submission creates a potential for duplication of the preparation process. This is especially true when uncertainties regarding operational requirements or changes in the mandate are likely during the budget period, resulting in a need for a revised budget. For example, in ONUB, the Mission requested late submission of the 2006-2007 budget due to uncertainties, but this request was rejected by FMSS and ONUB will have to submit a new budget because of changes in requirements. This not only caused duplication of work and inefficient use of resources, but also de-motivates the mission staff. Moreover, it implied that the initial budget was not based on realistic assumptions.

58. Although unavoidable at times, the short deadlines for queries and clarifications sought by DPKO/OPPBA/ACABQ poses a problem to missions. Satisfying these deadlines not only puts too much pressure on the mission staff, but also affects the quality of the response. This was particularly visible in MONUC and in one case cost center managers were asked to further justify their requirements for Elections and Katanga Brigade budgets on the same day of the request. There were several such examples in different missions, which support OIOS' view that the quality of the budget submission needs to be improved to minimize queries from the legislative bodies.

## Recommendation 9

The Department of Management, in coordination with DPKO, should revise the timelines for budget submission by missions, and more flexibility in deadlines in case of uncertainties associated with mandate changes (AP2005/600/19/09).

59. *DM did not accept recommendation 9, commenting that it had already been implemented. This was already a current practice in DM whereby DM was fully responsive to mandate changes or changing operational requirements and had consistently accepted submissions after the established deadlines while still meeting the reporting requirements to the General Assembly. DPKO accepted the recommendation to work with DM to provide more flexibility with deadlines, but noted that considerable latitude was already given to missions experiencing rapid change in operational circumstances or revised mandates. Missions must however meet prescribed deadlines for submission of budgets to the financial committees or risk having to proceed without an approved budget and only a commitment authority. Based on DM's and DPKO's comments, OIOS has withdrawn recommendation 9.*

### More effective automated tools are required for budgeting

60. Mission budgets are prepared and submitted in Excel files. OIOS found that the quality of such submissions varied across missions, resulting in additional work to transfer the data from various cost centers to the template file. The absence of software that is designed to automatically create links among several separate files/worksheets necessitates spending a lot of time to reflect changes in the cost of related parameters and increases the risk of error. Also, for internal monitoring of budget performance, missions were using 'Status of Expenditures' report which are prepared and updated manually in Excel. The information is extracted from Mercury (the procurement application) and the SunSystem (finance and accounting application), both of which are not interfaced, and is currently under development by DPKO/CITS.

61. In order to overcome this problem and to enable missions to access information in IMIS, a read-only information technology (IT) tool (i.e., FMT) was implemented at Headquarters and in missions. Using this application, mission staff could access all budget related information such as requisitions, expenditures and obligations. OIOS' review of the access logs of FMT users in the missions revealed that FMT is not being used as desired. For example in UNMIS, out of 10 active users, nobody used FMT in August and September 2005 and only 2 users who were not in the Mission's Budget Office used it in October 2005. In UNMIK, out of 12 active users, only 1 person used FMT in October 2005. Likewise in MONUC, out of 57 active users, only 10 of them used FMT in October 2005. The two main reasons for this poor usage were: doubts about the accuracy of the reports, and very slow accessibility to the system. The latter was confirmed by OIOS in ONUB and MONUC, and the problem frustrated the users and contributed to their losing interest in FMT.

62. FMT is set up to take requisitions from the Mercury system and purchase orders from the Sun System; however, the lack of interface between the Mercury and Sun System creates a time lag between when a requisition is converted to a purchase order in Mercury (once this is done it is no longer picked up by FMT) and when it is recorded in the Sun System as a purchase order and funds are obligated. The accounting and financial management systems provided to missions – Mercury,

SunSystem and IMIS – are not linked. Therefore, manual entries are required to input information from one system to another. Apart from the impact on efficiency, manual transfer of data from one system to another also carries the inherent risk of errors in data input. Furthermore, this makes it challenging and time consuming to collect and consolidate data and more importantly, analyze data for both the budget and the performance report preparation (especially when the variances need to be properly justified).

63. OIOS' review of a transaction in MONUC highlighted the problem of using separate applications (Mercury and SunSystem) that do not interface. The Procurement Section issued a change order for a fuel purchase order in October 2004, but the Finance Section claimed that they received the request only in December 2004, after the invoices were processed. This caused a \$1.5 million difference in obligated funds. The correction was made only in May 2005, five months after the order had been changed and led to an exchange of 23 separate communications between various sections in MONUC.

64. To address such system interfacing problems, a cost analysis had been prepared in 2004 at Headquarters and a presentation was made to the IMIS Steering Committee. The Committee approved proceeding with the option to upgrade the SunSystem and then implement IMIS, but further instructions are yet to be issued. The implementation of the upgrade of SunSystem is planned for February 2006.

65. Both FMSS and PFD are independently developing/acquiring new budget tools. OIOS observed however, that there were no indications of plans to interface these tools. This could further complicate the process and may increase duplication within the process. At the time of the audit, a request for proposal (RFP) had been issued by the Procurement Service to procure an "enterprise budget application" for PFD, while FMSS' Electronic Budget Model project had been halted due to lack of technical capacity and funding. OIOS is of the opinion that although the aim of both projects may be different (the former aimed at preparing reports to the General Assembly whereas the latter is for the actual preparation of the budget), efforts should be made to implement a budget system that encompasses the entire process. Where different systems are developed, they must be compatible and should be interfaced, and should also be able to be migrated into any Enterprise Resource Planning (ERP) system that would be acquired. This issue is not currently part of the terms of reference of the joint OPPBA/DPKO financial management/budget working group.

### **Recommendation 10**

The Department of Management, in coordination with DPKO, should conduct a comprehensive cost/benefit analysis to assess the implementation of an integrated financial management system with particular attention to an Enterprise Resource Planning application, which also includes a built-in budgeting module (AP2005/600/19/10).

66. *DM accepted recommendation 10 and indicated that a holistic IT approach was needed with regard to the limitation and non-integrated nature of some of the current IT tools. Senior management in DM was evaluating the possibility of implementing an ERP system and once a decision is taken in this respect, a comprehensive cost/benefit analysis assessing the implementation of an ERP application will also include peacekeeping operations. This is expected to be achieved by June 2007. DPKO accepted this recommendation in principle and noted that it would support a*



*standardized approach at Headquarters and in the field.* Recommendation 10 remains open pending receipt of documentation from DM showing that it has been implemented.

More transparency is required for certain budget lines

67. The budget template has three main cost groups (“I. Military and Police Personnel”, “II. Civilian Personnel” and “III. Operational Requirements”). Under these groups, there are various cost classes (e.g. “230-Facilities and infrastructure”, “235-Information Technology” etc.) and object codes under these classes (e.g. “4101-Rental of premises”, “4207-Acquisition of prefabricated facilities”, “3978-Services-IT”) etc. Each major cost component is supposed to be classified clearly in the budget format.

68. OIOS considers this as a risk area, which could lead to abuse. Certain cost items need to be broken down into its cost components to provide more transparency and clarification – one such item is “air transportation” cost. Neither the budgeting nor the accounting structure gives the breakdown of the freight cost of COE and troops into air, naval or ground components. The same is valid for the freight cost of UN owned equipment. Presenting the freight cost duly indicating air, ground and naval freight would bring more clarity and enable legislative bodies to understand and evaluate the cost components. Although it is the standard policy for missions to ship by sea except where operational requirements require more expediency, OIOS noted that in practice, and as shown in the table, cost for shipment by air accounted for 93.25 % of total COE delivery cost.

69. Currently, air transportation costs are shown under various cost centers, classes and object codes. Total freight cost of COE is charged to “Group I-Military and Police Personnel” under the budget class “213-Military Contingent” as one line with the object code “8114- Freight and deployment of COE”. The airlift of military personnel is in the same group and class with the object code of “2403- Travel on emplacement, rotation and repatriation”. The air transportation costs within the mission are charged to “Group III-Operational costs” under the budget class “232- Air Transportation” with various budget lines. The freight cost of UN owned equipment (from UNLB or other missions to the mission) is charged to “Group III- Operational costs” under budget class “238- Other supplies, services and equipment” with the object code “4718-Other freight and related costs”.

70. As a result of this approach, the total air transportation cost cannot be seen in one place/line either in the budget, though some details are shown in the supplementary information to the ACABQ. The air transportation component of freight cost is among the major cost items in the budget, and transparency in disclosure would bring more accountability, clearer responsibility and ability to identify potential cost savings in this area. For example, the total cost of freight relating to transportation of COE to the missions during the 2004-05 financial year was around \$94 million and the major portion of this cost was air transportation. By rule of thumb, air transportation is seven times more expensive than naval transportation. Table 1 shows the ratios of air transportation cost for COE compared to naval and ground transportation in three selected missions (MONUC, UNMIS and ONUB). If the weighted average ratio is applied to all missions, the air transportation cost of COE can be projected as \$87.6 million for 2004-05 (\$94 million x 0.9325), which is very significant.

**Table 1: Transportation COE and troops in MONUC, ONUB and UNMIS during 2004/2005**  
(In millions of S)<sup>2</sup>

Mission	COE by air transport	COE by sea transport	COE by ground transport	Total COE
MONUC	48.03	1.44	0.04	49.51
UNMIS	7.06	0.19	-	7.25
ONUB	6.76	2.39	0.42	9.57
<b>Total Cost</b>	<b>61.85</b>	<b>4.02</b>	<b>0.46</b>	<b>66.33</b>
<b>Percentage of Total Costs</b>	<b>93.25%</b>	<b>6.06%</b>	<b>0.69%</b>	<b>100%</b>

71. When the figures are extrapolated to all missions, it is clear that most of the COE is brought to missions by air transportation and significant cost savings could be achieved if the missions' needs are planned in advance and naval transportation is used instead of air to the extent possible.

72. Also, some cost items are absorbed in one budget line and resulted in diminishing control and accountability. Travel within the missions is one such item. All movement of staff within the mission is charged to the cost center "General Services" under the budget line "2423-Travel within the mission" and no further details are reported. The figure for the 2004-2005 financial year for MONUC was \$3.7 million. Had a separate budget line been created in each cost center (in Sunbusiness system using the same object code of 2423 in existing cost centers) and cost center managers were assigned responsibility to control and monitor the related expenditures on movement of their section's staff, this would have facilitated better control and monitoring of travel costs. Moreover, cost estimates would be more realistic if each cost center estimates its own expenditures, as compared to the current practice of using past period's balance as a basis to justify the current period's expenditures.

73. "Stationery and office supplies" is another example of costs charged to one budget line and one cost center. In MONUC, the cost center for this item is Supply Section; consumption of each cost center was not known. Galileo II, which is the application for asset management, was implemented in September 2005, and only customized reports in the future could give consumption figures per cost center.

74. Although the substantive components in missions are expected to implement the mandate and prepare the RBB framework, OIOS found in MONUC and ONUB that they were not sufficiently involved in the preparation of the cost estimates and has no clear accountability for the use of resources. Currently, there are no budget lines for substantive activities, including critical ones such as human rights, which is one of the largest substantive areas in peacekeeping operations; such an approach may require a drastic change to cost accounting, which is currently not supported by the UN accounting system.

### **Recommendations 11 and 12**

The Department of Management, in coordination with DPKO, should:

<sup>2</sup> Source: FMT Standard Report No.20

- (i) Develop a reporting/budgeting structure that would show the break-up of COE freight costs separately under air, naval and ground transportation (AP2005/600/19/11); and
- (ii) Identify the cost items that are pooled in one budget line and one cost center in order to allocate these costs to the various responsible cost centers to strengthen accountability, wherever feasible (AP2005/600/19/12).

75. *DM and DPKO accepted recommendation 11. DM stated that it will report actual expenditures of COE freight costs for air, naval and ground transportation in respective performance reports for the 2005/06 period. DM further commented that in the context of the implementation of an enterprise budgeting application, it will review the budgeting structure in this respect. DM advised that this recommendation would be implemented by December 2006. Recommendation 11 remains open in pending receipt of documentation from DM showing that it has been implemented.*

76. *DM and DPKO did not accept recommendation 12. DM commented that the responsibility to define cost centers rests with DPKO and the mission management. An increase in cost centers would result in a potential increase of inflexibility and could adversely affect the operational capacities of peacekeeping operations. DPKO stated that proliferation of cost centers reduces flexibility without any significant improvement in budget control. In this recommendation, OIOS stressed the need for distributing the pooled costs to existing cost centers, without creating new cost centers, in order to enable management to monitor the portion of these expenditures pertaining to different cost centers. Pooling such costs under one cost center (e.g. travel within the mission) not only dilutes accountability and responsibility for such expenditures but also avoids accurate estimation of future costs (due to the practice of using the end of year lump-sum amount in the cost estimate process). Furthermore, creating new cost centers (e.g. for substantive operations) and distributing pooled costs to those cost centers should be considered in the future if IMIS+ or an ERP system would be used in the field missions – a decision that will be based on the ongoing gap study of IMIS and ERP systems. Therefore, OIOS reiterates recommendation 12 which will remain open pending reconsideration and implementation by DM and DPKO.*

#### Human resources are inadequate and more capacity building is required

77. The Personnel Management and Support Service (PMSS) in DPKO is responsible for recruitment of international staff for missions and maintains rosters of technically cleared candidates. Missions' role is to conduct interviews of the candidates included in the short-lists provided to them. OIOS believes that there should be a higher level of involvement by the Controller (over and above his role to give technical clearance) in the recruitment of budget officers and finance officers to ensure that the best candidates are selected.

78. OIOS noted the following weaknesses in budgets submitted by missions:

- (i) Vacancy rate expectations are incorporated into the civilian staff portion of the budget submission; however, there is no systematic approach of doing the same for Operational Costs, where staff strength is used as the basis for cost calculations (such as supplies, for example), which might inflate the requirements. Similarly,

there are certain ratios for vehicles and CITS equipment that should be adhered to but these are not taken into consideration while calculating the estimates.

- (ii) High vacancy rates affect post management and increase the risks associated with redeployment of posts and potential for abuse of authority and over-budgeting. There were several instances of borrowed posts in both missions sampled (MONUC and ONUB), resulting in difficulty to track and maintain a current staffing table. This has implications for the budget, where posts were not used as budgeted (for example, in MONUC, the Chief of COE Unit was placed in Logistics).
- (iii) High vacancy rates (30% in MONUC), inadequate allocation and high turnover of staff adversely affect programme implementation and are identified as a risk area with potential for abuse of authority. Also, high vacancy rates in the missions are reflective of the long recruitment process and the inability to recruit and retain the caliber of staff at the budgeted levels. There were also several cases where recruitments were made against the approved staffing table, at a level or levels lower than the budgeted post.
- (iv) Budget and finance officers were not always adequately trained to effectively perform their functions, resulting in less than desirable quality of budget proposals, which increased the time taken for to review at Headquarters. There is a need for more capacity building in the missions and for developing a training strategy to improve the overall quality of budget preparation, monitoring and analysis.
- (v) There were significant delays in the recruitment process resulting in failure to fill critical posts. One of the missions, in response to OIOS' survey questionnaire, suggested the need to look at how personnel are allocated, particularly in the context of the transitioning from a special mission to a political mission with a peace-building mandate, where for example, the levels of senior staff posts were uniformly down graded when the total number of mission personnel (mostly military and police) was reduced. It should be noted that special political or peace-building missions require professional staff of high caliber and adequate experience in fields such as justice, legal affairs, parliamentary affairs etc.

### **Recommendations 13 to 16**

DPKO should:

- (i) Determine and address the reasons for high vacancy rates in missions and expedite recruitment against vacancies, particularly critical posts (AP2005/600/19/13);
- (ii) In consultation with the Department of Management, expedite the completion of re-profiling of staff to ensure that the skills and competencies of staff at Headquarters and in missions are properly aligned to their functions. The recruitment process for finance and budget staff should also be improved (AP2005/600/19/14);

(iii) In consultation with the Department of Management, should establish a comprehensive training strategy and provide training to finance and budget staff in missions (AP2005/600/19/15); and

(iv) Ensure that expected vacancy rates are taken into consideration in all related cost estimations by the missions (AP2005/600/19/16).

79. *DPKO accepted recommendation 13 indicating that the Department was currently addressing the issues through the corresponding Human Resources audit and advised an implementation date of December 2006. Recommendation 13 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

80. *DPKO and DM accepted recommendation 14. DM indicated that the current model of assigning existing finance and budget staff from established duty stations is no longer sustainable. The scope of peacekeeping operations requires new investments/resources by the Organization for recruiting and training finance and budget staff. DM will actively participate in a special recruitment exercise by DPKO to identify qualified and experienced finance and budget staff for the DPKO roster. Likewise DPKO indicated that OPPBA's role should continue in accordance with ST/SGB/2005/7 on designation of officers. PFD will also participate in building rosters of finance staff. These actions will be completed by June 2007. Recommendation 14 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

81. *DPKO and DM accepted recommendation 15. DM stated that it will cooperate with DPKO who is actively engaged in finalizing an overall Training Strategy, which will include finance and budget management training. DPKO, in conjunction with DM, will continue to run an annual budget training session as part of the lead up to preparing the next year's budget. These actions were expected to be completed by December 2007. Recommendation 15 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

82. *DPKO accepted recommendation 16 and indicated the scheduled implementation date as December 2006. DPKO stated that it was a general practice to consider vacancy rates for items such as supplies and the Department will continue to advise missions accordingly. While this may have been overlooked by the mission audited, it was not indicative of the prevailing situation in other missions. Recommendation 16 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

#### Long procurement process has negative implications on the budget implementation

83. The procurement process takes a long time, sometimes up to six months. There was usually a mismatch between the period for which the items were budgeted for and the actual receipt of the procured items. Another implication of the long procurement process is the risk of not utilizing the funds effectively. For example, in MONUC, the Fifth Committee (A/59/771) approved the 2004-2005 revised budget only in April 2005 and many cost centers were unable to raise purchase orders in time. Large projects were not undertaken by the end of the financial year (although the accounts closure date was extended to end of July 2005), resulting in unutilized funds amounting to \$53.9 million, which had to be surrendered. Budget provisions had to be made again in the following budget cycle, which if again approved late could further retard the procurement process and ultimately affect mandate implementation.

## Other budget issues

84. Funds aggregating over \$250 million were surrendered during the 2004/05 peacekeeping budget cycle, which is indicative of sub-optimal implementation of the budget in the missions and increased the risk of effective implementation of their mandates. Contributing factors are both external and internal, including changes in operational requirements, delayed deployment of troops, late approval of budgets, insufficient staff resources/high vacancy rates and inadequate planning.

85. When budget instructions are issued, an inventory report is also required, indicating the year-end balances and requirements during the following year. Before the 2006-2007 budget period, assets in the pipeline (i.e., assets for which the purchase orders had been issued but were not yet received by the mission) were not taken into consideration during the asset requirement planning phase, leading to improper estimations and overstocking. This weakness has only been addressed in the 2006-2007 budget period.

86. For expendable items like spare parts and supplies, inventory levels are not indicated in the budget documents. In MONUC, as of end of August 2005, the total value of the transportation spare parts was \$7.3 million and the yearly consumption according to the Field Assets Control System (FACS) reports were \$348,671, \$655,352 and \$1,193,661 for the years 2003, 2004 and 2005 respectively. The stock of transportation spare parts is significantly high, almost 7 times more than yearly consumption. Despite this high balance, the requested amount for transportation spare parts for the budget period 2005-2006 was almost \$4 million. Clearly there is need to determine the reasons for overstocking vehicle spare parts. *DPKO commented that there was duplication of inventory data that occurred during the migration from FACS to Galileo in September 2005, which inflated the inventory level from its actual value of \$4.3 million to \$7.3 million.* Notwithstanding this change, OIOS maintains that the revised stock level together with the budgeted amount of \$4 million is still high, accounting for almost seven times the consumption of 2004/05 (\$4.3 million stocks plus \$4 million budgeted versus \$1.2 million actual consumption).

### **Recommendation 17**

OPPBA should consider requiring missions to indicate in the budget and performance reports inventory levels of certain expendable items involving significant amounts in the same format as non-expendable items to better justify the requirements (AP2005/600/19/17).

87. *OPPBA did not accept recommendation 17 stating that it was already a current practice. However, DPKO agreed with this recommendation and indicated that in its response to OIOS' management audit report relating to Procurement, it has undertaken to improve planning for the procurement of spare parts and advised that this recommendation would be implemented by December 2006.* Recommendation 17 remains open pending receipt of documentation from OPPBA in support of its contention that the action arising from this recommendation was already a current practice.



## **Recommendation 18**

DPKO should determine the reasons for overstocking vehicle spare parts in MONUC, including the extent of obsolete stock, and determine accountability for the improper management of vehicle spare parts (AP2005/600/19/18).

88. *DPKO did not accept recommendation 18, indicating that true inventory levels can be justified and that the example used was not based on accurate data due to a misunderstanding in the field.* Considering that this matter was also addressed by OIOS' recommendation no. AP2005/600/20/21 as part of the DPKO management audit report on Procurement, OIOS hereby withdraws recommendation 18 in the present report but will pursue implementation of recommendation AP2005/600/20/21 as part of its follow-up of recommendations made in the Procurement audit report.

## **B. Financial Management and Accounting**

### Financial management at Headquarters

89. As part of its core functions, FMSS/DPKO is to provide support to substantive departments and field missions to ensure effective resource management, control and adherence to UN Financial Regulations and Rules (UNFRR), provide report on financial performance including disposal of assets and certify and process claims from troop contributing countries. OIOS identified the following areas in financial management at Headquarters which require improvement.

### Duplication in financial reporting process

90. There is duplication of tasks in the financial reporting process. The Accounts Division of OPPBA issues relevant guidelines and instructions to field missions to prepare the annual financial statements. Monthly and annual financial statement reporting packages are submitted by missions to the Peacekeeping Accounts Section of Accounts Division at Headquarters with a copy to FMSS. Both the Peacekeeping Accounts Section and FMSS review the financial statements for completeness, accuracy and compliance with established instructions and guidelines. There was no evidence of the value added by FMSS' review of missions' accounts as carried out by FMSS. This practice is clearly a duplication of efforts, and in OIOS' opinion this review should only be done by Accounts Division of OPPBA, which, except for issues relating to the raising of obligating documents (OBMOs), deals directly with missions on matters relating to accounts. In accordance with its mandate to monitor the field and headquarters accounts, FMSS/ASD/DPKO should perform financial analyses of the accounts as presented and ensure consistency across missions. Consideration should be given to developing a check list and template for financial analysis reports.

91. The manual re-entry of data into IMIS by OPPBA carries the risk of error and is also a duplication of data recording. IMIS used at Headquarters for accounting and financial reporting is not integrated with the SunSystem used for accounting and financial reporting by the missions. While preparing the financial statements and maintaining monthly accounting records of the missions, OPPBA has to manually enter the data (manual journal vouchers and inter-office

vouchers) into IMIS due to the absence of automatic interfaces and compatibilities of software. This deficiency would be addressed if an ERP system to be implemented.

### **Recommendation 19**

The Department of Management, in consultation with DPKO, should take immediate action to revise the procedure for reviewing missions' monthly and annual financial statements in order to eliminate duplication of tasks. Steps should also be taken to reassess the resource requirements from the Support Account as a result of eliminating the duplication in the review of missions' financial statements (AP2005/600/19/19).

92. *DM and DPKO accepted recommendation 19 and indicated that DM in conjunction with DPKO will revise the procedure for reviewing missions' monthly and annual financial statements in order to eliminate duplication of tasks so that this work is undertaken by the Accounts Division. They advised an implementation date of December 2006. OIOS will keep this recommendation open in its database pending implementation.*

### **Recommendation 20**

OPPBA should develop compatible software for missions' and Headquarters' use that does not require manual re-entry of accounting data from one system to another. Such software should be able to be migrated to the selected ERP system (AP2005/600/19/20).

93. *DM did not accept recommendation 20 commenting that the current practice of field data into IMIS is done on a monthly basis by automatically uploading standardized Microsoft Excel spreadsheets into journal vouchers which is not time consuming and has built-in edits to protect against input errors. OPPBA would need to conduct a cost/benefit analysis of developing a new automated interface between SunSystem and IMIS that could replace this process. Pending the review of systems both in the field and Headquarters, it would not be cost effective to invest further resources in automating a process that would probably have a short useful life. Furthermore, once an ERP system is in place, the need for such an interface would most likely disappear, as systems in the field and Headquarters would be standardized and integrated. Based on DM's comments, recommendation 20 has been withdrawn.*

### COE claims

94. More effective control mechanisms are needed over the validity of claims to ensure consistency of reports and integrity of data and vacant critical posts in the COE Units in MONUC need to be filled. The function of COE verification is delegated to the mission, and the certifying function lies with FMSS. FMSS certify the COE claims, which are cleared by PFD, based on cash flow position, for payments as approved by the Accounts Division in accordance with Financial Regulations and Rules 105.6. OIOS observed instances in MONUC where verification reports for medical facilities prepared by different persons at different points in time resulted in different

assessments although the terms of the Memorandum of Understanding remained unchanged. The COE Manual, Chapter 3 Annex B states that a contingent-owned Level 1 hospital provides services, medical staff and equipment to a battalion-sized contingent. However, the Manual does not address the issue of deploying smaller units to a mission area and the corresponding level of service and equipment to be fielded by a Level 1 hospital. This determination is left to the interpretation of the COE inspector on the ground, whose interpretation may vary based on various factors. Additionally, contingents must have sufficient medical equipment as stipulated in the United Nations standard for level 1, 2 and 3 medical services in order to provide the respective outpatient and inpatient care, basic and advanced diagnostics services, basic and advanced lifesaving, basic and advanced surgical capacities, sufficient re-supply capabilities, as well as CASEVAC/MEDEVAC capabilities and capacities in the mission area as per the MOU.

95. Inspections of force medical facilities carried out by MONUC during June and July 2005 showed that seven of 34 contingent-owned medical facilities were not operational. However, verification reports sent by the mission for prior periods certified that Level 1 hospital was operational. Some of the major shortfalls were the lack of medical staff, life saving equipment, and ability to communicate with mission headquarters in case of an emergency. This demonstrates lack of clear criteria for preparation of verification reports and lack of training and guidance provided to staff in the field that are responsible for verification reports on behalf of the DPKO. OIOS noted that steps are being taken to improve consistency by providing more training to staff and by making pre-deployment visits to TCCs. Also, a joint FMSS/LSD training had been planned for February 2006. However, given that criteria are pre-defined in the MOU and the standard rates are approved by the General Assembly, some efficiency could be achieved by consolidating the functions of all TCC-related claims processing.

#### **Recommendation 21**

DPKO should provide training to the staff in missions' COE Units on performing COE verification and preparing verification reports. Additionally, DPKO should clarify the assessment criteria in the COE Manual, which is used in the verification reports to ensure consistency (AP2005/600/19/21).

96. *DPKO accepted recommendation 21 and stated that it has scheduled a training workshop for missions during early 2006 to consider and refine methodologies for staffing, inspections, verification reports and other issues relevant to the COE process. One of the key goals of the programme is to develop a training module for COE implementation in the missions. These actions are expected to be implemented by December 2006. Recommendation 21 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

#### **Recommendation 22**

The Department of Management and DPKO should review the responsibility for processing claims, including COE and TCC claims, and the appropriate transfer of responsibility to achieve more economy and efficiency (AP2005/600/19/22).

97. DM and DPKO did not accept recommendation 22. DPKO commented that segregation between certifying, approving and disbursement functions already exists as per the Financial Regulations and Rules. Efficiency is served by having those responsible for the MOU dealing with the resultant verification reports from the missions. Other options within DPKO will be considered including that of combining COE and troop claims' processing. DM stated that it will review, with DPKO, the business process of recording and payments of TCC liabilities and determine any resulting transfer of responsibilities between the departments. OIOS has revised recommendation 22 as above, which remains open pending receipt of documentation from DM and DPKO showing that it has been implemented.

98. OIOS found errors in calculation of COE claims as a result of manual calculation. FMSS calculates the amounts reimbursable to troop contributing countries and certifies payments based on the signed MOU and verification reports. OIOS observed that such calculations are performed manually using an Excel spreadsheet. As a result of manual calculations, OIOS found several instances where mistakes were made due to incorrect formula used by the finance officers or due to manual transfer of the results of calculation in Excel to the DPKO Claims database.

### **Recommendation 23**

DPKO should, in order to eliminate the risk of error resulting from manual processing, automate the calculation process for amounts reimbursable to troop contributing countries and to third parties such that the system performs the calculations independently based on the input of actual data from verification reports by the finance officers (AP2005/600/19/23).

99. DPKO accepted recommendation 23 indicating that the Claims Calculation Module of the MOU and Claims System, when completed, will fulfill the automation of the calculation of COE reimbursement. This module is being developed and is targeted for completion by June 2006. The recommendation is expected to be fully implemented by December 2006. Recommendation 23 remains open pending receipt of documentation from DPKO showing that it has been implemented.

### Financial management at the missions

100. The following weaknesses in policies and controls at the selected missions reviewed by OIOS are indicative of less than adequate guidance from FMSS on financial matters, over and above that which is provided in the Field Finance Manual:

- (i) Mission-specific standard operating procedures (SOPs) have not been developed to assist Finance Officers in the mission headquarters and regional offices in carrying out their daily functions. All Finance officers in the regional offices use the Finance Manual and Financial Rules and Regulations. However, each mission differs based on geography and operation and as such requires additional standard operating procedures (SOP) to be developed to assist Regional Administrative Officers (RAO) and Finance Officers (FO) in carrying out their daily functions in their respective areas. OIOS noted that, in these areas, the Mission did not promulgate such SOP for the financial operation in the regional offices. There were instances where finance officers had to act as both RAO and FO, preparing payments, approving

payments without adequate coverage of certifying officers at their location for example at MONUC. During periods of leave, payments were processed in advance and documents sent to mission headquarters in Kinshasa or to other regional offices for approval. This creates problems as not all finance officers carried out their function alike. If one disagrees with a procedure, there was no written guidance available from HQ finance Section. In the absence of an SOP, Finance officers had to take decisions or seek clarification from Mission headquarters. OIOS was advised by the Deputy CFO that each Finance officer were briefed before taking up their duties in regional offices, even though there existed no written guidelines.

- (ii) Unfilled critical posts in some regional offices resulted in compromising the effectiveness of financial controls. Some regional offices were staffed by finance clerks and overworked staff with lack of proper handover and continuity especially when occasional recuperation breaks (ORB) are taken. The lack of adequate staff hindered the performance of financial analysis of major expenditure lines, especially of high risk items such as fuel, rations, air operations, procurement and travel claims.
- (iii) The Finance Rules & Regulation provide that each payment must be certified and approved. To this end the controller has delegated approving and certifying privileges to certain program managers of a mission. Approving authority resides with the finance Section while certifying authority resides with the respective cost centres holders. OIOS noted duplication of task relating to invoice processing as carried out by the Procurement Section and that done by the Finance Section, as well as duplication of data entry into Mercury and SunBusiness, which are not interfaced. This clear duplication of efforts should be reviewed with a view of having one office carrying out the invoice matching invoices functions of the Mission.
- (iv) Database administration functions are carried out by Finance Officers instead of within CITS, with authorization for access given by Chief Finance Officers. This has been observed in several other missions, in some cases where the functions were placed in the Finance Section, the functions were not segregated. This policy and practice should be changed and would require an amendment to the Field Finance Manual, which should clearly outline the role, restrictions and requirement for data confidentiality. OIOS clarifies that the recommended change would not preclude Finance staff from having the necessary access to effectively carryout their functions, without compromise controls. If this function must lie in the Finance Section then it should be properly segregated.
- (v) The lack of an integrated financial management system in the mission and associated access to real-time information render it difficult to monitor and enforce accountability. This should be addressed once the decision is taken to implement an ERP system.
- (vi) Financial delegation of authority is given to mission staff as approving and certifying officers. The approving functions lie within Finance Section and certifying function lies with procurement officers and cost center managers. There is a risk in the

selection of these officers in the mission, especially in cases where qualifications are inadequate. Given that OPPBA relies on the recommendations of the DOA/CAO, OPPBA needs to be more involved in the recruitment, selection and training (capacity building) of finance staff to ensure quality delivery of this key function.

### **Recommendations 24 and 25**

DPKO should:

- (i) Ensure that the mission management develops and promulgates the required SOPs to allow Finance officers in the missions to carry out their functions consistently and effectively (AP2005/600/19/24); and
- (ii) Ensure that missions are provided with adequate staff resources to ensure segregation of duties and continuity (AP2005/600/19/25).

101. *DPKO accepted recommendation 24 and stated that it is supportive of developing mission specific SOPs where warranted. In conjunction with OPPBA, FMSS is already working on a revision of 'Field Finance Procedure Guidelines'. The Chief Finance Officer's workshop held in November/December 2005 was also effective in disseminating best practice and this workshop will be run annually. DPKO advised an implementation date of September 2006. Recommendation 24 remains open pending receipt of documentation from DPKO showing that it has been implemented.*

102. *DPKO accepted recommendation 25 indicating that staffing in missions is a DPKO responsibility. Recommendation 25 remains open pending receipt of documentation from DPKO showing the specific actions taken based on the recommendation.*

### Cash management needs improvement

103. Financial Rule 104.5 stipulates the requirements for establishing bank accounts, which should be approved by the Secretary-General together with the designation and delegation of signatories for withdrawals. Financial Rule 104.9 talks about the personal accountability and financial liability of each custodian, and Financial Regulation 5.8 indicates the requirements on the administration of appropriations, the need for effective and efficient management, and for internal controls to ensure that designated officers manage appropriations in conformity of with the budget. OIOS observed a need to improve the quality of financial controls at missions. Our review at MONUC (and ONUB to a lesser extent) revealed the following:

- (i) Internal controls in cash management were inadequate to mitigate the inherent risks associated with decentralized financial systems, with a network of regional offices, especially where the banking system is weak;
- (ii) High vacancy rate in the Finance Section of the mission (overall vacancy rate was 30% in MONUC) severely affected the way the Finance Section carries out its functions. For example, at times (especially at the end of the month), the balance of physical cash held in the cash office was as high as \$1 million under one person's responsibility;



- (iii) Controls over payment to casual workers and direct purchases are inconsistent, particularly in the regions. In MONUC, payments to casual workers and for direct purchases totaled \$2.2 million during the year 2004/2005, and there was evidence of split purchases to avoid raising purchase orders, which were not always detected by the approving and certifying officers;
- (iv) One of the critical responsibilities of the Finance Section is the care and custody of physical cash holding. We noted that the security consideration for the safeguarding (physical security) of cash varied within and across missions, as was the case in MONUC and ONUB. Particular areas of concern related to the lack of dual control over the cashier's office and cash vaults, and the lack of adequate surveillance and/or alarm systems. These weaknesses were accentuated by the fact that no surprise cash counts were carried out by the Chief Finance Officer or his representative other than the imprest holder, although imprest cash was counted by the custodians and reported on a daily basis; and
- (v) Notwithstanding Financial Rule 104.5 and the personal financial responsibility and liability attached to custodians, there is no established rule or guideline governing the opening of personal bank accounts for holding UN funds. In one of the missions the Mission funds were deposited into personal bank accounts as a means of securing cash held by custodian based on their delegation of authority, at the risks of the Mission not having ready access to mission funds. Furthermore, there was no documented evidence of the Treasurer's approval. OIOS note the expediency in which the DM addressed this issue, by the immediate issuance of a directive instruction all missions to desist from such action, where it exists.

### **Recommendations 26 and 27**

OPPBA should:

- (i) Take steps to ensure that the missions put in place proper controls with respect to security and safeguarding of cash as stipulated in the Field Finance Manual, and ensure that they are applied uniformly in regional offices through out the mission area (AP2005/600/19/26); and
- (ii) Ensure that missions obtain prior approval from OPPBA to open bank accounts other than those already approved for the missions' use (AP2005/600/19/27).

104. *OPPBA did not accept recommendation 26 commenting that it had already promulgated these controls and DPKO is responsible for implementation. OPPBA assisted the Department of Safety and Security in issuing two documents, the 'Best Practices for Offices Using Banknotes (1 October 1998) and 'Procedures for Offices Using Cash' (19 October 2005) which clearly put in place the required controls with respect to security and safeguarding of cash. These documents have been disseminated to peacekeeping missions. Furthermore, OPPBA had reviewed cash security and safeguarding arrangements in all peacekeeping missions, with one exception, by sending Finance Officers from Treasury to review such arrangements. However, due to limited*

*resources, only the missions' Headquarters were reviewed.* OIOS notes the actions taken by OPPBA in regard to safety and safeguarding of cash. However, OIOS considers recommendation 26 as partially implemented, since OPPBA still needs to review the arrangements in missions' regional offices, at least in large missions. Recommendation 26 remains open pending receipt of documentation from OPPBA showing that it has been fully implemented.

105. *OPPBA did not accept recommendation 27 commenting that it had been already implemented. As per Financial Rule 104.4, the Under-Secretary-General for Management shall open and close official bank accounts for the transactions of United Nations business. This authority has been delegated to the Controller as per ST/AI/2003/6 and further delegated to the Treasurer. Under no circumstances are mission staff authorized to open bank accounts for the transaction of United Nations business.* Based on OPPBA's response, recommendation 27 has been withdrawn.

#### Write-offs of accounts receivables require closer monitoring and follow-up at Headquarters

106. The MONUC financial statements for the period ending 30 June 2005 showed accounts receivable balances totaling \$2,991,609. Of this, there were receivables of \$240,699 on the books for more than one year, and \$52,087 for more than two years. Though not significant in terms of amount, OIOS noted that there was no evidence that action had been taken by FMSS to resolve this issue in a timely manner, as requests sent to FMSS and copied to the Accounts Division in January 2004 had not been answered as of the time of this audit.

#### **Recommendation 28**

DPKO should ensure that long-standing receivables are followed up and recovered without unreasonable delays. Uncollectible receivables should be well documented to evidence the collection efforts made and then submitted to the Controller for write-off (AP2005/600/19/28).

107. *DPKO accepted recommendation 28 indicating that this was a common problem in all missions. FMSS' Front Office pursues mission receivables with Permanent Missions on a regular basis and the option to deduct from troop/COE payments is being proposed as an item in the TCC MOU. This would be implemented by December 2006.* Recommendation 28 remains open pending receipt of documentation from DPKO showing that it has been implemented.

### **C. Support Account and Peacekeeping Reserve Fund**

108. In 1996, the methodology for funding administrative support for peacekeeping operations was changed<sup>3</sup>. FMSS is responsible for providing support to substantive departments and field missions on financial matters to ensure effective resource management, control and adherence to UN Financial Regulations and Rules. DPKO is one of the main recipients of funding through the Support Account for peacekeeping operations for this purpose. The Support Account has grown significantly (by over 200%) since its introduction, and was approved at \$143 million in the 2005/06 budget. OIOS' review of the Support Account revealed the following:

---

<sup>3</sup> A/50/876

- (i) There were no reliable criteria or benchmarks for determining an optimum level for staff resources for providing support at Headquarters based on a ratio of support staff to the number of personnel in field missions. A realistic model needs to be developed by also considering mission drawdown and liquidation and related decrease in the level of support required to be provided by DPKO.
- (ii) Several posts were vacant for more than 12 months and had to be re-justified in the Support Account budget, but were filled by temporary staff as a stopgap measure.
- (iii) The budget for the Support Account lags behind the establishment of a mission and therefore adequate resources are not readily available at Headquarters. For example, to deal with the 2004/05 surge in field missions, the Controller approved a request from DPKO to utilize 58 vacant field posts at Headquarters to provide adequate support. Approval was granted for nine months up to 31 March 2005 and later extended to 30 June 2005 to coincide with the 1 July start of the next budget cycle. Although OIOS recognizes the need for additional support from Headquarters, it also meant that the missions' already short but much needed capacity was further reduced.
- (iv) In terms of RBB, there has been improvement in the RBB framework for the Support Account particularly relating to the standard criteria for collection of performance data and this was acknowledged by the General Assembly<sup>4</sup>. Notwithstanding this improvement, the RBB framework for the Support Account does not make a clear link between the increased requirements and management processes at Headquarters.

109. The implementation of an ERP and integrated financial management system should improve the quality of budgeting, assist in streamlining tasks and strengthening controls, and have a positive impact on the increasing demand on the Support Account for posts, which should be temporary and not permanent in nature and should reduce the cost of providing administrative support in the longer term.

### **Recommendations 29 to 30**

DPKO should:

- (i) Refrain from using vacant mission posts as a means of meeting the resource requirements at Headquarters (AP2005/600/19/29); and
- (ii) Develop a realistic model for providing support to field missions in its core functions based on criteria and benchmarks to ensure better justification of resource requirements from the Support Account (AP2005/600/19/30).

---

<sup>4</sup> A/59/736

110. *DPKO accepted recommendation 29 stating that it has already been implemented. DPKO further commented that this only happens in exceptional circumstances and is tightly controlled, documented and justified.* Recommendation 29 remains open pending receipt of documentation from DPKO showing that it has been fully implemented.

111. *DPKO accepted recommendation 30 indicating that it will work with OPPBA to develop suitable benchmarks for the Support Account by December 2007.* Recommendation 30 remains open pending receipt of documentation from DPKO showing that it has been fully implemented.

112. Financial Regulation 4.5 stipulates that the peacekeeping reserve fund is the cash flow mechanism during contingencies when rapid responses have to be provided for startup and expanding missions, as well as for unforeseen and extraordinary expenditure. Over the period 2003 to 2005, there were several cases where pre-mandate and regular commitment authority was approved for new and expanding missions. OIOS observed the following:

- (i) There is no clear strategy for utilizing interest income from the Peacekeeping Reserve fund. This is approved on an ad-hoc basis by the General Assembly based on proposals from the Secretary-General;
- (ii) There are no outlined terms and conditions for temporary loans for startup and expanding missions in the form of commitment authority, and are reimbursed upon receipt of assessments to compensate for the opportunity cost associated with interest income, particularly if there is a delay in receipt of assessments.
- (iii) Financial Regulation 4.6 restricts the individual approval limit for commitment authority to \$50 million and the aggregate to the value of the Reserve Fund. In OIOS' opinion, the limit of \$50 million may no longer be relevant in the context of significantly large missions, some of which have annual budgets close to \$1 billion or more. Furthermore, the amount also includes replenishment towards Strategic Development Stocks, leaving very little flexibility to fund critical programmes pending approval of the mission budget.
- (iv) On a related matter, peacekeeping budgets are not consolidated into a single pool of funds and therefore do not provide any flexibility to move funds between individual budgets, especially for liquidity management when new missions are established or ongoing missions are expanding. This could be achieved without violating the requirement that prevents cross borrowing between mission budgets. A feasibility study is being conducted in this regard for presentation to the 60<sup>th</sup> session of the General Assembly.

### **Recommendations 31 and 32**

OPPBA should:

- (i) Conduct a study on the impact of the recent surge in new missions on the peacekeeping reserve fund and seek appropriate increase in pre-mandate commitment authority, if justified (AP2005/600/19/31); and

(ii) In the context of cash flow management, seek the legislative bodies' approval to consolidate peacekeeping funds in a single pool and establish guidelines for managing the funds (AP2005/600/19/32).

113. *OPPBA accepted recommendation 31 and indicated that it would be implemented by March 2006. Recommendation 31 remains open pending receipt of documentation from OPPBA showing that it has been implemented.*

114. *OPPBA accepted recommendation 32 indicating that in line with General Assembly resolutions 56/293 and 57/381, OPPBA would provide a report to legislative bodies on the feasibility of consolidating peacekeeping accounts in a single fund during the resumed 60<sup>th</sup> session of the General Assembly. Recommendation 32 remains open pending receipt of documentation from OPPBA showing that it has been implemented.*

## VI. ACKNOWLEDGEMENT

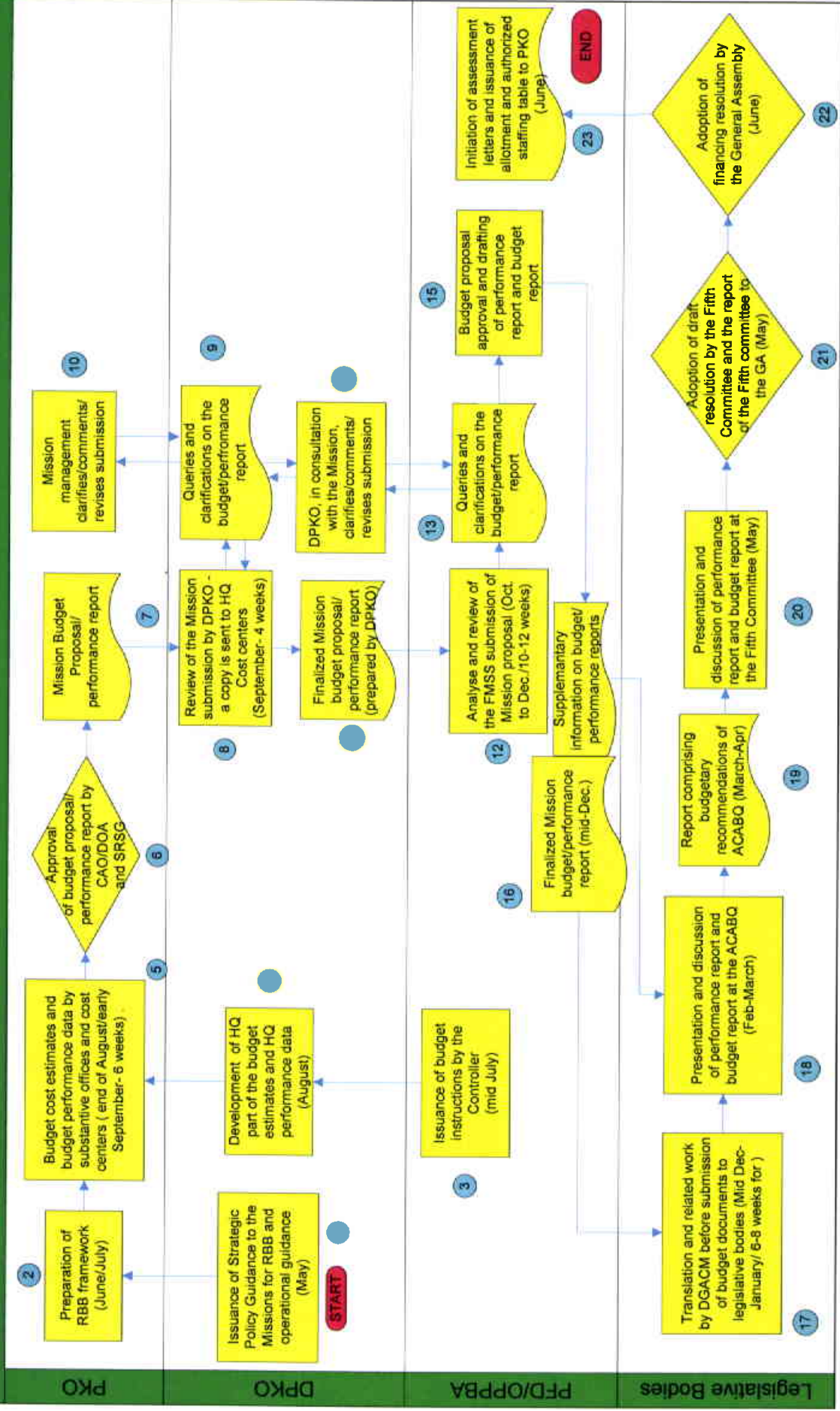
115. We wish to express our appreciation to the management and staff of DPKO, OPPBA, MONUC and ONUB for the assistance and cooperation extended to the auditors during this assignment.



Dagfinn Knutsen, Chief  
Peacekeeping Audit Service  
Internal Audit Division-I, OIOS



Peacekeeping Budgeting Process- Ongoing Operations/ 1 July – 30 June





Peacekeeping Budgeting Process- Start-up of New Missions and Expansion of Existing Missions

