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# UNITED NATIONS FINANCES

GOVERNMENT DOCUMENTS

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## HEARING

BEFORE THE

SUBCOMMITTEES ON  
INTERNATIONAL OPERATIONS

AND ON

INTERNATIONAL ORGANIZATIONS

OF THE

COMMITTEE ON FOREIGN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

JUNE 27, 1979

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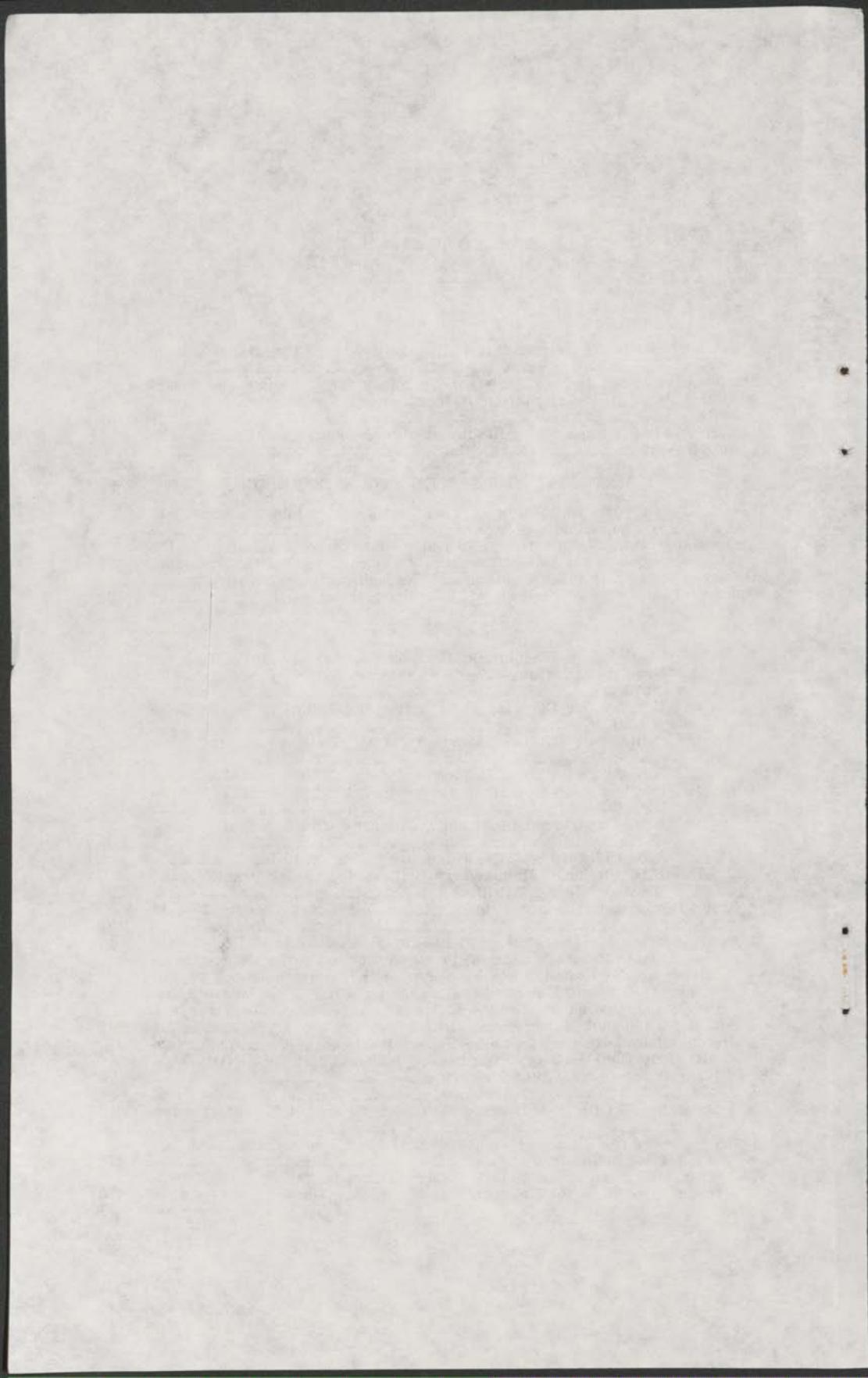
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## UNITED NATIONS FINANCES

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WEDNESDAY, JUNE 27, 1979

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
SUBCOMMITTEES ON INTERNATIONAL OPERATIONS  
AND ON INTERNATIONAL ORGANIZATIONS,  
*Washington, D.C.*

The subcommittees met at 10:10 a.m. in room 2172, Rayburn House Office Building, Hon. Don Bonker (chairman of the Subcommittee on International Organizations) presiding.

Mr. BONKER. The Subcommittees on International Organizations and on International Operations will come to order. This morning the subcommittees will be conducting a hearing that involves the United Nations. Each subcommittee has jurisdiction over the United Nations: Congressman Fascell's Subcommittee on International Operations has jurisdiction with respect to our assessed contributions to the United Nations, and the International Organizations Subcommittee has jurisdiction over the voluntary contributions to the United Nations.

The Subcommittee on International Organizations has been conducting a series of hearings on improvements and reforms in different areas of the U.N. system.

Recently, a series of articles have appeared in newspapers which have raised some questions about the financial management policies and practices of the U.N. system. The subject of this morning's hearing will be U.N. finances.

One of the difficulties we have is that the newspapers involved in these articles are not represented here this morning. Also, the United Nations, which has been the target of the articles, is not represented here. So, we will be drawing on the expertise of the GAO and the State Department to help us gain a better understanding of this complex issue.

The purpose of today's joint hearing is to explore the U.N. system organizations' financial management practices, particularly in the areas of accounting, auditing, and investment. We will be looking at the political implications of allegations of financial problems in the U.N. system for U.S. participation in the U.N. and for the U.N. itself. The subcommittees will also examine ways in which the United States and United Nations can work to improve the U.N.'s accounting, auditing, and other financial management practices if they are found to be deficient.

As I mentioned a few minutes ago, Congressman Fascell is the chairman of the Subcommittee on International Operations. At this time, I will call upon him to make a few remarks.

Mr. FASCELL. Thank you, Mr. Chairman.

I am happy for our subcommittee to join in these hearings. It is a matter in which I personally, and other subcommittees of the Committee on Foreign Affairs, have been very much interested for a long time.

The newspaper articles give us a chance not only to discuss and review the point by point allegations that have been made but also to give ourselves, and everybody else, a better understanding of what goes on and to determine what we can do better.

Mr. BONKER. Well, with that, we will begin.

We have as our leadoff witness Mr. Kenneth Fasick, Director of the International Division of the General Accounting Office. Mr. Fasick, if you would introduce your colleagues, we would ask you to proceed with your statement.

Mr. FASCELL. If I could interrupt for a second, we have a rollcall. Should we go answer that first and come right back and then let him get started?

Mr. BONKER. That is a good suggestion. I hope that we will have minimal interruptions this morning, but the subcommittees will stand in recess for 10 minutes.

[Whereupon a brief recess was taken.]

Mr. BONKER. The hearing will come to order.

We have been informed that there may be a series of votes this morning which will result in some interruptions, so we will do the best we can.

Mr. Fasick you may now proceed with your testimony.

**STATEMENT OF J. KENNETH FASICK, DIRECTOR, INTERNATIONAL DIVISION, U.S. GENERAL ACCOUNTING OFFICE**

Mr. FASICK. On my right is Mr. James Duff, Associate Director, senior level, in the International Division; on my left is Mr. Robert Drakert, Deputy Associate Director; Mr. Eugene Wohlhorn, Assistant Director in our International Division.

We appreciate the opportunity to express our views on financial management in the U.N. system. We in GAO have for the past 10 years addressed the need for marked improvement in this area.

Illustrative of our efforts and concern have been the 18 reports we have prepared over the past 10 years on the need to improve the U.S. participation in individual organs of the United Nations, such as the U.N. Development Programme; the specialized agencies, such as the World Health Organization; and particular aspects of the organization, such as the need to improve the review and evaluation system.

With your permission, I will enter a list of those 18 reports in the record.

Mr. BONKER. Without objection, so ordered.

[The material referred to follows:]

**OTHER GAO REPORTS CONTAINING INFORMATION ON AUDITS AND EVALUATIONS IN THE UNITED NATIONS SYSTEM**

U.S. Participation in the World Health Organization, B-164031(2), Jan. 9, 1969.

U.S. Financial Participation In The United Nations Children's Fund, B-166780, July 8, 1969.

U.S. Financial Participation In The Food and Agriculture Organization of the United Nations, B-167598, Nov. 17, 1969.

Management Improvements Needed In U.S. Financial Participation In The United Nations Development Program, B-16767, Mar. 18, 1970.

Report of audit of Adlai E. Stevenson Memorial Fellowship Program administered by United Nations Institute for Training and Research (UNITAR), B-165161, Sept. 14, 1970.

Comments and Suggestions for Independent Review and Evaluation of International Organizations and Institutions, B-161470, Dec. 4, 1970.

U.S. Participation in the International Labor Organization Is Not Effectively Managed, B-168767, Dec. 22, 1970.

Numerous Improvements Still Needed In Managing U.S. Participation In International Organizations, B-168767, July 18, 1974.

Actions Recommended to Alleviate Serious Financial Problems Facing United Nations, B-168767, Aug. 2, 1974.

Statement of Auditing and Reporting Standards for the United Nations, ID-75-60, Apr. 22, 1975.

Actions Required to Improve Management of United Nations Development Assistance Activities, ID-75-73, July 3, 1975.

Progress Toward Establishment of Independent Review Systems in International Organizations, ID-76-3, July 30, 1975.

Need For U.S. Objectives In The International Labor Organization, ID-77-12, May 16, 1977.

The United States Should Play A Greater Role In The Food And Agriculture Organization of The United Nations, ID-77-13, May 16, 1977.

Greater U.S. Government Efforts Needed to Recruit Qualified Candidates for Employment by U.N. Organizations, ID-77-14, May 16, 1977.

U.S. Participation in the World Health Organization Still Needs Improvement, ID-77-15, May 16, 1977.

The World Food Program—How The U.S. Can Help Improve It, ID-77-16, May 16, 1977.

U.S. Participation in International Organizations, ID-77-36, June 24, 1977.

Mr. FASICK. The collective conclusions resulting from all of our studies are that: Substantial management problems exist within the organizations themselves; significant problems exist in the management of the U.S. involvement in the U.N. system; a need exists to improve the process of recruiting qualified Americans for jobs in the U.N. organizations; there is an absence of adequate audit and evaluation of U.N. programs and operations.

While we believe that the actions taken by the Department of State to improve its management over U.S. participation in international organizations has not been as vigorous as it should be, we do not want to leave the impression that nothing has been done. The Department had taken what we regarded as essential action to have some constructive influence on the complex U.N. system. Recently, however, there has been decreased emphasis on such actions on the part of the Department. Therefore, it is clear that much remains to be done.

Clear weaknesses exist in the U.N.'s management of its organizations. While the United States, as one member, cannot unilaterally make the improvements, it can work with other concerned members toward overcoming the problems. Major problem areas include the organization's structure, financial management, and budgeting and programing.

In December 1974 the U.N. General Assembly requested the Secretary General to appoint a small group of high-level experts to submit a study containing proposals on structural changes within the U.N. system. A group of 25 experts, representing 25 different countries,

nominated by the governments and appointed by the Secretary General, was later formed. It submitted its report, "A New United Nations Structure for Global Economic Cooperation," to the Secretary General in May 1975.

This wide-range report proposed major changes in the U.N. central structure, as well as reform or improvement of budget and program policies and procedures. The group of experts which prepared the report pointed out that the recommendations for restructuring would require action by the General Assembly, the Economic and Social Council, other U.N. intergovernmental bodies, and the Secretary General and recommended that they be set in motion by the General Assembly in 1975.

In September of that year an ad hoc committee was set up. The United States and the European Economic Community, as well as the Group of 77, really which is made up now of over 100 developing countries, presented suggestions and agreed that there were problems and these problems generally were the ones discussed in the report issued by the special experts.

These included matters such as the overall coordination of the activities of the organization of the U.N. system and the establishment of priorities for the system as a whole. It involved management of funds for operational activities under a single administrative structure, creation of mechanisms for evaluating operational activities and enhancement of the effectiveness of the planning, programing, budgeting and evaluation function of the system by adopting areas of activity and approaches to priority selection.

The ad hoc committee is continuing its work. U.S. officials at the United Nations reported that the committee has reached general agreement on some issues, such as the integration of U.N. field activities under a single team leader, the use of the UNDP country programing system as a basis for operational programing, the unification of some administrative servicing, and increased coordination at the executive level.

The U.N.'s Board of Auditors, presently composed of members from Bangladesh, Canada and Ghana, reviewed the U.N.'s financial management policies and procedures of member organizations of the U.N. family—not including the specialized agencies—during their 1976-77 audits. In its report, the Board stated that present financial management and central responsibilities and procedures have not been stated with sufficient clarity to cope with the growing complexity and diversity of the United Nations. Above all, it stated, the need for strong central direction has not been given adequate emphasis.

For example, the Board concluded that there is a general lack of acceptance of the U.N. Controller's responsibility to provide leadership to the financial operations. It reported that many of those persons with financial responsibilities within the U.N. do not report directly to the Controller. The Controller has been designated by the Secretary General as the person responsible for administration of the financial regulations. Thus, the authority exists and only needs to be exercised.

The U.S. delegation shared the view that the Controller has the authority and called upon the Secretary General and the Controller to take immediate action to ensure full implementation of the Controller's leadership role.

We have been advised that the Controller had not taken any action in this regard. He said that the many finance officers in the U.N. work for other senior U.N. officials, executive committees and governing bodies that are more influential than he in certain financial matters. Until these other entities accept the Controller's authority, he believes there will continue to be a problem with his financial leadership in the U.N.

Many of the restructuring proposals embody centralized planning, programing and resource allocation within the United Nations. This idea in some respects is similar to the U.N. Development Programme country programing concept wherein technical assistance is coordinated and funded primarily through a single channel. The UNDP system of country programing is based largely on the needs and priorities of a developing country as agreed to by the country. These needs are assessed in terms of UNDP resources, and a 5-year plan or country program is established by the recipient country and UNDP.

Approved UNDP assistance projects, funded through voluntary contributions, are then carried out primarily by the specialized agencies under the team leadership of the UNDP resident representative.

Our report, "Actions Required to Improve Management of United Nations Development Assistance Activities,"—July 3, 1975, ID-75-3—supported this concept and urged that it be extended to cover coordinated planning by all U.N. system components.

The system has made some progress in the programing and resource allocation process in the United Nations. Yet specialized agencies still tend to favor their autonomy and few are willing to accept a central mechanism to coordinate planning and programing.

We continue to support coordinated planning and the channeling of U.N. development assistance through one focal point in each country as opposed to direct programing by specialized agencies. Recently, the Food and Agriculture Organization diverted \$18.5 million of its regular budget to direct field programs and the World Health Organization decided that 60 percent of its regular budget would be spent on technical assistance by 1980. Such actions serve to undermine the centralized development concept of UNDP.

More fundamentally, the consistently held view of the United States and other major contributors that U.N. development assistance should be funded mainly through voluntary contributions and not through the assessed contributions of member states is being challenged.

The Food and Agriculture Organization and World Health Organization precedents, in our view, could lead to actions in other agencies for increased assessments and for the direct application of funds to development programs outside UNDP's coordinative mechanism.

The dangers of such a movement away from centralized coordination, particularly in specialized agencies wherein the large contributors no longer have the majority vote, are very real. For example, the loss of large-contributor discretion in levels of contributions and application of resources could prompt some to drop out, and this would in turn lessen the organizations' effectiveness.

Our Government continues to support and follow the concept of funding development activities through voluntary contributions and using UNDP as a central funding channel and focal point for developing planning and programing. We urge that U.S. efforts in this area

be increased and we encourage strengthening the leadership role of the UNDP resident representative.

We should point out, however, that the activities of the multilateral development banks must also be considered in any successful development strategy. In many countries these lending institutions have greatly influenced development strategies through overall economic surveys and analyses that have led to large investments. Therefore, the development banks with major stakes in developing countries also served by the U.N. system must be included in any successful country programming strategy.

In the final analysis, we are convinced that the ultimate goal of any programming strategy should be to develop a country's internal capacity to form its own development plans and effectively carry them out.

We believe that improvements in the effectiveness and efficiency of any international organization can best be brought about, not by a single member, but by the concerted efforts of all member governments. To this end the Congress can continue to motivate the executive branch to make a more constructive and coordinated participative effort.

More importantly, continued congressional concern should help assure that U.S. representatives to international organizations understand and are guided by a policy that includes encouraging other country representatives to become more involved and to join in actions aimed at improving international organizational performance.

We agree that there is an urgent need for restructuring the U.N. system and believe that the proposals made by the group of experts merit more positive and aggressive State Department action than they have received.

This study offers an excellent opportunity for the United States to press for those changes it supports and we suggest that an expression of congressional concern to the Secretary of State would help emphasize the importance of this matter.

The Department of State's management of U.S. involvement in the U.N. system has been, in our opinion, less than adequate due to: one, constant rotation of U.S. staff; two, inadequate definition of U.S. objectives in individual U.N. organizations; and three, limited U.S. review and evaluation of U.N. budgets and programs.

Bureau personnel responsible for overseeing individual organizations are drawn from the Department's foreign service corps and are rotated every 2 to 3 years.

In our view, too frequent rotation of officers makes it difficult to build the continuity of experience needed to effectively manage U.S. participation in the U.N. By the time individuals become familiar with the activities of the organizations and are capable of making important contributions toward improving U.S. management, they are rotated and new individuals must learn the system.

In the case of the transfer by the Department of an official handling U.S. affairs in the United Nations Educational, Scientific, and Cultural Organization whose headquarters are in Paris, recognition was given to the rotation problem. In this case, the desk officer in the International Organization Bureau in Washington and the deputy of the permanent delegation in Paris who had many years experience exchanged positions. This enabled both locations to have seasoned experienced people. We would like to see more of this type of rotation done.

In report after report, covering such U.N. organizations as the World Health Organization, the Food and Agriculture Organization and the United Nations Children's Fund, we have stated that adequately defined U.S. policy objectives and priorities to guide U.S. officials looking after U.S. interests in the organizations had not been established.

At the time of our 1977 review, we found that there still was no clear-cut statement of what the United States hopes to accomplish through its membership in the U.N. organizations and the relative priority it attaches to each of its goals. We urged that State and other agencies could, as part of yearly congressional budget presentations, include specific statements listing what the Government hopes to accomplish through participation in each organization.

We believed that this action would help provide the Congress with a more systematic method of annually evaluating the progress made toward achieving objectives and goals in U.N. organizations.

These recommendations have not been implemented. It must be pointed out, however, that there are some initiatives underway in the executive branch which, if properly carried out, could help improve the management of U.S. participation in the work of international organizations and accomplish the intent of our June 1977 recommendations. These initiatives include development of a new policy management process at State's Bureau of International Organization Affairs. It also involves a reorganization proposal, now being given consideration by the Congress, the development of the International Development Cooperation Agency.

It is State Department policy that the United States should give proposed international organizations budgets and programs the same close scrutiny given to Federal programs. However, substantial improvement is needed in the implementation of this policy based upon our review of U.S. participation in several U.N. organizations.

The State Department is attempting to improve its capability to monitor and analyze programs and budgets of various international organizations. For example, the action programs for the United Nations and its specialized agencies prepared in State's Bureau of International Organization Affairs attempt to identify and address problems in programing and budgeting. Also, some additional staff capability has been added to the U.S. Mission in Geneva to assist in reviewing budgets for international organizations headquarters there. However, Bureau officials informed us that the resources needed to adequately grapple with these problems are not available to the missions or the Bureau because of budgetary constraints imposed on them by the State Department.

Two years ago we reported on the need to place more qualified Americans in U.N. staff positions in order to: One, improve the U.N.'s management capabilities and two, to more closely correlate the extent of the U.S. contributions to the U.N. with members of U.S. employees in each U.N. agency.

At that time, we reported that any successful effort to place qualified American candidates in managerial positions would require defining U.S. objectives, identifying potential vacancies in key positions in U.N. organizations long before they become available, and then effec-

tively managing the recruiting and the support of qualified U.S. candidates to fill the positions.

In its reply to our report the State Department acknowledged that the level of Americans working in the U.N. organizations was about the same as when we reported on this subject back in 1974.

However, they believed that the United States had demonstrated progress in that the level of U.S. employment had not decreased. The State Department cited a number of factors contributing to low American employment in the organizations which it contends remain in evidence. One is the decreasing number of positions available to Americans as new member countries are admitted and each is allocated a minimum number of positions. Also, financial constraints have forced organizations to stop hiring or cut back on personnel.

State had taken some steps which, if properly carried out, may result in some improvement toward increasing employment of qualified Americans in international organizations. For example, one initiative implemented by State involves the assigning of a full-time international placement officer at the U.S. Mission in Geneva, Switzerland. This officer is responsible for placing Americans in the European headquarters for the U.N. and those international organizations headquartered in Geneva.

He is responsible for keeping abreast of all personnel activities in the U.N. system in Geneva. Because of his recent assignment to the job, an assessment of his effectiveness in employing Americans was not possible at the time of our visit.

Nevertheless, the State Department needs to do more in this area. Their general reaction to our proposal was one of "enough is being done." We still feel they should mount a concerted effort to identify key management positions in each organization, recruit qualified Americans as candidates and aggressively support them to assure that they are adequately considered in a selection process.

The Congress expressed a strong concern for accountability on the part of the U.N. when in 1973 it included a provision in the Foreign Assistance Act requiring the executive branch to propose to the U.N. the establishment of an independent evaluation system. The Comptroller General, in turn, prescribed the auditing and reporting standards to be applied to the system.

Within the U.N., the independent external audit of the U.N. and its subsidiary bodies is performed by the Board of Auditors which I referred to earlier. The audits of the specialized agencies are performed by national audit bodies selected by the governing councils of the agencies. For example, the WHO audit is conducted by the Controller and Auditor General of the United Kingdom.

These audits have traditionally been confined to verification of individual transactions. In an encouraging move, the U.N.'s Board of Auditors and some external auditors of specialized agencies are expanding their audit scope to include systems reviews and to undertake economy, efficiency, and effectiveness reviews.

Until the Board and all other external auditors fully adopt these more modern auditing concepts, there will be a continual concern on our part regarding the adequacy of the audits in terms of: One, insuring the U.N. management provides full accountability to the membership and two, that opportunities to improve the system's effectiveness are identified.

The auditors are not evaluating U.N. programs and operations to ascertain if they are achieving their stated objective, meeting the performance expectation of management, governing councils, donors and donees, or producing other significant effects. A small, independent organization—the Joint Inspection Unit—responsible to the U.N.'s General Assembly has as one of its functions the responsibility to assist and to perform evaluation in the organizations of the U.N. system. The unit is comprised of 11 inspectors and 9 professional support personnel. Much of its work is more of an inspection nature; however, its objective is to increase its evaluation efforts to a 60-percent level.

Both the audit and evaluation efforts are steps in the right direction but, in our opinion, are far short of what is needed in a system as large, complex, and important as the U.N. Prominently absent is the central direction and control essential to effective auditing, review and evaluation.

As a start, we feel it would be appropriate for the U.N. to assign responsibility for developing and prescribing auditing, evaluating and reporting principles and standards to its Board of Auditors.

In addition, a number of steps to improve the independence and capability of the auditors and evaluators are sorely needed. For example, we believe that financial management in the U.N. requires an organization that is similar in concept to the revised Review and Evaluation Office in the Inter-American Development Bank.

The Bank established a review and evaluation office, independent of the management of the Bank, headed by a director who is responsible to and derives his authority from the Board of Executive Directors who represent the member countries.

The director, who is required to be a person of recognized competence and wide experience, is responsible for planning and programming the work to be done, performing the work using his own staff and reporting the results to the Board.

We believe a similar approach within the U.N., specifically assigning responsibility for auditing, evaluation, and reporting, is feasible and desirable. Establishing such a position with essential provisions for his independence and authority, along with an adequate and qualified staff to perform the review and evaluation factors, would enhance the ability of the U.N. to accomplish its mission more economically and effectively.

Mr. Chairman, this concludes our statement. We would be pleased to address any question you or members of the subcommittees may have.

[Mr. Fasick's prepared statement follows:]

PREPARED STATEMENT OF J. KENNETH FASICK, DIRECTOR, INTERNATIONAL  
DIVISION, GENERAL ACCOUNTING OFFICE

Mr. Chairmen and Members of the Subcommittees:

We appreciate the opportunity to express our views on financial management in the United Nations system. We in GAO have for the past 10 years addressed the need for marked improvement in this area.

Illustrative of our efforts and concern have been the 18 reports we have prepared over the past 10 years on the need to improve the U.S. participation in individual organs of the U.N., such as the United Nations Development Program; the specialized agencies, such as the World Health Organization; and particular aspects of the organization, such as the need to improve the review and evaluation system. The collective conclusions resulting from all of our studies are that:

- Substantial management problems exist within the organizations themselves.
- Significant problems exist in the management of the U.S. involvement in the U.N. system.
- A need exists to improve the process of recruiting qualified Americans for jobs in the U.N. organizations

--There is an absence of adequate audit and evaluation of U.N. programs and operations.

While we believe that the actions taken by the Department of State to improve its management over U.S. participation in international organizations has not been as vigorous as it should be, we do not want to leave the impression that nothing has been done. The Department had taken what we regarded as essential action to have some constructive influence on the complex U.N. system. Recently, however, there has been decreased emphasis on such actions on the part of the Department. Therefore, it is clear that much remains to be done.

Management Problems Existing in  
U.N. Organizations

Clear weaknesses exist in the U.N.'s management of its organizations. While the United States, as one member, cannot unilaterally make the improvements, it can work with other concerned members towards overcoming the problems. Major problem areas include the organizations' structure, financial management, and budgeting and programing.

Restructuring

In December 1974 the U.N. General Assembly requested the Secretary-General to appoint a small group of high-level experts to submit a study containing proposals on structural changes within the U.N. system. A group of 25 experts, representing 25 different countries, nominated by the governments and appointed by the Secretary General, was later formed. It submitted its report, "A New United Nations Structure for Global Economic Cooperation," to the Secretary-General in May 1975.

This wide-ranging report proposed major changes in the U.N. central structure, as well as reform or improvement of budget and program policies and procedures. The group of experts which prepared the report pointed out that the recommendations for restructuring would require action by the General Assembly, the Economic and Social Council, other U.N. intergovernmental bodies, and the Secretary-General and recommended that they be set in motion by the General Assembly in 1975.

In September 1975 the General Assembly created an Ad Hoc Committee to initiate the restructuring and to make the U.N. system more capable of dealing with problems of international

economic cooperation and development. The Ad Hoc Committee was to consider relevant proposals and documentation, including the report of the group of experts on the system's structure.

The Ad Hoc Committee and a working group established by it held numerous sessions in 1975 and 1976. In February 1976 the European Economic Community member countries and the United States each presented informal suggestions to the working group. The U.S. proposal identified major problem areas to be discussed. In April 1976 the United States presented to the working group a paper outlining preliminary U.S. delegation views on the problem areas under consideration by the working group.

The problem areas identified by the United States, the European Economic Community, and the Group of 77 <sup>1/</sup> were similar to those discussed in the report of the group of experts. These included such matters as (1) overall coordination of the activities of the organizations of the U.N. system and the establishment of priorities for the system as a whole, (2) management of funds for operational activities under a single administrative structure, (3) creation of a mechanism for evaluating operational activities, and (4) enhancement of the effectiveness of the planning, programing, budgeting, and evaluation functions of the system by adopting areas of activity and approaches to priority selection.

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<sup>1/</sup>A group of developing nations in the United Nations now numbering over 100.

The Ad Hoc Committee is continuing its work. U.S. officials at the United Nations reported that the Committee has reached general agreement on some issues, such as the integration of U.N. field activities under a single team leader, the use of the UNDP country programing system as a basis for operational programing, the unification of some administrative servicing, and increased coordination at the executive level.

#### Financial Management

The U.N.'s Board of Auditors, presently composed of members from Bangladesh, Canada and Ghana, reviewed the U.N.'s financial management policies and procedures of member organizations of the U.N. family (not including the specialized agencies) during their 1976-77 audits. In its report, the Board stated that present financial management and central responsibilities and procedures have not been stated with sufficient clarity to cope with the growing complexity and diversity of the United Nations. Above all, it stated, the need for strong central direction has not been given adequate emphasis.

For example, the Board concluded that there is a general lack of acceptance of the U.N. Controller's responsibility to provide leadership to the financial operations. It reported that many of those persons with financial responsibilities within the U.N. do not report directly to the Controller.

The Controller has been designated by the Secretary General as the person responsible for administration of the financial regulations. Thus, the authority exists and only needs to be exercised. The U.S. delegation shared the view that the Controller has the authority and called upon the Secretary General and the Controller to take immediate action to ensure full implementation of the Controller's leadership role.

We have been advised that the Controller had not taken any action in this regard. He said that the many finance officers in the U.N. work for other senior U.N. officials, executive committees, and governing bodies that are more influential than he in certain financial matters. Until these other entities accept the Controller's authority, he believes there will continue to be a problem with his financial leadership in the U.N.

#### Budgeting and Programing

Many of the restructuring proposals embody centralized planning, programing, and resource allocation within the United Nations. This idea in some respects is similar to the U.N. Development Program country programing concept wherein technical assistance is coordinated and funded primarily through a single channel. The UNDP system of country programing is based largely on the needs and priorities of a developing country as agreed to by the country. These needs are assessed in terms of UNDP

resources, and a 5-year plan or country program is established by the recipient country and UNDP. Approved UNDP assistance projects, funded through voluntary contributions, are then carried out primarily by the specialized agencies under the team leadership of the UNDP resident representative.

Our report, "Actions Required to Improve Management of United Nations Development Assistance Activities" (July 3, 1975, ID-75-73), supported this concept and urged that it be extended to cover coordinated planning by all U.N. system components. The system has made some progress in the programing and resource allocation process in the United Nations. Yet, specialized agencies still tend to favor their autonomy, and few are willing to accept a central mechanism to coordinate planning and programing.

We continue to support coordinated planning and the channeling of U.N. development assistance through one focal point in each country, as opposed to direct programing by specialized agencies. Recently, the Food and Agriculture Organization diverted \$18.5 million of its regular budget to direct field programs and the World Health Organization decided that 60 percent of its regular budget would be spent on technical assistance by 1980. Such actions serve to undermine the centralized development concept of UNDP.

More fundamentally, the consistently held view of the United States and other major contributors--that U.N.

development assistance should be funded mainly through voluntary contributions and not through the assessed contributions of member states--is being challenged. The Food and Agriculture Organization and World Health Organization precedents, in our view, could lead to actions in other agencies for increased assessments and for the direct application of funds to development programs outside UNDP's coordinative mechanism.

The dangers of such a movement away from centralized coordination, particularly in specialized agencies wherein the large contributors no longer have the majority vote, are very real. For example, the loss of large-contributor discretion in levels of contributions and application of resources could prompt some to drop out, and this would in turn lessen the organizations' effectiveness.

Our Government continues to support and follow the concept of funding development activities through voluntary contributions and using UNDP as a central funding channel and focal point for development planning and programing. We urge that U.S. efforts in this area be increased, and we encourage strengthening the leadership role of the UNDP resident representative.

We should point out, however, that the activities of the multilateral development banks must also be considered in any successful development strategy. In many countries these

lending institutions have greatly influenced development strategies through overall economic surveys and analyses that have led to large investments. Therefore, the development banks with major stakes in developing countries also served by the U.N. system must be included in any successful country programming strategy.

In the final analysis, we are convinced that the ultimate goal of any programming strategy should be to develop a country's internal capacity to form its own development plans and effectively carry them out.

#### Summary

We believe that improvements in the effectiveness and efficiency of any international organization can best be brought about, not by a single member, but by the concerted efforts of all member governments. To this end the Congress can continue to motivate the executive branch to make a more constructive and coordinated participative effort. More importantly, continued congressional concern should help assure that U.S. representatives to international organizations understand and are guided by a policy that includes encouraging other country representatives to become more involved and to join in actions aimed at improving international organizational performance.

We agree that there is an urgent need for restructuring the U.N. system and believe that the proposals made by the

group of experts merit more positive and aggressive State Department action than they have received. This study offers an excellent opportunity for the United States to press for those changes it supports, and we suggest that an expression of congressional concern to the Secretary of State would help emphasize the importance of this matter.

Problems in Managing U.S. Involvement  
in the U.N. System

The Department of State's management of U.S. involvement in the U.N. system has been, in our opinion, less than adequate due to (1) constant rotation of U.S. staff, (2) inadequate definition of U.S. objectives in individual U.N. organizations, and (3) limited U.S. review and evaluation of U.N. budgets and programs.

Staff Rotation

Bureau personnel responsible for overseeing individual organizations are drawn from the Department's foreign service corps and are rotated every 2 to 3 years.

In our view, too frequent rotation of officers makes it difficult to build the continuity of experience needed to effectively manage U.S. participation in the U.N. By the time individuals become familiar with the activities of the organizations and are capable of making important contributions toward improving U.S. management, they are rotated and new individuals must learn the system.

In the case of the transfer by the Department of an official handling U.S. affairs in the United Nations Educational, Scientific and Cultural Organization whose headquarters are in Paris, recognition was given to the rotation problem. In this case, the desk officer in the International Organization Bureau in Washington and the Deputy of the Permanent Delegation in Paris who had many years experience exchanged positions. This enabled both locations to have seasoned experienced people. We would like to see more of this type of rotation done.

#### U.S. Objectives in U.N. Organizations

In report after report, covering such U.N. organizations as the World Health Organization, the Food and Agriculture Organization and the United Nations Children's Fund, we have stated that adequately defined U.S. policy objectives and priorities to guide U.S. officials looking after U.S. interests in the organizations had not been established.

At the time of our 1977 review, we found that there was still no clear-cut statement of what the United States hopes to accomplish through its membership in the U.N. organizations and the relative priority it attaches to each of its goals. We urged that State and other agencies could, as part of yearly congressional budget presentations, include specific statements listing what the Government hopes to accomplish through participation in

each organization. We believed that this action would help provide the Congress with a more systematic method of annually evaluating the progress made toward achieving objectives and goals in U.N. organizations.

These recommendations have not been implemented. It must be pointed out, however, that there are some initiatives underway in the executive branch which, if properly carried out, could help improve the management of U.S. participation in the work of international organizations and accomplish the intent of our June 1977 recommendations. These initiatives include development of a new policy management process at State's Bureau of International Organization Affairs.

#### Review of U.N. Budgets and Programs

It is State Department policy that the United States should give proposed international organizations budgets and programs the same close scrutiny given to Federal programs. However, substantial improvement is needed in the implementation of this policy based upon our review of U.S. participation in several U.N. organizations.

The State Department is attempting to improve its capability to monitor and analyze programs and budgets of various international organizations. For example, the action programs for the United Nations and its specialized agencies prepared in State's Bureau of International Organization Affairs attempt to identify and address problems in programing and

budgeting. Also, some additional staff capability has been added to the U.S. Mission in Geneva to assist in reviewing budgets for international organizations headquarters there.

However, Bureau officials informed us that the resources needed to adequately grapple with these problems are not available to the Missions or the Bureau because of budgetary constraints imposed on them by the State Department.

Recruitment of Qualified Americans  
in the U.N. System

Two years ago we reported on the need to place more qualified Americans in U.N. staff positions in order to (1) improve the U.N.'s management capabilities and (2) to more closely correlate the extent of the U.S. contribution to the U.N. with members of U.S. employees in each U.N. agency. At that time we reported that any successful effort to place qualified American candidates in managerial positions would require defining U.S. objectives, identifying potential vacancies in key positions in U.N. organizations long before they become available, and then effectively managing the recruiting and the support of qualified U.S. candidates to fill the positions.

In its reply to our report the State Department acknowledged that the level of Americans working in U.N. organizations was about the same as when we reported on this subject back in 1974.

However, they believed that the United States had demonstrated progress in that the level of U.S. employment had not decreased. The State Department cited a number of factors contributing to low American employment in the organizations which it contends remain in evidence. One is the decreasing number of positions available to Americans as new member countries are admitted and each is allocated a minimum number of positions. Also, financial constraints have forced organizations to stop hiring or cut back on personnel.

State had taken some steps which, if properly carried out, may result in some improvement towards increasing employment of qualified Americans in international organizations. For example, one initiative implemented by State involves the assigning of a full-time international placement officer at the U.S. Mission in Geneva, Switzerland. This officer is responsible for placing Americans in the European headquarters of the U.N. and those international organizations headquartered in Geneva. He is responsible for keeping abreast of all personnel activities in the U.N. system in Geneva. Because of his recent assignment to the job, an assessment of his effectiveness in employing Americans was not possible at the time of our visit.

Nevertheless, the State Department needs to do more in this area. Their general reaction to our proposal was one of "enough is being done." We still feel they should mount a concerted

effort to identify key management positions in each organization, recruit qualified Americans as candidates and aggressively support them to assure that they are adequately considered in a selection process.

Audit and Evaluation of U.N.  
Programs and Operations

The Congress expressed a strong concern for "accountability" on the part of the U.N. when in 1973 it included a provision in the Foreign Assistance Act requiring the executive branch to propose to the U.N. the establishment of an independent evaluation system. The Comptroller General, in turn, prescribed the auditing and reporting standards to be applied to the system.

Within the U.N., the independent external audit of the U.N. and its subsidiary bodies is performed by the Board of Auditors which I referred to earlier. The audits of the specialized agencies are performed by national audit bodies selected by the Governing Councils of the agencies. For example, the WHO audit is conducted by the Comptroller and Auditor General of the United Kingdom.

These audits have traditionally been confined to verification of individual transactions. In an encouraging move, the U.N.'s Board of Auditors and some external auditors of specialized agencies are expanding their audit scope to include systems reviews and to undertake economy,

efficiency, and effectiveness reviews. Until the Board and all other external auditors fully adopt these more modern auditing concepts, there will be a continual concern on our part regarding the adequacy of the audits in terms of (1) insuring that U.N. management provides full accountability to the membership and (2) that opportunities to improve the system's effectiveness are identified.

The auditors are not evaluating U.N. programs and operations to ascertain if they are achieving their stated objective, meeting the performance expectation of management, governing councils, donors and donees, or producing other significant effects. A small independent organization--the Joint Inspection Unit--responsible to the U.N.'s General Assembly has as one of its functions the responsibility to assist and to perform evaluation in the organizations of the U.N. system. The Unit is comprised of 11 inspectors and 9 professional support personnel. Much of its work is more of an "inspection" nature; however, its objective is to increase its evaluation efforts to a 60 percent level.

Both the audit and evaluation efforts are steps in the right direction but, in our opinion, are far short of what is needed in a system as large, complex, and important as the U.N.'s. Prominently absent is the central direction and control essential to effective auditing, review and evaluation. As a start, we feel it would be appropriate for the

U.N. to assign responsibility for developing and prescribing auditing, evaluating and reporting principles and standards to its Board of Auditors.

In addition, a number of other steps to improve the independence and capability of the "auditors and evaluators" are sorely needed. For example, we believe that financial management in the U.N. requires an organization that is similar in concept to the revised Review and Evaluation Office in the Inter-American Development Bank. The Bank established a review and evaluation office, independent of the management of the Bank, headed by a Director who is responsible to and derives his authority from the Board of Executive Directors who represent the member countries. The Director, who is required to be a person of recognized competence and wide experience, is responsible for planning and programming the work to be done, performing the work using his own staff and reporting the results to the Board.

We believe a similar approach within the U.N., specifically assigning responsibility for auditing, evaluation, and reporting, is feasible and desirable. Establishing such a position with essential provisions for his independence and authority, along with an adequate and qualified staff to perform the review and evaluation factors, would enhance the ability of the U.N. to accomplish its mission more economically and effectively.

Mr. Chairmen, this concludes our statement. We would be pleased to address any question you or members of the Subcommittees may have.

Mr. BONKER. Thank you, Mr. Fasick, for an excellent statement.

Just in my own cursory review of the documents and other sources of information that we have at our disposal, I am led to at least a three-part conclusion: First, that the U.N. system is terribly complex and probably a little anachronistic as it relates to accounting practices; second, based on recent press accounts, the accounting system and the investment policy leave something to be desired, and third, the U.N. presently has a rather amorphous system, with the specialized agencies fairly autonomous and answerable only to themselves, as it relates to financial management matters.

Would you basically agree with those conclusions?

Mr. FASICK. Very much so; yes.

Mr. BONKER. You have recommended throughout your testimony that there be more centralized control. You refer in one place to a focal point or to a process that will bring about more accountability and better management, and that the U.N. Controller seems to be the ideal system, or official, for this post.

You are to be followed by a State Department witness who says if we move in that direction, and provide a centralized system that would superimpose a management regime and accounting system throughout the whole network of agencies, that we would relegate the authority into the hands of one person or one office; the concern is, since the U.N. Controller is answerable ultimately to the General Assembly, that politically speaking that may not be the direction to take.

Have you had a chance to look at the political dynamics or the institutional problems of such a shift to a centralized authority?

Mr. FASICK. Yes; we have. We have given a great deal of thought to this, Mr. Chairman. I think when we talk about centralized management, we do not necessarily mean a czar, everybody under the direct, more or less hierarchial umbrella of the Secretary General or specific organization of the United Nations.

What we have in mind is, for example, the central prescribing of accounting, evaluation, and reporting criteria—a criteria that will be acceptable and implemented by all the institutions as they go about conducting their own business.

I would compare it somewhat to the Comptroller General's responsibilities with respect to prescribing accounting principles and standards to executive agencies. It is still their responsibility to implement them. We merely monitor and make sure they are doing it.

I do not think that it takes the autonomy or the independence or the managerial capability away from either the subsidiary organizations of the U.N. system or the specialized agencies, but there is a need for more agreement at the U.N. Headquarters level and on the part of the representatives of all the subsidiary organizations as well as the specialized agencies to agree on some common principles, standards, and operating criteria.

Mr. BONKER. You stated that the U.N. Controller not only has the responsibility, but the authority, to move in this direction. In your estimation, it would not be contrary to the charter or to U.N. policies at this time?

Mr. FASICK. It would not. He is just not exercising his authority. It may very well be that it is politically expedient not to exercise the authority, but the authority is there.

Mr. BONKER. I have some more questions, but I will defer at this time to Congressman Fascell.

Mr. FASCELL. Thank you, Mr. Chairman.

Is there any inhibition in the charters of the specialized agencies, or is there any provision in any charter, that would have to be changed in order to do what you are talking about?

Mr. FASICK. I do not think that there necessarily has to be precise changes in charters. There has to be a change in attitude. Many of the agencies associated, particularly specialized agencies, predate the U.N. itself. They have been accustomed to a substantial amount of autonomy and independence, but this autonomy or the interrelationship of the programs in the United Nations now have become so complex that what was appropriate 10, 15, or even 50 years ago is not appropriate today.

So the attitude of the specialized agencies need to be changed, and first of all they have to understand that there is an advantage to having a more consistent approach.

Mr. FASCELL. I agree with all of that, but it boils down to how many votes you have got, unless we are just going to talk idly in terms of what is the best scenario. I do not want to do that.

Everything you say is desirable, but you know, the fact is you have autonomous bodies under their own charters. I do not see them submitting their budgets to anybody other than their own plenary sessions, or whatever systems they have within the organizations.

It is one thing to talk about accounting principles and systems for review and evaluation on a common basis if everybody is going to accept them but that means, as I see it, that each agency is going to have to adopt that as a matter of policy. Otherwise, you are not going to have any change in attitude.

I think you will agree that the U.N. Controller is without authority, really, to enforce what he has been given the authority to do.

Mr. FASICK. In very many cases, that is the case. I think the answer, Mr. Chairman, is the approach that needs to be brought to bear by the member governments. The agencies themselves are not going to do it.

Mr. FASCELL. I agree with that. The question then is whether or not you can get a consensus in each one of these agencies to bring about the kind of reforms you talk about. It is a slow, frustrating process.

I remember that the first time I discussed this with your division in New York in 1969, we did make some progress. I think our success was due primarily to the interest and the pressure, if you will, and the insistence and the dedication of GAO. But you put your finger on it when you said that the United States, by itself, is not going to bring about any of these changes.

Mr. FASICK. You must start somewhere. The United States is a tremendous contributor who has a lot of influence. When we get some allies, we can get things moving.

Mr. FASCELL. If we are lucky, we can get a resolution on motherhood through the agencies or through the U.N. General Assembly.

Mr. FASICK. There is the example of the Joint Inspection Unit. The U.N. and agencies got together and agreed on this type of outfit. However, they have not given it the support it deserves. It does not have the numbers, but it is a step in the right direction.

Mr. FASCELL. Do not misunderstand me. I agree with the general thrust of what you are saying. I think a great responsibility rests on the United States. It is a day-to-day judgment factor.

I also thoroughly agree with you that the question now of changing administrative money and program moneys in a specialized agency raises a real problem for all country members, particularly the United States. We are going to have to face that problem head on. Maybe this is the place to start.

If we cannot do it, as you have already pointed out, by attitude changing or structural changes within the agencies themselves, you only have one course left; that is, the question of the amount of money you are going to make available to the agency.

It is a serious problem, I agree with you. It is something we need to address ourselves to.

Are we going to answer this live quorum and rollcall vote?

Mr. BONKER. We had better.

The subcommittees will stand in recess for approximately 10 minutes.

[Whereupon, a brief recess was taken.]

Mr. BONKER. The subcommittees will come to order.

Before proceeding, I would like to ask unanimous consent that we include in the record a letter from Constance Grice, Special Assistant to our U.N. Ambassador, Andy Young, which includes a message from Ambassador Young concerning these hearings.

[The letter referred to follows:]

THE REPRESENTATIVE OF THE  
UNITED STATES OF AMERICA  
TO THE UNITED NATIONS,  
June 27, 1979.

HON. DON L. BONKER.

DEAR MR. CHAIRMAN: Ambassador Young has cabled the following message and asked that I pass it to you:

"I want you to know of my strong support for the hearings which the Subcommittee on International Organizations is planning to hold on the question of how the United Nations is financed, and whether the U.N. functions efficiently. There are a number of important policy issues involved which I believe deserve full public discussion and continuing congressional consideration. It is important that this opportunity also be taken to review some of the allegations that have been raised regarding how the United Nations manages its funds. It is certainly the purpose of the administration, and my personal objective, to assure that the United Nations and its specialized agencies employ the funds given to them by member states in as efficient, productive and responsible a manner as possible."

Sincerely,

CONSTANCE GRICE,  
*Special Assistant.*

Mr. BONKER. Mr. Fasick, it is difficult, even for a former auditor, as myself, to really understand the complexities of the U.N. system. Maybe you could help to enlighten us a bit, because many of the questions that have been raised about accounting practices and investment policies have to be evaluated in the context of that system.

We have the basic Secretariat office that has the administrative responsibility for the Security Council and the General Assembly and then, of course, we have a number of specialized agencies that are fairly autonomous.

One of the charges is that we are not realizing the full value, the full investment benefit, of surplus funds simply because they are in segre-

gated accounts; and if it were possible to combine accounts, at least for investment purposes, the United Nations could realize considerable financial benefit from investing in an aggregate amount, instead of trying to develop an individual investment policy for each of the specialized agencies.

Let me ask you, first of all, is it possible that we could combine the accounting systems for each of the specialized agencies, either for accounting purposes or for investment purposes?

Mr. FASICK. I would think not, sir. It would be very, very difficult, if not impossible, impractical. Each of these organizations have a unique mission. They are autonomous. They usually have their own sources of funds, and they do operate in a manner that is substantially different than many institutions, whether they be private or public institutions.

As it has been pointed out by a number of people, they do not have borrowing authority. They are dependent on assessed or voluntary contributions for most of their funds.

Each of the organizations has some very unique problems which require that cash balances of various amounts be on hand before they can undertake programs. That gets to a cash question. I do not think it will ever be feasible to consolidate cash, because you are mixing apples and oranges when you are talking about many of the institutions, especially the specialized agencies.

Mr. BONKER. How about investment purposes?

Mr. FASICK. For investment purposes, it would be equally difficult. When you are talking about consolidating cash, you are talking about consolidating foreign investment to take advantage of larger sums of money. I do not think they are consolidatable, if that is the word.

What could be done, though, is far better guidance coming from the General Assembly or from the United Nations as to what investment policy should be, far more advice and counsel.

Mr. BONKER. For each of the specialized agencies?

Mr. FASICK. Well, within the specialized agencies, I am talking about a general principle or standard to be developed by the United Nations with support from the United States and other members that would then highlight and emphasize the need to be very prudent managers of this money.

There could be criteria established that would then result in a higher degree of consistency, but again, the U.N. system is highly unique. There are literally hundreds and hundreds of bank accounts around the world and they are required to be there in the 151 countries in which U.N. agencies function; and there is usually more than one account in a country.

Of course, all 30 agencies function in almost every country so it would be very difficult.

I am in agreement with State. It is not feasible to consolidate cash and investment programs.

Mr. FASCELL. May I interject at this point?

It seems to me also, that aside from the question of building up either reserves or surpluses, if that is a problem, there is also the investment policy question of what it is you are going to invest? If you have cash it is one thing. If you are drawing down on a letter of credit, it is

something else. If you are dealing in nonconvertible currencies you have another problem.

I do not see how any of that can mesh. The fact that you have a bank account of nonconvertible currency, which is basically a checking account for short-range expenditures, does not mean that you are going to get any interest on that money.

Mr. FASICK. You are absolutely right, Mr. Chairman. I do not mean to convey the idea that there is not room for marked improvement.

Mr. FASCELL. I do not, either. I wanted to be sure that I understand the full scope of the problems involved. That is all.

Mr. BONKER. Let us pursue just a hypothetical case involving a specialized agency. We will just pick WHO for an example; I am not familiar with the figures involving that agency, but if they have contributions totaling \$500 million for a given year, what is an acceptable amount to keep in the bank for accounts payable purposes?

Mr. FASICK. You know, again, the source of funds for these organizations are voluntary and assessed moneys from member countries and not every country is a member of every organization.

These moneys are determined—the amounts they need are determined by long-term programs. First of all, it can be as long as 5 years.

Mr. BONKER. I did not want to get into the complexities of accounting. I am trying to be a little more simplistic for the purposes of this example.

I am talking primarily about interest-free checking accounts.

Is it fairly common for a government entity to maintain an interest-free checking account, or do modern accounting practices require or dictate that almost all of their money remain in perpetual investment and draw only what they need for accounts payable at the moment.

Mr. FASICK. No; our own U.S. Government maintains a number of accounts around the world to service its needs. In most cases, they endeavor to get some modest amount of investment return on it, but for short-term cash needs, it generally ends up in no-interest checking accounts such as you and I have.

Mr. BONKER. That is not uncommon?

Mr. FASICK. It is not uncommon.

Mr. BONKER. It would be uncommon if an agency allowed an exceptionally high surplus in a checking account that was not drawing interest?

Mr. FASICK. That would be poor management, in my opinion, and they should take large amounts of money that are not necessary in the immediate future, let's say 60 to 90 days to meet current liabilities or expenses, and they should invest that in the most favorable manner that they can.

But again, remember many times these are amounts made available to the agency that have constraints put on it by the countries.

One example is the Japanese. When they make their contribution, they want it worked through their banks. Many countries insist that the money that they contribute is kept in their banks until it is needed.

In our own case, we do not give money. We give letters of credit and let them draw down. No one is objecting to this, to my knowledge. It is a prudent thing for the U.S. Government to do.

But when you have a large balance and you do not have an immediate need for the cash, I suggest it should be put in the most favorable type of an interest-bearing account.

Mr. BONKER. What would be an acceptable amount? If an agency has a \$130-million budget, would \$10 million to cover current liabilities be a reasonable amount to maintain in a checking account?

Mr. FASICK. Sir, it depends on the individual case. I could not generalize on that. If their expenses were \$10 million over a 3-month period and they did not anticipate more than that, then \$10 million for cash purposes with the rest in an interest-bearing account would be appropriate.

The money they need to use immediately or in the near term should be available.

Mr. BONKER. Do you know of any overall prescribed investment policy that is advanced by the Comptroller's office or anywhere in the apparatus? Are there any guidelines or suggested investment policies that are emanating from the U.N. Comptroller?

Mr. FASICK. We do not know of any. Specifically it is not unlikely that there would be some guidelines, adequate or not, that we would have to analyze. It would be strange to me if they did not have some.

Our point in our testimony is that they are not enforcing it even if there are some. It is more political in nature.

Mr. BONKER. Mr. Hall has returned. Would you like to proceed?

Mr. HALL. To follow up on this issue of interest, what do other countries do? We know what the United States does; we know what Japan does. Do all countries follow a pattern like this country? In other words, we leave it in our Treasury and draw interest until we are ready to give it out?

Mr. FASICK. I am not sure. I would speculate that there are substantial differences in the requirements of each country, but I do not know the details of the other 148 offhand.

Mr. HALL. There does not seem to be any kind of format or regulations upon which the U.N. runs its financial affairs?

Mr. FASICK. When it comes to the assessed and voluntary budgets there is—I think there is—a planned phased-in payment of these amounts. I would suggest that that has some general consistency.

In the U.S. case, we give a letter of credit and let the U.N. draw it down by quarters.

Other countries may make all of theirs available at the beginning of the year; others may do it by quarters or by month.

Mr. HALL. In regard to the Communist countries, do they still owe outstanding contributions?

Mr. FASICK. There are some outstanding contributions that they refuse to pay in assessed budgets for political reasons. In most cases they are paying if, for political reasons, they do not have any objection.

Mr. HALL. What is their policy in the way they handle their funds?

Mr. FASICK. I am not sure, sir. I do not know the answer to that precisely.

Mr. HALL. On the first article that was written about this, they talked about a Mr. Paul Rosenfeld, director of the American Institute of Certified Public Accountants. He was talking about regular accounting standards and he disagrees with the U.S. definition of deficit. A deficit is an excess of expenses over receipts, he said, not the failure to collect a contribution. But is not a failure to collect a contribution a key factor in determining the financial health of the U.N.?

Mr. FASICK. A failure to collect a contribution?

Mr. HALL. A failure to collect the various contributions from around the world from various countries. Is that not a key factor in determining the health of the U.N.'s organizations?

Mr. FASICK. It certainly would be. I do not think in terms of the total budget and the total amounts of money made to the U.N. over the years that the delinquent amounts or the amount not paid are substantial. I would have to check the figures, but I do not think they are that great.

There are some not paid. They keep them on the books and this is, in principle, not to recognize bad debts within the U.N.

Mr. BONKER. Will the gentleman yield on that point?

Mr. HALL. I will be glad to yield.

Mr. BONKER. Reference was made to Mr. Rosenfeld's comments about deficits and he maintains that a deficit is an excess of expenses over receipts and not the failure to collect the contributions. One possible disparity in trying to reconcile some of these figures, or at least to draw conclusions from the figures that are available is how you really consider money that is not collected and whether that in the U.N.'s interpretation represents a deficit because it is money not coming in, and whether that is an accounts receivable that is built into a potential surplus.

Would you agree, basically with his definition?

Mr. FASICK. If you have a receivable that you have reasonable expectations of collecting, it should be kept on the books as a receivable. If you expect to keep it 90 days, or longer than 90 days, it is treated as a noncash asset.

If you have reason in normal accounting to believe that your receipt is uncollectable, normally they write it off. At one point in time they picked it up and treated it as an income item but once you determine that it is not collectable, you write it off as a bad debt.

In the U.N., they do not write off bad debts in principle.

For the purposes of this kind of discussion, to the extent—

Mr. BONKER. What do they do, then, if they do not write it off as a bad debt?

Mr. FASICK. They do not write it off. They keep it on the books and continue to show it as a receivable when there is no reasonable expectation they will be able to collect.

Mr. BONKER. If it is shown as a receivable, then potentially it could be a surplus?

Mr. FASICK. If it is ever collected; yes.

Mr. BONKER. It is not a real surplus because the cash is not there for investment purposes?

Mr. FASICK. Not a cash surplus. There are two types of surpluses. If you are talking about cash. What you have, you are talking about a cash surplus. If you are talking about an operational surplus, you have to consider all of the other accounts in your system.

Mr. BONKER. You basically agree with his definition of deficit?

Mr. FASICK. No; I would not agree.

Mr. BONKER. You do not agree?

Mr. FASICK. Not the difference purely between income and expenditures. You have to take into consideration current receivables and current payables.

I have \$800 in the bank and I owe \$600 on a mortgage. The fact that I have \$800 in the bank does not mean that I have an \$800 surplus. In 2 weeks, I pay the mortgage and I have \$200, for all practical purposes, that I can work with.

Mr. BONKER. Are the specialized agencies, in the development of their budget for the current year, trying to anticipate the accounts receivable, or contributions and expenditures in this case? Does the money come in, and is it authorized at the outset of a year, or a fiscal year, so that there is some reliability for that income throughout the year, or is the money allocated according to the policies of the contributing country?

Mr. FASICK. I think each of the agencies endeavor to develop a budget in advance of the fiscal year that anticipates their needs and income and they also, I am sure, project a cash flow of what their needs would be over the period of that year.

There are some other constraints that some of the agencies have. They cannot even begin to undertake and approve a project unless the cash is onhand from the contributors. This, in many cases, results in some of the specialized agencies having large sums of money onhand at any one point in time.

I would not argue with that. The only thing we would argue with, are we sure that their cash management, their investment program, is such that they are getting the best return on that money until they need it.

Mr. BONKER. Is it your understanding that the United States pays its assessed contributions by letters of credit?

Mr. FASICK. They do, on a quarterly basis, with an opportunity for the donee to draw down as it is needed.

Mr. BONKER. I guess the basic question, Mr. Fasick, and one that has been raised, and is of primary interest to this subcommittee is whether there are unnecessary surplus funds that are not being properly invested, or that there might even be a building of surpluses unnecessarily for a rainy day that is around the corner.

In other words, are we in a situation at the United Nations where countries are contributing for specific programs, the money of which is not being expended, but is, instead, being set aside in trust funds and through accounting practices and other ways being more or less stockpiled for the future? Or are we just talking about a fairly anachronistic and complex system that is fairly honest in its application, but is terribly inefficient in its application of accounting and investment principles?

Mr. FASICK. I would be inclined to agree with your latter conclusion, sir. I think that each one of the agencies deserves scrutiny from the point of view of management of this nature, and I think it is the responsibility of our State Department and our missions to do this, and I do not think they have done a very good job to date. This is where we could place emphasis and the way that the United States, as a member of the General Assembly, to get better management in this area.

Mr. BONKER. Some of the charges relate to investment policy, and there were a number of agencies cited for drawing practically no interest, or very low interest, on reserve funds. If I recall, there were

some examples of large sums sitting in banks that were drawing only 1.5 percent or 1.8 percent interest.

Is that a fairly common investment practice, that large sums are drawing such small interest? If not, what are the peculiar circumstances that allow this to happen?

Mr. FASICK. First, I want to qualify anything I say by stating that the General Accounting Office does not have audit authority or access authority to a sovereign international body such as the U.N. We are not in a position to analyze accounts as such.

Probably I would only be talking in terms of a generality. I do not think that it would be normal, under normal circumstances, to be investing your money for 1.5 percent; no. On the other hand, if some of the conditions of the contributions made by countries are that money should be put into such accounts and these are a condition of the contribution, there is not a lot that the agency could do.

These are some of the reasons that I understand the agencies have given. Again, we do not have audit authority. We have not analyzed these individually or collectively.

Mr. BONKER. So we have a situation that is fairly diverse in terms of contributions from member nations. If Japan makes its contribution to a specialized agency with the condition that the money sits in a Japanese bank and draws only a nominal percentage, that is a policy between that member nation and the specialized agency. It is the policy of the United States to not even deposit the money or contribute the money but to extend a letter of credit.

Then we are doing less than Japan is doing, in that sense, so it is just something that is unique to the contributing nation and the recipient agency?

Mr. FASICK. Yes, sir.

Mr. BONKER. I will turn this over to Mr. Fascell.

Mr. FASCELL. If you are not going to go, then I will not interrupt.

Mr. BONKER. We apologize for the interruptions, Mr. Fasick. It is an important issue, and I think it will warrant our continued proceedings.

The case, then, that I am trying to make is that we are just looking at a fairly unique and probably inefficient system that just does not lend itself well to efficient and current accounting practices. The result of which we are not maximizing fully the investment value of our contributions, the contributions of other member nations.

But that does not mean we cannot recommend policies that would improve the management and make more efficient the accounting system and investment policy that would bring us the highest return.

Mr. FASCELL. I want to proceed on that one question you asked, because in terms of the U.S. contributions which are made by a letter of credit, the United States is earning the interest, but the U.N. organization is not. If it goes into a cash account for immediate expenditure, there is no way you can recapture that investment capability.

If the other organizations were doing something similar, as Japan is requiring the use of their banks as a repository of Japanese currency, then the U.N. loses its investment flexibility.

Unless you build up a heck of a lot of reserves in investment currencies, I do not know what the scope of the problem is, frankly.

Do you have an idea?

Mr. FASICK. The scope of the problem, I think, is pretty big, Mr. Chairman. There are substantial amounts of money under the control of these specialized agencies.

Mr. FASCELL. I realize that. I am asking whether these currencies are in reserves enough beyond current needs to really be useful for investment purposes? If so, what are we talking about?

Mr. FASICK. That is a good question, but I think it is one that the State Department must address. If I am not mistaken, they have sent a message to all their delegates in their missions to look at this carefully to see if there is room for improvement in this area.

They are also pursuing all the so-called newspaper accounts of these amounts. You will get a good answer from State if not today, then in due course.

Mr. FASCELL. At one time, we were having a problem getting enough information that was usable in terms of either audit or evaluation. We discussed a long time ago the proposition of making this available through the member representative or the member mission.

Is that information now generally and regularly being transmitted to GAO?

Mr. FASICK. What little they are doing in the U.N. system we are getting. I think that they are in a very early stage of the development of this capability in the U.N. In some other areas, we eventually get it. It is not as current as sometimes we would like to get it. The Board of Auditors, for example, are very circumspect. Again, for political reasons, they have a three-country membership made up of different cultures and different attitudes.

Mr. FASCELL. How about the Board of Auditors itself in terms of performance. Are there any question marks there? I am not trying to be derogatory, nor am I looking for any scapegoats. I am talking in a strictly professional sense.

Mr. FASICK. There is room for a marked improvement in that area. They do not have a permanent professional audit body in the Board of Auditors. They use the national audit bodies and, in all candor, national audit bodies, particularly from the lesser developed countries.

Mr. FASCELL. We are talking about the parent organization at this point only.

Mr. FASICK. We are talking about the Board of Auditors responsible for the United Nations headquarters and its subsidiary agencies, not the specialized agencies. We are talking about a good half of the system. They are responsible for that.

Mr. FASCELL. Does that Board have a rotating membership?

Mr. FASICK. Every 3 years it is supposed to rotate for a new member but a member can be reappointed. In some cases, the degree of change in the membership is not as great as we think it should be.

Mr. FASCELL. Continuity is one of the things you are talking about.

Mr. FASICK. A board member is one thing, but continuity of professional staff?

Mr. FASCELL. Professional staff?

Mr. FASICK. There is a need for that and a need for competent staff. We do believe the Canadians, when it comes to this daily audit, are exceptionally good, but the other two countries when it comes to this daily audit have a long way to go to catch up to Canada or the United States.

The U.N. is such a complex system it needs that kind of sophistication to give it an adequate review, audit, and evaluation.

Mr. FASCELL. What happens to those reports of the Board of Auditors?

Mr. FASICK. We get copies of them. We were looking at a copy of the 1977 report here today, to which I alluded in my statement, where the Board of Auditors made a very critical assessment of financial management in the U.N. system.

I think they did a credible job, primarily due to the leadership of Canada at the time. There is some move afoot to strengthen—I alluded to that in my statement. We need to strengthen the Board of Auditor's evaluation and review capabilities. We need to put it together. It is not together yet.

Maybe today it is not politically feasible, but it should be the long-term objective, I think, of the United States to work toward getting a viable, competent review and evaluation capability in the U.N.

Mr. FASCELL. When GAO issues its reports like the 18 reports which it has issued in the last 10 years or so, are these based on reviews of reports and processes and documents of the U.N. itself by virtue of material made available to the U.S. member, or do you have other access?

Mr. FASICK. It takes two forms. We must work through the U.S. Mission. As a matter of fact, our primary objective is to evaluate the adequacy of the U.S. Mission, the State Department's involvement in an international organization. But frequently we get a great deal of cooperation from the international bodies themselves. To the extent that the material is made available to the U.S. Mission, they make it available to us.

To the extent that we need to talk to officials of the international organizations, our mission is facilitated. They have been very cooperative. We think we get a good story, in most cases.

We cannot go in and demand something with a "We have a right to it" attitude. It is a cooperative approach to our work.

Mr. FASCELL. I understand that. I do not see how you could do it. GAO has a good working arrangement with the U.S. Mission. We have no problems there.

Mr. FASICK. Excellent, sir.

Mr. FASCELL. How about this mention of so-called surpluses? Are they identifiable in any of these documents that come down from the U.N.?

Mr. FASICK. Oh, yes. The annual report, for example, of the auditors or of the budgets available to the U.S. Missions that could be made available to us, they have annual statements that are printed and in the public domain. Anybody can analyze this.

We may need more detail than is in published public statements. That is for the State Department to develop.

Mr. FASCELL. From an accounting standpoint, I want to be clear that we are talking about the same thing and not apples and oranges.

Now, how are—and I will just make up a word, "excess funds;" I am sure in the state of the art that that means something else, or "extra funds" or "reserve funds" or "surplus funds." I am trying to find out from an accounting standpoint, practice and procedure what are the categories and the definitions as you read these statements that are the buzz words?

How do you know what you are looking at if it is carried as reserve?  
How do you know what you are looking at if it is carried as surplus?

Mr. FASICK. I do not think you can generalize, sir. You would have to take each of the agencies and analyze in detail while they have the cash and what they need it for, then make an assessment as to whether there is a better way of managing.

Mr. FASCELL. You would have to look at the cash flow. There are payments required for their program responsibilities.

Mr. FASICK. Their commitments in the long-term, whether they are trust funds or otherwise free funds. There are an awful lot of considerations that have to go into this kind of analysis.

Mr. BONKER. To pursue that for a moment, Mr. Fasick, the problem that we have is the audited financial statements which are referred to as the basis for the series of articles.

Suppose we ask you, as a high accountant in this field, who is right. Do we have enough information to draw conclusions? We are going to be facing this issue from time to time on the floor. We need to have answers.

One side is going to refer to the U.N., saying there is a deficit. The other side is going to haul up these articles and say there is a surplus. We are going to say that we conducted hearings and we heard from Mr. Fasick that has access to the same information.

Where is the truth?

Mr. FASICK. I would tend to agree with the State Department that there is not a \$1.4 billion surplus. That surplus would mean that it is above and beyond that for which you have a need in the U.N. system.

I think each of the specialized agencies, we may be able to criticize parts of their rebuttals, but each of them have pointed out whatever funds they have alluded to as surplus are really committed to programs. It is just a question that the funds came to them from the contributors at a time before they needed it, or the funds had to be there before they could commit themselves to a program.

For example, the UNDP, going into a pretty expensive technical project, would have to have the money on hand before it commits itself, otherwise they would get down the road and have to stop the project.

They have the moneys on hand, probably more than they need, and what most people say are your cash requirements for 60 or 90 days, but, nevertheless, they have it. It is the way the U.N. functions. It is the peculiarity of the U.N. They do not have borrowing authority. They are dependent on contributions from the member states.

They also make the programs, in most cases, projecting themselves out 5 years. Most of them will tell you that their program demands, what they consider bedrock needs, are substantially in excess of the funds that they have in hand or that they can anticipate getting, so they have to do a lot of managerial prioritizing.

The funds are in their hands but, for various reasons, the councils or the assemblies that make up the governing bodies of these organizations insist that before they commit themselves to a project they have the cash on hand. That makes some sense to me. The only thing I would question: Are they properly managing the cash once they get it? Are they putting it in—if they do not need the cash in 60 to 90 days,

could they put in some sort of investment so that they could recover it when they need it and, at the same time, get a better return for it?

I cannot answer as to whether they are doing that or not, except that if I were given the access to and made a detailed analysis.

Mr. BONKER. Well, Mr. Fasick, we want to thank you so much for your patience and endurance, and for your wealth of knowledge.

We do not know, at this time, if we will have further hearings, but if you should have the opportunity to look closer at these auditing reports and help enlighten the committee, we would be indebted to you.

We now call the representative of the State Department, Marion Creekmore, Deputy Assistant Secretary, Bureau of International Organization Affairs.

Mr. Creekmore please come to the witness table with your associates, and introduce them before you begin.

**STATEMENT OF MARION V. CREEKMORE, DEPUTY ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE**

Mr. CREEKMORE. Mr. Chairman, let me introduce the gentlemen who are with me. On my right is Mr. Don Eller, Executive Director of the International Organization Affairs Bureau in the Department of State. To my immediate left, Mr. Richard Hennes, Director of the International Management Staff of the International Organizations Bureau. Beyond is Mr. George Saddler, the Counselor for Resources Management at the U.S. Mission to the United Nations.

Mr. Chairman, I have a statement which I am prepared to read into the record; the statement was provided to the subcommittees. If you prefer, I can give a summary of that statement.

Mr. BONKER. I prefer the latter.

Mr. CREEKMORE. Thank you, sir.

Mr. Chairman, I welcome the opportunity to appear before your subcommittees to testify on financial management within the United Nations and the specialized agencies. This hearing provides an opportunity for public discussion and a balanced perspective on an issue given prominence by recent press stories.

Today, I would like to address the following three questions:

Do we believe the U.N.'s financial management could be further improved? The answer is "yes."

Do we place priority on efforts to achieve financial reform? The answer is "yes."

Do we believe the Washington Post articles accurately portray the financial problems the U.N. faces? The brief answer is "no."

Financial management within the U.N. system is an important issue of concern to the U.S. Government. The administration shares with the Congress the view that each of the organizations of the U.N. system should manage its financial affairs responsibly, efficiently, and effectively.

The U.N. agencies should apply stringent auditing, accounting, and evaluation procedures. They should keep tight control over budgetary planning and expenditures. They should eliminate low priority or marginal programs as they initiate new activities, a requirement of

particular relevance during a period when most member governments face tight budgetary situations.

Through its participation in the U.N. system, the United States has been an advocate for improvements and reform in the financial management practices. We have and are collaborating with other member states to assure the financial integrity and efficiency of international organizations and programs.

A number of statements have recently been made about the financial situation of the U.N. system at the end of 1977, about how it invests its funds and about its procedures for awarding contracts. U.N. officials have responded to the charges. They are the appropriate sources to reply to criticisms of the U.N. system.

I think the members of the subcommittees are familiar with these responses. I will be happy to try to deal with questions on specific points if you wish, but I would prefer to focus my formal remarks on some general policy questions which provide the framework in which specific criticisms should be considered.

The first of these policy issues is whether a highly centralized U.N. system with a single budget is in the U.S. interests.

Under such a system, it is more likely funds from one agency could be transferred to another for uses other than those intended by the donors. For instance, the moneys appropriated for the World Health Organization to eradicate disease on a global basis or those for the International Atomic Energy Agency to support nuclear safeguards could be shifted to other U.N. bodies for totally different purposes, some of which might be less directly in U.S. interests.

In such a centralized system, all funds and key policies in all areas would be subject to control by the General Assembly where political considerations are more likely to influence technical and economic concerns.

Our current policy—the one we have followed for years and the one we think is most appropriate—is to keep the autonomous agencies and programs separate from each other and from the U.N. itself. We believe that this separation provides the best opportunity for assuring the most effective use of U.S. contributions to U.N. system organizations.

By this means, we enhance our ability to assure that the use of U.S. contributions reflect U.S. priorities such as the advancement of health, increased food production, seeking a reduction in illicit drug production, and greater understanding of global weather conditions.

Moreover, we believe that the Congress wants each of these organizations to be accountable for its own funds and programs; that it does not wish to see an arrangement by which funds are readily transferable among U.N. agencies.

As long as the U.N. and its specialized agencies are autonomous bodies with separate charters, mandates, and budgets, and totaling of their accounts, as some have suggested doing, produces a misleading and irrelevant figure.

The second policy issue is that it is our belief that a distinction should be maintained between the assessed and voluntary accounts, with the former going primarily for operating expenses and the latter for program financing in the various international organizations.

In this way, we are largely able to keep on a voluntary basis the funding for special assistance and other special activities of an orga-

nization which do not benefit the entire membership, while membership dues to the organization are paid on an assessed basis.

This distinction has been overlooked in some recent criticism of the U.N. system.

The third policy issue is the general disinclination of member states to permit international organizations to borrow on the capital markets to finance short-term deficits. However, since most international organizations lack borrowing authority, they must insure that they have sufficient cash balances on hand to meet disbursements on a regular schedule, even if contributions come in on an irregular basis.

While it has been suggested that UNDP and UNICEF have excessive reserves, in fact, they hold a smaller percentage of reserves against existing commitments than some comparable organizations.

While I am talking about this general area, Mr. Chairman, I should note that a few system organizations have obtained limited borrowing authority to deal with the nonpayment of assessed contributions from the United States.

Let me comment briefly on a number of accounting and financial issues that have been raised in the context of this subject. One cannot consider trust funds or endowments, which have specific conditions attached to their expenditures, as cash available to meet the normal operating expenses of an organization.

Moreover, the financial conditions of an international organization and its ability to meet its obligations are not accurately reflected in a single number on its balance sheet, such as its bank balance. It is also necessary to take into consideration the accounts payable, the accounts receivable and the expected time of their receipt, the convertibility of cash on hand and the restrictions on an organization's borrowing ability.

The question of whether the U.N. and the specialized agencies are following sound investment practices is of interest to all of us. As has been noted, our missions abroad have been instructed to examine the investment policies of the international organizations they cover. But, in assessing the money management of the U.N. and its specialized agencies, several considerations must be taken into account:

First, in contrast to private companies, international organizations manage public moneys and must place a premium on safe investments. Second, they maintain accounts in many countries with a wide variety of interest rates. For instance, the U.N. has 422 accounts in 84 countries. The UNDP has 367 bank accounts in 150 countries and UNICEF has 195 bank accounts in 84 countries.

Some countries require that their voluntary contributions be placed in their own banks, paying low rates of interest. As has also been pointed out, some of these accounts are held in nonconvertible currencies that cannot be transferred from one country to another to take advantage of possible higher interest rates.

Moreover, as we know, the placement, movement and converting of currencies among countries are not cost-free operations. In addition, because of the dramatic exchange rate fluctuations of the past few years, funds held in Swiss or German accounts often provide greater safety from exchange rate risks for an international organization than if they were deposited in U.S. banks paying higher interest rates.

Finally, as has been noted already, a number of contributors, particularly the United States, make their larger voluntary contributions in letters of credit that are not supposed to be drawn until actual expenditures are made.

International organizations, therefore, do not earn interest on such funds.

Let me comment, briefly on the question of competitive bidding practices within the U.N. system. The U.N. has specific regulations to define how contracts are to be let. The normal practice is either to advertise for bids or to offer companies of proven expertise and sound management the opportunity to bid for contracts.

We are not aware of specific instances where U.N. procedures or actions by its officials have prevented the organization from getting the best value for its money, which is, after all, the main purpose of competitive bidding.

Finally, a few remarks on how the State Department conducts its responsibilities for financial management related to the U.N. system. In concert with other member nations, we rely on, support, and work to strengthen those bodies in the U.N. system whose objective it is to insure the system's financial integrity and efficiency.

These include the U.N. Board of Auditors, the U.N.'s Administrative and Budget Committee, the General Assembly's Advisory Committee on Administrative and Budgetary Questions and the Joint Inspection Unit.

Mr. Chairman, the financial management system of the U.N. system organizations is not perfect. It could be better, but it is much better, we think, than its critics acknowledge. Furthermore, improvements are being made, in part because of sustained U.S. efforts in this regard.

The State Department is also responsible for the financial management of the assessed and voluntary contributions appropriated by the Congress, for the U.N. system's organizations and programs. Through the use of staged payments and letters of credit, we seek to insure that U.S. funds are not disbursed until they are needed. We are currently examining with OMB whether different payment procedures might better serve U.S. interests.

In conclusion, Mr. Chairman, the State Department considers financial management in the U.N. and the specialized agencies to be an important issue. We have worked to improve management practices in cooperation with GAO, OMB and U.N. auditing and evaluation bodies. We think our record is a good one, but we recognize the need for continued, intensified action. However, we are not convinced that recent criticisms made against financial management within the U.N. system reflect an understanding of the organization, its mandates or the policy imperatives of the system.

Nevertheless, we believe the administration, the Congress, the press and the public share a common objective of seeking to make the U.N. system effective, efficient and productive in all of its activities, financial and otherwise.

Thank you.

[Mr. Creekmore's prepared statement follows:]

PREPARED STATEMENT OF MARION V. CREEKMORE, DEPUTY ASSISTANT SECRETARY,  
BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, DEPARTMENT OF STATE

MR. CHAIRMEN AND MEMBERS OF THE COMMITTEE:

I WELCOME THE OPPORTUNITY TO APPEAR BEFORE YOUR SUBCOMMITTEES TO TESTIFY ON FINANCIAL MANAGEMENT WITHIN THE UNITED NATIONS AND THE SPECIALIZED AGENCIES. THIS HEARING PROVIDES AN OPPORTUNITY FOR PUBLIC DISCUSSION AND BALANCED PERSPECTIVE ON AN ISSUE GIVEN PROMINENCE BY RECENT PRESS STORIES.

TODAY I WOULD LIKE TO ADDRESS THE FOLLOWING THREE QUESTIONS:

-- DO WE BELIEVE THE UN'S FINANCIAL MANAGEMENT COULD BE BE FURTHER IMPROVED? THE ANSWER IS "YES."

-- DO WE PLACE PRIORITY ON EFFORTS TO ACHIEVE FINANCIAL REFORM? THE ANSWER IS "YES."

-- DO WE BELIEVE THE WASHINGTON POST ARTICLES ACCURATELY PORTRAY THE FINANCIAL PROBLEMS THE UN FACES? THE BRIEF ANSWER IS "NO."

FINANCIAL MANAGEMENT WITHIN THE UN SYSTEM IS AN IMPORTANT ISSUE OF CONCERN TO THE U.S. GOVERNMENT. THE ADMINISTRATION SHARES WITH THE CONGRESS THE VIEW THAT EACH OF THE ORGANIZATIONS OF THE UN SYSTEM SHOULD MANAGE ITS FINANCIAL AFFAIRS RESPONSIBLY, EFFICIENTLY, AND EFFECTIVELY. THE UN AGENCIES SHOULD APPLY STRINGENT AUDITING,

ACCOUNTING, AND EVALUATION PROCEDURES. THEY SHOULD KEEP TIGHT CONTROL OVER BUDGETARY PLANNING AND EXPENDITURES. THEY SHOULD ELIMINATE LOW PRIORITY OR MARGINAL PROGRAMS AS THEY INITIATE NEW ACTIVITIES, A REQUIREMENT OF PARTICULAR RELEVANCE DURING A PERIOD WHEN MOST MEMBER GOVERNMENTS FACE TIGHT BUDGETARY SITUATIONS.

THROUGH ITS PARTICIPATION IN THE UN SYSTEM, THE UNITED STATES HAS BEEN AN ADVOCATE FOR IMPROVEMENTS AND REFORM IN THE FINANCIAL MANAGEMENT PRACTICES. WE HAVE AND ARE COLLABORATING WITH OTHER MEMBER STATES TO ASSURE THE FINANCIAL INTEGRITY AND EFFICIENCY OF INTERNATIONAL ORGANIZATIONS AND PROGRAMS.

A NUMBER OF STATEMENTS HAVE RECENTLY BEEN MADE ABOUT THE FINANCIAL SITUATION OF THE UNITED NATIONS SYSTEM AT THE END OF 1977, ABOUT HOW IT INVESTS ITS FUNDS, AND ABOUT ITS PROCEDURES FOR AWARDING CONTRACTS. UN OFFICIALS HAVE RESPONDED TO THE CHARGES. THEY ARE THE APPROPRIATE SOURCES TO REPLY TO CRITICISMS OF THE UN SYSTEM. I THINK THE MEMBERS OF THE SUBCOMMITTEES ARE FAMILIAR WITH THESE RESPONSES. I WILL BE HAPPY TO TRY TO DEAL WITH QUESTIONS ON SPECIFIC POINTS IF YOU WISH, BUT I WOULD PREFER TO FOCUS MY FORMAL REMARKS ON SOME GENERAL POLICY QUESTIONS WHICH PROVIDE THE FRAMEWORK IN WHICH SPECIFIC CRITICISMS SHOULD BE CONSIDERED.

THE FIRST OF THESE POLICY ISSUES IS WHETHER A HIGHLY CENTRALIZED UN SYSTEM WITH A SINGLE BUDGET IS IN THE U.S. INTERESTS.

A) UNDER SUCH A SYSTEM, IT IS MORE LIKELY FUNDS FROM ONE AGENCY COULD BE TRANSFERRED TO ANOTHER FOR USES OTHER THAN THOSE INTENDED BY THE DONORS. FOR INSTANCE, THE MONIES APPROPRIATED FOR THE WORLD HEALTH ORGANIZATION TO ERADICATE DISEASE ON A GLOBAL BASIS OR THOSE FOR THE INTERNATIONAL ATOMIC ENERGY AGENCY TO SUPPORT NUCLEAR SAFEGUARDS COULD BE SHIFTED TO OTHER UN BODIES FOR TOTALLY DIFFERENT PURPOSES, SOME OF WHICH MIGHT BE LESS DIRECTLY IN THE U.S. INTEREST.

B) IN SUCH A CENTRALIZED SYSTEM, ALL FUNDS AND KEY POLICIES IN ALL AREAS WOULD BE SUBJECT TO CONTROL BY THE GENERAL ASSEMBLY WHERE POLITICAL CONSIDERATIONS ARE MORE LIKELY TO INFLUENCE TECHNICAL AND ECONOMIC CONCERNS.

OUR CURRENT POLICY--THE ONE WE HAVE FOLLOWED FOR YEARS AND THE ONE WE THINK IS MOST APPROPRIATE--IS TO KEEP THE AUTONOMOUS AGENCIES AND PROGRAMS SEPARATE FROM EACH OTHER AND FROM THE UN ITSELF. WE BELIEVE THAT THIS SEPARATION PROVIDES THE BEST OPPORTUNITY FOR ASSURING THE MOST EFFECTIVE USE OF U.S. CONTRIBUTIONS TO UN SYSTEM

ORGANIZATIONS. BY THIS MEANS, WE ENHANCE OUR ABILITY TO ASSURE THAT THE USE OF U.S. CONTRIBUTIONS REFLECT U.S. PRIORITIES SUCH AS THE ADVANCEMENT OF HEALTH, INCREASED FOOD PRODUCTION, SEEKING A REDUCTION IN ILLICIT DRUG PRODUCTION, AND GREATER UNDERSTANDING OF GLOBAL WEATHER CONDITIONS. MOREOVER, WE BELIEVE THAT THE CONGRESS WANTS EACH OF THESE ORGANIZATIONS TO BE ACCOUNTABLE FOR ITS OWN FUNDS AND PROGRAMS; THAT IT DOES NOT WISH TO SEE AN ARRANGEMENT BY WHICH FUNDS ARE READILY TRANSFERABLE AMONG UN AGENCIES.

IF ONE DESIRES A CENTRALIZED UN SYSTEM AND CAN MOBILIZE SUFFICIENT INTERNATIONAL SUPPORT TO CREATE ONE, THEN AND ONLY THEN WOULD IT BE MEANINGFUL TO TALK ABOUT THE COMBINED CASH ON HAND, OR ACCOUNTS PAYABLE, OR ACCOUNTS RECEIVABLE OF THE ENTIRE SYSTEM. BUT AS LONG AS THE UN AND ITS SPECIALIZED AGENCIES REMAIN--AS THEY ARE TODAY--AUTONOMOUS BODIES, WITH SEPARATE CHARTERS, MANDATES AND BUDGETS, A TOTALLING OF THEIR ACCOUNTS PRODUCES A MISLEADING AND IRRELEVANT FIGURE.

A SECOND POLICY ISSUE IS WHETHER A DISTINCTION SHOULD BE MAINTAINED BETWEEN THE ASSESSED AND VOLUNTARY ACCOUNTS WITHIN THE COMPONENTS OF THE UN SYSTEM. WE BELIEVE THAT THE CURRENT ARRANGEMENT UNDER WHICH ASSESSED CONTRIBUTIONS

GO PRIMARILY FOR OPERATING EXPENSES IN VARIOUS INTERNATIONAL ORGANIZATIONS AND VOLUNTARY CONTRIBUTIONS FOR PROGRAM FINANCING MOST APPROPRIATELY ADVANCES U.S. INTERESTS. IN THIS MANNER, WE ARE LARGELY ABLE TO KEEP ON A VOLUNTARY BASIS THE FUNDING FOR DEVELOPMENT ASSISTANCE AND OTHER SPECIAL ACTIVITIES OF AN ORGANIZATION WHICH DO NOT BENEFIT THE ENTIRE MEMBERSHIP WHILE MEMBERSHIP DUES OWED TO THE ORGANIZATIONS ARE PAID ON AN ASSESSED BASIS. THIS IS A DISTINCTION FAVORED BY BOTH THE ADMINISTRATION AND THE CONGRESS.

ANOTHER RELEVANT POLICY ISSUE IS THE GENERAL DISINCLINATION OF MEMBER STATES TO PERMIT INTERNATIONAL ORGANIZATIONS TO BORROW ON THE CAPITAL MARKETS TO FINANCE SHORT TERM DEFICITS. UNLIKE COMMERCIAL ESTABLISHMENTS, MOST UN AGENCIES AND PROGRAMS DO NOT HAVE BORROWING AUTHORITY. SPECIFICALLY, UNDP AND UNICEF LACK THAT AUTHORITY. BUT, MR. CHAIRMEN, IT SHOULD BE NOTED THAT A FEW INSTITUTIONS HAVE RECENTLY OBTAINED LIMITED BORROWING AUTHORITY TO DEAL WITH THE PROBLEM OF THE NON-PAYMENT OF U.S. ASSESSED CONTRIBUTIONS. INTERNATIONAL ORGANIZATIONS NEED SUFFICIENT CASH BALANCES ON HAND TO ENSURE THAT DISBURSEMENTS CAN TAKE PLACE ON SCHEDULE EVEN IF CONTRIBUTIONS COME IN ON AN IRREGULAR BASIS. UNDP AND UNICEF ACTUALLY MAINTAIN RESERVES AT ANY GIVEN MOMENT OF ONLY A FRACTION OF THEIR TOTAL OUTSTANDING COMMITMENTS; IF THEY FULLY COVERED

THEIR COMMITMENTS, AS DOES THE SOFT LOAN WINDOW OF THE WORLD BANK (IDA), THEIR RESERVES ON HAND WOULD HAVE TO BE CONSIDERABLY LARGER THAN THEY ARE. THEREFORE, WHILE SOME HAVE ALLEGED THAT UNDP AND UNICEF HAVE A LARGE SURPLUS OF FUNDS, A CLEAR EXAMINATION REVEALS THAT THEIR RESERVES AGAINST EXISTING COMMITMENTS IS SMALLER THAN SOME COMPARABLE ORGANIZATIONS.

LET ME COMMENT BRIEFLY ON A NUMBER OF ACCOUNTING AND FINANCIAL ISSUES THAT HAVE ALSO BEEN RAISED BY THE RECENT NEWSPAPER ARTICLES. IN DETERMINING THE FINANCIAL CONDITIONS OF AN INTERNATIONAL ORGANIZATION AT ANY POINT IN TIME, ONE CANNOT CONSIDER TRUST FUNDS, TO WHICH SPECIFIC CONDITIONS ARE ATTACHED TO THEIR EXPENDITURES, AS CASH AVAILABLE TO MEET NORMAL OPERATING EXPENSES OF AN ORGANIZATION. TRUST FUNDS BELONG TO THE CONTRIBUTING NATIONS AND ARE MERELY MANAGED FOR THEM BY THE ORGANIZATION. ALSO ONE CANNOT LEGITIMATELY INCLUDE ENDOWMENTS AS PART OF CURRENT CASH BALANCES OF THE UN UNIVERSITY. MOREOVER, THE FINANCIAL CONDITIONS OF AN INTERNATIONAL ORGANIZATION AND ITS ABILITY TO MEET ITS OBLIGATIONS ARE NOT ACCURATELY REFLECTED IN A SINGLE NUMBER LIKE ITS BANK BALANCES. AFTER SETTING TRUST FUNDS AND ENDOWMENTS ASIDE, ONE MUST ALSO TAKE INTO ACCOUNT THE ACCOUNTS PAYABLE, ACCOUNTS RECEIVABLE AND THE EXPECTED TIME OF RECEIPT, THE CONVERTIBILITY

OF CASH ON HAND, AND THE RESTRICTION ON BORROWING ABILITY OF THE ORGANIZATION. THE RECENT NEWSPAPER ARTICLES NEGLECTED TO CONSIDER THESE ESSENTIAL ITEMS.

WE TAKE SERIOUSLY THE CHARGE THAT THE UN AND THE SPECIALIZED AGENCIES FAIL TO EARN THE HIGHEST POSSIBLE RATE OF INTEREST ON THEIR FUNDS. WE HAVE INSTRUCTED OUR MISSIONS TO UN ORGANIZATIONS TO EXAMINE CRITICALLY THE INVESTMENT POLICIES OF THE ORGANIZATIONS THEY COVER.

IT SHOULD BE NOTED, HOWEVER, THAT ONE CANNOT GET AN ACCURATE ASSESSMENT OF WHETHER AN INTERNATIONAL ORGANIZATION IS EARNING THE MOST APPROPRIATE LEVEL OF INTEREST BY COMPARING ITS AVERAGE ANNUAL INTEREST EARNINGS AT A PERIOD IN THE PAST WITH RATES OBTAINABLE IN U.S. BANKS TODAY. MOREOVER, THERE ARE SEVERAL SPECIAL CONSIDERATIONS THAT MUST BE TAKEN INTO ACCOUNT IN ASSESSING THE ORGANIZATION'S MONEY MANAGEMENT TO OBTAIN MAXIMUM INTEREST RATES:

-- IN CONTRAST TO PRIVATE COMPANIES, INTERNATIONAL ORGANIZATIONS MANAGE PUBLIC MONIES; THEIR REGULATIONS REQUIRE THEM TO PLACE A PREMIUM ON SAFETY OF INVESTMENTS.

-- TO CONDUCT THEIR WORLDWIDE OPERATIONS, THE INTERNATIONAL ORGANIZATIONS MUST MAINTAIN ACCOUNTS IN MANY COUNTRIES IN BOTH THE DEVELOPED AND DEVELOPING WORLD. THESE ACCOUNTS MUST CONFORM TO LOCAL BANKING PRACTICES AND INTEREST POLICIES. (FOR INSTANCE, THE UN HAS 422 BANK ACCOUNTS IN 84 COUNTRIES; UNDP HAS 367 BANK ACCOUNTS IN 150 COUNTRIES; AND UNICEF HAS 195 BANK ACCOUNTS IN 84 COUNTRIES.) MOST COUNTRIES DO NOT HAVE THE WIDE VARIETY OF INTEREST EARNING FACILITIES AVAILABLE IN THE U.S. ACCOUNTS IN SOME COUNTRIES ARE IN NON-CONVERTIBLE CURRENCIES, WHICH SHOW UP AS CASH IN HAND ON THE ORGANIZATION'S BALANCE SHEET BUT WHICH COULD NOT BE TRANSFERRED ABROAD TO TAKE ADVANTAGE OF HIGHER INTEREST RATES EVEN IF THE LOCAL NEEDS OF THE ORGANIZATION WOULD PERMIT MOVEMENT OF THE FUNDS. MOREOVER, AS ALL OF US WHO HAVE TRAVELED ABROAD KNOW, PLACEMENT AND MOVEMENT OF FUNDS AMONG COUNTRIES ARE NOT COST-FREE OPERATIONS; THE COST OF THE

FEES FOR CONVERTING ONE CURRENCY INTO ANOTHER MUST BE CONSIDERED WHEN CALCULATING THE NET VALUE OF INTEREST THAT CAN BE EARNED ELSEWHERE.

-- BECAUSE OF THE DRAMATIC EXCHANGE RATE FLUCTUATIONS OF THE PAST FEW YEARS, MONEY MANAGERS IN INTERNATIONAL ORGANIZATIONS MAY HAVE DETERMINED IN INDIVIDUAL CASES THAT FUNDS HELD IN SWISS OR GERMAN ACCOUNTS WOULD PROVIDE GREATER SAFETY FROM EXCHANGE RATE RISKS THAN IF DEPOSITED IN U.S. BANKS PAYING HIGHER INTEREST RATES.

-- FINALLY, A NUMBER OF MEMBER COUNTRIES PLACE CERTAIN CONDITIONS ON THEIR VOLUNTARY CONTRIBUTIONS TO THE UN ORGANIZATIONS AND PROGRAMS. FOR INSTANCE, JAPAN HAS REQUESTED THAT SOME OF ITS CONTRIBUTIONS BE DEPOSITED IN DESIGNATED JAPANESE BANKS. A MORE STRIKING EXAMPLE IS THE CASE OF THE UNITED STATES. WE MAKE OUR LARGER VOLUNTARY CONTRIBUTIONS BY LETTERS OF CREDIT, WHICH THE ORGANIZATIONS ARE NOT SUPPOSED TO DRAW UPON UNTIL EXPENDITURES WITHIN THE ORGANIZATION ARE ACTUALLY REQUIRED. IN THIS WAY, THE U.S. DELAYS ITS ACTUAL TRANSFER OF FUNDS FROM THE TREASURY TO THE ORGANIZATION. THE INTERNATIONAL ORGANIZATION, THEREFORE, EARNS NO INTEREST ON U.S. CONTRIBUTIONS PAID IN THIS MANNER.

IN RECENT DAYS, THE CRITICISM HAS ALSO BEEN MADE THAT WITHIN THE UN SYSTEM, COMPETITIVE BIDDING PRACTICES ARE NOT ALWAYS FOLLOWED. WE INTEND TO PRESS FOR DETAILS ON THE SPECIFIC CASES MENTIONED. A FEW RELEVANT OBSERVATIONS, HOWEVER, CAN BE MADE USING THE UN ITSELF FOR ILLUSTRATION. THE UN HAS SPECIFIC REGULATIONS THAT DEFINE HOW CONTRACTS ARE TO BE LET. THE NORMAL PRACTICE IS EITHER TO ADVERTISE FOR BIDS OR TO OFFER COMPANIES OF PROVEN EXPERTISE AND SOUND MANAGEMENT THE OPPORTUNITY TO BID FOR CONTRACTS. THE VARIOUS LISTS OF COMPANIES TO BE CONTACTED FOR SPECIFIC PROJECTS ARE COMPILED ON THE BASIS OF REQUESTS FOR INCLUSION BY FIRMS OR BY GOVERNMENTS ON BEHALF OF FIRMS. WE ARE NOT AWARE OF SPECIFIC INSTANCES WHERE UN PROCEDURES OR ACTIONS BY ITS OFFICIALS HAVE PREVENTED THE ORGANIZATION FROM GETTING THE BEST VALUE FOR ITS MONEY--THE MAJOR PURPOSE OF COMPETITIVE BIDDING. NOR ARE WE CONVINCED OF THE COST EFFECTIVENESS OF PUBLICLY ADVERTISING ALL PROPOSALS FOR BIDS AS SUGGESTED BY ONE PRESS ARTICLE SINCE OVER 150 SOVEREIGN NATIONS BELONG TO THE UN AND HAVE THE RIGHT TO EQUAL TREATMENT. HOWEVER, WE WILL CONTINUE TO MONITOR CLOSELY THE BIDDING PROCEDURES OF THE UN AND THE AUTONOMOUS SPECIALIZED AGENCIES, CONSISTENT WITH AVAILABLE RESOURCES.

THE SUBCOMMITTEES MIGHT BE INTERESTED TO KNOW THAT THE UN EFFORTS TOWARD CONTRACT LETTING HAVE BEEN FOCUSED IN A DIFFERENT DIRECTION IN RECENT YEARS--THAT IS, TO FEND OFF DEMANDS BY A NUMBER OF COUNTRIES TO ALLOCATE UN CONTRACTS IN SOME WAY TO ENSURE THAT THEIR COMPANIES GET MORE OF THE CONTRACTS. IN VIRTUALLY ALL CASES, THESE CRITICS ARE NOT ARGUING THAT THEY DID NOT HAVE AN OPPORTUNITY TO COMPETE, BUT RATHER THAT THEY WERE NOT CHOSEN BECAUSE SOME ONE ELSE SUBMITTED A BETTER BID. THE UN HAS MAINTAINED THAT THE ESTABLISHMENT OF NATIONAL OR GEOGRAPHIC QUOTAS FOR CONTRACTS WOULD BE EXPENSIVE, INEFFICIENT, AND DETRIMENTAL FOR THE UN AND ITS MEMBERSHIP AT LARGE. THE U.S. ENDORSES FAIR AND OPEN AWARDING OF CONTRACTS; IT OPPOSES STRONGLY THE AWARDING OF CONTRACTS ON GROUNDS OTHER THAN OBTAINING THE BEST VALUE FOR THE MONEY EXPENDED.

LET ME TURN QUICKLY TO A DESCRIPTION OF HOW THE STATE DEPARTMENT CONDUCTS ITS RESPONSIBILITIES FOR FINANCIAL MANAGEMENT RELATED TO THE UN SYSTEM WITHIN THE CONTEXT OF THE POLICY GUIDELINES OUTLINED ABOVE. IN CONCERT WITH OTHER MEMBER NATIONS, WE SUPPORT AND SEEK TO STRENGTHEN THOSE BODIES IN THE UN SYSTEM WHOSE OBJECTIVE IS TO ASSURE

FINANCIAL INTEGRITY AND EFFICIENCY. WE HAVE STRONGLY SUPPORTED THE EFFORTS OF THE UN BOARD OF AUDITORS TO MONITOR THE FINANCIAL WORKINGS OF THE UN AND ITS PROGRAMS, THE EFFECTIVENESS OF THE INTERNAL AUDIT MECHANISM, AND THE ADEQUACY OF ACCOUNTING PROCEDURES. IN THE UN'S ADMINISTRATIVE AND BUDGET COMMITTEE, WE HAVE TAKEN THE LEAD IN URGING ADOPTION OF THE BOARD'S RECOMMENDATIONS, REFLECTING IN THIS EFFORT OUR CLOSE COLLABORATION WITH THE GENERAL ACCOUNTING OFFICE. AN AMERICAN CITIZEN,

MR. GEORGE SADDLER, WHO IS ACCOMPANYING ME TODAY, SERVES AS AN EXPERT MEMBER ON THE GENERAL ASSEMBLY'S ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ). AN INFLUENTIAL AND RESPECTED COMMITTEE, THE ACABQ SCRUTINIZES FOR FINANCIAL ACCURACY AND ADMINISTRATIVE EFFICIENCY EVERY APPROPRIATION REQUESTED BY THE SECRETARY GENERAL. IN ADDITION, THE ACABQ ITSELF RECENTLY HELD A HEARING WITH UN OFFICIALS ON THE SUBJECT OF UN FINANCIAL MANAGEMENT.

WITH THE ENCOURAGEMENT OF THE GENERAL ACCOUNTING OFFICE, WE HAVE ACHIEVED THE STRENGTHENING AND BROADENING OF THE MANDATE OF THE JOINT INSPECTION UNIT, ONE OF THE FEW BODIES TO OPERATE ON A SYSTEM-WIDE BASIS. WE HAVE ENCOURAGED PARTICULARLY THE JIU'S EFFORTS TO IMPROVE

THE EFFICIENCY AND EFFECTIVENESS OF THE EVALUATION PROCEDURES OF UN SYSTEM ORGANIZATIONS.

IN THE SPECIALIZED AGENCIES AND THE UN ITSELF, THE U.S. HAS PRESSED FOR MORE COHERENT MEDIUM-TERM PLANNING, FOR THE ESTABLISHMENT OF PRIORITIES FOR PROGRAM ACTIVITIES, AND FOR THE ELIMINATION OF MARGINAL PROGRAMS. WITH STRONG U.S. SUPPORT, THE UNGA HAS APPROVED A RESTRUCTURING OF THE UN'S ECONOMIC AND SOCIAL SECTORS TO PROMOTE BETTER COORDINATION AND EFFECTIVENESS. IN RESPONSE TO EARLIER GAO RECOMMENDATIONS TO BROADEN U.S. PARTICIPATION IN INTERNATIONAL ORGANIZATIONS, THE STATE DEPARTMENT HAS ESTABLISHED MECHANISMS AND PROCEDURES TO ENSURE THAT RELEVANT GOVERNMENT AGENCIES HAVE EARLY ACCESS TO, AND EXPRESS THEIR VIEWS ON, UN REPORTS, STUDIES AND EVALUATIONS. OFFICIAL INSTRUCTIONS TO OUR MISSIONS TO UN ORGANIZATIONS ARE CLEARED WITH RELEVANT AGENCIES THROUGHOUT THE ADMINISTRATION.

I WOULD NOT PRETEND THAT THE UN FINANCIAL MANAGEMENT SYSTEM IS PERFECT. BUT THE SYSTEM IS BETTER THAN ITS CRITICS ACKNOWLEDGE, AND IMPROVEMENTS ARE BEING MADE. MOREOVER, WE ARE CONVINCED THAT THESE IMPROVEMENTS RESULT IN LARGE PART BECAUSE OF

SUSTAINED U.S. EFFORTS AND THAT OF OUR ALLIES. WITHIN THE LIMITS OF OUR HUMAN AND MATERIAL RESOURCES, WE WILL PERSIST IN OUR ENDEAVORS TO IDENTIFY AREAS WHERE NEW OR MODIFIED PROCEDURES ARE REQUIRED AND SEEK SUPPORT FOR THEIR IMPLEMENTATION. WE WELCOME THE STUDIES AND CONSTRUCTIVE CRITICISMS OF GAO, OMB, AND OTHERS IN THIS REGARD; TO MAKE THE UN SYSTEM MORE EFFECTIVE AND EFFICIENT IS A COMMON GOAL. IN THIS CONNECTION, OF COURSE, IT MUST BE RECOGNIZED THAT THE U.S. CANNOT UNILATERALLY IMPOSE ITS WISHES ON THE ORGANIZATIONS REPRESENTING SOME 150 NATIONS. WE MUST PERSUADE OTHERS THAT OUR DESIRED POLICIES BENEFIT THE TOTAL MEMBERSHIP.

THE STATE DEPARTMENT HAS RESPONSIBILITY FOR FINANCIAL MANAGEMENT OF THE ASSESSED AND VOLUNTARY U.S. CONTRIBUTIONS APPROPRIATED BY THE CONGRESS FOR THE UN SYSTEM'S ORGANIZATIONS AND PROGRAMS. CONSISTENT WITH TREASURY REQUIREMENTS THAT U.S. FUNDS NOT BE DISBURSED UNTIL THEY ARE NEEDED, WE STAGE OUR ASSESSED PAYMENTS AND MAKE OUR LARGER VOLUNTARY PAYMENTS VIA LETTERS OF CREDIT. THE DEPARTMENT OF STATE AND OMB ARE EXAMINING NEW PROCEDURES THAT WE MIGHT INTRODUCE TO MAKE OUR PAYMENTS TO THE UN ORGANIZATIONS MORE EFFECTIVELY ACHIEVE OUR GOALS.

IN CONCLUSION, THE STATE DEPARTMENT CONSIDERS FINANCIAL MANAGEMENT IN THE UN AND THE SPECIALIZED AGENCIES TO BE AN IMPORTANT ISSUE. WE HAVE WORKED TO IMPROVE MANAGEMENT PRACTICES IN COOPERATION WITH GAO, OMB AND UN AUDITING AND EVALUATION BODIES. WE THINK OUR RECORD IS A GOOD ONE, BUT WE RECOGNIZE THE NEED FOR CONTINUED AND INTENSIFIED ACTION. AND WE ARE TRYING TO BUILD THE REQUIRED SUPPORT WITHIN THE SYSTEM TO GAIN IMPLEMENTATION FOR OTHER REFORMS WE SUPPORT.

WE HAVE NOTED THE RECENT CRITICISM LEVIED AGAINST COMPONENTS OF THE SYSTEM, AND WE ARE INVESTIGATING EVERY ONE OF THEM. BUT WE ARE NOT PERSUADED THAT ADEQUATE UNDERSTANDING OF THE ORGANIZATION, MANDATES, AND POLICY IMPERATIVES OF THE UN SYSTEM ACCOMPANIES SOME OF THE CHARGES WE HAVE HEARD.

ON THE OTHER HAND, WE ARE CONVINCED THAT ALL OF US, THE ADMINISTRATION, THE CONGRESS, THE PRESS, AND THE PUBLIC AT LARGE SHARE THE OBJECTIVE OF STRONG U.S. PARTICIPATION IN THE UN SYSTEM AND OF USING OUR PARTICIPATION TO MAKE THE SYSTEM EFFECTIVE, EFFICIENT, AND PRODUCTIVE IN ALL OF ITS ACTIVITIES, FINANCIAL AND OTHERWISE.

Mr. BONKER. Thank you, Mr. Creekmore.

The subcommittee has received several reports, one made available through the State Department,<sup>1</sup> I think, as a rebuttal to the article in question before it was printed and the second is a letter<sup>2</sup> that Mr. Fascell and I have just received from Mr. Robert Ratner, president of the United Nations Association with an enclosure from George Davidson who is the U.N. Under Secretary General for Administration and Management.

All of these reports, I believe, are relevant and I will ask unanimous consent, at this time, that they be included in the hearing record.

Just as an opener, Mr. Creekmore, I had a chance to review both your report and the letter from the U.N. Under Secretary General, George Davidson, and I find both unsatisfactory. It appears as though in each report points were taken that were entirely defensible and other points were ignored altogether.

I think if we are going to have a full understanding of the charges that have been made, that we ought to have a point-by-point rebuttal, so that our staffs can make an evaluation.

Now, you made a list of the charges or the points that run three pages. If you could cover each one of those points then we would have a better understanding of the State Department's response.

[The information referred to follows:]

#### TALKING POINTS ON U.N. CASH RESERVES AND SURPLUSES

Recently, several allegations have been made against the United Nations and its Specialized Agencies for what is described as improper financial practices. Specifically, the UN system has been accused of amassing large financial bank reserves well beyond its ordinary needs. Moreover, it has been suggested that the UN routinely awards contracts in an unprofessional and irregular manner.

Charges of this sort—particularly when they are supported by a few unbalanced examples—are misleading and unfair. Any complete and fair look at the UN's financial practices would lead one to the conclusion that it is a generally well-managed institution. The same is true for its affiliated agencies. These charges do not take into account any of the following facts:

1. Many UN agencies and programs are responsible for administering special trust funds for one or several nations. These funds, which by their nature are held in special accounts as a trust, can in no way be considered as part of the operating capital of a UN body. If a UN agency were to try to use these funds for its operating expenses, it would be violating the trust and the terms under which the contribution was made. They should not, then, be viewed as available funds.

2. At any given time of the year, the amount of cash reserve which a UN organization—like any other organization—has available may dramatically change. Immediately after several large contributions are received, the cash reserve will go up, and after a period of time, the reserve will be drawn down until the next series of large contributions are received. To suggest that the cash reserve at any given time gives an accurate picture of the overall financial picture of the agency is misleading. One must look at receipts and expenditures over a period of at least a year.

3. Each UN agency and program is an independent financial entity, and each Specialized Agency maintains its own finances separate from all others. Cash reserves for any single agency are not transferable to others and must be viewed within the context of the finances of that particular agency. It is therefore meaningless to describe the UN system as having a reserve: the UN system has no reserve; each of its components may, or may not, have a cash reserve of its own. By way of comparison, it would be meaningless to say that the States of the United States have a cash reserve of \$20 billion. The cash reserve at any given

<sup>1</sup> See appendix 2, p. 87.

<sup>2</sup> See appendix 3, p. 167.

time tells one very little about their overall financial surpluses or deficits, and the aggregate figure for all 50 states tells one nothing about the financial picture of any single state. To imply that one can meaningfully aggregate the surpluses of all UN organizations, much less the spot cash reserves, is misleading.

4. For many years, the UN and several of its programs were criticized for maintaining inadequate cash reserves. In at least one instance, a major UN program was forced to cut back on its international activities in the early 1970's because it experienced a short term cash shortage. The results, particularly for many poor nations which depended on the UN's programs, were serious and damaging. As a consequence, many agencies have been more careful in recent years and have adopted the sound financial practice of maintaining a cash reserve so they will not have to operate from day to financial day. Some would now criticize these same agencies for correcting a problem for which they were widely criticized just a few years ago.

5. Some have suggested that one can accurately compare the cash reserves held by a private voluntary organization, like CARE, or a for-profit corporation, like EXXON, with those of a UN agency. Such comparisons are misleading. For-profit corporations have a built-in incentive to minimize cash reserves, in that they tend to maximize dividends or profits. Moreover, a for-profit corporation can control expenditures if revenues decline or are delayed. Neither factor is present in the operations of UN agencies. On the other hand, private voluntary organizations (PVO's) can control expenditures comparatively easily. In contrast, a UN agency has great difficulty in reducing expenditures once they have been budgeted. Once a UN agency has approved a program or a project in a country, that country—as a member of that agency—will depend upon that project's execution. The UN agency cannot back out, or tell the recipient nation that it doesn't have the funds available yet, without causing an international problem. Moreover, inflation and fluctuations in currency exchange rates may unexpectedly increase the cost of a given project. For a PVO or a for-profit corporation, the response to delayed receipts or increased costs is substantially simpler than for a UN agency. Consequently, UN agencies must, and generally do, have larger cash reserves than either.

6. Any organization which operates diverse and complex field programs will have funds in what is commonly called "the pipeline". That is, funds which have been committed, but not yet spent. If the organization is concerned about the quality of its programs, it will take the time to insure that they are carefully executed. That means that funds will often be spent at a rate slower than had been initially expected. That means that a "pipeline" of funds will be created. Such "pipelines" exist in the finances of every bilateral and multilateral development institution, and they are evidence of the fact that project execution is not being recklessly managed. It is therefore misleading to describe such pipeline funds as part of some large "cash reserve" held by the UN agencies.

7. The United States provides its contributions to the UN and most international organizations in the form of its own currency, the U.S. dollar. Many other nations similarly provide their contributions to UN agencies in the form of their own currencies. However, not every currency is backed by an economy diverse enough to make it easy for the UN agency to spend it. Often contributions are made in non-convertible currencies, which cannot be exchanged for U.S. dollars. When such a situation arises, the UN agency—being an international organization—cannot reject the contribution and it cannot tell the donor nation "sorry, we take US dollars only". Instead, the agency must hold onto those contributions until a way can be found to spend them in nations which will accept that particular currency. To suggest that such holdings of nonconvertible, or barely convertible, currencies make up a cash reserve is misleading.

Mr. BONKER. Let me ask you what you perceive as your role with respect to the United Nations and its specialized agencies concerning their accounting practices and their investment policies. If things work properly, and you exercise your responsibility, then there would not be a need for us to conduct hearings.

Will you share with us briefly what you perceive as your role? Is it one of oversight? Is it one of closely examining the audit reports made available? Do you conduct any kind of a performance audit with respect to assessed contributions, perhaps even direct voluntary contri-

butions to the United Nations to make sure that the U.S. dollar is fully protected?

Mr. CREEKMORE. I would be happy to comment, Mr. Chairman.

Our basic role is to strongly support those bodies within the U.N. system and within the specialized agencies that have been established to encourage and insure that improved auditing and management policies and practices are followed. We are in touch with those bodies; we work closely with them and push their recommendations. We make recommendations concerning their work to insure that the types of activities that they are established to carry out are advanced, for example, our unvarying support of the U.N. Board of Auditors. Another important body, the Joint Inspection Unit, was set up largely as a result of U.S. initiative. It has systemwide ramifications, systemwide responsibilities.

We have been strongly encouraging the JIU in recent times to pay particular attention to evaluation systems and to carry out illustrative evaluations of individual programs.

We have with us today Mr. George Saddler, who serves as the U.S. expert on the ACABQ, the committee that looks at every financial activity in the United Nations itself and comments on these subjects to the U.N. membership.

So we regard our primary responsibility to be to work with and support those bodies set up within the U.N. system to carry out effective auditing and evaluation and to make recommendations and bring about improvements in financial management procedures that serve the interests of the United Nations and the United States.

Mr. BONKER. You say on page 2 that through your participation in the U.N. system, the United States has been an advocate for improvements and reform in the financial management practices, and you just referred to a few.

Could you share with the subcommittee specifics as to accounting practices and investment policies?

Mr. FASCELL. If I could ask a specific question at that point, and maybe we can go down this road. What is the situation on the audit of UNDP finances, investments, and management practices?

Mr. CREEKMORE. What is the situation with regard to—

Mr. FASCELL. Audit of UNDP investments and financial practices.

Mr. CREEKMORE. The UNDP is audited by the Board of Auditors. The Board of Auditors has certified that the accounts are correct. The investment practices of UNDP are such that they are carrying out these practices, as we understand it, in a highly sophisticated and efficient manner.

For instance, in 1977 the interest earned on UNDP investments was over 7 percent and the net earnings—taking into account the exchange rate gains—was over 11 percent.

The comparable figure in 1978 was 12 percent.

The UNDP conducts a highly sophisticated investment system and the audit has been approved by the Board of Auditors.

Mr. FASCELL. Let me follow that up.

I gather that what you are saying is that it is not true that the UNDP has large amounts of funds lying idly in banks with no interest or low interest rates?

Mr. CREEKMORE. You are correct. That is not true.

Mr. FASCELL. Specifically, again, why is it that the UNDP got only 3.5 percent interest from Japanese banks in 1977 when 5 percent rates were available?

Mr. CREEKMORE. Because, sir, the 3-plus percent rate was the rate established by the Japanese Government and was applicable to all banks within Japan at the time. The 5-percent rate was for an inter-bank rate, which was not available to organizations like the United Nations or the investing public.

Mr. FASCELL. Why is it that if 9 percent interest rates are available for overnight money that the UNDP does not at least get that rate?

Mr. CREEKMORE. The 9 percent referred to in the article was for a rate as of 1979. This figure was compared to 1977 rates.

As we all know, the interest rates have changed considerably in the last 2 years.

Mr. FASCELL. What did you say the rate of return was to the UNDP on its investment funds?

Mr. CREEKMORE. The net earnings in 1977 were something over 11 percent. The interest earned on investments was something over 7 percent.

Mr. FASCELL. What about the allegation of the buildup of funds, the \$286.1 million that was allegedly held in bank accounts as of December 31, 1977.

Has the UNDP covered up the fact that it has amassed considerable wealth?

Mr. CREEKMORE. The \$286.1 million figure is only a portion of the assets shown in 1977 audit report. The total assets were actually \$364.4 million.

Against this were liabilities of \$144.8 million including \$54.8 million held on behalf of trust funds administered by UNDP. Furthermore, \$50.8 million of the total assets were not liquid. That is, \$40.1 million of them were in accumulated nonconvertible currencies, \$3.3 million in housing loans and \$7.4 million in a note held by the UNDP. This left \$168.8 million of which \$85 million was earmarked for the operating reserve and \$35.2 million was held in field offices and in project accounts of executing agencies. Thus, only \$48.6 million in available assets was actually held by UNDP at the end of 1977 and this represents about 1 month's cash requirement.

Mr. FASCELL. What about the statement that they had accumulated about 8 months of operating expenses in banks and other investments? What you are saying is that is not true?

Mr. CREEKMORE. That does not accord with the facts, no, sir.

Mr. FASCELL. What about this so-called operational reserve?

Mr. CREEKMORE. The operational reserve is set up to take account of one of the problems that has been alluded to earlier. The UNDP has no borrowing authority. It plans its programs 5 years out, and it relies totally on voluntary contributions from its members.

At most, UNDP knows those contributions will be available 1 year in advance and, quite often, it does not know that long in advance.

Therefore, it must build up a sufficient amount of reserves to cover the various contingencies that might occur and, as I indicated in my statement, the actual amount that the UNDP holds in reserves, compared to existing commitments, is less than 100 percent and this is different from some comparable organizations.

Mr. FASCELL. You are saying there is a deficit?

Mr. CREEKMORE. Not a deficit. It has commitments outstanding against which payments must be made at given points in time.

Mr. FASCELL. Is there an identifiable percentage rate? If you take \$15 million and apply it to \$1.5 billion of programming, you are talking about 1 percent.

Mr. CREEKMORE. May I turn to Mr. Saddler.

**STATEMENT OF GEORGE SADDLER, COUNSELOR FOR RESOURCES  
MANAGEMENT, U.S. MISSION TO THE UNITED NATIONS**

Mr. SADDLER. Mr. Chairman, the UNDP finances projects over a multiyear period and, at one time, the UNDP kept on hand the full amount of cash to finance these projects.

Mr. FASCELL. No matter in what year the money was expended?

Mr. SADDLER. That is right.

Largely at the insistence of the United States and the prodding of the U.S. Congress, the UNDP abandoned the so-called full-funding concept and moved to a new procedure whereby commitments are entered into a multiyear period with assured financing coming only on the basis of annual pledges from member states.

In order to make the new system work, an operational reserve was established of \$150 million which, at the time it was established, was approximately one-half of an annual year's expenditure for UNDP. Since that time, UNDP's annual expenditures have increased from about \$300 million a year in 1972, to an estimate of about \$700 million in 1979.

So the ratio of the reserve to UNDP's total annual expenditures has constantly declined over time.

Mr. FASCELL. Has there been full disclosure, in the accounting sense, as far as UNDP statements are concerned?

Mr. CREEKMORE. Yes; there has, Mr. Chairman. That has been certified to by the U.N. Board of Auditors.

Mr. FASCELL. That covers all reserves, all assets, all liabilities, no question about it?

Mr. CREEKMORE. No question; no, sir.

Mr. FASCELL. Is there an in-house auditing process in the UNDP?

Mr. CREEKMORE. Yes; there is.

Mr. FASCELL. Are those in-house auditing reports available to the member governments?

Mr. CREEKMORE. No; they are not, sir. They are available only to the head of the organization and the Board of Auditors.

Mr. FASCELL. How would the in-house audit comments be made available to anybody if they are critical?

Mr. CREEKMORE. The United States has been able, in the past, to obtain additional information upon request, other than that provided by the external audit, but perhaps I could turn, again, to Mr. Saddler, who could enlighten us further on that.

Mr. SADDLER. Mr. Chairman, all U.N. internal audit reports are made available to the Board of Auditors. The Board of Auditors is obliged to report to member states any significant findings made by the U.N. internal audit service, which would be completely in conformity with the full disclosure rule.

Most of the U.N. internal audit reports are simply of a corrective nature and therefore are such that they need not be provided to member governments. However, the Board of Auditors has passed on to member states audit findings made by the U.N. internal auditors, which are significant and which they feel should be reported to member states.

Mr. FASCELL. You would think any internal report would be critical of operations but that subsequently reviewed by the Board of Auditors and any significant differences or questions would be made known to member states, and that is standard policy?

Mr. SADDLER. That is standard policy.

Mr. FASCELL. How about reservations or qualifications by the Board of Auditors with respect to reviews of particular operations? Let's take UNDP again. What do those statements mean in accounting terms with respect to any of those reservations or qualifications in actual disavowal of the review?

Mr. CREEKMORE. Mr. Chairman, they are certainly not a disavowal of the accounts. In fact, the auditors—using the UNDP as an example—fully certified the accounts. One qualification referred to the value placed on the nonconvertible currencies held by the UNDP. The UNDP gave these a dollar value, and the Board of Auditors questioned whether that was a proper evaluation.

Mr. FASCELL. Since they are nonconvertible, I do not see how you could give them a dollar value. Is that the point?

Mr. CREEKMORE. That was a point that the Board of Auditors made.

Mr. FASCELL. How about these allegations in 1977-78, that there were reservations and qualifications in the audit reports. Could we see those so that we could evaluate them for ourselves?

Since Mr. Bonker is an auditor, he could do it a lot better than I can, but I can still read the English language.

Mr. CREEKMORE. We would be glad to make that available.

[The information follows:]

June 27, 1979

The opinion of the Board of Auditors of the United Nations is as follows:

"II. AUDIT OPINION

We have examined the following appended financial statements, numbered I to XV, properly identified, and the relevant schedules and annexes of the United Nations for the biennium 1976-1977 ended 31 December 1977. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination, we are of the opinion that the financial statements properly reflect the recorded financial transactions for the biennium, which transactions were in accordance with the Financial Regulations and legislative authority, and present fairly the financial position as at 31 December 1977, subject to the observations contained in paragraphs 57 and 58 of our report.

(Signed) Ahenkora OSEI  
Auditor General of Ghana

(Signed) J. J. MACDONELL  
Auditor General of Canada

(Signed) A. MARTINEZ ZULETA  
Controller General of Colombia

23 June 1978" 1/

1/ United Nations Financial Report and Accounts for the biennium 1976-1977 ended 31 December 1977 and Report of the Board of Auditors Volume I A/33/5 Supplement No. 5 Page 24

Paragraphs 57 and 58 referred to in this opinion are as follows:

"Assessed contributions unpaid

57. Statements III, IX, X and XI include unpaid contributions from Member States that have been outstanding for several years. These amounts, which are described in annex III to the financial statements, represent:

Millions of US dollars

(a) Assessed contributions due from certain Member States who have indicated their unwillingness to participate in the financing because of their positions of principle	202.1
(b) Assessed contributions due from a former Member State transferred to a special account for unpaid assessed contributions under General Assembly resolution 3049 C (XXVII) of 19 December 1972	28.6
(c) Assessed contributions due from other Member States who are in arrears	9.6
	<u>240.3</u>

58. The Board's opinion on the financial statements is subject to the ultimate realization of these assets."  
2/

2/ Ibid Page 205

The opinion of the Board of Auditors on the United Nations Development Program is as follows:

"II. AUDIT OPINION

We have examined the following appended financial statements, numbered I to XII, properly identified, and relevant schedules numbered 1 to 18 of the United Nations Development Programme for the year ended 31 December 1977. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination, we are of the opinion that the financial statements properly reflect the recorded financial transactions for the year, which transactions were in accordance with the Financial Regulations and legislative authority, and present fairly the financial position as at 31 December 1977, subject to the observations contained in paragraphs 6 and 8 of our audit report.

(Signed) Ahenkora OSEI  
Auditor General of Ghana

(Signed) J. J. MACDONELL  
Auditor General of Canada

(Signed) A. MARTINEZ ZULETA  
Controller General of Colombia" 3/

3/ United Nations Development Program Financial Report and Accounts for the year ended 31 December 1977 and Report of the Board of Auditors A/33/5/Add.1 Supplement No. 5A Page 16

Paragraphs 6 and 8 referred to in this opinion are as follows:

"Value of assets and liabilities

6. As in previous years, the continued accumulation of non-convertible currencies and the difficulty of using them for project expenditures, together with the number of receivables which are several years in arrears, and other items give cause for concern about the validity of the recorded value of certain assets and liabilities.

(a) Non-convertible currencies

The value of accumulated non-convertible currencies as at 31 December 1977 and 1976 was \$40.1 million and \$35.6 million, respectively. The balances of these currencies have increased substantially over the past two years. This unfavourable trend indicates that these currencies are not being used for project expenditures at an adequate rate. Despite efforts being made by the Administrator to reach an agreement with the donor countries as to the future utilization of these amounts, it is not clear that this will resolve the problem. If UNDP is to have sufficient cash flow to meet project expenditures, future contributions, to the extent possible, should be made in readily usable currency.

(b) Receivables in arrears

(i) Overdue contributions pledged by Governments totalled \$34.1 million at 31 December 1977, a reduction of \$2.7 million from the amount overdue at the end of the previous year. Included in this balance is \$5.7 million which is over three years in arrears. If UNDP is to manage its resources effectively and have sufficient cash flow to meet project expenditures, timely remittance of these outstanding balances is essential.

(ii) Deferred charges include approximately \$2.2 million of travel advances recorded in suspense accounts. We are pleased to note that the Administration is making efforts to identify whether the proper accounting treatment has been accorded these advances, and has scheduled a review of the procedures used by the travel section in order to institute proper controls.

However, the value of these advances and the ultimate accounting for them is dependent upon their proper identification.

(c) Other items

- (i) Contributions deposited directly into UNDP bank accounts by contributors and not clearly identified as to source or purpose are credited to suspense accounts which are classified as accounts payable at the year-end. This has been commented upon in our reports over the years and we are pleased to note that unidentified deposits held in suspense accounts have been reduced to \$2.9 million, a decrease of \$2.5 million in the year. However, the value of these deposits is dependent upon their proper identification.
- (ii) UNDP field offices advance funds for a variety of reasons on behalf of participating and executing agencies. The Administration had not determined whether \$1.6 million, which is included in accounts receivable as at 31 December 1977, had been reported by the agencies. Until these items are reconciled it cannot be determined whether they have been properly reflected in the financial statements.
- (iii) Amounts totalling approximately \$284,000 which are shown as cash in transit at 31 December 1977 have been outstanding for almost two years.
- (iv) As has been reported previously, in view of the total assets which are represented by cash and bank balances, adequate control of cash transactions and the reporting and reconciling of balances is essential. In the course of our audit we noted that:
  - a. Bank reconciliations at 31 December 1977 included reconciling items totalling \$345,000 which had not been identified;
  - b. Many field offices either submit no bank reconciliations or submit insufficient information to permit adequate review of bank reconciliations at Headquarters.

Because of these factors, it has not been possible to determine the proper value of these bank accounts which are recorded at a value of \$780,000 at 31 December 1977. We urge that immediate steps be taken to ensure the timely identification, review and follow-up of reconciling items without prejudice to the implementation of any recommendations emanating from the ISIP general study.

#### Agencies' statements

8. As auditors for the United Nations, we have conducted a detailed review of the various United Nations entities which are executing agencies for UNDP. In addition, special audit certificates have been received from the external auditors of most of the other principal executing agencies. Special audit certificates have not been received on behalf of four other executing agencies representing less than 1 per cent of total UNDP programme expenditures. Our opinion on the accounts is subject to any changes that may result from the audit of agencies for which audit certificates have not yet been received." 4/

4/ Ibid Pages 63-65

Mr. FASCELL. That is all I have specifically, Mr. Chairman, with respect to these various points. I might have some others later.

I appreciate your letting me follow through.

Mr. BONKER. Mr. Creekmore, I just want to pursue two other areas that have not been covered today. The first involves bidding procedures and contractual arrangements made between the U.N. and various companies that provide the services, I think that you are probably familiar with the specific case at hand, where a contract allegedly was made with a cleaning company in 1951 and has been renewable, apparently without bidding procedures since, and it has raised some questions about the company itself and the cost-plus financial arrangement that has been negotiated.

Could you enlighten us as to the circumstances surrounding the bidding procedure in this particular case?

Mr. CREEKMORE. Yes, I can.

The contract to which you refer has been periodically opened up for tenders, the latest being in 1971 when several firms were invited to bid and four responded. The bid of the present contractor, we are told, was 25 percent lower than the next lowest of the other bids.

Mr. BONKER. Excuse me. What was that again?

Mr. CREEKMORE. In 1971, the bid, at that time, we understand, of the present contractor was 25 percent below the lowest of the other bids that were submitted.

Mr. BONKER. How many bids were submitted?

Mr. CREEKMORE. Four.

Mr. BONKER. Four.

Mr. CREEKMORE. Yes.

Mr. BONKER. The one selected was 25 percent below—

Mr. CREEKMORE. Yes.

Mr. BONKER. The same contract has been going to the same company since 1951?

Mr. CREEKMORE. The same company.

Mr. BONKER. What about the allegation that it is not a cost-plus? It seems to me a bid is a bid, and it is not a cost-plus financial arrangement.

Mr. CREEKMORE. May I turn to Mr. Saddler for the details?

Mr. SADDLER. The arrangements on that contract are not a cost-plus arrangement as we would normally consider it but it is a fixed management fee contract and the present management fee is \$102,500. From this management fee, the contractor must pay, or provide, certain services and equipment, uniforms for the staff, certain cleaning supplies, certain machinery, accounting and legal services.

In addition to this, the actual wages—

Mr. BONKER. The actual?

Mr. SADDLER. Yes; the actual wages of persons engaged to clean the U.N. premises are reimbursed to the contractor. This is based on union negotiated rates covering work in the city of New York for cleaning personnel.

In addition, the U.N. has the right to specify what areas are to be cleaned, how many cleaners will be engaged, the frequency of the cleaning, the time at which the cleaning can take place, and a number of other specific arrangements with regard to the cleaners. To oversee and monitor this contract, the United Nations has two staff members

on its own payroll that rotate throughout the building to insure that the cleaning is carried out and to insure that the specified number of people are reporting for work. They also check and verify the actual payroll data submitted by the cleaning firm for reimbursement.

Mr. BONKER. As it relates to supplies and service, it is a fixed contract?

Mr. SADDLER. A fixed management fee contract.

Mr. BONKER. But, as it relates to wages and benefits, is it on a cost-plus?

Mr. SADDLER. No; it is on actual cost basis, at union rates.

Mr. BONKER. That means that whatever is negotiated in terms of salaries, the company will benefit by increased salaries.

Mr. SADDLER. No.

Mr. BONKER. Then it should be a cost and not a cost-plus.

Mr. SADDLER. The cleaning staff are paid on the basis of union rates in the city of New York; the unions negotiate a contract for New York City as a whole, and the cleaning staff get these salaries, not the contractor. The contractor simply gets the fixed management fee.

Mr. BONKER. Where in the contract does the company achieve its profit if it is not on salary? What you are saying is the entered amount on salaries are actual wage levels negotiated through the contract so that the company is not going to benefit per se from the wages.

Mr. SADDLER. That is correct.

Mr. BONKER. His profit has to come from that \$102,000?

Mr. SADDLER. That is correct; from the management fee.

Mr. BONKER. The management fee that provides the supplies and services?

Mr. SADDLER. That is correct. The U.N. estimates that the possible profit margin is from \$30,000 to \$35,000 per year.

Mr. BONKER. What about the allegation that this company is hard to find; it has no telephone listing; its president lives in Florida; its only office is a little room in the building, and that there are no other customers aside from the U.N. contract?

Mr. SADDLER. Let me deal with them one by one.

Apparently it was not detected by the name used in the telephone directory. I looked it up myself in the telephone directory. The firm is listed under "Victory Maintenance."

Mr. BONKER. Victory Maintenance, not Victory Handyman?

Mr. SADDLER. The actual title that the contract is let in is Victory Handi-Man Maintenance Corp., so it has this long name. It is in fact listed in the New York City telephone directory under the shorter name.

Now, it does have a room in the United Nations that it uses for its operations but it also has separate offices elsewhere.

As to the fact that the United Nations is its only customer, that is only technically true. It is a wholly owned subsidiary of a much larger cleaning contractor in the city of New York, Allied Maintenance. It is not uncommon in the city of New York for large companies to create wholly owned subsidiaries to bid on a specific contract.

I am told that for legal reasons this arrangement has a particular advantage to the company.

Therefore, Victory Maintenance has one customer—the United Nations; but the firm is a subsidiary of a much larger company that has a number of contracts in the cleaning field in the city of New York.

Mr. BONKER. This contract was negotiated in 1977?

Mr. SADDLER. In 1971 the contract was advertised for bid.

Mr. BONKER. 1971?

Mr. SADDLER. 1971.

If you do not mind, I could briefly bring it up to date.

Mr. BONKER. Proceed.

Mr. SADDLER. As Mr. Creekmore said, there were several bidders. Actually, seven major concerns in the New York City area were asked to tender bids; four responded and this company submitted the lowest bid which was \$97,500 in 1971.

Mr. BONKER. How much?

Mr. SADDLER. \$97,500.

The contract was to run for a period of 3 years. In 1974, the contractor approached the United Nations and said that he was agreeable to extending the contract for an additional \$5,000 added on to his fee for increases in the cost of living.

Mr. BONKER. That was not negotiated through the bidding process?

Mr. SADDLER. That was not negotiated through a bidding process.

Mr. BONKER. In 1971 when the contract was negotiated you indicated that was for 3 years?

Mr. SADDLER. That is correct.

Mr. BONKER. In 1974, we did not go through a bidding procedure but just extended, or renegotiated, that same contract?

Mr. SADDLER. That is correct, on the offer from the contractor to extend for a further 3-year period for an increase in his fee.

Mr. BONKER. Is there not a requirement that if a contract terminates after 3 years you ought to go through the bidding process again?

Mr. SADDLER. The United Nations can negotiate an extension of the contract.

Mr. BONKER. How long was it extended?

Mr. SADDLER. For another 3 years.

Mr. BONKER. How much for services management fee?

Mr. SADDLER. That brought the fee to \$102,500. That extension took it from 1974 until 1977.

Mr. BONKER. What happened in 1977?

Mr. SADDLER. In 1977, the contractor said he was willing to extend the contract again at no increase in his fee. The United Nations, feeling that they had obtained the best value for their money, agreed to a further 3-year extension, which takes the contract to 1981, I believe.

Mr. BONKER. In effect, what you are saying is that Victory was 25 percent under the other bidders?

Mr. SADDLER. Yes.

Mr. BONKER. In 1974, 3 years later, it went up approximately \$5,000.

Mr. SADDLER. That is correct.

Mr. BONKER. Then in 1977 it was extended again with no increase except for wages and benefits?

Mr. SADDLER. That is correct.

Mr. BONKER. That does not sound like a bad arrangement.

Mr. SADDLER. The United Nations did not think it so.

Mr. BONKER. One last question. What about trust funds, Mr. Creekmore?

Mr. CREEKMORE. Trust funds are held by the United Nations and a number of the specialized agencies. These are funds that serve special purposes and have conditions attached to them. The funds belonged to the government or governments that put them there.

They are managed by the United Nations or the specialized agencies, but they cannot be considered as a part of cash balances used for regular operating expenses.

Mr. FASCELL. I have one thing, Mr. Chairman, before we go make this vote.

One of the principal matters of concern in dealing with this whole problem, other than the auditing processes and what-not, is the matter referred to almost casually in the GAO testimony, but a matter of great concern—certainly to me and, I think, to a lot of Members of Congress.

This is the change that is being made in the specialized agencies with respect to the use of their budget program. We are going to have to face that problem.

I would like to know, generally, if any thought is being given to that in the international unit at stake?

Mr. CREEKMORE. I am sorry. What do you mean?

Mr. FASCELL. I am talking about administrative funds for programs. I am talking about this specialized agency going into programing and using those assessed contributions for program purposes. I am talking about the lack of coordination that results in the field because of that, because all agencies are operating in the field. You do not have a country team concept. That is impossible.

I think actually the coordination that has been effected so far by the UNDP has been excellent, but it does not take into account the other financial institutions that are out in the field. It does not take into account bilateral efforts.

If you are going to have efficiency, it seems to me you would have to know exactly what all of the donors are doing and what the donee requires in terms of its own country plan, but that is a separate problem.

The problem I am specifically addressing is the fact that member countries are committed to program expenditures by virtue of the adoption of the budget. That is what I am talking about.

As those budgets increase and the contributions increase automatically, member countries are required, then, to come up with the extra money and I think that is a very serious problem and it has to be addressed.

We are facing that problem right now in authorization bills and appropriation bills in the Congress.

Mr. CREEKMORE. Mr. Chairman, in the State Department we have been working very hard to try to assure that certain programs, particularly programs connected with development assistance, are funded through voluntary contributions.

We are working to make the UNDP the primary source of funding for these types of programs and to keep the assessed budget, or the assessed contributions, limited to the operational expenses of the organization.

There are, of course, some obvious exceptions. Sometimes when certain programs benefit the entire international community, it may well be appropriate to finance them from the assessed budget. We are cer-

tainly pressing—and working with the Congress on this—to make UNDP the primary focus of development assistance programing and to finance these programs through voluntary contributions.

Mr. FASCELL. There is certainly a lot of pressure on you that comes from the Congress and will continue to come from the Congress.

Mr. CREEKMORE. Mr. Chairman, we are also working through the so-called Geneva Group of major contributors set up in all the cities where the specialized agencies are located—the high-level consultative group meets in Geneva itself. Thus there is a Geneva Group in Rome, in Vienna, and in Paris as well as the regular Geneva Group in Geneva.

In all of these groups, we are pressing very hard on this very point you have made. In April I was at the Geneva Group, at the consultative level and can report that the United States made a very strong push for, and got endorsement in principle of the thesis that the voluntary funds should be used as the primary means of financing programs of this sort.

Mr. FASCELL. Thank you.

Mr. BONKER. I thank you, Mr. Creekmore.

As Mr. Fascell stated to Mr. Fasick, the committee staff will be interested in pursuing some of these matters.

We would like to have a reconciliation of sorts of these figures and conclusions so that we can present to our colleagues a fairly honest evaluation of the U.N. financial practice.

We do appreciate your appearance before our committee here today.

Thank you once again.

The committee will stand adjourned.

[Whereupon, at 12:35 p.m., the subcommittees adjourned.]

SERIES OF ARTICLES BY WASHINGTON POST STAFF WRITER,  
RONALD KESSLER<sup>1</sup>

[From the Washington Post, June 17, 1979]

DEVELOPING NATIONS' NEEDS DOMINATE TODAY'S U.N.

The United Nations was established in 1945 to maintain world peace. Today, its role is widely acknowledged to be limited, and its focus has shifted increasingly to solving the problems of developing nations.

The changes have come about because the U.N. General Assembly, once dominated by western, industrialized nations, now is dominated by the developing nations. Each member state has one vote in the General Assembly, and most of the 100 members added to the original 51 are developing countries.

These developing nations have emphasized their own needs and concerns. The major powers, in turn, have come to rely more and more on direct dealing with each other when addressing problems that involve their own country.

In recent years, the United Nations has been criticized for the salaries and other perquisites it provides its staff. The organization is supposed to pay wages comparable to those of civil servants in the best-paying country, the United States.

Yet, while U.S. cabinet members such as Secretary of State Cyrus Vance earn \$66,000 a year, 119 U.N. system officials are paid between \$64,000 and \$99,350 annually.

For all its problems, the United Nations still is generally regarded as a useful tool.

"The mere fact that you can discuss problems with other countries means you can let off steam, even if the U.N. can't do anything on its own," said Riaz Khan, first secretary of Pakistan's U.N. Mission.

"People attack the U.N. because it's not doing this or that, but is there anybody who can do it better?" asked Roger Fisher, a Harvard Law School professor who teaches international law.

Citing successful efforts by U.N. organizations to coordinate radio frequencies, aviation rules, and telephone and postal services, Fisher said the organization "is machinery for dealing with our problems. If it doesn't work better, it's the fault of the countries and the people."

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[From the Washington Post, June 17, 1979]

U.N. SYSTEM CLAIMING DEFICITS HAS \$1.4 BILLION IN BANK

UNITED NATIONS, June 16—The United Nations and its affiliates, while claiming to be plagued with deficits, have been running a surplus of as much as \$350 million a year and have \$1.4 billion in excess funds in bank accounts, audited financial statements show.

The organizations that make up the U.N. system have managed to create the impression that they are in difficult financial straits by distributing funds among a number of special accounts and placing vast sums in special reserves, the statements disclose.

<sup>1</sup> Permission to reprint granted by the Washington Post.

In some cases, the U.N. organizations have obscured the fact that they actually have amassed considerable wealth by depicting their finances in ways that accountants say are highly questionable.

The audited financial statements have been publicly available for years, but apparently no one has ever totaled the figures to obtain a complete picture of the finances of the U.N. system.

The United Nations Children's Fund (UNICEF), one of the organizations in the U.N. system, alone has \$100 million to \$140 million in its bank accounts, the audited statements show. In recent years, the organization that helps starving children has run an annual surplus ranging from \$8 million to more than \$20 million.

The excess money, enough to run UNICEF for at least six months and possibly a year, is equivalent to the amount that children would collect in UNICEF Halloween trick-or-treat campaigns over 70 years.

U.S. and U.N. officials acknowledged they did not know exactly how much the U.N. system takes in or spends each year. A State Department compilation shows the organizations in 1977 received income of \$2.4 billion, a commonly accepted figure. But this does not include all the U.N. organizations.

Totalling each organization's financial statements collected over a period of months shows they had total income in 1977 of \$2.7 billion—\$300 million above the widely accepted figure.

Far from running deficits, the U.N. organizations in 1977 retained 13 percent of their total income as a surplus, the figures show.

By comparison, CARE, the nonprofit organization that distributes food overseas and has no connection with the United Nations, had a surplus last year of 1.2 percent.

In 1977, the latest year for which full figures are available, U.N. organizations had enough money in their bank accounts to cover operating expenses for an average of seven months and, in some cases, as much as two years.

CARE, by contrast, had enough in the bank and other investments to cover operations for about a month.

The U.N. organizations place their excess funds in banks throughout the world. Details will be covered in a second article.

U.N. officials say the excess funds are needed to insure that commitments to fund projects in the future will be met.

"UNICEF needs an operational capital to maintain liquidity during the year and to absorb differences between revenue and expenditure for future years," Henry R. Labouisse, executive director of UNICEF, said in this year's financial statements.

After reviewing the figures on U.N. system finances, the State Department confirmed last week that they were accurate but objected to any attempt to lump together the finances of all U.N. organizations.

Charles W. Maynes Jr., the assistant secretary of State for international organizations, said, "Each organization is completely autonomous, and money cannot be shifted from one to the other."

In a 14-page statement, he said large portions of the excess funds are in special funds for particular purposes or in reserves that should not be counted.

For example, a \$150 million "reserve" of the United Nations Development Program (UNDP) should be deducted before reporting on the UNDP's accumulated cash, Maynes said.

To present U.N. system finances in proper accounting terms, Maynes said in the statement, the bank balances should be reduced further by deducting the accounts payable—bills owed by each organization.

Maynes singled out the United Nations itself, which is less well off than most of the affiliate organizations in the U.N. system, as an entity with particular problems.

He said it had a "deficit" because some countries have refused to pay their assessed contributions. If this "deficit" is considered, and the amounts owed by the United Nations are taken into account, it will be shown to be "on the verge of bankruptcy," Maynes said.

In addition, Maynes said an article on the overall financial situation of the U.N. system would be used unfairly by political critics of the United Nations.

When first asked about the bank accounts of U.N. organizations, Maynes said a story on the subject "will do tremendous damage to the U.N. . . . The damage will be incredible. It will be devastating."

Accountants disagreed with Maynes' view of how U.N. system finances should be presented. They said, for example, that reserves of an organization should be included when assessing its wealth.

Paul Rosenfeld, director of the American Institute of Certified Public Accountants' accounting standards division, disagrees with the United Nations definition of "deficit." A deficit is an excess of expenses over receipts he said, not the failure to collect a contribution.

"A deficit would have nothing to do with that," he said.

Deducting various items from bank balances, as suggested by the State Department, without offsetting them by adding in amounts owed to the organizations would produce a "very misleading piece of information," Rosenfeld said.

"It would look like an organization is going out of business when it is highly profitable," Rosenfeld said.

Officials of U.N. organizations generally refused to permit inspection of records that would show how the United Nations spends its money.

"It's not in the public domain," William Goodkind, deputy U.N. controller, said when asked about the terms of bank deposits. "We only show that to the auditors. I'm not going to show it to anyone who walks in off the street."

"There's no reason why you should have access to the files of the U.N.," George F. Davidson, undersecretary general for administration and management, said when asked for a list of companies that receive contracts from the United Nations.

Although the U.S. government gave the largest single contribution to the United Nations, \$600 million to the U.N. system in 1977, or \$4.60 for each taxpayer, the General Accounting Office, the audit arm of Congress, also has been refused access to financial records of U.N. organizations.

"We can only ask questions," said George F. Saddler, the counselor for financial matters at the U.S. Mission to the United Nations. "To look at records gets into a fundamental policy question. We [the State Department] have never considered there was any need to look at those records."

This year, the United States is temporarily withholding contributions to some U.N. organizations in a disagreement over how assessments are made. So far, \$139 million has been withheld and \$172 million paid.

Those who are allowed to see the United Nations' books—the U.N. board of auditors—have severely criticized nearly every facet of the United Nations' financial operations.

In little-noticed reports published by the United Nations, the board, composed of audit staffs from three countries, has repeatedly "qualified" its opinion on the soundness of U.N. finances.

This means the board refused to certify that the books as presented were accurate.

The auditors have pointed specifically to deficiencies in the way the organization handles its checks, assets, invoices, purchases, contributions and books. They also have questioned the effectiveness of the U.N. internal auditors and the qualifications of its financial officers.

"The reporting system is inconsistent, and it's almost impossible to get a handle on the total activities of the system," said G. Peter Wilson, director-general of the U.N. external audit committee.

"The system doesn't provide the assurance that the final information is accurate and, in many cases, that there are adequate controls to ensure proper use of financial resources," Wilson said.

He said the auditors have not addressed the reasons U.N. organizations generate excess funds, since this is a question of policy rather than accounting.

"Why is the U.N. raising all these funds? Why does the U.N. act as a bank in the first place. These are not audit questions," he said.

The U.N. system encompasses nearly 30 organizations with acronyms like WHO, ILO, WIPO, UNITAR and ITU, besides the United Nations itself. It includes lending institutions like the World Bank and International Monetary Fund, whose figures are not included here. It also includes hundreds of trust funds established for various purposes.

Each organization and trust fund has its own member countries, governing body, books, employees and offices. No one person or body supervises the entire U.N. system.

However, the U.N. General Assembly, through various councils and committees, coordinates the work of each of the organizations and reviews their budgets. It also creates some organizations and appoints their chief executives.

## EXCESS MONEY

Following are months of operating expenses kept in bank accounts and other investments and the annual surplus of organizations compared with those of others:

	Months of operating expenses in banks and other investments	Annual surplus (percent)
CARE		
Boy Scouts of America	1	1.2
United Way, National Capital Area	1	3.8
Exxon	2	6.0
General Motors	1	4.3
The Washington Post	1	5.5
U.N.	1	9.5
U.N. System (all organizations)	2	2.5
FAO	7	13.0
UNDP	8	13.8
UNESCO	8	27.2
UNICEF	9	14.1
WFP	6-10	13.0
	23	30.0

Financial data on each organization is not available at any one location. Although it spends \$16.3 million a year, the U.N.'s office of public information is of little help.

Its publication, "Basic Facts about the U.N.," tells visitors the United Nation's budget in a recent two-year period was \$784 million, or an average of \$392 million a year. This was only 16 percent of the expenditures of the U.N. organizations described in the booklet.

The organization with the biggest bank accounts and surplus is the United Nations Development Program (UNDP), an umbrella agency that funds other U.N. organizations so they can improve health, education and nutrition in developing countries.

At the end of 1977, the UNDP had \$286.1 million in its bank accounts. This was enough to run the organization for two-thirds of a year. Twelve trust funds administered by the UNDP had another \$89.9 million in the bank.

In 1977, the UNDP ran a surplus of \$166 million. The U.S. government contributed \$100 million to the organization in that year.

G. Arthur Brown, deputy administrator of the UNDP, said the organization had financial difficulties in 1975 and 1976 and wanted to ensure that commitments to fund future projects would be met. In those years, according to UNDP financial statements, the organization had to dip into its reserves but had higher expenditures than it does today.

"We're trying to increase the rate of expenditures," Brown said.

The World Food Program (WFP), a U.N. organization that distributes food in impoverished countries, had \$132.1 million in its bank accounts. This was enough to run the Rome-based organization (exclusive of food contributed by countries) for nearly two years.

The organization had a surplus in 1977 of \$29.5 million. In that year, it received \$77.4 million from the United States.

The Food and Agriculture Organization of the United Nations (FAO), which helps developing countries upgrade their own food supplies, had \$116.4 million in its bank accounts. This was enough to run the Rome-based agency for nearly two-thirds of a year. Even if the portion of this money that the FAO had put into trust funds was excluded, there was still enough in the bank to run the agency for nearly half a year.

The FAO had an average annual surplus during its most recent two-year financial period of \$29.4 million. It received \$18.5 million in U.S. contributions in 1977.

The World Health Organization (WHO), which promotes health programs, had \$116.5 million in the bank, or enough to run the Geneva-based organization for more than a third of a year.

Despite a claim in its financial statements that it had a "cash deficit" in one fund, WHO took in \$7.4 million more than it spent in 1977. It received \$43.3 million from the United States that year.

A WHO official in Geneva said that some of its money is committed for future expenditures.

The United Nations Educational, Scientific, and Cultural Organization (UNESCO), which funds projects in varied fields, had \$69.2 million in the bank. This was enough to run the Paris-based agency for about three-quarters of a year. Another \$13.9 million was kept in banks by UNESCO trust funds.

UNESCO took in \$15.8 million more than it spent in 1977. The United States contribution to the organization that year was \$27 million.

A UNESCO spokesman in Paris said the organization's bank balances were unusually high because it had just received a \$23 million loan from some countries. He said the loan was needed because the organization's primary fund was about to run out of money.

The United Nations itself, which includes the General Assembly, Secretariat, Security Council, and International Court of Justice, had \$69.4 million in the bank, or enough to run the organization for nearly two months. The United Nations' 77 trust funds had another \$80 million in the bank.

During its most recent two-year financial period, the United Nations took in an average each year of \$12.8 million more than it spent. The U.S. contribution to the United Nations in 1977 was \$99.4 million.

UNICEF, which improves children's health, education and nutrition in developing countries, had bank balances that ranged during the past two years from a low of \$100 million to a high of more than \$140 million. If money earmarked for particular purposes is excluded from the balances, UNICEF had enough in the bank at the end of 1977 to operate for almost a year.

In 1977, UNICEF had a surplus of \$23.3 million. It received \$20 million in U.S. contributions in that year and another \$250,000 earmarked for the International Year of the Child, a program focusing this year on the needs of poor children.

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[From the Washington Post, June 18, 1979]

#### CONTRACTS AT UNITED NATIONS AWARDED WITHOUT BIDDING

UNITED NATIONS, June 17—The United Nations and its affiliates award contracts for hundreds of millions of dollars of supplies and services each year without throwing them open to competitive bids, according to interviews with U.N. officials.

Instead of advertising for bids, organizations in the U.N. system select the companies that will be asked to bid or simply award contracts to a favored company without asking for other bids.

In many instances, countries that are large contributors to U.N. organizations successfully bring pressure to have contracts awarded to firms from those countries, U.N. officials say.

Just how or why some contracts are awarded is not clear. The contract to clean the U.N. headquarters building in New York has been given to the same company since 1951, when the building was constructed.

The company, Victory Handyman Inc., has a cost-plus contract, meaning it is reimbursed by the United Nations for its cost and given a guaranteed profit. This is an unusual arrangement in the building cleaning business.

Victory Handyman has no telephone listing. Its president, Irving Schwartz, lives in Florida. The company's only office is a room in the basement of the U.N. Secretariat building. In fact, Victory Handyman has no other customers besides the United Nations.

Schwartz declined to discuss how he got the contract or how much he is paid. "I'm just a little housecleaner for the U.N.," he said.

Another company, B. Eichwald & Co., has had the contract to maintain the United Nations' electrical systems since the headquarters building was constructed. It also is reimbursed for its costs, and given a guaranteed profit.

Bernard Eichwald, president of that firm, similarly declined to discuss the contract. "There's nothing in my contract to authorize giving out information," Eichwald said.

Dermot Hussey, chief of the United Nations' purchasing service, said he "guesses" each firm makes a profit of about \$100,000 a year.

Hussey and other U.N. officials declined to provide access to documents or files that would show how much the companies are paid or how they got their contracts.

"I would like to inform you that as a matter of policy the files of the U.N. on contractual matters are not available for the purposes you have described, and therefore, we are not in a position to comply with your request," Clayton C. Timbrell, assistant U.N. secretary-general for general services, wrote in response to a request to examine contract files for a story.

U.N. financial regulations say all contracts must be awarded through competitive bidding involving advertising of solicitations, but they also provide eight exceptions—including a determination that open bidding would not "give satisfactory results."

In practice, says Hussey, the chief of U.N. purchasing, "advertising for bids is rarely used."

George F. Saddler, an official who handles financial matters in the U.S. Mission to the United Nations, said he sees no need for the United Nations to advertise for offers. He said another U.N. regulation says requests for bids may be distributed to particular firms.

Jerome H. Stolarow, director of the procurement branch of the General Accounting Office, the audit branch of Congress, said U.S. policy and law is to buy through advertised, competitive bidding.

"You get the best assurance of a reasonable price and the best product," he said. "It also minimizes possibilities for corruption."

In awarding contracts, U.N. system officials say they generally select about five companies and ask them to submit bids.

G. Arthur Brown, deputy administrator of the United National Development Program (UNDP), said an effort is made to ask companies from countries that are large contributors.

"The source of the funds is taken into account and (so are) complaints from countries that they have not gotten enough business for their companies," he said. "The companies bring pressure on the countries."

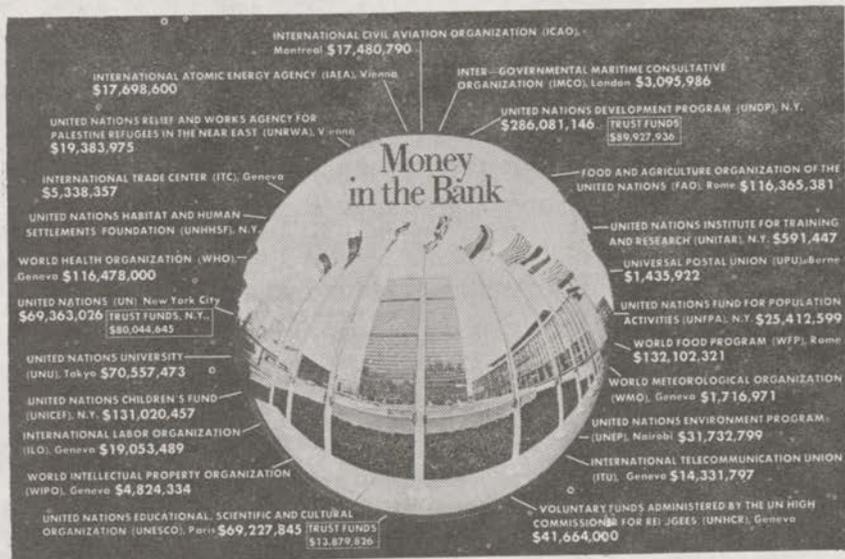
#### *Who's got the deposits*

*Millions of  
U.S. dollars*

Chase Manhattan Bank, New York	8.8
Citibank, New York	8.8
Chemical Bank, New York	8.5
Bankers Trust Co., New York	7.8
European-American Bank & Trust Co., New York	5.5
The Royal Bank of Canada Ltd., Ottawa	2.1
Dresdener Bank A.G., Frankfurt	14.5
Bank of America N.T. & S.A., Frankfurt	8.9
Commerzbank A.G., Frankfurt	8.3
Mitsui Bank Ltd., Tokyo	7.6
Banque Scandinave Suisse, Geneva	3.7
Bank of Tokyo, Tokyo	10.0
Mitsubishi Bank, Tokyo	10.0
Mitsubishi Bank, Tokyo	10.0
Chemical Bank, New York	7.1
European American Banking Corp., Grand Cayman	2.0
Bank of Tokyo, New York	10.0
Banque Scandinave, Geneva	1.3
Banque Scandinave, Geneva	1.6
Others	1,200.0

[From the Washington Post, June 18, 1979]

## U.N. ACCOUNTS LOSE MILLIONS IN INTEREST



UNITED NATIONS, June 17—More than \$100 million of excess funds amassed by the United Nations and its affiliates is being kept in U.S. and foreign bank accounts that pay little or no interest, audited financial statements show.

The U.N. system thus would appear to be forfeiting millions of dollars it might collect each year in interest at a time when it is complaining of deficits and difficulties in collecting assessments from member countries.

The United Nations Children's Fund (UNICEF), one of the organizations that make up what is known as the U.N. system, keeps an average of \$10 million in interest-free checking accounts.

The United Nations itself, along with the United Nations Development Program (UNDP), keeps an average of \$20 million in interest-free checking accounts.

At current interest rates of more than 9 percent for overnight investment of large funds, these sums alone represent a loss of interest of nearly \$3 million a year.

In addition, at the end of 1977, U.N. system organizations had these amounts in banks:

More than \$11 million of the United Nations Fund for Population Activities (UNFPA) earning interest of 1.75 percent a year in Japanese banks.

More than \$17 million of the United Nations Educational, Scientific and Cultural Organization (UNESCO) in various accounts paying little or no interest.

More than \$24 million of the UNDP in Japanese banks earning interest of 3.25 percent a year.

More than \$2 million of the UNDP funds in Netherlands banks earning interest of 1.5 percent a year.

More than \$7 million of the United Nations' funds in a 5 percent savings account in Chemical Bank in New York.

More than \$4 million of UNDP money in a 5 percent savings account.

More than \$1 million of United Nations University funds in a 5 percent savings account at Chemical Bank in New York.

The deposits are part of \$1.4 billion in excess funds kept by U.N. system organizations in various bank accounts throughout the world. A story in The

Washington Post yesterday reported that U.N. organizations have been amassing a surplus of as much as \$350 million a year.

Officials of UNICEF and other U.N. organizations said much of their interest-free money is in hundreds of accounts in foreign countries where it may be difficult to transfer money readily or obtain interest on deposits.

They said savings accounts may be used to hold money temporarily until it is needed to cover checks. On other deposits, they said, they obtain quotes from several banks to get the best interest rates.

While interest rates at some foreign banks may seem low, they said, the deposits may bring a higher rate of return than if the money were invested in the United States because of foreign exchange fluctuations.

U.N. organizations declined to allow access to records that would show the full terms of their deposits. "Unless you have the logic behind a transaction, you could not form a rational opinion on it," G. Arthur Brown, deputy administrator of the UNDP, said in declining to make available UNDP banking records.

Giovanni Cavaglia, comptroller of UNICEF, said disclosing interest rates on the organization's bank deposits of more than \$100 million would give a competitive advantage to banks that bid for UNICEF's business.

The United Nations board of auditors, which has access to the banking records, has criticized the way the United Nations manages its excess cash.

Referring to the hundreds of millions of dollars available for investment, the board, composed of auditing staffs from three countries, has called for forecasting cash needs based on when checks are presented for payment, closer monitoring of cash needs in overseas accounts, and an integrated system for investing funds from all U.N. offices.

Asked why the UNDP was earning interest of only 3.25 percent a year on deposits of more than \$24 million in Japan, Deputy Administrator Brown said Japan is one of the countries that imposes restrictions on money it contributes to the organization.

"Seven or eight countries (including Japan) require us to keep money until needed in their countries and designate the banks where it will be held," Brown said. "The rate is set by the bank."

Brown said he did not believe the UNDP got a lower rate in Japan as a result. But data published by the International Monetary Fund, which tracks foreign money transactions, show that overnight bank deposits of as little as \$100,000 were earning annual interest in Japan at the time of more than 5 percent.

Asked what it recommended for overnight investment of \$1 million, American Security Bank, one of Washington's major banks, said it offers a return of 9.9 percent a year through purchases of government securities.

G. Peter Wilson, director-general of the U.N. external audit committee, said the auditors are concerned about the United Nations' cash management practices.

"When we see a lot of (excess) money, we ask if it is adequately protected and invested in the best manner," he said. "What we have found is they (the U.N.) don't have systems for doing that adequately. There isn't much incentive for not leaving the money uninvested."

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[From the Washington Post, June 19, 1979]

#### HOUSE PANELS CALL HEARINGS ON U.N. BANKING PRACTICE

Two subcommittees of the House Foreign Affairs Committee yesterday called joint hearings to look into reports that United Nations organizations keep \$1.4 billion of surplus funds in bank accounts often paying little or no interest.

At the same time, the United Nations and State Department attacked the reports that appeared in the Washington Post, in separate press conferences held in New York and Washington.

The United Nations, speaking only for itself and not the other organizations in the U.N. system, said it has no "bonanza waiting to be spent" and has been "teetering every day on the verge of bankruptcy."

U.N. officials suggested privately, however, that some U.N. affiliates named in the stories were ripe for investigation.

The State Department called the report on the financial position of the U.N. system "misleading" and said organizations with separate budgets should not be lumped together to come up with a combined surplus figure.

Rep. Don Bonker (D-Wash.), chairman of the House Foreign Affairs' international organizations subcommittee, scheduled hearings to open June 28 to focus on what he called "distressing" disclosures that U.N. organizations run a surplus of as much as \$350 million a year.

"I'm primarily concerned about our own contributions and the reasons for those surpluses, and how they're invested," Bonker said.

The U.S. contributed \$600 million to U.N. organizations in 1977, or \$4.60 for each taxpayer.

"What we need to look at more closely is the accounting practices, whether we are contributing more money than is necessary, and the administrative costs," he said.

The hearings will be held jointly with the Foreign Affairs international operations subcommittee. They are expected to include testimony from State Department officials.

A congressional aide said the United Nations "prohibits" its employees from testifying before a member country's legislative committees.

In New York, George F. Davidson, the U.N. undersecretary general for administration, criticized the published reports for grouping U.N. organizations when they are separate entities.

He also said bills owed by the United Nations should have been deducted from the total on hand before reporting on U.N. bank balances. "To ignore accounts payable is an exercise in fiscal irresponsibility," he said.

While the United Nations had some \$69 million in bank accounts at the end of 1977, Davidson said, only \$36 million of that was in its general fund. The balance was in accounts with restrictions, he said.

Davidson said the United Nations needs extra money at the end of the year because no contributions come in during the first two months of the year. He later acknowledged that some contributions are made at that time. According to the State Department, the U.S. government makes a quarter of its annual contribution in January.

Davidson said apparently low interest rates of 5 percent earned by the United Nations on its savings accounts at the end of 1977 were those prevailing at the time.

He also said he would allow examination of U.N. files on particular contract awards but had never been asked. Clayton C. Timbrell, the U.N. official in charge of contracts, previously refused to allow such an inspection.

Davidson said the contract to clean the U.N. headquarters building was competitively bid in 1971. The company that won the contract at the time still has the contract, he said.

In Washington, Charles W. Maynes, Jr., Assistant Secretary of State for international organizations, said any totaling of cash of U.N. organizations is "not a useful figure" because the money cannot be transferred back and forth.

He said the United Nations itself has a \$152 million deficit rather than the \$69 million surplus that was reported. Maynes previously has defined this "deficit" as money that some countries have refused to pay to the organization. Accountants have questioned that definition.

"Clearly, the United Nations was on the verge of bankruptcy, not flush with cash as [The Post] article suggests," Maynes said.

In reporting on the \$116 million held in bank accounts by the Food and Agriculture Organization of the United Nations, Maynes said, the State Department's explanation that most of the money was in trust funds, funds set aside for particular purposes, or funds to cover regular agency expenses was "ignored."

"The assertion that the funds were sufficient to run the organization for two-thirds of a year was misleading," Maynes said.

The Post story said that if this portion of the bank deposits was excluded, there was still enough in the bank to run the FAO for nearly half year.

"Are you saying the [Post] story is inaccurate?" a reporter asked near the end of the State Department briefing.

"The figures in the story are correct figures," Maynes said. "The understanding of the U.N. system is very flawed, and the analogies advanced simply wrong."

[From the Washington Post, June 20, 1979]

STATE DEPARTMENT TO EXAMINE FINANCES OF U.N. ORGANIZATIONS

The State Department is looking into reports that United Nations organizations keep more than \$100 million in bank accounts paying little or no interest.

These and other allegations contained in a recent Washington Post series on the finances of the U.N. system will be examined by the State Department, Charles W. Maynes Jr., assistant secretary of state for international organizations, said at a press briefing Monday.

Maynes' comments were not included in a question-and-answer summary made available by the State Department Monday. The State Department later released a full transcript of the briefing.

The Post articles reported that organizations in the U.N. system have \$1.4 billion of excess funds in bank accounts and run a surplus of as much as \$350 million a year.

The stories said individual organizations, such as the United Nations Children's Fund (UNICEF), the United Nations Development Program (UNDP) and the World Food Program (WFP), have enough money in the bank to operate for six months to two years.

Maynes criticized the stories for totaling the accumulated cash of the U.N. organizations, which he called "autonomous." But he said the State Department is "instructing all of our missions at the various U.N. agencies . . . to examine closely all the points that have been made, and we're going to be looking ourselves into every allegation."

"An example would be the suggestion or charge that the U.N. agencies have money in bank accounts which could earn a larger sum of interest elsewhere," Maynes said.

Referring to a report that the United Nations Development Program (UNDP) and the United Nations itself keep an average of \$20 million in interest-free checking accounts, Maynes said:

"I honestly don't know, from a professional point of view, if the checking account of UNDP, which is listed in the series of articles as \$20 million, is too large or too small or just right for an institution that spends \$500 million in the course of a year. Maybe it is too large. Anyway, we intend to have experts look into that question."

As part of its investigation, Maynes said, the State Department will request certain documents from U.N. organizations.

"To our knowledge," he said, "we have never been denied any documents that the United States government has requested. As a result of this article, we shall request some documents relating to some of the charges, whether we think the charges are correct or incorrect. . . ."

U.N. officials' refusal to allow a Post reporter to review financial documents of the organization apparently resulted from a feeling that "no one off the street can come in on a general fishing expedition," Maynes said.

Members of the United Nations can make such requests, he said.

The General Accounting Office, the audit arm of Congress, has made such requests in the past and been turned down, according to GAO audit reports.

Maynes said he saw nothing wrong with a Japanese government requirement that U.N. organizations keep funds contributed by Japan in Japanese banks earning low interest until needed.

"They have the right to do that," he said.

[From the Washington Post, June 21, 1979]

GAO CHIEF SCORES U.N. FINANCING—COMPTROLLER GENERAL SUGGESTS STATE DEPARTMENT ACTION TO COUNTER CRITICISM

Elmer B. Staats, comptroller general of the United States, said yesterday a "whole range of actions" is needed to improve the way United Nations organizations handle their money and financial operations.

Staats made the comment after meeting with J. J. MacDonell, Canada's auditor general, who is one of the three members of the U.N. board of auditors.

The previously planned meeting came two days after Washington Post stories reported that U.N. organizations have \$1.4 billion in excess cash in bank accounts and run an annual surplus of as much as \$350 million a year.

Staats, who heads the General Accounting Office, the auditing arm of Congress, said organizations in the U.N. system need to manage their cash and investments better, improve their methods for purchasing goods and services, and strengthen their auditing procedures and standards.

"They need . . . a whole range of actions," Staats said. "Most of them were in [The Post] articles."

The GAO, in published reports, has criticized the way the State Department manages U.S. participation in U.N. organizations. The United States contributed \$600 million, or 4.60 from each taxpayer, to U.N. organizations in 1977.

"The Secretary of State should clearly and strongly state that immediate steps must be taken to strengthen and improve financial management [of U.N. organizations], including evaluation and external audit," the GAO said in a 1977 report.

The report said U.N. organizations need centralized planning, programming, allocation of resources and financial management.

"The U.N. system urgently needs to be restructured, and this requires more positive and aggressive State Department action," the report said.

Despite these and other criticisms voiced by GAO in the past, the report said, ". . . the State Department and other executive branch agencies have not greatly changed the way they manage U.S. participation in international organizations."

The GAO is expected to level similar criticism at U.N. organizations and the State Department in another report currently being prepared.

Staats met with MacDonell, the member of the U.N.'s board of auditors, to discuss the report.

Staats has had a personal interest in improving U.N. organization finances since becoming U.S. comptroller general in 1966. He previously handled U.N. system budgets when he was with the predecessor to the Office of Management and Budget.

"There's quite a lot of money there, for one thing," Staats said when asked the reason for his interest.

GAO officials are scheduled to testify next Wednesday in hearings on U.N. finances by the House Foreign Affairs international organizations and international operations subcommittees.

"We will be testifying on what is needed to strengthen the financial management," Staats said.

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[From the Washington Post, June 28, 1979]

#### U.N. FINANCIAL MANAGEMENT CRITICIZED, BANKING PRACTICES DEFENDED IN HEARINGS

The General Accounting Office criticized the financial management of United Nations organizations yesterday, but defended their practice of keeping large sums of money in bank accounts.

J. Kenneth Fasick, director of the GAO's international division, told two House subcommittees that "major problem areas include the (U.N.) organizations' structure, financial management, and budgeting and programming."

The subcommittees held hearings yesterday in response to recent Washington Post articles that reported that U.N. organizations run an annual surplus of as much as \$350 million and keep \$1.4 billion in bank accounts around the world.

Fasick said that since much of this additional money is committed for future projects, it is misleading to consider U.N. organizations wealthy or assured of stable finances.

Rep. Don L. Bonker (D-Wash.), chairman of the House Foreign Affairs International Organizations Subcommittee, said he was not entirely satisfied that yesterday's testimony before his subcommittee and before the international operations subcommittee answered all the points raised by the newspaper articles.

"The U.N. system is terribly complex and probably anachronistic in its financial systems," Bonker said. He said he plans future inquiries into United Nations finances.

Fasick said yesterday that he agrees the United Nations has a "deficit" because some countries have refused to pay their assessed contributions.

The Post articles quoted the American Institute of Certified Public Accountants as saying a deficit is an excess of expenses over income and has nothing to do with a failure to collect contributions.

Joseph Donlon, assistant director for financial management at the GAO division that sets accounting standards for the government, also said yesterday that a deficit is an excess of expenses over revenue.

When evaluating whether U.N. organizations have excess cash, Fasick said, bills owed by them, as well as bills owed to them, should be considered.

When such bills are considered, the surpluses of U.N. organizations often appear higher than the bank account figures cited in the Post articles.

The United Nations Children's Fund (UNICEF), for example, had \$131 million in the bank at the end of 1977, its audited financial statements show. Its assets, including bills owed to it, were \$185 million, and its liabilities, including bills it owes, were only \$40 million. This left net assets of \$145 million.

Fasick in his testimony, said, "Clear weaknesses exist in the United Nations' management of its organizations."

He said U.N. groups have been studying ways of centralizing some activities of U.N. organizations. "Yet," he said, "specialized agencies (within the U.N. system) still tend to favor their autonomy, and few are willing to accept a central mechanism to coordinate planning and programing."

Although the U.N.'s controller is authorized to coordinate financial practices within the U.N. system, he said, he has not exercised it. Fasick said the controller, Helmut Debatin, has stated that the various governing bodies of U.N. organizations are more influential than he is.

Fasick called for more aggressive action by the State Department in trying to restructure the U.N. system, and said the department should scrutinize U.N. organization budgets more closely.

Marion V. Creekmore, deputy assistant secretary of state, said any totaling of cash in U.N. organization bank accounts produces a "misleading and irrelevant" figure because each organization is separate. Trust fund money also should be excluded, he said.

The Post articles listed trust fund money separately.

Creekmore said U.N. organizations need more money in the bank than commercial companies because their members generally do not want them to borrow.

He said the State Department takes "seriously" the charge that U.N. organizations do not earn the highest possible interest on its cash balances.

However, he said, the organizations often have hundreds of accounts in different countries with varying banking practices.

Some countries place restrictions on where their funds will be invested until it is needed, he said. The United States itself only advances contributions to some U.N. organizations when it is required, he said.

"I would not pretend that the U.N. financial management system is perfect," he said. "But the system is better than its critics acknowledge, and improvements are being made."

## APPENDIX 2

STATE DEPARTMENT RESPONSE TO WASHINGTON POST ARTICLES BY  
RONALD KESSLERU.N. SYSTEM, CLAIMING DEFICITS, HAS \$1.4 BILLION IN BANK

(WASHINGTON POST, JUNE 17, 1979)

First of two articles  
By Ronald Kessler  
Washington Post Staff Writer

UNITED NATIONS, June 16 - The United Nations and its affiliates, while claiming to be plagued with deficits, have been running a surplus of as much as \$350 million a year and have \$1.4 billion in excess funds in bank accounts, audited financial statements show.

The implication of this statement is two-fold:

that the UN System is a unified body with a central management and a single financial structure, and that the System operates in such a way as to utilize significantly less money than it collects. In other words, the UN system is a single entity operating at an unacceptable surplus. These implications are simply not in accord with the facts.

The United Nations itself and each of the Specialized Agencies have their separate charters, their own financial regulations and their individual governing bodies. Therefore, the fact that one agency has cash on hand at the end of an accounting period does not benefit another agency or the system as a whole.

Secondly, sums on deposit in banks cannot be described as "excess" any more than cash on hand at any given moment can be described as "surplus." If any organization were

to end the fiscal year with a zero cash balance, it would risk being unable to function at the beginning of the following year. Similarly, international organizations operating on behalf of member governments require larger cash reserves than commercial operations or governments since, unlike commercial operations or governments, they normally do not have the option of borrowing money or selling securities.

Moreover, the alleged excess funds of \$1.4 billion obtained by totaling the cash on hand of autonomous bodies includes voluntary contributions as well as assessed payments, trust funds, special accounts and endowments. These are monies which cannot and should not be lumped together.

Finally, the cash sum attributable to any given organization must be seen in relation to that agency's debts and commitments. The several governing bodies -- and the U.S. is an active member of most -- insist that the agencies maintain sufficient cash reserves to cover such debts and commitments irrespective of the schedule of assessed payments or voluntary contributions by Member States. This is especially true for organizations financed largely by voluntary contributions since they must meet their financial obligations on schedule even though their resources come in on an irregular basis.

The organizations that make up the U.N. system have managed to create the impression that they are in difficult financial straits by distributing funds among a number of special accounts and placing vast sums in special reserves, the statements disclose.

In some cases, the U.N. organizations have obscured the fact that they actually have amassed considerable wealth by depicting their finances in ways that accountants say are highly questionable.

These are two unacceptable elements in this statement. One is the implication that the U.N. and the autonomous specialized agencies are conspiring to misrepresent the facts for some unexplained reason. The other is that they initiate measures which result in hiding the true situation in regard to finances. Both of these charges are false. The U.N. Board of Auditors has stated that "it is of the opinion that the financial statements [of the U.N.] properly reflect the recorded financial transactions for the biennium, which transactions were in accordance with the financial regulations and legislative authority, and present fairly the financial position as of 31 December 1977." Specialized agency auditors have issued similar opinions. Moreover, the U.N. and the autonomous bodies have nothing to gain by misrepresenting fiscal data. Employees are salaried, receipts and expenditures recorded and verified, and program budgets scrutinized and approved by member governments. It is the member governments which set up trust funds or establish special accounts for specified purposes.

Again, it is the member governments acting in concert which direct the agencies to maintain operational reserves to protect the organizations from default or from serious curtailment of activity resulting from shortfalls in receipts and/or increased costs arising from inflation or the devaluation of the U.S. dollar in which currency most accounts are calculated.

The audited financial statements have been publicly available for years, but apparently no one has ever totaled the figures to obtain a complete picture of the finances of the U.N. system.

The article is correct that the financial statements of the U.N. and the specialized agencies have been publicly available for years. They have also been certified as accurate and in accordance with relevant rules and regulations by respected and independent external auditors. The reason why the accounts of the U.N. and the specialized agencies have not been totaled is that it was known that organizations with separate charters, mandates, rules and budgets are autonomous and that adding together their accounts produced misleading and irrelevant figures.

The United Nations Children's Fund (UNICEF), one of the organizations in the U.N. system, alone has \$100 million to \$140 million in its bank accounts, the audited statements show. In recent years, the organization that helps starving children has run an annual surplus ranging from \$8 million to more than \$20 million.

The excess money, enough to run UNICEF for at least six months and possibly almost a year, is equivalent to the amount that children would collect in UNICEF Halloween trick-or-treat campaigns over 70 years.

On December 31, 1977, UNICEF held \$131 million in cash and short-term investments. At the same time, it had outstanding commitments to governments for agreed programs totalling \$304 million, mainly for delivery in 1978 and 1979. Most other comparable international development organizations, such as the soft-loan window of the World Bank (IDA), require sufficient cash on hand to meet 100 percent of their existing commitments. Thus UNICEF, rather than being cash heavy, actually has much less cash resources than some other organizations would require for the same size program. The figure of \$131 million included only \$71 million in general resources available for regular UNICEF expenditures. General resources include income from voluntary annual contributions of governments, proceeds of unearmarked funds contributed by the public ("Trick or Treat," etc.), and certain general income. The

remainder (\$60 million) consisted of supplementary funds whose use for programs is earmarked by donors. Of this, some \$36 million consisted of contributions for specific purposes. Where donors have stipulated that unspent balances must be returned, contributions are listed as funds-in-trust and this amounted to another \$14 million. Finally, there were \$10 million in non-revenue funds-in-trust which are received mainly for reimbursable procurement of goods and services by UNICEF for other UN agencies and for a number of countries. These funds are not subject to Board commitment. As in 1978 UNICEF spent \$164 million from general resources, the \$71 million represents about five months' expenditure. Some 90 percent of these funds were in interest-earning investments. Because of the uncertainties involved in forward financial planning, actual cash and investments inevitably fluctuate around the desired level. At the end of 1977, cash and investments were somewhat higher than the Executive Board of UNICEF considered necessary; they are projected to be somewhat below the desired level by the end of 1980.

A number of considerations go into the UNICEF Executive Board's decision on the level of available resources required by prudent financial management. As UNICEF relies entirely

on voluntary contributions and cannot borrow funds in the event of financial short-falls in revenue, it must have adequate funds on hand at any time to meet its financial obligations. UNICEF program assistance has to be prepared at least two years in advance of initial expenditure, yet most government contributions are pledged only a month or so in advance of the UNICEF fiscal year and then for one year only. UNICEF deliberately holds a certain volume of cash and investments in order that the implementation of existing programs with governments will not be disturbed, should future funding be less than expected. Consequently, UNICEF cannot use these cash and investment reserves for additional programs. Indeed, at the end of 1977 UNICEF had some \$55 million unfunded projects for which supplementary funding by individual nations was sought. Moreover, UNICEF's work and annual expenditures are increasing substantially.

U.S. and U.N. officials acknowledged they did not know exactly how much the U.N. system takes in or spends each year.

A State Department compilation shows the organizations in 1977 received income of \$2.4 billion, a commonly accepted figure. But this does not include all the U.N. organizations.

Totaling each organization's financial statements collected over a period of months shows they had total income in 1977 of \$2.7 billion--\$300 million above the widely accepted figure.

The Department of State's compilation, as the Washington Post article states, is \$2.4 billion. We do not know what additional elements are included in the Post's \$2.7 billion figure. We are also somewhat puzzled by the first sentence that implies that U.N. and U.S. officials lack adequate information on UN system financial operations. In fact, the U.N. Board of Auditors and the relevant external auditors of the various specialized agencies have certified that the respective accounts at the end of 1977 (the figures used in the Washington Post article) were in order.

Far from running deficits, the U.N. organizations in 1977 retained 13 percent of their total income as a surplus, the figures show.

We are unable to verify this figure. However, it appears to include trust funds, voluntary and assessed contributions, special accounts and endowments. These are separate and distinct funds, for different purposes, belonging to various autonomous programs and agencies, and subject to differing restrictions. A total, therefore, is meaningless. It should be noted that the United Nations itself and each of the specialized agencies have their separate charters, their own financial regulations and

their individual governing bodies. Therefore, the fact that one agency has cash on hand at the end of an accounting period does not benefit another agency or the System as a whole.

By comparison, CARE, the nonprofit organization that distributes food overseas and has no connection with the United Nations, had a surplus last year of 1.2 percent.

In 1977, the latest year for which full figures are available, U.N. organizations had enough money in their bank accounts to cover operating expenses for an average of seven months and, in some cases, as much as two years.

CARE, by contrast, had enough in the bank and other investments to cover operations for about a month.

There is no rationale for comparing the UN, which is an intergovernmental organization, with a charitable institution like CARE. In many respects, an intergovernmental organization is sui generis. If any comparison is to be made, it should be to governments. A government like the U.S., of course, at times has large cash surpluses, such as after April 16, when everybody pays his taxes. It then draws this money over the course of the year. The U.N. operates in much the same manner. It has particular need of large balances at certain times of the year because of the pattern of contributions. Moreover, unlike

governments, the UN cannot borrow money to finance its deficits. As explained elsewhere in this commentary, the funds referred to in the article belong to many UN organizations; they were not available to cover the operating expenses in the respective organizations. (A more detailed explanation on the accounts of several of those organizations is provided elsewhere in this commentary)

The U.N. organizations place their excess funds in banks throughout the world. Details will be covered in a second article.

U.N. officials say the excess funds are needed to insure that commitments to fund projects in the future will be met.

"UNICEF needs an operational capital to maintain liquidity during the year and to absorb differences between revenue and expenditure for future years," Henry R. Labouisse, executive director of UNICEF, said in this year's financial statements.

What is incorrectly called "excess" funds is, in fact, a revolving fund of UNICEF's working capital. Wholly dependent on voluntary contributions, UNICEF has to maintain liquidity throughout the year, as it cannot borrow money, yet contributions flow into UNICEF quite unevenly. During the four-month period immediately following December 31, UNICEF can expect to receive as little as 10 percent of the total contributions for the year, yet UNICEF can expect to be required to pay 33-1/3 percent of its bills. Furthermore, UNICEF has long-term commitments to more than 100 developing countries (some

\$304 million as of the end of 1977) to help support these governments' programs for children. UNICEF must be able to supply its input when needed by paying promptly for goods and services.

After reviewing the figures on U.N. system finances, the State Department confirmed last week that they were accurate but objected to any attempt to lump together the finances of all U.N. organizations.

Charles W. Maynes, Jr., the assistant secretary of State for international organizations, said, "Each organization is completely autonomous, and money cannot be shifted from one to the other."

In a 14-page statement, he said large portions of the excess funds are in special funds for particular purposes or in reserves that should not be counted.

For example, a \$150 million "reserve" of the United Nations Development Program (UNDP) should be deducted before reporting on the UNDP's accumulated cash, Maynes said.

The UNDP Governing Council established an Operational Reserve of \$150.0 million in January 1971 to guarantee the financial viability of the program, to compensate for uneven cash flows and to meet such other requirements as may be determined from time to time by the Governing Council. The Operational Reserve is essential for UNDP to function since the program enters into multi-year

commitments for projects, i.e., for two, three or four years, whereas its income in the form of voluntary contributions is pledged and paid on an annual basis covering only one financial year at a time. Since UNDP operates multi-year financial commitments on the basis of annual income, it requires its Operational Reserve to be fully liquid and available at all times.

To present U.N. system finances in proper accounting terms, Maynes said in the statement, the bank balances should be reduced further by deducting the accounts payable--bills owed by each organization.

Maynes singled out the United Nations itself, which is less well off than most of the affiliate organizations in the U.N. system, as an entity with particular problems.

He said it has a "deficit" because some countries have refused to pay their assessed contributions. If this "deficit" is considered, and the amounts owed by the United Nations are taken into account, it will be shown to be "on the verge of bankruptcy," Maynes said.

In his unpublished letter to the Editor of the Washington Post, Under Secretary-General George Davidson pointed out that the United Nations at the end of December 1977 had a total of \$137.5 million (including cash on hand,

accounts receivable monies due from other funds, and unpaid assessed contributions from member governments) to meet obligations due and payable of \$146.5 million. Further, two-thirds of the \$75 million in unpaid assessments is regarded as uncollectible; it is being deliberately withheld by certain members as a matter of policy.

In addition, Maynes said an article on the overall financial situation of the U.N. system would be used unfairly by political critics of the United Nations.

When first asked about the bank accounts of U.N. organizations, Maynes said a story on the subject "will do tremendous damage to the U.N. ... The damage will be incredible. It will be devastating."

Mr. Maynes stressed the need for any article on the U.N. financial situation to contain correct facts and reflect a clear understanding of the operation of the U.N. System. In this context, he said simplistic, unsubstantiated charges could be detrimental to U.S. support of the U.N. and specialized agencies from which the U.S. derives considerable benefits.

Accountants disagreed with Maynes' view of how U.N. system finances should be presented. They said, for example, that reserves of an organization should be included when assessing its wealth.

Paul Rosenfield, director of the American Institute of Certified Public Accountants' accounting standards division, disagrees with the United Nations definition of "deficit." A deficit is an excess of expenses over receipts, he said, not the failure to collect a contribution.

"A deficit would have nothing to do with that," he said.

Deducting various items from bank balances, as suggested by the State Department, without offsetting them by adding in amounts owed to the organizations would produce a "very misleading piece of information," Rosenfield said.

"It would look like an organization is going out of business when it is highly profitable," Rosenfield said.

This debate over what constitutes a deficit misses the key point--the unique role and requirements of an international organization and how these necessarily influence its decisions on financial management. Unlike commercial organizations, U.N. organizations normally cannot borrow to cover short-term deficits. Therefore, they must have sufficient cash on hand to cover obligations as they fall due even though their accounts receivable often come in on an irregular basis. U.N. organizations can never be certain when member contributions will be received, a particular problem to financial

managers of organizations which are funded through voluntary contributions such as UNDP and UNICEF. Moreover, some of the assets of U.N. organizations are in non-convertible currencies which cannot be used to meet normal financial obligations. Finally, trust funds, endowments, and special accounts cannot be used to meet normal operating expenses of an organization.

In summary, a single number, such as an organization's bank account, cannot be used to determine the financial condition of a U.N. organization at a particular point in time.

Officials of U.N. organizations generally refused to permit inspection of records that would show how the United Nations spends its money.

"It's not in the public domain," William Goodkind, deputy U.N. controller, said when asked about the terms of bank deposits. "We only show that to the auditors. I'm not going to show it to anyone who walks in off the street."

"There's no reason why you should have access to the files of the U.N.," George F. Davidson, undersecretary general for administration and management, said when asked for a list of companies that receive contracts from the United Nations.

Although the U.S. government gave the largest single contribution to the United Nations, \$600 million to the U.N. system in 1977, or \$4.60 for each taxpayer, the General Accounting Office, the audit arm of Congress, also has been refused access to financial records of U.N. organizations.

With respect to financial records, the U.S. Government has occasionally asked for information beyond that made available in the financial accounts submitted annually to the General Assembly, and no reasonable request has, to our knowledge, been refused.

We understand the GAO has had full access to all external audit records. Internal audit reports, however, are prepared for the executive head of the agency and are not available to national governments.

It should be noted that Elmer Staats, Comptroller General of the United States, on March 5, 1970, testified before the Subcommittee on International Organizations and Movements of the House Committee on Foreign Affairs as follows: "I would like to emphasize that it is not the objective of the General Accounting Office to review the internal operations of the international organizations. Indeed, we, like other member governments, do not have the authority to audit their activities."

U.N. Under Secretary General Davidson responded to the Post criticism regarding access to U.N. records at a recent press conference. His views have been submitted for the record of the June 27 joint hearing of the Subcommittee on International Organizations and Subcommittee for International Operations, House Committee on Foreign Affairs.

"We can only ask questions," said George F. Saddler, the counselor for financial matters at the U.S. Mission to the United Nations. "To look at records gets into a fundamental policy question. We (the State Department) have never considered there was any need to look at those records."

The Washington Post article incorrectly quotes the Counselor for financial matters at the U.S. Mission to the United Nations and also uses the incorrect quotation out of context. The Washington Post reporter requested the assistance of the U.S. Mission in obtaining access to U.N. records, vouchers and internal correspondence. The request was made under the U.S. Freedom of Information statutes. The Washington Post reporter was informed that the U.S. Freedom of Information procedures did not apply to the U.N. and that under the Convention of Privileges and Immunities of the United Nations, which was adopted by the U.N. General Assembly in 1946 and ratified by the U.S. Senate on March 19, 1970, subject to certain reservations, the premises of the U.N. were inviolable and the property of the U.N. was immune from search, requisition, confiscation, expropriation and any other form of interference. U.N. records, vouchers and correspondence are considered U.N. property and thus not accessible under this Convention.

In order to assist the Washington Post reporter, the Counselor for financial matters stated that the UN officials had always cooperated fully with the U.S. Mission in providing any reasonable information requested and that if

the Washington Post was seeking specific information, the U.S. Mission said "we can ask the questions." The Washington Post altered the above statement by adding the word "only" and dropping the word "the"-- which conveyed a sense of helplessness or futility on the part of the U.S. Mission, which is certainly not the case.

This year, the United States is temporarily withholding contributions to some U.N. organizations in a disagreement over how assessments are made. So far, \$139 million has been withheld and \$172 million paid.

Legislation enacted by the Congress in late 1978 prohibited the use of funds appropriated to pay annual U.S. assessments to the U.N. and to specialized agencies for meeting expenses of the U.N. agencies related to technical assistance activities. In addition, this legislation deleted from the FY 1979 appropriation request an amount of \$27.7 million which was determined to be the U.S. share of U.N. system technical assistance expenditures in 1979. This action was predicated on the assumption held by some members of the Congress that U.N. system technical assistance activities which benefited only certain members should be funded through voluntary as opposed to assessed contributions.

As a result of this action, the Administration was unable to obtain assurances that none of the funds appropriated would be used to fund U.N. system technical assistance activities; furthermore, the U.N. agencies were unwilling to accept conditional contributions from the United States since to do so would be contrary to the statutes of the various agencies. Consequently, the United States has not paid any part of its CY 1979 assessments to the U.N. and ten specialized agencies which are legal obligations of membership. However, as of June 21, 1979, the U.S. has paid \$150,165,000 to voluntary programs of the U.N. system. Such payments come from appropriations not covered by the restrictive legislation.

Those who are allowed to see the United Nation's books--the U.N. board of auditors--have severely criticized nearly every facet of the United Nation's financial operations.

In little-noticed reports published by the United Nations, the board, composed of audit staffs from three countries, has repeatedly "qualified" its opinion on the soundness of U.N. finances.

This means the board refused to certify that the books as presented were accurate.

The statements relating to the opinions of the U.N. Board of Auditors are incorrect. In the opinion of the auditors (page 24, Financial Reports and Accounts for the biennium 1976-77 ended 31 December 1977, A/33/5, Supplement 5), the financial statements properly reflect

the recorded financial transactions for the biennium,  
which transactions were in accordance with the Financial  
Regulations and legislative authority, and present fairly  
the financial position as at 31 December 1977, subject to  
the observations contained in paragraphs 57 and 58 of the  
report. (Paragraphs 57 and 58 list the assessed contribu-  
tions unpaid in the amount of \$240.3 million. "The Board's  
opinion on the financial statements is subject to the  
ultimate realization of these assets.") The Board's only  
reservations related to the UN's counting as assets the  
\$240.3 million that certain nations have refused to pay  
on matters of principle (e.g., the refusal of the U.S.S.R.  
to pay for certain peacekeeping operations). A commercial  
establishment would write such assets off as uncollectible,  
but an international organization cannot do so. In fact,  
the U.S. would complain loudly if the U.N. decided to  
release the Soviet Union from paying a portion of its  
assessed contributions. But the Auditors correctly  
questioned the real value of these "accounts receivable."  
Their conclusion, however, does not support the Post  
contention. Indeed, they run counter to the thrust of  
the articles that the U.N. has large cash surpluses.

The auditors have pointed specifically to deficiencies in the way the organization handles its checks, assets, invoices, purchases, contributions and books.

As is appropriate in any audit report, the Board of Auditors Report on the 1976-1977 accounts indicates areas in the U.N. financial system where weaknesses exist and where improvements were necessary. In the introduction to the report, the Board noted that it was taking an even more comprehensive, integrated approach to the review of U.N. financial matters, and stated, "The most significant development in the last two years has been to move away from a detailed checking of individual transactions to an evaluation of the relative strengths and weaknesses of the systems of financial control." As a result of the expanded, in-depth approach used to audit the 1976-1977 biennium program, greater attention was focused on management systems. As can be seen from a review of the audit document, criticisms leveled at particular areas of financial management were responded to by the U.N. administration, which generally concurred in the findings, and which stated, "The Administration fundamentally agrees with the basic thrust of the report and will direct its efforts to the

effective implementation of the recommendations taking into consideration the observations below and the existing financial and staffing constraints placed on the Organization."

The Board's report contained 19 recommendations for improving the financial management and control of the United Nations. The United States, which has consistently supported the efforts undertaken by the Board, took the lead in the Fifth Committee of the 33rd General Assembly in recommending that the Board's recommendations and findings be implemented. This effort resulted in the General Assembly passing Resolution 33/10 calling upon the Secretary General to implement as quickly as possible the proposals of the Board of Auditors and to report on the progress made at the 34th UNGA.

They also have questioned the effectiveness of the U.N. internal auditors and the qualifications of its financial officers.

The Board of Auditors indicated that "the potential of the Internal Audit Service is not sufficiently utilized in monitoring the effectiveness of financial systems." It should be noted, however, that the Board also found that "steps have been taken to improve the skills of the Internal Audit Staff and to better utilize them through improved planning of work to be done."

The Board recommended that the Controller should become directly involved in appointments, professional development and appraisals of all financial officers and persons performing significant financial duties. In response, the Administration endorsed fully the proposal that the Controller should be so directly involved, but stated that the corrective action proposed must be achieved in concert with the Office of Personnel Services in all matters relating to recruitment, appointment, promotion and training of staff.

"The reporting system is inconsistent and it's almost impossible to get a handle on the total activities of the system," said G. Peter Wilson, director general of the U.N. external audit committee.

"The system doesn't provide the assurance that the final information is accurate, and, in many cases, that there are adequate controls to ensure proper use of financial resources," Wilson said.

We think it inappropriate to comment on quotations of Mr. Wilson without knowing the full context in which his remarks were made. However, we welcome criticism of the U.N. financial management system by the Board of Auditors. That is their job and we rely on them to do it well. The U.N. Administration agreed with most of

the recommendations, and we understand that it is in the process of implementing a number of them.

He said the auditors have not addressed the reasons U.N. organizations generate excess funds, since this is a question of policy rather than accounting.

"Why is the U.N. raising all these funds? Why does the U.N. act as a bank in the first place? These are not audit questions," he said.

The U.N. system encompasses nearly 30 organizations with acronyms like WHO, ILO, WIPO, UNITAR and ITU, besides the United Nations itself. It includes lending institutions like the World Bank and International Monetary Fund, whose figures are not included here. It also includes hundreds of trust funds established for various purposes. ✓

Each organization and trust fund has its own member countries, governing body, books, employees and offices. No one person or body supervises the entire U.N. system.

However, the U.N. General Assembly, through various councils and committees, coordinates the work of each of the organizations and reviews their budgets. It also creates some organizations and appoints their chief executives.

These statements are essentially correct.

Financial data on each organization is not available at any one location.

The U.N. system is comprised of a number of autonomous agencies and programs located in a number of different countries. Each maintains its own accounts and financial records, and these are available to member governments. In addition, all internal accounts are available to the independent auditors that review each organization accounts.

With respect to the United Nations, the Controller as manager of UN finances is the central source of data on all assessed funds, as well as other funds under the direct control of the Secretary General.

Although it spends \$16.3 million a year, the U.N.'s office of public information is of little help.

Its publication, "Basic Facts about the U.N.," tells visitors the United Nation's budget in a recent two-year period was \$784 million, or an average of \$392 million a year. This was only 16 percent of the expenditures of the U.N. organizations described in the booklet.

The reference is to a one-page "brief" of the United Nations on the back page of "Basic Facts." This information deals only with the U.N. headquarters organization and does not purport to cover the Specialized Agencies or the voluntarily-funded organizations and programs mentioned in the body of the booklet.

This "brief" as well as the publication itself is intended for the general public and hence is not an exhaustive analysis of U.N. operations. The Office of Public Information not only responds to inquiries from the press and the public, as mentioned in this one-page brief, but provides a vast array of information ranging from detailed daily reports on all official meetings and conferences to studies made in such areas as nutrition and the status of women. Detailed information on U.N. operations is of course provided by the Secretariat to member governments, a procedure not unlike that of a corporation vis-a-vis its stockholders.

The organization with the biggest bank accounts and surplus is the United Nations Development Program (UNDP), an umbrella agency that funds other U.N. organizations so they can improve health, education and nutrition in developing countries.

At the end of 1977, the UNDP had \$286.1 million in its bank accounts. This was enough to run the organization for two-thirds of a year.

The \$286.1 million figure is only a portion of the assets shown in the 1977 accounts; total assets were \$364.4 million. Against this were liabilities of \$144.8 million, including \$54.8 million in trust funds administered by UNDP. Of the assets, \$50.8 million were not liquid

(\$40.1 million in accumulated non-convertible currencies. \$3.3 million in housing loans and \$7.4 million in a note held by UNDP) leaving a balance of \$168.8 million. Of this, \$85 million was earmarked for the operating reserve and \$35.2 million was held in field offices and in project accounts of executing agencies. Only \$48.6 million was actually held by UNDP, and this was one month's cash requirement. ✓

Twelve trust funds administered by the UNDP had another \$89.9 million in the bank.

The twelve trust funds operated by UNDP covered the following activities: Assistance to colonial countries and peoples; capital development; national resources exploration; Sudano-Sahelian activities; volunteers; the development of West Irian; technical assistance for the Republic of Zaire; the Korean Reconstruction Agency; relief operations in Bangladesh; operational personnel in Swaziland; operational program in Lesotho and the Special Fund for Land-locked Developing Countries (the U.S. has made voluntary contributions to several of these trust funds).

Each UNDP trust fund derives its resources from voluntary contributions by Member States in order to finance the specific activities referred to above. Under its financial regulations and rules, UNDP is prohibited from co-mingling trust funds or to use one trust-fund resources for another trust fund.

Trust funds are operated on a full funding basis, i.e., all funds required for the projects must be received before projects are approved, because of the uncertainty of future pledges. Since projects are usually for several years, it is expected that at any one time reasonable balances will be held in the trust funds. Of the balance in UNDP trust funds at the end of 1977, \$33 million had been received at the time of the closing of accounts for that year; this amount was included in income for that year but actually was in the process of being allocated.

In 1977, the UNDP ran a surplus of \$166 million.

The U.S. Government contributed \$100 million to the organization in that year.

G. Arthur Brown, Deputy Administrator of the UNDP, said the organization had financial difficulties in 1975 and 1976 and wanted to ensure that commitments to fund future projects would be met. In those years according to UNDP financial statements, the organization had to dip into its reserves but had higher expenditures than it does today.

"We're trying to increase the rate of expenditures," Brown said.

Excess of income over expenditure in 1976 and 1977 resulted primarily from two directives of the Governing Council, both of which were taken in reaction to the UNDP financial crisis of 1975 and 1976. A large decrease in the U.S. contribution at that time forced a sizeable reduction in staff and cancellation of some projects that were under

way. The directives were:

1. That UNDP had to limit its expenditures to a level within available resources, and
2. That the operational reserve of \$150 million be replenished during the period 1977 to 1981.

UNDP also had to cover the deficit, some \$66 million, in the main program at the end of 1976.

Because of difficulties (largely staff shortages) encountered in filling the pipeline with approved projects during 1977, the expenditures in that year did not achieve the targets established by UNDP and approved by the Governing Council. Consequently, the Council directed that the surplus in 1977 be used to replenish the Operational Reserve at a faster rate than previously directed.

It must be appreciated that in 1976, the main thrust of UNDP was a reduction of the program to a level consistent with reduced available resources. The time required from project formulation to approval to implementation is some 12 to 18 months, so that it was anticipated that delivery would be low in 1977. Delivery showed in 1978 a significant increase, some 33 percent more than in 1977.

The World Food Program (WFP), a U.N. organization that distributes food in impoverished countries, had \$322.1 million in its bank accounts. This was enough to run the Rome-based organization (exclusive of food contributed by countries) for nearly two years.

World Food Program (WFP) estimates that it requires carry over of \$300 million each year to assure the availability of commodities for years beyond the current

biennium. This is because WFP, with the approval of the Committee on Food Aid Policies and Programs (CFA), makes program commitments of 5-8 years. Donors, however, make pledges for only two-year periods. This estimate of \$300 million has been presented to the CFA, the WFP's governing body, and has not been challenged. WFP regulations state that, in the aggregate, WFP should accept contributions in the form of two-thirds commodities and one-third cash. It would seem to follow that the carry over should also be maintained in this ratio: which would mean that \$100 million should be available in cash.

WFP cash balances exceeded this amount at the end of 1977 in part because this was the mid-point of a biennium. Resources, especially cash, tend to come in near the beginning of the biennium, while expenditures, in contrast, tend to grow throughout the period.

Furthermore, time has shown that WFP's cash balances may not be even adequate. The cash component of donors pledges as a percentage of total pledges has been falling, while at the same time, cash requirements have been increasing, primarily due to increasing freight rates. Therefore, WFP cash resources have been declining and are

projected to fall to dangerously low levels by the end of 1980. While the cash position as of December 31, 1977, amounted to \$132.1 million, it fell slightly to \$109.7 million at the end of 1978. It is projected to be at \$76.4 million at the end of 1979 and only \$12.3 million by December 31, 1980.

The organization had a surplus in 1977 of \$29.5 million.

In that year, it received \$77.4 million from the United States.

The \$29.5 million figure is accurate, except it should be reduced by \$2.1 million to allow for certain allocations, such as to the insurance fund (WFP is self-insured). The explanation for the surplus, again, is that this is the first year of the budget biennium, and the contributions tend to come in during the first part of the period, while expenditures tend to increase as the biennium progresses.

The Food and Agriculture Organization of the United Nations (FAO), which helps developing countries upgrade their own food supplies, had \$116.4 million in its bank accounts. This was enough to run the Rome-based agency for nearly two-thirds of a year. Even if the portion of this money that the FAO had put into trust funds was excluded, there was still enough in the bank to run the agency for nearly half a year.

\$116.4 million is the correct figure as shown in the external auditor's report for the level of FAO cash resources. However, \$59.4 million of this was in trust funds. \$16.0 million was in other funds, which were also of a trust fund nature, i.e., they could not be commingled with the organization's regular budget and used to meet operational expenses. A further \$10 million was from the 1976/77 surplus and had been earmarked for the Prevention of Food Losses account, set up by the FAO Conference, but which as of December 31, 1977, had not yet begun to function. A further \$7.3 million was surplus for the period which was returned to members in 1978.

Therefore, of the \$116.4 million, only \$23.7 million was really available for FAO use in meeting ordinary expenditures. This would be sufficient to run the organization for about one month.

The FAO had an average annual surplus during its most recent two-year financial period of \$29.4 million.

It received \$18.5 million in U.S. contributions in 1977.

This surplus figure is incorrect. The surplus of \$29 million was for the two-year period, not an annual

average. Therefore, the annual average was about \$14.5 million; \$10 million (of \$29 million) was distributed to members in January 1979, including \$2.5 million to U.S. The U.S. contribution for 1977 was \$18.5 million.

The World Health Organization (WHO), which promotes health programs, had \$116.5 million in the bank, or enough to run the Geneva-based organization for more than a third of a year.

The deposits and securities held for WHO on December 31, 1977, totaled \$126,711,693, not \$116.5 million.

Of that amount, \$35 million was offset by unliquidated obligations, i.e., activities which had been undertaken, or goods or services already delivered, for which the bills had not yet been paid at the end of the year.

Another \$26.9 million was in trust funds, monies held by WHO for more than 25 distinct operations not related to WHO regular budget programs, all of which was provided to WHO by others voluntarily for those specific purposes.

And \$40.1 million more was in the WHO Voluntary Fund for Health Promotion. This also consisted of earmarked voluntary contributions by member nations, including the

United States, for specific projects to be performed without time limit. Such funds must be held until the projects are executed and paid for.

None of the funds in those three categories, even though deposited in the name of WHO, was available to WHO to spend for any purpose other than the one for which it was earmarked.

This would leave about \$24.7 million theoretically available in the bank for WHO to spend. But much of that represented reserves held for legitimate purposes necessary in the sound and businesslike management of the operation, such as funds held for terminal payments to employees leaving service (\$12.8 million), casual income to offset currency fluctuations (\$10.3 million), and real estate and building repairs (\$1.7 million). At most, those funds could be borrowed temporarily to offset shortfalls in WHO's income due to late payments by member governments or others. They would all have to be paid back so that they would be available when needed for their original purposes.

Despite a claim in its financial statements that it had a "cash deficit" in one fund, WHO took in \$7.4 million more than it spend in 1977.

There was no surplus of funds for the regular operations of WHO in 1977. The Report of the External Auditor for 1977

shows that there was a cash deficit amounting to \$9,881,483, and that internal borrowing was undertaken to make up the shortfall.

Some of more than 25 voluntarily funded health programs took in more money than they expended during 1977, and this may have the appearance of creating a "surplus". But these funds cannot be commingled with regular budget funds or in the regular budget. No member government, international agency, private organization, or independent auditor would tolerate voluntary contributions that have been earmarked for specific purposes being used in support of regular budget programs. Any interest earned by these voluntary contributions is for the sole benefit of the individual account and does not become generally applicable to the other activities of the organization. Nor, in most cases, is there a deadline requiring expenditure of the funds by the end of the year in which the contribution is made. Adding together trust funds and regular budget accounts does not provide meaningful information.

It received \$43.3 million from the United States that year.

A WHO official in Geneva said that some of its money is committed for future expenditures.

The U.S. did contribute \$43.3 million to the WHO in 1977.

The United Nations Educational, Scientific and Cultural Organization (UNESCO), which funds projects in varied fields, had \$69.2 million in the bank. This was enough to run the Paris-based agency for about three-quarters of a year. Another \$13.9 million was kept in banks by UNESCO trust funds.

The figure of \$69.2 million included the following:

- the sum of \$23,501,300 representing interest-free loans from Member states;
- the sum of \$2,800,000 belonging to UNDP;
- the sum of \$19,600,000 belonging to special accounts and Funds-in-Trust, such as the Public Liaison Fund, the Publications Fund, the Headquarters Utilization Fund.

This means that in fact on 31 December 1977, the sums available in banks which could have been used to cover UNESCO budget expenditures under the Regular Programme amounted to only slightly more than \$23 million. This balance had to cover part of commitments made in 1977 (more than 9 million dollars) and budgetary expenditures for the first months of 1978 (January and February alone exceeded \$15 million).

The balance available in Funds-in-Trust and Special Accounts on 31 December 1977 was indeed \$13,900,000 but this sum does not belong to UNESCO and cannot in any circumstance be used to cover expenses under the UNESCO Regular Programme.

UNESCO took in \$15.8 million more than it spent in 1977.

The United States contribution to the organization that year was \$27 million.

A UNESCO spokesman in Paris said the organization's bank balances were unusually high because it had just received a \$23 million loan from some countries. He said the loan was needed because the organization's primary fund was about to run out of money.

Receipts from current assessments exceeded program and support expenditures by \$15.8 million in 1977. However, of this total \$8.8 million did not constitute a genuine excess, but rather an increase in the Working Capital Fund as authorized by the UNESCO General Conference in Nairobi in 1976. Moreover, the United States paid \$40 million of arrearages in its contributions in June of 1977, causing an unusually large one-time increase in receipts during the year. In addition, although the UNESCO Secretariat expected that the favorable outcome of the Nairobi General

Conference in November 1976 would lead to a resumption of U.S. contributions to UNESCO (amounting to 25% of its budget), the organization prudently anticipated that it would be months, at least, before a check would be received. It, therefore, continued to restrict its program and support expenditures in 1977 to a level commensurate with 75 percent of its assessed budget payments.

The United Nations itself, which includes the General Assembly, Secretariat, Security Council and International Court of Justice, had \$69.4 million in the bank, or enough to fund the organization for nearly two months.

According to U.N. officials, the organization did not have \$69.4 million in freely useable funds in the bank on December 31, 1977. \$25.4 million represented voluntary contributions specifically earmarked for easing the financial crisis of the United Nations and for funding the U.N. peacekeeping operation in Cyprus. Furthermore, \$8.5 million was specifically for the UNEF/UNDOF peacekeeping operation. These latter monies are not available for obligation or expenditure against the United Nations regular budget since they are separately assessed and financed. The remaining \$35.5 million provides no more than is required to run the organization for one month, a very thin margin.

In a letter to the Washington Post, the U.N. Under Secretary General for Administration and Management, George Davidson, explained that in determining an organization's financial position, "...cash and accounts receivable plus other liquid assets have to be balanced off against accounts payable, unliquidated obligations and other current liabilities before deciding whether the organization has excess funds or not. Mr. Kessler did not do this." Taking this into account, on December 31, 1977 there was "... a total of \$137.5 million to meet obligations due and payable on that same date of \$146.5 million. The truth is that on 31 December 1977, the United Nations was more than \$9 million short of funds required to meet its regular budget obligations, despite the \$35.5 million cash on hand which Mr. Kessler erroneously reported as 'excess funds'."

The United Nations' 77 trust funds had another \$80 million in the bank.

The \$80 million has no overall relevance to the U.N. financial situation as of December 31, 1977. Trust funds are given to the United Nations by governments for specific purposes and activities and cannot be included with the regular U.N. general operating funds.

During its most recent two-year financial period, the United Nations took in an average each year of \$12.8 million more than it spent.

The U.S. contribution to the United Nations in 1977 was \$99.4 million.

We do not know the source of the \$12.8 million figure. However, the U.N. cash receipts in any financial period would include amounts related to previous financial periods where governments have been slow in making payment. The U.N. presently operates on a biennial budget basis and any savings on expenditures assessed in the biennium would be credited to Member States in a subsequent budget period. Thus over several financial periods U.N. income for its regular budget is adjusted to its expenditures under the regular budget with any excesses refunded to Member States. It is not possible for the U.N. to have taken in more income for its regular budget over several financial periods than it expended.

UNICEF, which improves children's health, education and nutrition in developing countries, had bank balances that ranged during the past two years from a low of \$100 million to a high of more than \$140 million. If money earmarked for particular purposes is excluded from the balances, UNICEF had enough in the bank at the end of 1977 to operate for almost a year.

On December 31, 1977, UNICEF held \$131 million in cash and short-term investments. At the same time it had outstanding commitments to governments for agreed programs totalling \$304 million, mainly for delivery in 1978 and 1979. Most other comparable international development organizations, such as the soft-loan window of the World Bank (IDA), require sufficient cash on hand to meet 100 percent of their existing commitments. Thus UNICEF, rather than being cash heavy, actually has much less cash resources than some other organizations would require for the same size program. The figure of \$131 million included only \$71 million in general resources available for regular UNICEF expenditures. General resources include income from voluntary annual contributions of governments, proceeds of unearmarked funds contributed by the public ("Trick or Treat," etc.), and certain general income. The remainder (\$60 million) consisted of supplementary funds whose use for programs is earmarked by donors. Of this, some \$36 million consisted of contributions for specific purposes. Where donors have stipulated that unspent balances must be returned, contributions are listed as funds-in-trust and this amounted to another \$14 million. Finally, there were \$10 million in non-revenue funds-in-trust which are

received mainly for reimbursable procurement of goods and services by UNICEF for other UN agencies and for a number of countries. These funds are not subject to Board commitment. As in 1978 UNICEF spent \$164 million from general resources, the \$71 million represents about five months' expenditure. Some 90 percent of these funds were in interest-earning investments. Because of the uncertainties involved in forward financial planning, actual cash and investments inevitably fluctuate around the desired level. At the end of 1977, cash and investments were somewhat higher than the Executive Board of UNICEF considered necessary; they are projected to be somewhat below the desired level by the end of 1980.

A number of considerations go into the UNICEF Executive Board's decision on the level of available resources required by prudent financial management. As UNICEF relies entirely on voluntary contributions and cannot borrow funds in the event of financial short-falls in revenue, it must have adequate funds on hand at any time to meet its financial obligations. UNICEF program assistance had to be prepared at least two years in advance of initial expenditure, yet most government contributions are pledged only a month or so in advance of the UNICEF fiscal year and then for one year only. UNICEF deliberately

holds a certain volume of cash and investments in order that the implementation of existing programs with governments will not be disturbed, should future funding be less than expected. Consequently, UNICEF cannot use these cash and investment reserves for additional programs. Indeed, at the end of 1977 UNICEF had some \$55 million unfunded projects for which supplementary funding by individual nations was sought. Moreover, UNICEF's work and annual expenditures are increasing substantially.

In 1977, UNICEF had a surplus of \$23.3 million.

It received \$20 million in U.S. contributions in that year and another \$250,000 earmarked for the International Year of the Child, a program focusing this year on the needs of poor children.

UNICEF had an excess of income over expenditure in 1977 of \$20.7 million. At the end of 1977, however, it had an unspent balance of commitments amounting to \$304 million and an expanding program: Far from having more money than necessary (including short-term investments), it has been necessary to provide for an increase of funds-in-hand in recent years through an excess of revenue over expenditures because UNICEF's work and annual expenditures are increasing substantially.

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U.N. ACCOUNTS LOSE  
MILLIONS IN INTEREST

(Washington Post, June 18, 1979)

second of two articles

by Ronald Kessler  
Washington Post Staff Writer

UNITED NATIONS. June 17--More than \$100 million of excess funds amassed by the United Nations and its affiliates is being kept in U.S. and foreign bank accounts that pay little or no interest, audited financial statements show.

The U.N. system thus would appear to be forfeiting millions of dollars it might collect each year in interest at a time when it is complaining of deficits and difficulties in collecting assessments from member countries.

This article makes the same fundamental mistake as did in the first article--it ignores that the UN and the specialized agencies are autonomous bodies with separate charters, mandates, and budgets. Their accounts cannot be totalled; to do so is to produce misleading and irrelevant figures.

In assessing investment policies of individual agencies of the UN system, one must analyze their policies and accounts separately. As pointed out in detail later, the agencies invest most of their cash on hand in interest-bearing accounts that provide

a high return consistent with their requirements for liquidity and safety of investment. Often funds are held in certain European countries or Japan where the changes in exchange rates are more important considerations than interest rates.

The funds in non-interest bearing accounts are needed for immediate operational expenses and are held in a large number of accounts in many countries. Some of the funds are in non-convertible currencies that cannot earn interest.

Rather than carefully analyze the funds of the individual agencies, the article simply added up the funds in the many accounts, ignored the types of currencies within the accounts and their location and assumed all the funds could be invested as a group in a U.S. bank. This simplistic analysis simply does not accord with reality. Its conclusions, therefore, are not very useful.

The United Nations Children's Fund (UNICEF), one of the organizations that make up what is known as the U.N. system, keeps an average of \$10 million in interest-free checking accounts.

Most of UNICEF's funds-in-hand are kept in interest-bearing accounts--90%. However, a small proportion of the total must be kept in approximately 120

current accounts throughout the world to meet daily expenditure requirements by UNICEF offices. Such accounts do not normally earn interest. In 1977 UNICEF's total expenditures were on the magnitude of \$142 million and in 1978 expenditures came to \$183.3 million. With expenditures on this scale, and the need for meeting payments around the world, the amount maintained in interest-free checking accounts does not appear excessive.

The United Nations itself, along with the United Nations Development Program (UNDP), keeps an average of \$20 million in interest-free checking accounts.

The UNDP has 93% of its cash on hand invested in interest-bearing accounts. The UNDP interest-free checking accounts to meet daily expenses include: operating balances in over 145 imprest accounts maintained in developing countries to service UNDP technical assistance projects. Most of these balances are held in non-convertible and/or non-transferrable funds which cannot be invested so as to earn interest. The total of usable, non-convertible currencies and imprest cash held for field office use was \$14.5 million or an average of \$100,000 per bank account. The remaining \$5.3 million was held in UNDP convertible cash accounts in about 14 countries, or an average of \$379,000 per

country. Since UNDP derives its funds from voluntary contributions from governments, and lacks borrowing authority, it must have sufficient cash on hand to meet obligations as they fall due around the world. UNDP usually does not transfer funds contributed by a country out of the country until it expends the funds.

At current interest rates of more than 9 percent for overnight investment of large funds, these sums alone represent a loss of interest of nearly \$3 million a year.

This and the earlier article use 1977 figures for accounts, funding and investment. Obviously, a reference to prevailing interest rates in 1979, which are much higher than comparable rates two years earlier, is meaningless. As the UN Under-Secretary General for Administration and Management notes in a letter to the Washington Post of June 19, "anyone who knows anything at all about interest rates knows that there is a vast difference between interest rates in mid-1979 and those obtainable in 1977."

In addition, at the end of 1977, U.N. system organizations had these amounts in banks:

More than \$11 million of the United Nations Fund for Population Activities (UNFPA) earning interest of 1.75 percent a year in Japanese banks.

We do not understand how the article arrived at its interest figures. The annual Japanese contribution

to UNFPA is usually paid toward the end of the calendar year into one of several UN accounts in Japan, from which the UNFPA normally withdraws the funds within two to three months, depending on exchange rates.

At the end of 1977, \$11,169,583 was left on deposit for an average of 91.5 days and the yield realized by UNFPA amounted to 7.3 percent on an annual basis--resulting from favorable exchange rate fluctuations as well as interest earned. ✓

The following information elaborates on this transaction in 1977:

- a) the Japanese contribution of \$11,169,583 was deposited in a Japanese bank on December 2, 1977 (at which time the exchange rate was 240 Yen = \$1);
- b) on February 24, 1978, UNFPA withdrew about half of this amount (\$5,626,340)--84 days from deposit;
- c) on February 27, 1978, UNFPA withdrew another \$2,938,000--87 days from deposit; and
- d) on March 23, 1978, UNFPA withdrew the balance amounting to \$2,817,000--111 days from deposit.

The total amount received by UNFPA was \$11,381,340, representing some \$211,757 above the original contribution. This was on deposit an average of 91.5 days,

or about one-fourth of a year. On an annual basis, the yield realized on this money by UNFPA amounted to 7.3 percent--representing interest together with exchange rate fluctuations. (During this time the Yen moved from 240 to 230.8 = \$1.) The Fund left the money on deposit particularly to take advantage of the changing rate at that time.

More than \$17 million of the United Nations Educational, Scientific and Cultural Organizations (UNESCO) in various accounts paying little or no interest.

This statement is incorrect. In fact, more than \$15 million of this amount (of which \$12 million was received towards the end of the year as contributions from Member States) was invested at an annual interest rate exceeding 6.5%. ✓

More than \$24 million of the UNDP in Japanese banks earning interest of 3.25 percent a year.

In Japan all banks pay the same government established interest rates. During the period the UNDP funds were held in Japan, significant gains were realized because of changes in exchange rates.

More than \$2 million of the UNDP funds in Netherlands banks earning interest of 1.5 percent a year.

The funds in question were in an interest bearing account earmarked for disbursement in early

January. Even though the funds were in this account for a very short period, they gained significantly in value because the Dutch guilder appreciated during that period.

More than \$7 million of the United Nations' funds in a 5 percent savings account in Chemical Bank in New York.

Under Secretary-General of the United Nations for Administration and Management, Mr. George Davidson, referred to this issue in his letter to the Washington Post. He said "the only references which Mr. Kessler makes to interest rates payable on UN bank accounts... mentions 5 percent as the bank rate payable. Mr. Kessler ...took his reference to the 5 percent payable on our \$7 million deposit in New York's Chemical Bank from page 79 of the Auditor's report of 1977 (A/33/5 Supplement No. 5); yet he overlooked the fact that this same page records a total of \$13.5 million deposited in other banks at rates ranging from 7-1/16 to 7-1/4 percent." Interest rates in 1977 were, of course, lower than they are in 1979.

These particular accounts are the repositories of voluntary contributions in a "Special Account", which member states contributed in response to General Assembly appeals, for the express purpose of easing

the UN's financial situation. The UN "Special Account" is used by the UN as a supplement to its working capital fund to assist with its budgetary requirements. In addition, the five percent Chemical Bank Savings Account is used by the UN to support its new "zero balance" checking accounts system which is a modality specifically designed to minimize the total cash held in bank accounts in any one time.

A zero balance bank account is operated in exactly the same way as any other bank account except that the balance will always be zero. Any check which is written on the zero balance bank account is automatically covered by a deposit into the bank account of an equal amount from a master bank account maintained by UNDP. Consequently, there is never a "dishonored check." Deposits can be made into the zero balance account to accommodate dollar receipts by a UNDP field office other than for government payments. These deposits will not revert into the UNDP master account but will remain as cash available in the zero balance bank account.

The benefits of a zero balance bank account for a UNDP field office are that local funds can be acquired when needed simply by writing a check on the zero balance bank account. It will not be necessary to request or wait for a deposit from Headquarters and

immediate credit will be provided without interest or bank charges. A US dollar check should therefore be deposited in the field office's local bank account for conversion only when funds are required. By drawing local currency only as needed, UNDP's exposure to devaluation risks is minimized. By using zero balance bank accounts, UNDP can reduce the amount of idle cash remaining in its checking accounts.

More than \$4 million of UNDP money in a 5 percent savings account.

Funds are moved to savings accounts generally two or three days before expenditure. Five percent was the prevailing interest rate in such accounts at that time. The nine percent interest rate for overnight deposit in 1979 referred to in the article could not be obtained in 1977.

More than \$1 million of United Nations University funds in a 5 percent savings account a Chemical Bank in New York.

As of the end of 1977, \$1,520,000 of UN University trust funds were in a Chemical Bank callable savings account earning 5% interest annually. During 1978 the amount in the account was reduced substantially and the remaining sum shifted to higher interest-bearing accounts. We do not know what expenditures UNU

anticipated that caused it to keep its funds in a calculable account during this period.

The deposits are part of \$1.4 billion in excess funds kept by U.N. system organizations in various bank accounts throughout the world. A story in the Washington Post yesterday reported that U.N. organizations have been amassing a surplus of as much as \$350 million a year.

Discussed in response to June 16 article.

Officials of UNICEF and other U.N. organizations said much of their interest-free money is in hundreds of accounts in foreign countries where it may be difficult to transfer money readily or obtain interest on deposits.

They said savings accounts may be used to hold money temporarily until it is needed to cover checks. On other deposits, they said, they obtain quotes from several banks to get the best interest rates.

While interest rates at some foreign banks may seem low, they said, the deposits may bring a higher rate of return than if the money were invested in the United States because of foreign exchange fluctuations.

These statements are accurate, as pointed out earlier.

U.N. organizations declined to allow access to records that would show the full terms of their deposits. "Unless you have the logic behind the transaction, you could not form a rational opinion on it," G. Arthur Brown, deputy administrator of the UNDP, said in declining to make available UNDP banking records.

Giovanni Cavaglia, comptroller of UNICEF, said disclosing interest rates on the organization's bank deposits of more than \$100 million would give a competitive advantage to banks that bid for UNICEF's business.

We have been advised that UNICEF's records were shown to the author of the article but that the Secretariat declined to make those internal documents available to him to take with him. We do not understand the reference in the article to UNICEF's policy on bank deposits since UNICEF normally seeks bids from five banking institutions in placing its short-term investments and negotiates to obtain the highest possible interest rate on a given date.

The United Nation's board of auditors, which has access to the banking records, has criticized the way the United Nations manages its excess cash.

Referring to the hundreds of millions of dollars available for investment, the Board, composed of auditing staffs from three countries, has called for forecasting cash needs based on when checks are presented for payment, closer monitoring of cash needs in overseas accounts, and an integrated system for investing funds from all U.N. offices.

One of the recommendations of the Board of Auditors was that "an integrated cash management and short-term investment system should be developed providing for an appropriate degree of coordination among all UN offices and an independent monitoring of overall cash management and investment activities."

The UN Administration takes the position that it has an effective system but that it is continuing to work for improvement. It points out that great progress

has been made on the monitoring of imprest accounts and that it is trying to get agreement with a major bank for further "breakthrough which would permit additional improvement." We believe that the Administration is endeavoring to improve its system. We will examine critically the Board of Auditors report on the 1978-1979 accounts next year since the extent of improvement will be reflected in that report.

Asked why the UNDP was earning interest of only 3.25 percent a year on deposits of more than \$24 million in Japan, Deputy Administrator Brown said Japan is one of the countries that imposes restrictions on money it contributes to the organization.

"Seven or eight countries (including Japan) require us to keep money until needed in their countries and designate the banks where it will be held.

Brown said, "The rate is set by the bank."

Brown said he did not believe the UNDP got a lower rate in Japan as a result. But data published by the International Monetary Fund, which tracks foreign money transactions, show that overnight bank deposits of as little as \$100,000 were earning annual interest in Japan at the time of more than 5 percent.

Some governments designate the banks in which their contributions are deposited, but they do not require that it be kept there until needed. Once deposited, the funds may be used by UNDP, moved out of the account or even moved out of the country without restriction. In Japan all banks pay the same government established interest rates; the rate at the time referred

to in the article is 3.25 percent. During the period the UNDP funds were held in Japan, significant gains were realized because of changes in exchange rates. The 5% rate referred to was an inter-bank rate not available to commercial lenders. ✓

Asked what it recommended for overnight investment of \$1 million, American Security Bank, one of Washington's major banks, said it offers a return of 9.9 percent a year through purchases of government securities.

The UN Under Secretary-General for Administration and Management in a letter to the Washington Post of June 19 (unpublished) notes with respect to this item that "anyone who knows anything at all about interest rates knows that there is a vast difference between interest rates in mid-1979 and those obtainable in 1977."

G. Peter Wilson, director-general of the U.N. external audit committee, said the auditors are concerned about the United Nations' cash management practices.

"When we see a lot of (excess) money, we ask if it is adequately protected and invested in the best manner," he said, "What we have found is they (the U.N.) don't have systems for doing that adequately. There isn't much incentive for not leaving the money uninvested."

The UN Mission to the UN has looked into this charge. Mr. Wilson reports that he did not make this statement. He said he was misquoted.

CONTRACTS AT UNITED NATIONS  
AWARDED WITHOUT BIDDING  
(WASHINGTON POST, JUNE 18, 1979)

By Ronald Kessler  
Washington Post Staff Writer

UNITED NATIONS, June 17---The United Nations and its affiliates award contracts for hundreds of millions of dollars of supplies and services each year without throwing them open to competitive bids, according to interviews with UN officials.

Instead of advertising for bids, organizations in the UN system select the companies that will be asked to bid or simply award contracts to a favored company without asking for other bids.

An assertion that the UN does not award contracts on the basis of competitive bidding is not correct. On the contrary, UN contracts are awarded on the basis of competitive bidding except in a very few limited situations. The attached provisions from the UN financial regulations and rules explain UN practices regarding the awarding of contracts.

The United Nations has determined on the basis of considerable experience that advertising for bids is impractical for an international organization. Among the reasons why the UN does not as a general rule advertise for bids is that advertising is very costly, the UN would have to advertise in a large number of different countries

and even different cities in the same country (for example, in the US the UN could conceivably have to advertise in Los Angeles, Houston, New Orleans, Memphis, Cleveland, Washington and New York), advertising would have to be translated into a number of languages and advertisements placed in newspapers would be submerged within sections of the newspaper carrying very dissimilar advertising.

The United Nations has found that a system of inviting tenders from specialized suppliers produces excellent results for minimum cost. The UN will extend an invitation to tender to any potential bidder interested in submitting a bid. We are not aware of any information suggesting that an interested party has not been invited to submit a bid. The UN Under Secretary-General for Administration and Management in his letter of June 19 to the Washington Post -- which was inserted in the record of the June 27 hearing before the Subcommittee on International Organization and the Subcommittee on International Operations, House Committee on Foreign Affairs -- explained that "World-wide advertising was long ago discarded as impracticable, but selective invitations to bid are issued in sufficient numbers to ensure fair and competitive prices."

In many instances, countries that are large contributors to UN organizations successfully bring pressure to have contracts awarded to firms from those countries, UN officials say.

The UN has in recent years been faced with a problem of fending off demands by a number of countries that contracts be allocated in such a way as to favor individual companies from those countries. In virtually all cases, the countries concerned are not arguing that they did not have an opportunity to compete. Rather, it is that they were not chosen because someone else submitted a better bid. The UN has maintained that the establishment of national or geographic quotas for contracts would be expensive, inefficient, and detrimental for the UN and its membership at large. The US endorses fair and open awarding of contracts; it opposes strongly the awarding of contracts on grounds other than obtaining the best value for the money expended. It should be noted that US firms share very favorably in UN contracts because US produced

goods and services are of high quality, proven dependability and obtainable at competitive prices.

Just how or why some contracts are awarded is not clear. The contract to clean the UN headquarters building in New York has been given to the same company since 1951, when the building was constructed.

The company, Victory Handyman Inc., has a cost-plus contract, meaning it is reimbursed by the United Nations for its costs and given a guaranteed profit. This is an unusual arrangement in the building cleaning business.

Schwartz declined to discuss how he got the contract or how much he is paid. "I'm just a little housecleaner for the UN" he said.

Victory Handyman has no telephone listing. Its president, Irving Schwartz, lives in Florida. The company's only office is a room in the basement of the UN Secretariat building. In fact, Victory Handyman has no other customers besides the United Nations.

The Washington Post article is factually incorrect regarding the UN cleaning contract. Instead of the contract being a "cost-plus contract" which the UN reimburses plus a guaranteed profit, the contract calls for a fixed management fee of \$102,500 annually. From the fixed management fee of \$102,500, the contractor must provide uniforms for cleaning personnel, all equipment and supplies except liquid soap, legal and accounting services. The UN reimburses the actual cost of the cleaning payroll at union rates for New York City after checking and verifying the payroll. UN estimates are that the contractor nets \$30,000 to \$35,000

annually on the cleaning contract.

Under the contract, the UN specifies how many cleaners they require, the number of hours to be worked, the time cleaning is to be done, the areas to be cleaned and the frequency of cleaning. To monitor the cleaning operation, the UN has two of its regular staff members who overview the cleaning of UN premises and attest to the invoices concerning cleaning services. According to the UN, this cleaning contract is the usual arrangement for cleaning contracts in New York City.

With respect to competitive bidding of the UN cleaning contract, the UN states that it solicited bids from seven large cleaning contractors in New York City in 1971. A total of four bids were received and the lowest bid for the fixed management fee contract was \$97,500 with the next lowest bid being \$132,000. The contract for a three year period (1971-1974), was awarded to the lowest bidder. In 1975, the contractor proposed to extend the contract for an additional three years (1974-1977), for an inflation increase of \$5,000 making the total fixed management contract fee \$102,500. The UN accepted the offer and the contract was extended. In 1977, the contractor offered

to extend the contract for a further three-year period on the basis of the same \$102,500 fixed management fee and the UN again accepted the offer and extended the contract.

The company, Victory Handi-Man Maintenance, does have a listing in the New York telephone directory.

Another company, B. Eichwald & Co., has had the contract to maintain the United Nations' electrical systems since the headquarters building was constructed. It also is reimbursed for its costs, and given a guaranteed profit.

Bernard Eichwald, president of that firm, similarly declined to discuss the contract. "there's nothing in my contract to authorize giving out information," Eichwald said.

Dermot Hussey, chief of the United Nations' purchasing service, said he "guesses" each firm makes a profit of about \$100,000 a year.

The UN Under-Secretary for Administration and Management, in a letter to the Managing Editor of the Washington Post of June 19, -- which has been entered into the record of the June 27 hearing -- made the following points on this matter:

- Because of the complex nature of the operation and the special familiarity required with the installations in the building (dozens of interpreters booths, hundreds of microphone positions for delegates, etc.) much of the electrical work cannot readily be put up for periodic tender and

switched from one contractor to another. The contractor holding the contract would have in fact an advantage. That is why the contract for this portion of the work is on a cost plus fixed management fee basis.

- For other parts of the electrical/systems - new construction for example - tenders are called and depending on the quality of the tender, normally are awarded to the lowest bidder.

Hussey and other UN officials declined to provide access to documents of files that would show how much the companies are paid or how they got their contracts.

"I would like to inform you that as a matter of policy the files of the UN on contractual matters are not available for the purposes you have described, and therefore, we are not in a position to comply with your request." Clayton C. Timbrell, assistant UN secretary-general for general services, wrote in response to a request to examine contract files for a story.

It would clearly be impractical for the UN to allow all 151 Member States access to internal documents on contractual matters. However, we are advised by UN officials that the article's author was told that they would be glad to discuss procedures followed in the bidding system,

and that if he would indicate in which contracts he was interested they would provide answers to his questions. (UN advises that the author did not respond to this invitation.)

UN financial regulations say all contracts must be awarded through competitive bidding involving advertising of solicitations, but they also provide eight exceptions—including a determination that open bidding would not "give satisfactory results."

Page 1 addresses this matter. Furthermore, Rule 110.19 of the UN Regulations and Rules reads as follows:

"RULE 110.19

Exceptions to calling for bids or proposals

Contracts may be awarded without calling for proposals, advertising or formal invitations to bid when:

(a) The proposed contract involves commitments of less than \$5,000 in the case of United Nations Headquarters, the United Nations Office at Geneva, the United Nations Industrial Development Organization, Vienna, and the United Nations Environment Programme, Nairobi, and \$2,500 in the case of the United Nations regional commissions, provided that the award is made after an assessment of competitive quotations, based on conformity with specifications, delivery schedules and prices or comparative prices, where available;

(b) The prices or rates are fixed pursuant to national legislation or by regulatory bodies;

(c) A standardization of supplies or equipment has been approved on the advice of the Committee on Contracts which renders competition impracticable;

(d) The exigency of the service does not permit the delay attendant upon the issue of invitations to bid or the calling for proposals;

(e) The contract relates to the purchase of proprietary articles or perishable supplies;

(f) The proposed contract relates to professional services other than staff services;

(g) The proposed contract relates to medicines, medical supplies, hospital or surgical supplies or prosthetic appliances;

(h) The Assistant Secretary-General for General Services, or head of office duly authorized under rule 110.16 determines that competitive bidding or calling for proposals will not give satisfactory results. In such cases, appropriate reasons shall be recorded in writing."

In practice, says Hussey, the chief of UN purchasing, "advertising for bids is rarely used."

The UN long ago discarded world-wide advertising as impracticable. Ensuring equal treatment to all members

would entail advertising in all countries and in many languages (the UN comprises 151 Member States). However, selective invitations to bid are issued in sufficient numbers to ensure fair and competitive prices.

George F. Saddler, an official who handles financial matters in the US Mission to the United Nations, said he sees no need for the United Nations to advertise for offers. He said another UN regulation says requests for bids may be distributed to particular firms.

Jerome H. Stolarow, director of the procurement branch of the General Accounting Office, the audit branch of Congress, said US policy and law is to buy through advertised, competitive bidding.

"You get the best assurance of a reasonable price and the best product," he said. "It also minimizes possibilities for corruption."

In awarding contracts, UN system officials say they generally select about five companies and ask them to submit bids.

G. Arthur Brown, deputy administrator of the United Nations Development Program (UNDP), said an effort is made to ask companies from countries that are large contributors.

"The source of the funds is taken into account and (so are) complaints from countries that they have not gotten enough business for their companies," he said. "The companies bring pressure on the countries."

UNDP bidding is fully competitive. Tenders are announced to suppliers that seem qualified to meet specifications. We are not aware of favoritism being shown on the basis of nationality. Price is the main criteria. Pressures that might be put on governments by companies do not appear to affect UNDP procedures.

## Contracts and purchases

*Regulation 10.5: Tenders for equipment, supplies and other requirements shall be invited by advertisement, except where the Secretary-General deems that, in the interests of the Organization, a departure from the rule is desirable.*

## Contracts and purchases

*Rule 110.16*

## - Authorized official

(a) Contracts for the purchase, rental or sale of services, supplies, equipment or other requirements shall be entered into on behalf of the United Nations only by officials duly authorized for the purpose. Purchasing, renting or selling activities include, in addition to entering into contracts, the invitation of proposals or tenders and the negotiation with potential suppliers or purchasers on the basis of detailed specifications.

(b) Unless otherwise directed by the Secretary-General, the Assistant Secretary-General for General Services or his authorized delegate shall be responsible for purchasing, renting or selling activities on behalf of the Organization, provided that:

- (i) The Director-General or his authorized delegate shall be responsible for purchasing, renting or selling activities in respect of the United Nations Office at Geneva;
- (ii) The Executive Directors or their authorized delegates shall be responsible for purchasing, renting or selling activities relating to their respective offices in respect of the United Nations Industrial Development Organization, Vienna, and the United Nations Environment Programme, Nairobi;
- (iii) The Executive Secretaries of the United Nations regional commissions (except the Economic Commission for Europe) shall be responsible for purchasing, renting or selling activities relating to their respective offices, subject to the limits provided in clauses (e) (i) and (ii) of rule 110.17.

*Rule 110.17*

## Committee on Contracts

(a) There shall be established a Committee on Contracts at United Nations Headquarters to render written advice to the Assistant Secretary-General for General Services, on:

- (i) All contracts to be entered into which involve commitments to a single contractor in respect of a single requisition or a series of related requisitions totalling \$20,000 or more.
- (ii) All contracts or series of related contracts, including those for television or film activities, which involve income to the Organi-

- zation of \$10,000 or more, and any contracts relating to activities where the estimated annual income therefrom when aggregated with the estimated annual income from any other contract or contracts already made with the same purchaser in the same year amounts to \$10,000 or more, provided that contractual arrangements resulting from the recommendations of the Property Survey Board shall not be referred to the Committee on Contracts;
- (iii) Proposals for modification or renewal of contracts previously reviewed by the Committee;
  - (iv) Such other matters as may be referred to the Committee by the Assistant Secretary-General for General Services.

(b) The composition of the Headquarters Committee and its terms of reference shall be determined by the Secretary-General.

(c) There shall be established local Committees on Contracts similar to the one at United Nations Headquarters at the United Nations Office at Geneva, at the United Nations Industrial Development Organization, Vienna, at the United Nations Environment Programme, Nairobi, and at the respective headquarters of the United Nations regional commissions (except the Economic Commission for Europe). The composition of each local Committee shall be determined by the head of office concerned, in consultation with the Secretary-General.

(d) The local Committees on Contracts at Geneva, at Vienna and at Nairobi shall render written advice to the respective heads of office on:

- (i) All contracts, in respect of the United Nations Office at Geneva, the United Nations Industrial Development Organization, Vienna, and the United Nations Environment Programme, Nairobi, for the purchase or rental of services, supplies, equipment and other requirements involving commitments in respect of a single requisition or a series of related requisitions totalling \$20,000 or more;
- (ii) All contracts or series of related contracts, including those for television or film activities, which involve income to the Organization of \$5,000 or more, and any contracts relating to activities where the estimated annual income therefrom when aggregated with the estimated annual income from any other contract or contracts already made with the same purchaser in the same year amounts to \$5,000 or more, provided that contractual arrangements resulting from the recommendations of the local Property Survey Board shall not be referred to the Committee on Contracts;
- (iii) Proposals for modification or renewal of contracts previously reviewed by the Committee;
- (iv) Such other matters as may be referred to the Committee by the head of office concerned.

(c) The local Committees on Contracts at the headquarters of the United Nations regional commissions referred to in (c) above, shall render written advice to the respective Executive Secretaries on:

- (i) All contracts for the purchase or rental of services, supplies, equipment or other requirements involving commitments in respect of a single requisition or a series of related requisitions exceeding \$5,000 but less than \$20,000. All contracts above \$20,000 shall be referred to the Committee on Contracts at United Nations Headquarters;
- (ii) All contracts or series of related contracts, including those for television or film activities, which involve income to the Organization exceeding \$2,500 but less than \$10,000, and any contracts relating to activities where the estimated annual income therefrom when aggregated with the estimated annual income from any other contract or contracts already made with the same purchaser in the same year in an amount exceeding \$2,500 but less than \$10,000 provided that (a) all contracts involving income to the Organization in excess of \$10,000 shall be referred to the Headquarters Committee on Contracts and (b) contractual arrangements resulting from the recommendations of the Property Survey Board shall not be referred to the Committee on Contracts;
- (iii) Proposals for modification or renewal of contracts previously reviewed by the Committee;
- (iv) Such other matters as may be referred to the Committee by the Executive Secretary concerned.

(f) The Assistant Secretary-General for General Services, in consultation with the Controller, may authorize the establishment of a local Committee on Contracts at a location other than the ones specified in (c) above.

(g) Where, under the preceding provisions of this rule, the advice of the Headquarters Committee on Contracts (or of the appropriate local Committee) is required to be sought, no commitment may be entered into before such advice is received. In cases where the Assistant Secretary-General for General Services or head of office duly authorized under rule 110.16 decides not to accept the advice of the Committee, he shall record in writing the reasons for his decision.

#### *Rule 110.18*

##### Calling for bids or proposals

Except as provided in rule 110.19, contracts for the purchase or rental of services, supplies, equipment and other requirements shall be let after competitive bidding or calling for proposals. Tenders shall be invited by advertising through publication or distribution of formal invitations to bid; provided that in cases where the nature of the work involved precludes invitation of tenders and where proposals are called, a comparative analysis of such proposals shall be kept on record.

*Rule 110.19*

## Exceptions to calling for bids or proposals

Contracts may be awarded without calling for proposals, advertising or formal invitations to bid when:

(a) The proposed contract involves commitments of less than \$5,000 in the case of United Nations Headquarters, the United Nations Office at Geneva, the United Nations Industrial Development Organization, Vienna, and the United Nations Environment Programme, Nairobi, and \$2,500 in the case of the United Nations regional commissions, provided that the award is made after an assessment of competitive quotations, based on conformity with specifications, delivery schedules and prices or comparative prices, where available;

(b) The prices or rates are fixed pursuant to national legislation or by regulatory bodies;

(c) A standardization of supplies or equipment has been approved on the advice of the Committee on Contracts which renders competition impracticable;

(d) The exigency of the service does not permit the delay attendant upon the issue of invitations to bid or the calling for proposals;

(e) The contract relates to the purchase of proprietary articles or perishable supplies;

(f) The proposed contract relates to professional services other than staff services;

(g) The proposed contract relates to medicines, medical supplies, hospital or surgical supplies or prosthetic appliances;

(h) The Assistant Secretary-General for General Services, or head of office duly authorized under rule 110.16 determines that competitive bidding or calling for proposals will not give satisfactory results. In such cases, appropriate reasons shall be recorded in writing.

*Rule 110.20*

## Opening of bids

All bids shall be publicly opened at the time and place specified in the invitation to bid and an immediate record made thereof.

*Rule 110.21*

## Awarding of contracts

Contracts shall be awarded to the lowest acceptable bidder, due consideration being given to the utilization of currencies available to the

Organization and which require special management, provided that where the interests of the Organization so require, all bids may be rejected. In the latter instance, the Assistant Secretary-General for General Services, or head of office duly authorized under rule 110.16, shall record in writing the reasons for rejection of the bids and determine whether to invite new competitive tenders or enter into a negotiated contract.

*Rule 110.22*

Purchases to be made in writing

(a) Written contracts or written purchase orders for goods and services shall be established as appropriate for every purchase from a single contractor or vendor in the following amounts:

- (i) In the case of United Nations Headquarters, the United Nations Office at Geneva, the United Nations Industrial Development Organization, Vienna, and the United Nations Environment Programme, Nairobi, an aggregate amount of \$1,000 or more for one or more items;
- (ii) In the case of the United Nations regional commissions (except the Economic Commission for Europe), an aggregate amount of \$200 or more for one or more items;
- (iii) In the case of other offices or groups of offices away from Headquarters, such amounts as may be prescribed by the Assistant Secretary-General for General Services, in consultation with the Controller.

(b) Written contracts and purchase orders shall specify in detail:

- (i) In the case of supplies or equipment, the exact description of the goods, the quantity required, the price of each article, the conditions of delivery and the terms of payment;
- (ii) In the case of services other than staff services, the nature of the services, period covered, conditions of fulfilment, amount and terms of payment.

(c) The Assistant Secretary-General for General Services, or heads of office duly authorized under rule 110.16, in agreement with the Controller, may waive the requirements of any part of this Financial Rule in certain cases, such as supplies for the maintenance of buildings, where one "blanket" purchase order might be issued covering a variety of items. In the event of such a waiver, a written record shall be established to ensure that:

- (i) The vendor and purchaser are in agreement as to what is being purchased;
- (ii) An itemized record of sale and receipt is prepared at the time of delivery;
- (iii) Payment is based on the itemized record of sale and receipt referred to in (ii) above.

*Rule 110.23*

## Advance payments

Except where normal commercial practice or the interest of the United Nations so requires, no contract or purchase order shall be made on behalf of the United Nations which requires a payment or payments on account in advance of the delivery of goods or performance of contractual services. Whenever an advance payment is agreed to, the reasons therefore shall be recorded. (See also rules 108*h* and 108*g* (d) with respect to "other cash advances" and "progress payments", respectively.)

*Rule 110.24*

## Written findings

Each determination or decision required of an authorized purchasing officer by the provisions of these Rules shall be supported by the written findings of such officer. These written findings shall be placed in the appropriate case file maintained by the responsible department or office. In cases involving \$2,500 or more, they shall also accompany the related obligating documents submitted to the Controller.

# U.N. FINANCIAL MANAGEMENT CRITICIZED, BANKING PRACTICES DEFENDED IN HEARINGS

(WASHINGTON POST, JUNE 21, 1979)

By Ronald Kessler  
Washington Post Staff Writer

The General Accounting Office criticized the financial management of United Nations organizations yesterday, but defended their practice of keeping large sums of money in bank accounts.

J. Kenneth Fasick, director of the GAO's international division, told two House subcommittees that "major problem areas include the (U.N.) organizations' structure, financial management, and budgeting and programming."

The subcommittees held hearings yesterday in response to recent Washington Post articles that reported that U.N. organizations run an annual surplus of as much as \$350 million and keep \$1.4 billion in bank accounts around the world.

Fasick said that since much of this additional money is committed for future projects, it is misleading to consider U.N. organizations wealthy or assured of stable finances.

Rep. Don L. Bonker (D. Wash.), chairman of the House Foreign Affairs international organizations subcommittee, said he was not entirely satisfied that yesterday's testimony before his subcommittee and before the international operations subcommittee answered all the points raised by the newspaper articles.

"The U.N. system is terribly complex and probably anachronistic in its financial systems," Bonker said. He said he plans future inquiries into United Nations finances.

Fasick said yesterday that he agrees the United Nations has a "deficit" because some countries have refused to pay their assessed contributions.

The Post articles quoted the American Institute of Certified Public Accountants as saying a deficit is an excess of expenses over income and has nothing to do with a failure to collect contributions.

Joseph Donlon, assistant director for financial management at the GAO division that sets accounting standards for the government, also said yesterday that a deficit is an excess of expenses over revenue.

On June 27, two House foreign affairs subcommittees held joint hearings to consider the Washington Post's criticisms of poor financial management within the U.N. Organizations. Virtually every one of the article's criticisms was either refuted or shown to be unfair when explained in its full context.

The Post articles indicate that the UN Organizations have a \$1.4 billion surplus in bank accounts earning only minimal interest. Testimony by the GAO and Department of State witnesses pointed out that:

- (1) \$1.4 billion was a total balance for several UN Organizations which are autonomous bodies with separate charters, mandates, budgets and financial regulations. It is not possible to add the bank balances together in order to obtain a sizable investment pool.

- (2) Part of the \$1.4 billion was in trust funds and endowments with specific limitations on their use.
- (3) The bank balance of the organizations were scattered throughout the world, for example, the UN has 422 bank accounts in 84 countries; UNDP has 367 bank accounts in 150 countries; and UNICEF has 150 bank accounts in 84 countries. It is not practical to combine the accounts of any one organization into one investment pool because they are scattered throughout the world and are in the currency of their country of location.
- (4) Part of the balance is composed of currencies which are practically non-convertible for investment purposes.
- (5) Bank balances alone do not reflect the financial condition of an organization. Both accounts payable and accounts receivable must be considered, as well as the expected time of receipt of revenues and the general policy against borrowing by the organization.

The GAO witness concluded there are substantial management problems within the UN organizations, and he also stated the Department of State has taken what is regarded as essential action to have some constructive influence on the complex UN System. He pointed out that

in September, 1975, the UN General Assembly created an Ad Hoc Committee to initiate restructuring and to make the UN System more capable of dealing with problems of economic cooperation and development. As a result of this, the UNDP country programming system has become the basis for operational programming, the unification of some administrative servicing and increase coordination at the executive levels.

The Department of State's witness stated that the Washington Post article did not accurately portray the financial problems the UN faces, but emphasized the need for further financial management improvements within the UN System, and that efforts to achieve financial reforms have a high priority.

At the conclusion of the GAO witnesses testimony, the chairman pointed out that the GAO witness was the leading U.S. Government's expert on financial management and accounting, and asked which is correct -- the contentions of the Washington Post article on the alleged surplus or the view of the Department of State? The GAO witness responded that in his opinion the Executive Department was correct.

When evaluating whether U.N. organizations have excess cash, Fasick said, bills owed by them, as well as bills owed to them, should be considered.

When such bills are considered, the surpluses of U.N. organizations often appear higher than the bank account figures cited in the Post articles.

The above assertion would have to be tested for its validity in each individual UN organization. But the key point is that all relevant aspects of a balance sheet as well as the special constraints on an international organization, such as its general prohibition against borrowing and its need to accept some contributions in non-convertible currencies, must be taken into account to determine its financial condition and the adequacy of its financial management practices.

The United Nations Children's Fund (UNICEF), for example, had \$131 million in the bank at the end of 1977, its audited financial statements show. Its assets, including bills owed to it, were \$185 million, and its liabilities, including bills it owes, were only \$40 million. This left net assets of \$145 million.

The figure of \$145 million reported above does not take into account commitments made by the UNICEF Executive Board for future fulfillment. When those are taken into account, there is an uncovered balance in the amount of \$159 million.

Fasick, in his testimony, said, "Clear weaknesses exist in the United Nations' management of its organizations."

He said U.N. groups have been studying ways of centralizing some activities of U.N. organizations. "Yet," he said, "specialized agencies (within the U.N. system) still tend to favor their autonomy, and few are willing to accept a central mechanism to coordinate planning and programing."

Although the U.N.'s controller is authorized to coordinate financial practices within the U.N. system, he said, he has not exercised it. Fasick said the controller, Helmut Debatin, has stated that the various governing bodies of U.N. organizations are more influential than he is.

Fasick called for more aggressive action by the State Department in trying to restructure the U.N. system, and said the department should scrutinize U.N. organization budgets more closely.

Fasick in his testimony also said:

"While we believe that the actions taken by the Department of State to improve its management over U.S. participation in international organizations has not been as vigorous as it should be, we do not want to leave the impression that nothing has been done. The Department had taken what we regarded as essential action to have some constructive influence on the complex U.N. System."

"The State Department is attempting to improve its capability to monitor and analyze programs and budgets of various international organizations. For example, the action programs for the United Nations and its specialized agencies prepared in State's Bureau of International Organization Affairs attempt to identify and address problems in programing and budgeting. Also, some additional staff capability has been added to the U.S. Mission in Geneva to assist in reviewing budgets for international organizations headquarters there."

After indicating improvements that had been made, the State Department witness said, "Within the limits of our human and material resources, we will persist in our endeavors to identify areas where new or modified procedures are required and seek support for their implementation. We welcome the studies and constructive criticisms of GAO, OMB, and others in this regard; to make the UN system more effective and efficient is a common goal. In this connection, of course, it must be recognized that the U.S. cannot unilaterally impose its wishes on the organizations representing some 150 nations. We must persuade others that our desired policies benefit the total membership."

Marion V. Creekmore, Deputy Assistant Secretary of State, said any totaling of cash in U.N. organization bank accounts produces a "misleading and irrelevant" figure because each organization is separate. Trust fund money also should be excluded, he said.

The Post articles listed trust fund money separately.

Creekmore said U.N. organizations need more money in the bank than commercial companies because their members generally do not want them to borrow.

He said the State Department takes "seriously" the charge that U.N. organizations do not earn the highest possible interest on its cash balances.

However, he said, the organizations often have hundreds of accounts in different countries with varying banking practices.

Some countries place restrictions on where their funds will be invested until it is needed, he said. The United States itself only advances contributions to some U.N. organizations when it is required, he said.

"I would not pretend that the U.N. financial management system is perfect," he said. "But the system is better than its critics acknowledge, and improvements are being made."

U.N. organizations need more money in the bank than commercial companies because most of them do not have the authority to borrow from the commercial market.

It should also be noted that of all the funds listed in the Post articles, only the trust funds of UNDP, FAO and the UN are accounted for separately. ✓

### APPENDIX 3

COPY OF LETTER DATED JUNE 27, 1979, TO HON. DON BONKER AND HON. DANTE FASCELL FROM ROBERT M. RATNER, PRESIDENT OF THE UNITED NATIONS ASSOCIATION OF AMERICA

UNITED NATIONS ASSOCIATION  
OF THE UNITED STATES OF AMERICA,  
Washington, D.C., June 27, 1979.

HON. DANTE FASCELL,  
*Chairman, Subcommittee on International Operations, Committee on Foreign Affairs, House of Representatives, Washington, D.C.*

HON. DON BONKER,  
*Chairman, Subcommittee on International Organizations, Committee on Foreign Affairs, House of Representatives, Washington, D.C.*

DEAR MR. FASCELL AND MR. BONKER: As the Subcommittees have scheduled a hearing on the subject of financial practices of the United Nations system, we think it appropriate to communicate to you some thoughts on this subject. We would appreciate the inclusion of this letter and its attachment in the hearing record.

In the recent publicity and newspaper articles written on UN finances, almost no attention has been devoted to the actual work and accomplishments of the various UN agencies and programs involved. Since the average American has an inadequate understanding of the wide range of constructive activities of the family of UN agencies, many front-page readers must have come away with the impression that these UN agencies and programs are little more than bank accounts and budgetary categories.

Quite the opposite is, of course, the case. The UN system consists of a wide range of separate and autonomous agencies which are helping people around the world every day. Nearly every facet of our lives is touched—and benefited—in some way by some activity of the UN system. Ranging from the widely-recognized work of the World Health Organization in eradicating smallpox to the quiet work of the International Telecommunication Union in setting standards for international radio and telephone contacts, these agencies are dynamic and useful organizations which we have all come to rely upon—and perhaps too often take for granted.

None of this is to suggest that the UN system—or any part of it—is without fault much less beyond improvement. Like others concerned about the future of this system, we in UNA welcome balanced analyses of UN agencies and their problems. In our view such analysis can only lead to constructive improvements. If the analysis is to be constructive, however, it must be balanced—and therein lies our major concern with the recent series of newspaper articles.

At the very least, any fair and impartial review of the allegations made should take into account not only the newspaper articles but also the UN's response to those allegations. Shortly after their publication, the UN's Under-Secretary-General prepared such a response, in the form of a detailed letter to the editor. To date that letter has not been published.

In view of the serious nature of the allegations and the fact that United Nations and State Department officials have characterized these articles as misleading and irresponsible, we feel strongly that the UN's response should be made a part of the public record. For that reason we are attaching a copy for the Subcommittees' use and for the hearing record.

We are confident that this hearing will help clarify the situation as to the UN's actual financial practices, and we look forward with great interest to following the deliberations of the Subcommittees with respect to this matter.

Sincerely yours,

ROBERT M. RATNER,  
*President.*

Enclosure.

UNITED NATIONS,  
New York, N.Y., June 19, 1979.

THE MANAGING EDITOR,  
*Washington Post, Washington, D.C.*

DEAR SIR: The articles concerning the United Nations and its associated agencies which appeared in the *Washington Post* earlier this week set a new high in irresponsible financial reporting. What is worse, your reporter, Ron Kessler, was supplied in advance with commentary which clearly showed that his account of alleged UN surpluses and excess funds is a gross distortion of the facts. The *Post's* decision to publish these allegations when it knew them to be false is therefore doubly inexcusable.

For example, the charge that the UN and its affiliates have \$1.4 billion in excess funds in the bank is simply untrue. In the first place, Kessler has compiled his erroneous calculations from audit reports that go back to 1977. In the second place, he has lumped together the accounts of a dozen or more completely separate and independent bodies, not distinguishing between the funds contributed by governments for regular administrative purposes and special funds in trust which have been earmarked for specific purposes and cannot under the terms of the trust be diverted to other uses.

It is pure and simple nonsense to lump together figures from the reports of the World Health Organization, the International Civil Aviation Organization, UNESCO, ILO, the United Nations itself and half a dozen other international organizations located in different parts of the world, operating under separate charters, separate governing bodies with different governmental membership, different financial arrangements—and say “look at all the money the UN has”. Each of these agencies is a financially distinct and independent from the others as Chase Manhattan Bank is distinct from the Bank of America or the *Washington Post* from the *New York Times*. No one would ever think of adding together the cash balances of the *Post* and the *Times*, because it makes no sense to do so. It adds up to nothing. The same is true of adding together the cash balances of WHO, ILO, UNESCO, etc. No one agency can use the other agency's money. Each one must be self-sufficient unto itself. Mr. Kessler knew that when he was writing his article. The *Post* knew that when it published the article. The question must be asked—why did the *Post* publish statements that it knew—or should have known—to be false?

Not only that, but even the simplest beginner in reading financial statements knows that when you look at a balance sheet to determine an individual's or an organization's financial position, you look at the liabilities as well as the assets. Cash in the bank does not mean “excess funds” to use Mr. Kessler's words in the opening sentence of his article. Cash and accounts receivable plus other liquid assets have to be balanced off against accounts payable, unliquidated obligations and other current liabilities before deciding whether the organization has “excess funds” or not. Mr. Kessler did not do this. He ignored completely the fact that on the 31st December 1977, the United Nations, from its General Fund which finances its regular budget on the basis of assessed contributions against member states, had debts of \$22.5 million in accounts payable, \$27 million in unliquidated obligations, and over \$97 million in obligations to its Working Capital Fund, and other special funds and accounts. To meet these liabilities the U.N. had on the date mentioned \$3.5 million in cash, \$17 million in accounts receivable, \$12 million in amounts due from other funds and \$75 million in unpaid assessed contributions of governments, two thirds of which was in fact uncollectable. Even assuming that all of these could be collected, the result on 31 December 1977 was a total of \$137.5 million to meet obligations due and payable on that same date of \$146.5 million. The truth is that on 31 December 1977, the United Nations was more than \$9 million short of the funds required to meet its regular budget obligations, despite the \$35.5 million cash on hand which Mr. Kessler erroneously reported as “excess funds”.

Mr. Kessler failed also to mention that ever since its founding in 1945 the United Nations has been authorized to carry a Working Capital Fund of \$40 million made up of special assessments made against member states. That Working Capital Fund is now entirely depleted, due to the need for the Organization to borrow from it to meet recurring short-falls in its annual budget. The United Nations has no authority to borrow money externally and can only meet its periodic cash-flow problem by short-term internal borrowings which must be repaid within the year.

Another *Post* headline charges that “UN Accounts lose Millions in Interest”, and alleges that “more than \$100 million of excess funds amassed by the UN

and its affiliates is being kept in US and foreign bank accounts that pay little or no interest". Reference is made to current interest rates of 9 and 9.9 percent, and on this basis the calculation is made of an interest loss of \$3 million a year. Let us examine this from the point of view of the United Nations and see what are the facts.

First of all, any one who knows anything at all about interest rates knows that there is a vast difference between interest rates in mid-1979 and those obtainable in 1977. Any bank will confirm that no overnight rate of 9 percent—or anything like it—was obtainable at the end of 1977, and to make a calculation based on that impossible assumption is therefore meaningless. Second, the only references which Mr. Kessler makes to interest rates payable on UN bank accounts (UN, UNDP, and UN University) mention 5 percent as the bank rate payable. Mr. Kessler, not unwittingly, took his reference to the 5 percent payable on our \$7 million deposit in New York's Chemical Bank from page 79 of the Auditors' report of 1977; yet he overlooked the fact that this same page records a total of \$13.5 million deposited in other banks at rates ranging from  $7\frac{1}{16}$  to  $7\frac{1}{4}$  percent. Was this accidental? Was this objective reporting? Or was it a calculated selection of the "facts"?

Mr. Kessler turns his attention also to UN practices and policies in the awarding of contracts. He complains that he was refused access to the UN files in this regard. The truth is that Mr. Kessler was refused an open-ended "fishing license". When he wrote to ask to "see the files showing how current contracts have been awarded" he explained that he would like to be able to determine what bidding procedures were used, what prices were offered for particular goods and services, what companies were selected and what prices were paid. In reply he was told that while files are not open to public inspection, we would be glad to discuss with him the procedures followed in our bidding system, and the basis on which contracts are awarded. We offered to furnish copies of the rules and regulations applicable, as well as to explain the audit and inspection procedures used to evaluate these arrangements.

When Mr. Kessler appealed against this refusal of access to the files, he was asked to indicate which contracts he was interested in and invited to present to us, either orally or in writing, any questions which he had concerning them. I promised personally that if he would do so I would do my best to get the answers for him; despite my offer I received no response. The article alleges that hundreds of millions of dollars of supplies and services are contracted for each year without throwing the contracts open for competitive bids. So far as the United Nations Organization is concerned this is simply not true. World-wide advertising was long ago discarded as impracticable, but selective invitations to bid are issued in sufficient numbers to ensure fair and competitive prices. In Mr. Kessler's article of Monday, June 18, he mentions the cleaning contract of the UN building as one which has been in the hands of the same company since 1951. He refers to it as a cost-plus fixed-fee contract, meaning that the contractor is reimbursed for his actual out of pocket expenses and paid a management fee which does not vary during the life of the contract. This particular contract involves a payroll of \$3 million annually; the management fee is less than \$100,000 out of which the contractor has to pay for the uniforms of his staff, cleaning of uniforms, cleaning supplies, legal fees, insurance, etc. How was the contract awarded? Periodically it is opened up for tenders, the latest occasion being 1971 when 7 major cleaning firms in the New York area were formally invited to bid. Four bids were received. The contract was awarded to the lowest bidder whose bid was 25 percent lower than the other bids.

The only other contract mentioned is that for electrical work. Part of this, because of the complex nature of the operation and the special familiarity required with the installations in the building (dozens of interpreters' booths, hundreds of microphone positions for delegates etc.) can not readily be put up for periodic tender and switched from one contractor to another. The contractor holding the contract would have in fact an insuperable advantage because of his specialized knowledge of the installations over all other bidders. That is why the contract for this portion of the work is offered on a cost plus fixed management fee basis. For other parts of the electrical work—new construction for example—tenders are called and depending on the quality of the tender, normally awarded to the lowest bidder.

Finally, Mr. Kessler, referring to reports of the external Board of Auditors—composed of the Auditors General of three member states—states that they have repeatedly "qualified" their opinion on the soundness of the UN's finances, and

refused to certify that the books as presented were accurate. This is a completely false statement and it is only necessary to read the certificate signed by the three members of the Board of Auditors in successive audit reports to prove it.

Here is the Audit Opinion of the Auditors as it appears on page 24 of their report for 1977:

"We have examined the following appended financial statements, numbered I to XV, properly identified, and the relevant schedules and annexes of the United Nations for the biennium 1976-1977 ended 31 December 1977. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. As a result of our examination, we are of the opinion that the financial statements properly reflect the recorded financial transactions for the biennium, which transactions were in accordance with the Financial Regulations and legislative authority, and present fairly the financial position as at 31 December 1977, subject to the observations contained in paragraphs 57 and 58 of our report."

The final words of the auditors' opinion deserve notice. This is not a "qualified" opinion in the sense alleged by Mr. Kessler. The Board did not refuse to certify that the books as presented were accurate. Paragraphs 57 and 58 of the report to which reference is made refer exclusively to a total of \$240.3 million of unpaid contributions of member states, most if not all of which is considered by the Auditors to be "uncollectable". The Board states therefore in para. 58 that "its opinion on the financial statements is subject to the ultimate realization of these assets". It may well be as the Auditors have implied that these amounts will in large part be uncollectable. If the United Nations were a commercial organization it might well make sense to write them off as bad debts. But the United Nations is not a commercial organization. It is a political body; and each dollar of the amounts referred to is a dollar that is owed to the Organization by a viable member state. It therefore requires a political decision—not an audit opinion or an administrative action—on the part of the member states themselves, to dispose of these uncollected amounts; and for obvious reasons the majority of member states are not prepared to relieve their delinquent colleagues of these obligations under the Charter of the United Nations by writing off their debts.

Mr. Managing Editor, the United Nations faces many difficult problems, because sooner or later most of the problems of the world come to its doorstep. One of the problems it has had to face year in, year out, is that of adequate financing. Here it must rely entirely on the willingness of its member states to honour the pledges which they make by paying the assessments to the United Nations regular budget and by adding to these assessments the voluntary contributions which they make to programs and projects in which they have a special interest. Member states who contribute these voluntary funds to special programs—whether it be children or food or narcotics control or population—do not want their gifts to be diverted to purposes for which they were not intended. That is why you cannot jumble up the accounts of the voluntary funds, as Mr. Kessler does, with the regular administrative budgets of the agencies. Nor does a government which pays its assessed contribution to one agency—say WHO—expect to see a part of its contribution diverted to another—say (ILO—of which it may not even be a member. How then can you lump all of these amounts and accounts together and treat them as one—as Mr. Kessler does?

Each U.N. agency must rely, for its day-to-day operations on the assessed contributions contributed by member states in accordance with a formula which they themselves have approved. The USA has accepted 25% as its share of that formula and it has never, up to this year, failed to pay its full contribution to the last dollar. Unfortunately, not all other countries have done the same; and this in essence explains why the U.N. is in financial difficulties with a "true deficit" on regular budget account of \$150-\$200 million. This is why it continues to carry a bonded indebtedness of some \$75,000,000 from the days of the Congo which it is still struggling to pay off by annual instalments. This is why its Working Capital Fund has been depleted from \$40 million to zero.

These are true statements, Mr. Managing Editor; and it is difficult to understand why a reputable journal such as the Washington Post would not take the trouble to acquaint itself with these facts, instead of lending its columns to the kind of faulted journalism that is represented by Mr. Kessler's tales. It would have been easier, less costly and infinitely more truthful and honest to have presented these truths of the U.N.'s financial position than to have gone to the

infinite trouble and expense of assembling the detailed catalogue of misrepresentation over which Mr. Kressler has laboured. The result of his efforts will not do justice to the United Nations, nor credit to the Post.

Yours truly,

GEORGE F. DAVIDSON,

*Under Secretary General for Administration and Management.*

## APPENDIX 4

STATEMENT BY DIRECTOR OF FINANCE, U.N. DEVELOPMENT PROGRAM,  
SUBMITTED BY CHARLES PERRY, NORTHEAST LIAISON OFFICER FOR  
UNDP, UNITED NATIONS INFORMATION CENTER, JUNE 26, 1979

### PLACEMENT OF UNDP FUNDS

In reply to questions, the Director of Finance made a comprehensive statement with respect to the management of currencies and the basis for allocating them to the Operational Reserve. It was stressed that UNDP does not make investments, in the true sense, in that it does not place funds in equities or in longer term bonds, because of UNDP's liquidity needs and the absolute requirement of safety and availability; it places funds only in short term instruments, which can be drawn down when and as needed to make payments. Basically, UNDP does not speculate in currency markets. It exchanges currencies only to the extent required to meet programme needs. For example, to the extent that a currency is expected to be required in a country, it is not sold nor is a currency purchased, if sufficient amounts of it are available to meet UNDP's needs.

With respect to the Operational Reserve, the objective is to hold 50 percent of the funds in U.S. dollars and 50 percent in other major currencies, so that currency fluctuations will have the least possible impact on UNDP's resources. The Operational Reserve held \$34.3 million of placements for the benefit of developing countries as at March 31, 1979.

These management practices have not precluded a reasonable return on UNDP's placements: the interest yield in 1977 was 7.0 percent and the interest yield in 1978 was 7.6 percent. The total return, including gains on exchange, was 11.1 percent for 1977 and 12.2 percent for 1978.

### DECISION

Takes note of the methods followed by UNDP with respect to the management of currencies and the basis for allocating them to the Operational Reserve.

## APPENDIX 5

COMBINED SCHEDULE OF UNITED NATIONS FINANCIAL POSITION<sup>1</sup>

AS AT DECEMBER 31, 1977

[Expressed in millions of U.S. dollars]

	United Nations general fund (Statement III)	United Nations emergency force (1956) (Statement IX)	United Nations operations in the Congo (Statement XI)	United Nations emergency force (1973) and UNDOF (Statement X)	Construction-in-progress fund (Statement V)	Capital assets fund, working capital fund, bond account and special account (Statements IV, VI, VII, and VIII)	Total	Total after elimination of reciprocal receivables and payables
<b>Assets:</b>								
Cash	35.5			8.5	0.5	20.8	65.3	65.3
Accounts receivable, interfund balances, deferred charges and advances	33.1				2.6	111.3	149.5	29.9
Assessed contributions unpaid	75.1	43.1	75.4	132.1		.1	325.6	325.6
Special Account for assessed contributions <sup>2</sup>	16.6	5.3	6.7				28.6	28.6
Unassessed contributions	5.6	.9	2.0				8.5	8.5
Capital assets						173.0	173.0	173.0
Construction-in-progress fund					3.1		3.1	3.1
<b>Total assets</b>	165.9	49.3	84.1	143.1	6.2	305.2	753.8	633.8
<b>Liabilities and surplus:</b>								
Accounts payable and deferred income	24.8	0.5	0.9	0.6	0.3		27.1	27.1
Unliquidated obligations	27.1		.1	54.0	2.1	0.1	83.4	83.4
Due to international organizations	74.2			.7			74.9	74.9
Due to United Nations Special Account	23.5	2.2	1.4				27.1	27.1
Due to United Nations Bond Account		8.1	35.9				44.0	44.0
Repayable voluntary contributions <sup>3</sup>		6	1.6				7.6	7.6
Accounts payable to Governments <sup>4</sup>		24.5	10.6				35.1	35.1
Held for reserve requirements		10.4					10.4	10.4
Loans from governments						76.7	76.7	76.7
United Nations balance outstanding	16.3	3.0	33.6	87.8	3.8	199.6	344.1	344.1
Surplus accounts and fund balances								
<b>Total liabilities and surplus</b>	165.9	49.3	84.1	143.1	6.2	305.2	753.8	633.8

<sup>1</sup> Excludes United Nations peacekeeping force in Cyprus due to the fact that this account is financed solely by voluntary contributions not within the assessment structure of the United Nations.

<sup>2</sup> Includes \$10,000,000 received from the Government of Japan pursuant to General Assembly Resolution 3049 (XXVII).

<sup>3</sup> Amounts transferred to special account for net assessed contributions unpaid, pursuant to General Assembly Resolution 3019 C (XXVII).

<sup>4</sup> Comprises \$14,000,000 due to the tax equalization fund, \$5,100,000 due to trust funds, \$5,000,000 due to technical cooperation activities and \$1,400,000 due to the United Nations Joint Staff Pension Fund.

<sup>5</sup> Represents conditional voluntary contributions received in order to finance unassessed appropriations for the second half of 1963 and for 1964.

<sup>6</sup> Under accounts payable to governments as of Dec. 31, 1977, a total of \$35,100,000 is listed for UNEF (1966) and ONUC, representing an accumulation of estimated amounts, and of invoices presented by member states for goods and services rendered and accepted by the organization, payment of which is being held up for lack of funds.

<sup>7</sup> Includes \$3,900,000 budget surplus from 1972 operations retained in suspense account pursuant to General Assembly Resolution 2947 B (XXVII).

## APPENDIX 6

### RESPONSES OF THE CITIZENS COMMITTEE FOR UNICEF TO ARTICLES APPEARING IN THE WASHINGTON POST

JUNE 25, 1979.

To: Members of the subcommittees of the Committee on Foreign Affairs on  
International Operations and International Organizations.  
From: Bjorg Opdahl Wilson.

On behalf of the Citizens Committee for UNICEF, we would like to clarify various fiscal facts reported in the Washington Post articles, June 17 and 18, covering the United Nations system financial situation as of December 1977.

This is particularly vital since the United Nations Childrens Fund, UNICEF, is the one organization most closely related to the American public through active participation.

Attached is a summary of UNICEF finances 1977-80.

#### SUMMARY OF UNICEF FINANCES 1977-80

Questions have been raised concerning the size of UNICEF cash and investment holdings at the end of 1977. The UNICEF Executive Board considers adequate holdings essential to the organization's operation in view of the uncertainty of voluntary future funding and UNICEF's particular programming and cash flow characteristics.

Programs have to be prepared at least two years in advance of initial expenditure, and in many cases further ahead. This is reflected in the volume of program commitments designed to be spent in future years (\$304 million at the end of 1977, item 3 below). This volume has to be in excess of assured funds because most contributions from governments are pledged only a few months in advance of the fiscal year.

Given the uncertainty of future funding, the volume of cash and investments held is designed to provide for the implementation of existing UNICEF program commitments. Consequently, UNICEF cannot use these cash and investment reserves for additional new programs. In fact, there is always a volume of unfunded projects noted by the UNICEF Board as suitable for funding (item 4 below).

Because of the forward planning involved, cash and investments fluctuate above and below the planned level, and this cannot be avoided. They were above that level at the end of 1977 and are projected to be below it at the end of 1980.

The evolution of cash and investments in relation to the volume of future operations is shown in the following summary, with actual figures for 1977 and 1978, and projections for 1979 and 1980 based on UNICEF's medium-term work plan, 1978-82.

[In millions of dollars]

	Actual		Projected	
	1977	1978	1979	1980
1. Revenue.....	164	211	222	250
2. Expenditure.....	142	184	242	250
3. Approved UNICEF program commitments (yearend volume designed to be spent in future years).....	304	418	474	590
4. Unfunded noted projects (yearend volume).....	55	85	120	160
5. Cash and investments:				
Held at the end of each year.....	131	144	123	123
(Of which funds held in trust).....	(26)	(36)	(33)	(30)
Held at April of each year.....	101	123	<sup>1</sup> 110	88
(Of which funds held in trust).....	(20)	(30)	<sup>1</sup> (29)	(30)

<sup>1</sup> Actual.

Source: UNICEF financial reports and internal records. Projections are based on UNICEF's medium-term work plan, 1978-82, with some revisions reflecting most recent estimates.

Notes.—Due to a seasonal cash flow phenomenon, cash and investments show a high point toward the end of each year, which is recorded in the financial report. They drop to a low point by the end of April, and it is this that has to be provided for in UNICEF's liquidity policy. Differences between revenue and expenditures do not correspond exactly to changes in cash and investments because certain cash flows (such as deposits for procurement services performed by UNICEF for other U.N. agencies) are not reflected in those figures.

## APPENDIX 7

TEXT OF LETTER DATED JULY 6, 1979, TO HON. DANTE B. FASCELL FROM  
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES,  
Washington, D.C., July 6, 1979.

HON. DANTE B. FASCELL,  
*Chairman, Subcommittee on International Operations, Committee on Foreign  
Affairs, House of Representatives.*

DEAR MR. CHAIRMAN: AS you requested, we have reviewed the Washington Post articles on United Nations finances and the Department of State analysis of them.

The Department of State has obtained comments on the articles from its U.N. Missions throughout the world and has used this information in preparing its analysis. We have coordinated with the Department of State in analyzing these articles. We are in agreement that while the factual information is for the most part taken from published financial reports and accurate, presentation of such information in the subject articles did not present an accurate picture of the financial operations in the U.N. system.

The factual information used in writing the Washington Post articles was for the most part obtained from reports and audited statements of various U.N. organizations by the U.N. Board of Auditors and other external auditors. The information was presented in a manner that gave the reader a very misleading image of the financial status of the United Nations and its family of organizations. For example, to imply as the Washington Post headline of June 16 did, that there was at any time \$1.4 billion in a bank account that was available to pay any United Nations obligation was misleading. The real facts behind that headline were that there was the equivalent of \$1.4 billion deposited in hundreds of bank accounts throughout the world; in various world currencies (some not convertible on the world money markets); owned by over 20 organizations of the United Nations family, some of which are entirely autonomous from the U.N. Secretariat; and included funds held in trust and reserved by donors for specific purposes.

Other examples of misleading information concern the effectiveness of U.N. internal audit and the low rates of interest earned by the United Nations Development Program (UNDP). While the articles correctly state that the Board of Auditors questioned the effectiveness of internal audit, it failed to mention that part of the same report which stated that under new leadership, steps have been taken to improve the skills of the Internal Audit staff and to better utilize them through improved planning of work to be done. In a similar vein, the articles cited three examples of low interest rates being paid on UNDP cash deposits ranging from 1½ to 5 percent. The articles did not reveal that more than 30 other UNDP accounts were earning interest at rates ranging from 5.125 percent to 13.875 percent.

Nevertheless, one must recognize that the recent articles in the Washington Post are indicative of a financial problem in the U.N. system and they do focus attention to all member governments to take vigorous action to improve management control over the use of funds in the United Nations. Over the years we have continuously reported on the need for improved financial management, and have made numerous recommendations to improve the U.S. management of its participation in the United Nations and its family organizations. We will continue our efforts.

Sincerely yours,

ELMER B. STAATS.