



REPORT TO THE CONGRESS

Actions Recommended To
Alleviate Serious Financial
Problems Facing United Nations

B-168767

Department of State

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~710704~~
094206

AUG. 2, 1974



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-168767

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on actions recommended to the
Secretary of State to alleviate serious financial problems
facing the United Nations.

We made our review pursuant to the Budget and Account-
ing Act, 1921 (31 U.S.C. 53), and the Accounting and Audit-
ing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Director,
Office of Management and Budget, and to the Secretary of
State.

Thomas B. Staats

Comptroller General
of the United States

82

C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	U.N. organization	1
	U.S. participation	1
	Management of U.S. affairs	2
	Scope of review	3
2	U.N. FINANCIAL CRISIS	4
	Peacekeeping activities	4
	Current situation	5
	Attempts to solve problem	6
3	NEED TO REAFFIRM COLLECTIVE REPONSI- BILITY	9
	Article 19 controversy	9
	Effect of the consensus agreement	11
	Enforcing collection of cur- rent dues	11
	Conclusions	12
	Recommendations	13
4	NEED FOR BUDGETING IMPROVEMENTS	14
	Budget format	14
	Budget review process	15
	Agency actions	15
	Conclusions	16
	Recommendations	17
5	NEED TO STRENGTHEN INTERNAL REVIEW	18
	U.N. review bodies	19
	Conclusions	21
6	NEED TO IMPROVE U.S. PROGRAM AND BUDGET REVIEW	23
	Adequate analytical information lacking	24
	USUN understaffed	24

	<u>Page</u>
CHAPTER	
Budgetary priorities not defined	25
Conclusions	26
Recommendations	26

APPENDIX

I	Assessed contributions of member nations outstanding as of December 31, 1973	27
II	Letter dated February 11, 1974, from the Deputy Assistant Secretary for Budget and Finance, Department of State	29
III	Officials primarily responsible for managing U.S. participation in U.N. financial management	37

ABBREVIATIONS

GAO	General Accounting Office
JIU	Joint Inspection Unit
USUN	United States Mission to the United Nations

D I G E S T

WHY THE REVIEW WAS MADE

The United Nations has been experiencing serious financial problems under its regular budget. GAO made this review to assess the problems and to evaluate what the State Department is doing to help correct the situation.

FINDINGS AND CONCLUSIONS

Many U.N. members have not contributed their assessed share toward U.N. expenses.

Outdated budgeting practices and inadequate budget review procedures have added to U.N. financial problems. Further, members are provided only limited critical analyses of U.N. operations.

The Department of State, in GAO's opinion, has not dealt with these problems effectively, nor has it performed adequate in-depth and comprehensive reviews of U.N. budget proposals.

Financial condition

Financial regulations require that U.N. expenses be apportioned to and paid by its members on a pro rata basis.

As of December 31, 1973, over \$204 million in assessed dues remained outstanding, of which the largest portion is withholdings by

certain members for past or continuing U.N. activities to which they object.

The result has been a steadily deteriorating financial position, with no prospects for either an immediate or a long-range solution. (See pp. 4 to 8.) To continue its operations, the United Nations has had to borrow from internal accounts, issue bonds, and defer payments of some obligations.

Principle of
collective responsibility

The signatories to the U.N. Charter recognized the principle of the collective responsibility of all members for sharing U.N. expenses and provided for the loss of vote for non-payment of assessments.

The sanction was first threatened in 1964 when several nations, refusing to pay their share of the costs of U.N. peacekeeping activities, built up large dues arrearages. A consensus agreement was reached not to apply the sanction for fear that it might lead to a breakup of the United Nations.

Refusals by some members to share in other assessed expenses have further eroded this principle to the point that some feel they need only pay for expenses having their approval.

The members' disregard for their collective responsibility is, in GAO's

opinion, the United Nation's most serious financial problem, and its resolution is essential to any plan seeking to reestablish its financial integrity. (See pp. 9 to 13.)

Budgeting improvements

Improvements in U.N. budget preparation and review have been slow in coming. Preparation of a biennial budget on a program basis for 1974-75 should move the United Nations closer toward long-range program budgeting and provide a base for more thorough budget review.

The record, to date, indicates clearly the need for aggressive, vigorous, followup of this first step to achieve a truly integrated and effective system of budget preparation and review.

Other improvements are needed. (See pp. 14 to 17.)

Internal review

Budget and review process weaknesses take on added significance, considering the limitations in U.N. internal review report availability to member countries. The U.N.'s Joint Inspection Unit, the one review group reporting to members on substantive management and program issues, is not capable of providing them with adequate information on the effectiveness and efficiency of the United Nations.

GAO previously reported on the need to establish a strong, competent, and independent review and evaluation unit in the U.N. system. The State Department essentially agreed and indicated that it would attempt to improve the Joint Inspection Unit to meet these standards, but subsequent

departmental actions have not been effective.

Legislation requiring the President to propose and actively seek the establishment of such a body was passed on December 17, 1973, and the Department is acting to implement this legislative mandate. GAO is assisting by proposing standards and advising on the form of organization to be proposed. (See pp. 12 to 22.)

U.S. review efforts

The State Department does not make an in-depth, vigorous, detailed, and searching scrutiny of U.N. budget proposals as required by White House and Department directives. Factors hindering review efforts include an inadequate data base, insufficient staff, and unspecified priorities. (See pp. 23 to 26.)

RECOMMENDATIONS

The Secretary of State should:

- Call upon all U.N. members to reaffirm the basic principle of collective responsibility and seek their support for changes in the financial regulations concerning dues collections. (See p. 13.)
- Follow up on the initial step taken toward program budgeting by pursuing the rapid adoption of procedures necessary for a truly integrated and effective system, including procedures for effective budget review. (See p. 17.)
- Resolve the problems impeding effective implementation of U.S. review guidelines. These problems include lack of adequate information on U.N. activities, inadequate

staffing at the U.S. Mission to the United Nations, and absence of clearly defined U.S. priorities for the United Nations. (See p. 26.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Except for the recommendation to amend U.N. financial regulations to reduce allowable arrearages to 2 years rather than 3, the State Department agrees with GAO's recommen-

dations, has acted to implement some of them, and is preparing to implement others.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

This report is being issued to alert the Congress to the serious financial problems facing the United Nations, of which the United States is a charter member.

CHAPTER 1

INTRODUCTION

The United Nations has been experiencing financial problems since the mid-1950s. We reviewed the situation because of the active U.S. participation in the United Nations and the interest of the Congress in that regard. Our objectives were to assess the seriousness of the financial problems and to evaluate the role played by State Department representatives in their resolution.

U.N. ORGANIZATION

The U.N. Charter, ratified in October 1945, was drawn up by the representatives of 50 countries at the Conference on International Organization in San Francisco to:

- Maintain international peace and security.
- Develop friendly relations among nations.
- Cooperate in solving international economic, social, cultural, and humanitarian problems and in promoting respect for human rights and fundamental freedoms.
- Harmonize the actions of nations to attain these ends.

Membership is open to all nations accepting the obligations of the charter, and as of December 1973, membership totaled 135 nations.

U.S. PARTICIPATION

The United States has strongly supported the United Nations and its associated family of organizations and programs idealistically and financially, as reflected in U.S. contributions of \$5 billion since 1946. More than \$900 million of this amount has been for support of regular U.N. budget activities, including assessed and voluntary contributions toward U.N. peacekeeping operations in the Middle East and the Congo.

The United States is currently assessed 25 percent of the U.N. regular budget in accordance with a new scale of

assessments adopted by the 28th General Assembly in 1973, setting a 25-percent ceiling and a .02-percent floor. Previously the United States was assessed 31.52 percent.

Like all other members, the United States has only one vote in the General Assembly although it does participate in U.N. functions in a special way. U.S. representatives are members of almost every U.N. organ, committee, and commission.

MANAGEMENT OF U.S. AFFAIRS

The United States is represented by a permanent mission at U.N. headquarters. The mission (USUN) carries out the instructions of the President, as transmitted by the Secretary of State, and serves as the channel of communication between the U.S. Government and the U.N. organs, committees, and commissions and delegations of other nations to the United Nations.

The structure, organization, and functions of USUN have principally been determined by:

- The requirements of the U.N. Charter and the resolutions of U.N. organs.
- Applicable provisions of law and executive orders.
- Location of U.N. headquarters in New York City and the consequent need for the United States to assume the responsibilities of host government.
- The fact that the United States is represented on all U.N. organs and almost all of its commissions and committees.

The USUN Chief, who has the rank of Ambassador, is the permanent U.S. Representative to the United Nations and also represents the United States in the Security Council. The U.S. Representative is also a member of the President's Cabinet.

SCOPE OF REVIEW

We reviewed the regular budget of the United Nations, where the reported problems exist. That budget covers U.N. operating expenses as well as certain activities carried out under U.N. authority.

Member governments do not have access to U.N. internal records so our work was limited to reviews of published U.N. documents and Department of State records and discussions with Department of State representatives at the U.S. Mission to the United Nations in New York City and at State's headquarters in Washington, D.C.

CHAPTER 2

U.N. FINANCIAL CRISIS

U.N. financial regulations require that expenses of the organization be apportioned to and paid by its members on a pro rata basis. However, as of December 31, 1973, 92 nations owed more than \$204 million in assessments. Some of this amount has been owed since the mid-1950s. Rather than reduce its programs to the level of actual income, the United Nations continued full operations. To meet expenses incurred in excess of dues collections, it has had to borrow from internal accounts, issue bonds and, at times, defer payment of some obligations.

PEACEKEEPING ACTIVITIES

Of the \$204 million in outstanding dues, \$132 million represents unpaid assessments for U.N. peacekeeping activities carried out in the mid-1950s and early 1960s in the Middle East and the Congo.

The United Nations levied assessments on its members to pay the costs of these activities, but several nations questioned the legality of the assessments and, despite rejection of this position by the International Court of Justice, refused to pay. These refusals to pay account for \$109 million of the \$132 million outstanding. The \$23 million balance is due from members that, to date, have simply not paid any or all of their assessments, including \$12 million due from the Republic of China which appears to be uncollectable.

To continue operating during the period, the Secretary General was compelled to borrow from various special accounts in his custody and to temporarily divert funds destined for other programs. The working capital fund, created to provide a cash cushion during periods of temporary shortages, was also exhausted. These borrowings were viewed as temporary measures while efforts were being made to seek a more lasting solution to the financial problem. In the early 1960s, the United Nations believed that the differences of the holdout members would eventually be reconciled.

Until that reconciliation, however, interim financing more substantial than temporary interfund borrowing was needed. To this end, the General Assembly in 1961 authorized the issuance of up to \$200 million in U.N. bonds to be paid off over a 25-year period at a nominal rate of interest. The bonds, which were sold in 1962 to 60 member and 4 non-member nations, generated about \$170 million and temporarily eased the cash crisis. The proceeds of the bond sales were applied to reduce the obligations incurred under the peacekeeping activities. The working capital fund, however, remained depleted.

CURRENT SITUATION

About \$72 million of the \$204 million in outstanding dues relates to late payments of dues and withholdings by members for certain regular budget items to which they object.

Withholdings

The costs for bond interest and principal amortization are included in the regular budget and passed on to the members as a part of their annual dues assessments. Some of the same members who objected to paying the dues related to the peacekeeping operations also refuse to pay these assessments. They reason that, because the bond proceeds were used to finance the costs of the peacekeeping activities, they would be indirectly financing the activities and thereby compromising their positions of principle by paying these assessments.

Some members, in addition to withholding dues because of the peacekeeping and bond controversies, also withhold dues for other items in the U.N. budget to which they object, including the U.N. Commission for the Unification and Rehabilitation of Korea and the U.N. Memorial Cemetery in Korea.

Certain members also effectively withhold dues by offering to pay their assessments related to U.N. technical assistance programs in nonconvertible currencies, currencies for which the United Nations has limited uses.

These withholdings were estimated to total \$41 million as of December 31, 1973.

Late payments

Over and above the withholdings, there are a number of countries that have not paid in full previous years' assessments. These late payments totaled \$21 million as of December 31, 1973, including the \$16.6 million owed by the Republic of China.

These late payments and annual withholdings are in some ways more critical than the amounts withheld under the peacekeeping controversy. The United Nations has coped with the crisis surrounding the peacekeeping withholdings for over 10 years. Furthermore, the remaining obligations under the peacekeeping accounts are owed to member nations which have not pressed for payment. The annual withholdings and late payments, growing in total each year, are, on the other hand, funds required to meet the day-to-day operating expenses.

ATTEMPTS TO SOLVE PROBLEM

The majority of members have been unwilling to apply charter sanctions against delinquent members. (See ch. 3.) Instead, a series of alternate proposals for resolving the financial crisis have been put forth.

1965 proposal for voluntary contributions

During the summer of 1965, a number of members initiated a campaign for voluntary contributions. Eventually, 23 nations joined in raising voluntary contributions totaling \$26 million. By their example, the contributors hoped the delinquent nations would be induced to pay their outstanding dues.

Hambro proposal

In the face of continuing deterioration of the financial situation, the Secretary General enlisted the support of Ambassador Edward Hambro of Norway in attempting to negotiate an overall solution.

In a May 26, 1971, memorandum, Ambassador Hambro outlined his suggestions, essentially calling for

- voluntary cash contributions,
- waivers by member states of certain claims they had against the United Nations, and
- the removal from the budget of the remaining controversial items.

The proposal was not accepted by the members. Its success depended primarily on securing substantial voluntary cash contributions from the Union of Soviet Socialist Republics (U.S.S.R.) and France, and these were not forthcoming. In reporting to the Secretary General, Ambassador Hambro stated that, although all members had recognized the seriousness of the situation and the need for drastic measures, he had not been able to "register any tendency to general agreement."

Special Committee efforts

In view of the failure of his effort, Ambassador Hambro suggested that the establishment of an intergovernmental working group to deal with the problem be considered. Following this suggestion, the Special Committee on the Financial Situation of the United Nations, consisting of 15 member states including the United States, was established and met for the first time in January 1972, first to deal with immediate financial problems and then to formulate a comprehensive plan of financial recovery.

In reporting to the 27th General Assembly, the Special Committee noted that it had been unable to formulate a common position on the matter of resolving the financial situation because no common viewpoint was reached among members of the Committee.

The report set forth various proposals--a call for early settlement of current accounts, voluntary contributions and cancellation of claims against the United Nations, and removal from the regular budget of controversial items--the Committee noted that "further discussion and guidance from the General Assembly * * * to bring about a solution are still needed."

In response, the General Assembly adopted a resolution on December 19, 1972, which did little more than urge member states and the Secretary General to continue exploring all possibilities for solving the financial difficulties.

The U.S. position has been that it would be willing to contribute to the resolution of U.N. financial problems but that it cannot indicate to what extent until those primarily responsible for the problems announce their contributions.

CHAPTER 3

NEED TO REAFFIRM COLLECTIVE RESPONSIBILITY

The majority of the membership has ignored the charter provision regarding their collective responsibility for the U.N. obligations.

The signatories to the U.N. Charter recognized the principle of the collective responsibility of all members for sharing U.N. expenses and article 17 of the charter provided for the expenses to be paid as apportioned by the General Assembly. This principle of collective responsibility still applies, and the apportionment of expenses is recommended by the Assembly's Committee on Contributions.

The framers of the charter also recognized the need to encourage the prompt payment of assessed dues, and they included article 19 to provide for penalty in the case of late payment.

"A Member of the United Nations which is in arrears in the payment of its financial contributions to the Organization shall have no vote in the General Assembly if the amount of its arrears equals or exceeds the amount of the contributions due from it for the preceeding two full years. The General Assembly may, nevertheless, permit such a Member to vote if it is satisfied that the failure to pay is due to conditions beyond the control of the Member."

ARTICLE 19 CONTROVERSY

Article 19 had not been applied to a member before 1964, but in that year its application was threatened, and the controversy which followed undermined the concept of collective responsibility and directly led to the current financial crisis.

The so-called article 19 controversy related to the events of 1964 and 1965 when the dues arrearages of certain members reached the point at which they were in violation of article 19 and subject to its sanctions.

The U.S.S.R., France, and a number of Eastern European countries refused to pay assessments which had been levied to fund the peacekeeping activities of the U.N. Emergency Force in the 1956 "Suez Crisis" and U.N. Operations in the Congo in 1960. The Soviet position, also held by the others, was that matters relating to peace and security were strictly within the province of the Security Council and not the General Assembly, which had acted in the above cases. They claimed that the expenses were illegal and would not be paid.

The validity of this claim was put to rest when the International Court of Justice stated in an advisory opinion in 1962 that these were "expenses of the Organization" and therefore subject to payment. The ruling, however, did not move the defaulting nations to change their position.

In 1964 and 1965, the majority of the members were unwilling to force a showdown on the constitutional issue, fearing that application of article 19 to the U.S.S.R. and France might lead to the breakup of the United Nations. Ambassador Arthur J. Goldberg stated the U.S. position at that time as follows:

"* * * the United States adheres to the position that article 19 is applicable to the present circumstances [but] * * * recognizes, as it simply must, that the General Assembly is not prepared to apply article 19 in the present situation and that the consensus of the membership is that the Assembly should proceed normally. [He declared that the United States would] * * * not seek to frustrate that consensus, since it is not in the world interest to have the work of the General Assembly immobilized in these troubled days * * *. [The Ambassador further noted] * * * that if any member can insist on making an exception to the principle of collective financial responsibility with respect to certain activities of the organization, the United States reserves the same option * * *."

The General Assembly subsequently endorsed a three-part consensus, which provided that the:

--General Assembly would carry on its work normally in accordance with its rules of procedures.

- Question of the applicability of article 19 of the charter would not be raised with regard to the U.N. Emergency Force and Operations in the Congo.
- Financial difficulties of the United Nations should be solved through voluntary contributions by member states, with the highly developed countries making substantial contributions.

In accordance with the terms of the agreement, article 19 has not been invoked against any defaulting nations for their peacekeeping arrearages.

EFFECT OF CONSENSUS AGREEMENT

The effect of the consensus agreement has been a rejection by the membership of the basic principle of collective responsibility. The rejection has had a direct bearing on the current financial crisis.

The principle had been weakened when some nations refused to pay their share of bond interest and principal included in the regular budget for the first time in 1963. These refusals set a new pattern for the membership, some of whom withhold assessments each year for items to which they object. These withholdings reflect the continuing rejection by the membership of its responsibility to share in the assessed budget and the further erosion of the principle of collective responsibility.

Recently the principle was brought into further question with the action of the newly admitted People's Republic of China which announced shortly after its admission that it would join the list of nations withholding on certain items, such as the bond issue, for positions of principle.

ENFORCING COLLECTION OF CURRENT DUES

Article 19 of the charter provides for loss of vote after a member's arrearages equal or exceed the total of 2 preceding years' dues. The liberality of these terms contributes to U.N. financial problems, because it must find alternate means of financing its expenses if members elect to fall into arrears. To further compound the problem, the United Nations does not

begin to measure arrears under its financial regulations until dues are almost 1 year overdue. The effect, then, is to allow members to fall into arrears for almost 3 years before they become subject to charter sanctions.

This liberal interpretation of the financial regulations adds another burden to an already overburdened organization and a potential threat in terms of a loss of dues receivable. This threat became an actuality with the recent expulsion of the Republic of China, which owed approximately \$30 million in dues. Although that amount still appears on U.N. records as collectible, the probability of collection seems remote. The representatives of the People's Republic of China have indicated that they will not be responsible for this debt.

We discussed the matter of late payments with the Department of State and suggested that a stricter interpretation or a change in financial regulations to reduce allowable arrearages to 2 years rather than 3 might ease the crisis somewhat. State disagreed with our suggestion, pointing out that the root of the problem centers around the dues withheld, not the dues which are paid late. It also stated that the late payments (about \$4.6 million at December 31, 1973) represent an easily manageable amount within the working capital fund level of \$40 million.

We agree that late payments represent only a small part of the problem and that the sum would normally be manageable within the working capital fund level. Our suggestion, however, was made in consideration of the fact that the working capital fund has been depleted and the late payments, no matter how small, are not manageable. Also, the late payments and the cash flow difficulties they create have generally been recognized by State in the past as a factor contributing to the U.N. financial management problem. For these reasons, we cannot agree that State should forego any action to ease the problem.

CONCLUSIONS

Although signatories to the U.N. Charter recognized the principle of the collective responsibility of all members for sharing U.N. expenses, some members have selectively disregarded the principle, withholding assessments for budget items

to which they object. U.N. survival as a fiscally viable organization is seriously prejudiced when this principle is not honored.

RECOMMENDATIONS

Inasmuch as a political accommodation will probably be required to settle the withholding controversies, we recommend that the Secretary of State, in any such accommodation, call upon all U.N. members to reaffirm the basic principle of collective responsibility.

The State Department advised us that our proposal would receive careful consideration in the eventuality of a settlement of this situation but also stated that it would have to give careful consideration to the U.S. reservation, stated in 1965, that, if any member takes exception to the principle of collective financial responsibility, the United States reserves the same option.

In spite of State's disagreement, we also recommend that the Secretary of State attempt to obtain the support of other members for changing the liberal interpretation of the financial regulations on dues collections, thus helping to obviate short-term cash crises.

CHAPTER 4

NEED FOR BUDGETING IMPROVEMENTS

Before the 28th General Assembly in 1973, the regular budget had been prepared and processed in essentially the same way since the United Nations began although the need for basic change had long been recognized by the members. Both the budget format and the process of reviewing it had been targets of criticism. Changes, nevertheless, were slow in coming.

An experimental 2-year budget for 1974 and 1975 was approved in 1973 and represented a major step toward improving the U.N. budget process.

Our review, which covered the period just prior to the budget experiment, pointed to a number of problems which we brought to the attention of the State Department. State advised us that it had considered our observations and anticipated our recommendations in certain actions during the experimental period.

BUDGET FORMAT

The problem with the budget format was twofold: (1) the budget was essentially a summary of planned expenditures for 1 year and therefore provided only short-term financial visibility and (2) proposed expenditures were grouped only by type of expense, such as salaries, travel, meetings, and the like. This system of budgeting, although widely used, ignored modern techniques which recognize that the work of an organization can generally be divided into a series of programs. These programs, in turn, can be related to the work the organization hopes to accomplish. Budgeting on this basis provides management with a tool for allocating resources to its programs based on an evaluation of the relative importance of the programs and the availability of assets.

The two basic format problems had been recognized over the years. In 1963, a report to the State Department by the Advisory Committee on International Organizations stated it was difficult, if not impossible, to evaluate expenditure proposals and to weigh alternatives without considering long-range implications.

The problem of the lack of program information was highlighted in 1969 by a U.N. consultant who pointed out that a budget should focus on major issues and provide a view of agency activities in relation to all other activities which the agency is to carry out.

Both problem areas were addressed by the U.N. Joint Inspection Unit (JIU) in 1969, and later in statements by the Secretary General and representatives of several member states. Despite all this recognition, however, establishing a system of program budgeting having sufficient visibility progressed slowly.

BUDGET REVIEW PROCESS

The budget was prepared within the United Nations and reviewed by the General Assembly's 13-member Advisory Committee on Administrative and Budgetary Questions. The budget review report was sent to the Fifth Committee, the General Assembly's committee-of-the-whole on administrative and budgetary matters. The Fifth Committee further reviewed the budget but generally endorsed the recommendations made by the Advisory Committee on Administrative and Budgetary Questions. The General Assembly, relying on these reviews, normally approved the budget as recommended.

AGENCY ACTIONS

USUN advised us that it had long advocated a system of long-range program budgeting and that the 27th General Assembly authorized the preparation of a biennial budget on a program basis for 1974-75.

Such a budget was formulated and approved, and the State Department considers it to be an improvement.

We recognized these actions and pointed out that budget preparation in a program format is but one element of a total program budgeting system. Among other things, organizational priorities must be clearly established; programs must be planned and developed to meet these priorities; vigorous

review procedures must be integrated into the system to approve the programs, control their implementation, and evaluate their results; and administrative machinery will have to be designed and programming personnel trained.

State also informed us that it was vigorously pursuing programming and budgeting improvements and had participated in developing recommendations to improve U.N. program budgeting techniques, including:

- Cross-referencing to facilitate identification of related activities under different programs and sections in the budget.
- Presenting selected program areas across organizational units.
- Instituting procedures for in-depth analysis of all programs phased over a period of time.
- Basing the format on the program structure while identifying the organizational centers of responsibility.

State said that its actions anticipated our proposal calling for followup of initial steps taken toward program budgeting by vigorously pursuing the adoption of procedures necessary for a truly integrated and effective system.

CONCLUSIONS

The need for improving the U.N. budgeting system has long been recognized and discussed, and we agree with the State Department's observation that the preparation of the 1974-75 U.N. regular budget on a program basis should move the United Nations closer to more effective program budgeting. We also agree that recent actions to improve the form, content, and structure of the next program budget are useful.

It should be noted, however, that the United Nations has not been able to swiftly implement recommended reforms in the past. It is also apparent that other problems associated with effective program budgeting, such as establishing clear priorities, defining program objectives, improving review procedures,

and installing an effective funds control system, have not yet been dealt with.

We recognize that the State Department is aware of these problems, and, in commenting on our report, it said that it fully shared the concern about improvements needed in developing a more effective system to insure aggressive and critical budget reviews and would attempt to deal with this during the next meeting of the U.N. General Assembly.

State also concurred in our proposal to vigorously pursue the adoption of procedures necessary for a truly integrated and effective system.

RECOMMENDATIONS

We endorse the actions taken thus far and encourage the State Department to continue its efforts in these matters. We also recommend that the Secretary of State attempt to

- establish clearly stated organizational priorities;
- integrate a vigorous review procedure into the system of program approval, control, and evaluation;
- define program objectives in more specific and measurable terms; and
- install an effective funds management control procedure to minimize unfavorable variances between budgeted and expended amounts.

CHAPTER 5

NEED TO STRENGTHEN INTERNAL REVIEW

Weaknesses in budget and the related review processes take on added significance when considering the weaknesses in internal review. Member states are provided only limited information on the management of U.N. affairs. Most evaluation efforts are either (1) internal evaluations made for the benefit of the Secretariat, with the results generally not being made available to the members, or (2) fiscal reviews which do not examine substantive management and administrative issues. JIU, the one review group with the authority to undertake comprehensive management reviews and report to the members thereon, is not capable of providing the members adequate information as to the effectiveness and efficiency of the United Nations.

Our previous reports emphasized the need for better evaluations of U.N. programs and activities. We believed that no existing effort effectively met member governments' needs for information on how well programs were being carried out and whether program objectives were being met.

The State Department did not seek to establish within the United Nations a new independent evaluation group capable of providing members with the desired evaluation data. It chose instead to devote its efforts to strengthening the existing inspection and review groups. These efforts met with very limited success.

The importance of this long-standing problem and the recognition of State's limited progress led the Congress to act in 1973. The Foreign Assistance Act of 1973 (Public Law 93-189) approved December 17, 1973, required the President to propose and actively seek the establishment of a single professionally qualified group of appropriate size to provide an independent and continuous program of selective examination, review, and evaluation.

State recognizes the need for more comprehensive reviews of management and administrative issues and has initiated action to implement the mandate of this legislation. We are assisting State in this by proposing standards of review and advising on the form of organization to be proposed.

Current review and evaluation activities are discussed in the following sections.

U.N. REVIEW BODIES

Various groups are involved in administrative, financial, or management review efforts within the United Nations, including the Administrative Management Service, the Internal Audit Service, the Board of Auditors, and the Joint Inspection Unit.

Administrative Management Service

The Administrative Management Service was established by the Secretary General in 1969 to survey and analyze broad management questions. It reports directly to the Under Secretary General for Administration and Management. Its reports are not made available to member governments.

Internal Audit Service

The Internal Audit Service, an organizational unit within the Office of the Controller, undertakes reviews designed to insure fiscal control and accountability, as well as compliance with U.N. policies, procedures, and regulations. Reports on its activities are not made available to member governments.

Board of Auditors

U.N. financial regulations require annual audits of U.N. accounts. This audit is performed by the Board of Auditors, composed of the national auditing authorities of three member governments appointed by the General Assembly. The Board is authorized to make observations on U.N. administration and management, but it has generally confined its reviews to fiscal matters and has not undertaken comprehensive management reviews. Reports of the Board are submitted to the General Assembly.

JIU

JIU began operations on January 1, 1968, for an initial period of 4 years. As authorized by the General Assembly, it was to:

"* * * have the broadest powers of investigation in all matters having a bearing on the efficiency of the services and the proper use of funds * * *."

Of the existing review groups, JIU alone has the authority to make systemwide, comprehensive management reviews and to report its findings and recommendations to member nations.

Limitations

Although JIU was given broad review authority over the U.N. system, its small size--eight inspectors and two professional staff members--and lack of professional diversification does not enable it to adequately review the vast and diverse operations of the total U.N. system.

Its effectiveness is further impaired by its lack of permanence as a unit--the General Assembly has twice extended the life of JIU for temporary operating periods, most recently through 1977--its dependence upon the organizations it reviews for financing, and lack of centralized direction and control.

The State Department, recognizing our previous recommendations and aware of JIU's limitations, sought to improve its capabilities in January 1972.

In a paper entitled "Suggestions of the United States to Strengthen Inspection and Evaluation" addressed to the Secretary General and circulated to the member governments, the State Department outlined a number of measures designed to improve JIU's effectiveness. The objective of the paper was to stimulate thinking on the part of member governments prior to their consideration of the future of the JIU at the 27th U.N. General Assembly later in the year.

The paper listed a number of factors to be considered in improving JIU's capabilities, but it failed to mention the need for an independent source of financing and failed to take a strong position on the need to increase JIU's size and professional diversity. In addition, the paper contained the following suggestion:

"* * * The Joint Inspection Unit should not assume, either explicitly or implicitly, the

financial auditing or internal management review functions of bodies established for those purposes, nor should those bodies assume any of the functions which are the primary responsibility of the Unit."

Since the work of other review groups is clearly defined while JIU's mandate is broadly stated, adopting this suggestion would limit JIU's authority by clearly defining the areas in which it could not function.

State Department officials advised us that the purpose of the statement was to eliminate excessive duplication among existing review groups. We believe that, although work should indeed not be duplicated, an effective independent evaluation body needs to do a certain amount of work in areas which are generally the responsibility of U.N. internal review groups, remembering that these groups report to management and not to the member governments. Such examinations would serve to inform member governments not only about the effectiveness and efficiency of the organizations, but also about the effectiveness of the groups and management's responsiveness to the recommendations.

State Department officials informed us that, owing to more pressing priorities, the United States did not actively seek adoption of its suggestions for improving JIU. The 27th General Assembly subsequently decided to continue JIU in its present form through 1977 and to evaluate it at the 31st session in 1976.

CONCLUSIONS

Member nations are provided only limited information on the management of U.N. affairs under the existing review and inspection groups.

JIU, the one review body with the authority to undertake comprehensive examinations of management operations and to report to the members thereon, is limited because (1) its small size and lack of professional diversification preclude it from adequately carrying out its broad mandate over the vast U.N. system and its diverse programs and (2) it suffers from a lack of centralized direction and control from within and depends on the General Assembly for periodic extensions of its existence and on the U.N. organizations, which it reviews, for its financing.

The independent review and evaluation group being sought by the Foreign Assistance Act of 1973, if successfully established and functioning under appropriate auditing and reporting standards, should provide to the United States and other member countries valuable information for assessing the efficiency and effectiveness of programs carried out by the U.N. system.

We are making no recommendations for the review and evaluation group, but we will assist the State Department in developing auditing and reporting standards to be included in the U.S. proposals and closely monitor the implementation of the legislation.

CHAPTER 6

NEED TO IMPROVE U.S. PROGRAM AND BUDGET REVIEW

The Department of State's Bureau of International Organization Affairs and USUN are responsible for the U.S. review and analysis of U.N. program and budget submissions. The Bureau establishes policy and criteria and, in conjunction with USUN, reviews program and budget submissions. The results are translated into U.S. positions ultimately presented at the United Nations by U.S. delegations.

Guidelines governing U.S. review require that budgets and programs of international organizations receive the "same searching scrutiny" applied to our own Federal programs. White House and State Department directives state that

- programs must be vigorously scrutinized to insure that funds are allocated only to high-priority projects,
- expansion of the activities of international organizations must meet the tests of feasibility and reasonableness,
- new programs must be carefully examined and approved only at the expense of older programs of lower priority, and
- the principle of austerity must be applied to the programs of international organizations.

We examined State's analysis of the 1972 U.N. budget and found it to be general in nature, primarily discussing overall budget levels and the need for the United Nations to economize. The analysis exhibited no attempt to evaluate program performance and, despite recognizing the need to identify marginal activities that should be curtailed or eliminated, failed to identify such activities. It by no means represented the in-depth budget analysis anticipated by the U.S. review guidelines, or one which a three-volume budget of over \$200 million would seem to justify.

We identified three factors which inhibited State-USUN efforts in making a searching, in-depth analysis of U.N. budgets. Details of these problems are discussed below.

ADEQUATE ANALYTICAL INFORMATION LACKING

In discussing the U.S. budget review, both USUN and State personnel stated that:

- In reviewing U.N. budgets, they were primarily concerned with the overall budget level as well as budgetary trends and concentrated on the incremental increases from one year to the next. They explained that this type of review was necessitated by the information the United Nations makes available to its members. U.N. documents simply do not contain the detailed information required for a more thorough review.
- U.S. representatives could raise questions in committee meetings or attempt to gather additional information through phone calls or visits to the United Nations, but these methods of information gathering were both time consuming and complicated and resulted in little additional analytical data.
- Under these conditions, it has not been possible to apply to the U.N. budget the "same searching scrutiny" we apply to our own Federal budgets, as called for in the U.S. review guidelines.

The introduction of program budgeting beginning with the 1974-75 biennium should serve as a beginning toward better and more useful information. State said that this was already evident in the review of the 1974-75 program budget, which was much more detailed than its earlier reviews.

From experience with previous such introductions in other parts of the U.N. system, however, it is but a beginning. It will take time and vigorous prodding by members interested in improved information to develop such presentation to the point where it will result in a clear picture of U.N. objectives and the specific allocation of resources to meet these objectives.

USUN UNDERSTAFFED

USUN officials stated that its manpower situation further precluded achievement of the objectives set out in the guidelines.

The responsibility for monitoring U.N. financial management at USUN rests essentially with two members of the staff. Approximately 30 percent of their time is spent serving as experts on the Advisory Committee on Administrative and Budgetary Questions and the Committee on Contributions and another 20 percent on other standing or ad hoc committee assignments. Added to these demands are their normal USUN duties, including writing and making speeches, maintaining formal and informal contacts with other delegations and Secretariat officials, and supervising the work of a staff involved with host country relations and personnel matters. Any remaining time is used for the basic studies and analyses required on U.N. financial management and controls.

According to the USUN staff, it is this latter area that suffers the most. Despite recognition of the need for attention to such problem areas as program budgeting and internal review, they simply do not have the time available to pursue them in the depth necessary.

State subsequently said that it had approved an additional position at USUN and the experts' time required on the Committee on Contributions would be provided by Washington headquarters.

BUDGETARY PRIORITIES NOT DEFINED

U.S. review guidelines point to the need to insure that funds are allocated only to high-priority projects and that new programs be added only at the expense of older programs of lower priority. Despite the recognition of the need to do so, priorities have not yet been established.

In April 1972, in an attempt to implement these guidelines, USUN requested headquarters to identify its priorities. According to USUN representatives, as of April 1973 State had not responded to their request, and USUN continues to operate without clearly defined priorities for the U.N. budget.

State said that the new program budgeting system should help it to identify low-priority projects, and, as the program is refined, its level of sophistication should increase.

CONCLUSIONS

State Department efforts to review and analyze U.N. programs and budgets have fallen far short of the goals set out in White House and State Department directives.

One problem requiring attention is the lack of adequate analytical information. Until U.N. program and budget documents contain more substantive data on ongoing or proposed programs and projects, State cannot hope to seriously analyze U.N. operations in accordance with U.S. review guidelines. With aggressive followup by those concerned with the need for better information, the program budgeting system introduced for the 1974-75 biennium, could help to alleviate this problem.

Internally, the State Department has problems that must be resolved before the guidelines can be effectively implemented. One is the inadequate manpower at USUN for monitoring U.N. financial activities. The U.N. financial problems need the close monitoring that an adequately staffed USUN could provide. Further precluding implementation of the review guidelines is the State Department's failure to clearly define its priorities for the United Nations. We view this as a major problem because the wide diversity of U.N. programs seems to require a rational ordering of priorities.

RECOMMENDATIONS

Therefore, we recommend that the Secretary of State:

- Follow up with the United Nations to resolve the problem of inadequate analytical information on proposed and ongoing programs and projects, including any such shortcomings in the new program budget format.
- Reassess the adequacy of the USUN staff for improving the quality of U.S. participation in U.N. financial management.
- Establish a clear set of U.S. priorities for the United Nations to guide U.S. representatives in dealing with it.

ASSESSED CONTRIBUTIONS OF MEMBER NATIONS

OUTSTANDING AS OF DECEMBER 31, 1973

<u>Member nations</u>	<u>Regular budget</u>	<u>U.N. Emergency Force</u>	<u>U.N. Operations in the Congo</u>	<u>Total</u>
Afghanistan	\$ -	\$ 29,499	\$ 37,603	\$ 67,102
Albania	^a 86,192	^a 45,299	^a 43,602	175,093
Algeria	168,703	8,932	-	177,635
Argentina	43,311	-	-	43,311
Australia	-	63,227	-	63,227
Austria	-	-	-	-
Bahamas	-	-	-	-
Bahrain	-	-	-	-
Barbados	-	-	-	-
Belgium	-	144,583	-	144,583
Bhutan	-	-	-	-
Bolivia	227,680	41,905	34,833	304,418
Botswana	-	-	-	-
Brazil	¹ 429,778	-	248,838	1,678,616
Bulgaria	^a 646,290	^a 181,155	^a 190,746	1,018,191
Burma	-	-	-	-
Burundi	89,986	11,278	10,471	111,735
Byelorussian Soviet Socialist Republic	^a 952,183	^a 911,964	^a 1,357,881	3,222,028
Cameroon	147,936	1,689	-	149,625
Canada	-	-	-	-
Central African Republic	209,790	2,256	6,589	218,635
Chad	107,151	8,386	9,832	125,369
Chile	390,092	165,903	224,847	780,842
China, Peoples Republic of	^a 844,881	-	-	844,881
Columbia	650,263	-	-	650,263
Congo	115,504	9,249	9,938	134,691
Costa Rica	71,669	-	-	71,669
Cuba	^a 379,917	^a 249,811	^a 260,259	889,987
Cyprus	-	-	-	-
Czechoslovakia	^a 1,868,862	^a 1,814,845	^a 2,759,408	6,443,115
Dahomey	160,037	5,530	6,994	172,561
Democratic Yemen	-	-	-	-
Denmark	-	-	-	-
Dominican Republic	227,680	22,898	54,503	505,081
Ecuador	179,934	10,129	4,120	194,183
Egypt	-	351,946	48,387	400,333
El Salvador	110,373	7,411	3,349	121,133
Equatorial Guinea	70,788	-	-	70,788
Ethiopia	-	-	-	-
Fiji	-	-	-	-
Finland	-	-	-	-
France	^a 4,613,515	^a 765,655	^a 17,031,152	22,410,322
Gabon	72,215	-	-	72,215
Gambia	92,620	-	-	92,620
German Democratic Republic	-	-	-	-
Germany, Federal Republic of	-	-	-	-
Ghana	91,630	-	-	91,630
Greece	30,400	-	-	30,400
Guatemala	-	-	38,209	38,209
Guinea	197,413	19,410	9,938	226,761
Guyana	83,839	-	-	83,839
Haiti	227,680	25,661	33,916	287,257
Honduras	122,791	-	5,677	128,468
Hungary	^a 1,008,147	^a 898,298	^a 995,024	2,901,469
Iceland	-	-	-	-
India	^a 187,544	-	-	187,544
Indonesia	-	-	-	-
Iran	-	-	-	-
Iraq	131,215	100,407	22,362	253,984
Ireland	-	-	-	-
Israel	85,611	-	-	85,611
Italy	851,393	-	-	851,393
Ivory Coast	-	1,689	-	1,689
Jamaica	-	-	-	-
Japan	-	-	-	-
Jordan	145,767	^a 45,299	^a 43,602	234,668
Kenya	74,979	-	-	74,979
Khmer Republic	74,966	1,689	-	76,655
Kuwait	-	-	-	-
Laos	74,979	-	-	74,979
Lebanon	-	19,850	12,108	31,958
Lesotho	74,979	-	-	74,979
Liberia	-	-	-	-
Libyan Arab Republic	-	1,689	-	1,689
Luxembourg	-	-	-	-
Madagascar	-	-	-	-
Malawi	-	-	-	-
Malaysia	-	-	-	-
Maldives	74,979	-	-	74,979
Mali	219,667	5,469	24,259	249,395

APPENDIX I

<u>Member nations</u>	<u>Regular budget</u>	<u>U.N. Emergency Force</u>	<u>U.N. Operations in the Congo</u>	<u>Total</u>
Malta	-	-	-	-
Mauritania	141,327	-	17,215	158,542
Mauritius	74,979	-	-	74,979
Mexico	-	679,491	786,193	1,465,684
Mongolia	^a 43,066	^a 12,387	^a 17,215	72,668
Morocco	-	-	-	-
Nepal	4,191	-	-	4,191
Netherlands	-	-	-	-
New Zealand	-	-	-	-
Nicaragua	227,677	-	33,916	261,593
Niger	-	1,906	-	1,906
Nigeria	12,138	-	-	12,138
Norway	-	-	-	-
Oman	-	-	-	-
Pakistan	251,699	-	-	251,699
Panama	1,979	15,648	33,916	51,543
Paraguay	227,676	31,661	24,229	283,566
Peru	299,649	77,441	89,183	466,273
Philippines	-	15,631	-	15,631
Poland	^a 1,555,464	^a 2,528,364	^a 2,466,010	6,549,838
Portugal	^a 429,861	-	201,673	631,534
Qatar	-	-	-	-
Romania	1,029,216	^a 682,212	^a 641,015	2,352,443
Rwanda	-	11,278	10,471	21,749
Saudi Arabia	-	^a 74,890	69,487	144,377
Senegal	22,079	9,814	20,418	52,311
Sierra Leone	-	2,469	-	2,469
Singapore	-	-	-	-
Somalia	-	11,191	17,445	28,636
South Africa	^a 517,938	80,862	1,503,337	2,102,137
Spain	-	1,089,981	985,159	2,075,140
Sri Lanka	-	-	-	-
Sudan	74,979	89,332	5,860	170,171
Swaziland	70,788	-	-	70,788
Sweden	-	-	-	-
Syrian Arab Republic	226,987	46,654	20,379	294,020
Thailand	-	9,026	-	9,026
Togo	151,380	16,174	25,324	192,878
Trinidad and Tobago	-	-	-	-
Tunisia	-	-	-	-
Turkey	-	-	-	-
Uganda	158,435	9,589	10,471	178,495
Ukrainian Soviet Socialist Republic	^a 2,716,790	^a 3,476,580	^a 5,185,697	11,379,067
Union of Soviet Socialist Republics	^a 27,238,311	^a 27,665,631	^a 39,223,085	94,127,027
United Arab Emirates	-	-	-	-
United Kingdom of Great Britian and Northern Ireland	-	283,299	-	283,299
United Republic of Tanzania	-	-	-	-
United States	^b 1,000,000	^c 1,188,096	-	2,188,096
Upper Volta	90,221	19,936	14,145	124,302
Uruguay	398,443	54,388	97,662	550,493
Venezuela	768,538	32,298	-	800,836
Yemen	108,483	45,299	43,602	197,384
Yugoslavia	-	7,598	333,269	340,867
Zaire	76,358	-	-	76,358
Zambia	-	-	-	-
China, Republic of (note d)	16,613,395	5,274,570	6,687,206	28,575,171
	<u>\$72,247,376</u>	<u>\$49,516,707</u>	<u>\$82,092,029</u>	<u>\$203,856,112</u>

^aFunds withheld in part or in total as a matter of announced policy.

^bPayment delayed pending resolution of a foreign currency transaction. Payment made in March 1974.

^cOffset by the \$15,155,818 owed by the United Nations to the United States for U.N. Emergency Force and U.N. Operations in the Congo.

^dUnpaid balances of budget assessments made prior to the expulsion of the Republic of China in October 1971; transferred to a special account according to General Assembly resolution 3049C (XXVII) of Dec. 19, 1972.



DEPARTMENT OF STATE

Washington, D.C. 20520

February 11, 1974

Mr. James A. Duff
Associate Director
International Division
U.S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Duff:

I am replying to your letter of November 29, 1973, which forwarded copies of the draft GAO Report: "U.S. Participation In Financial Management of the United Nations", and requested the Department's comments.

I am enclosing the Department's comments on the subject report. As you will note, the Department already has taken action to implement some of the recommendations and is preparing to implement others shortly.

I would like to express the Department's appreciation for the opportunity to review and comment on the draft report and for the extension of time to make such comments.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard W. Murray".

Richard W. Murray
Deputy Assistant Secretary
for Budget and Finance

Enclosure

APPENDIX II

DEPARTMENT OF STATE COMMENTS

ON

GAO DRAFT REPORT: U.S. PARTICIPATION IN FINANCIAL MANAGEMENT OF THE UNITED NATIONS

We appreciate the opportunity to comment on this General Accounting Office Draft Report. As will be noted in our remarks on the various findings, arranged under the chapter titles of the Report, the Department of State has already taken action to implement some of the recommendations or is preparing to do so promptly.

Chapter 1 - Introduction

To bring the background information about U.S. participation in the UN up-to-date, as discussed on page 6 of the Report, we would suggest noting that the 28th General Assembly did in fact adopt a scale of assessment with a 25 percent ceiling and a .02 percent floor.

Chapter 2 - The UN Financial Crisis

We would like to commend the Report for its concise summary in this chapter of the UN financial situation. The Department of State has long indicated its great concern about this problem in Congressional hearings, in public reports, and in various UN bodies, including the Special Committee on the Financial Situation of the United Nations (the establishment of which we strongly supported). The Report, however, should be corrected to show that France has made a voluntary contribution toward the solution of the financial problem in the amount of \$3.9 million which virtually equals its previous Regular Budget withholding and is now paying its assessment in full, although it continues to be in arrears, especially to the Congo account. On the other hand, the People's Republic of China has announced that it will withhold a portion of its Regular Budget assessment.

Chapter 3 - Reaffirmation of Collective Responsibility Needed

The beginning statement in this chapter that "the membership has ignored the Charter provision regarding their collective

responsibility for the obligations of the Organization" is too sweeping an assertion. To place the entire discussion of this chapter into its proper perspective, we believe that the above statement and others similar to it should be qualified by the understanding that only some of the membership has ignored the principle of collective responsibility for specific peacekeeping obligations. Nor is it entirely correct to speak of the International Court of Justice as making a ruling in 1962 that peacekeeping activities were expenses of the Organization, as noted on page 15. Actually, the Court's findings were in the nature of an advisory opinion, not a ruling.

While we would not go so far as to state (page 17) that the principle of collective responsibility "has little if any meaning," we would agree that the principle has been brought into further question by the withholdings announced by the People's Republic of China on its admission to the UN and recently by its stated refusal to pay its share of the new UN Emergency Force in the Middle East.

With reference to the statement on page 10 that some members also withhold assessed contributions for the UN Commission for the Unification and Rehabilitation of Korea (UNCURK) and the UN Memorial Cemetery in Korea, we would note that after 1974 neither UNCURK nor the Cemetery are included in the UN budget for 1974-75. On page 12, the Report correctly states that the Special Committee had been unable to formulate a common position on the matter of resolving the financial situation of the United Nations. It would be informative to point out, however, that 12 of the 15 Member States on the Committee reached agreement on a common position--the U.S.S.R. and Poland disagreed, and China did not participate.

We would generally agree with the conclusions reached on page 18 in the following qualified forms: (1) that some members have selectively disregarded the UN Charter principle of collective responsibility by withholding payment of assessments on the ground of the illegality of the expenditures, and (2) that the UN's survival as a fiscally viable Organization is seriously prejudiced when the principle is not honored.

APPENDIX II

The Report recommends on page 18 that in the event of an effort to reach a political accommodation on the matter of withholdings, the United States should seek to have it include a reaffirmation of the principle of collective responsibility. This proposal would certainly receive careful consideration if such an eventuality comes about. We would point out, however, that the reservation stated in 1965 by Ambassador Goldberg, at the time of the Article 19 controversy, would have to be given equally careful consideration.

The Report further recommends that the United States seek support for "changing the liberal interpretation of the financial regulations". We assume reference is being made here to UN Financial Regulation 5.4 which permits the elapse of approximately one year before unpaid assessments, which were due at the beginning of the previous year, are held to be one year in arrears. As correctly pointed out in the Report, a Member State may thus be three years in arrears before Article 19 sanctions apply. Consequently, an amendment of the financial regulation, not a change in liberal interpretation, would appear to be required. Thus restated, we believe that implementation of this recommendation would be impractical in view of the wide variation in fiscal years and appropriations processes of the 135 Member States. Furthermore, this measure would not get to the root of the financial problem, which can be abstracted from the statistics appearing in Appendix I, page 3. There it may be seen that of the \$64.7 million outstanding on the Regular Budget, as of December 31, 1972, \$38.7 million is withholding (unrelated to the problem of late payment of current assessments), \$16.6 million is the ouster of China (Republic) from membership and only \$9.4 million is late payment. The \$9.4 million in late payment is an easily manageable amount within a Working Capital Fund level of \$40 million if the Fund was not depleted by other factors, principally the current \$38.7 million in withholding which will increase progressively year by year. Consequently, in addition to being impractical as noted above, it would not appear to be meaningfully relevant to recommend tightening of the interpretation of the two-year financial rule relative to the collection of current assessments since the real problem of withholding would not be solved by this measure.

Chapter 4 - Budgeting Improvements are Necessary

Much of the discussion in this chapter regarding the need for an improved UN budget format is no longer relevant since, as the Report notes, the 27th General Assembly provided for program budgeting -- a development which the United States has long urged. Subsequently, the 28th GA reviewed and approved a budget in program format for the 1974-75 biennium. The concomitant need for information regarding long-range implications, noted on page 19, was met with the development of the UN Medium-Term Plan covering the period 1974-77. We believe, as did the UN itself in adopting program budgeting on an experimental basis, that the new budgetary procedures are susceptible of improvement, and as indicated below, we have encouraged and will continue to support efforts in this direction.

At its Fourteenth Session (June 1973) the Committee for Program and Coordination made a series of helpful recommendations to its parent body ECOSOC for improving the format and presentation of the current program budget pertaining to the economic, social and human rights sections. Many of these recommendations were due to the active participation of the U.S. member on the CPC. The proposals would perfect present UN program budgeting techniques by:

- Cross-referencing to facilitate identification of related activities under different programs and sections in the budget;
- Presenting selected program areas across organizational units;
- Instituting procedures for in-depth analysis of all programs phased over a period of time; and
- Basing the format on the program structure while identifying the organizational centers of responsibility.

In all, 16 specific CPC recommendations dealing with the complexities of program budgeting were endorsed by the 55th ECOSOC and referred to the 28th GA where they were

APPENDIX II

considered and combined with the views of the ACABQ (as expressed in its report) and Fifth Committee in drafting the necessary resolution. The approved GA resolution, which enjoyed U.S. co-sponsorship, requested the UN Secretary General, in preparing the budget for 1976-77, to take into account these views for improving the form, content and structure of the next program budget.

Consequently, we would submit that our participation in the CPC, Fifth Committee, and 28th GA were anticipatory of the Report's recommendation on page 22 calling for Department "follow-up on the initial steps taken toward program budgeting by vigorously pursuing the rapid adoption of procedures necessary for a truly integrated and effective system." As noted earlier, we will continue to support similar efforts, as required.

We fully agree with the Report's conclusion on page 22 that a number of other elements "of a total program budgeting system" remain to be included. To those enumerated, moreover, we would also add the need for more positive budget execution, that is, installation of effective funds management controls designed to minimize unfavorable variances between budgeted and expended amounts. We also agree that accomplishment of these steps will take time and patience. Nevertheless, as a matter of policy, we will continue to press for improvement as rapidly as possible.

With respect to the comments beginning on page 20 concerning the budget review process and ACABQ (which consists of 13 members rather than 12 as the Report states), we would emphasize that this body is politically very vulnerable. It could easily be weakened or negated by a majority of UN members who are assessed only a fraction of the Regular Budget but who number among them members who have shown an active interest in uncontrolled program expansion. The United States regards the ACABQ as a highly important management tool and in the interest of better financial management would like to see it become increasingly effective. We fully share the concern expressed in the Report on page 22 that improvements are needed in the development of a more effective system to ensure "aggressive" and

"critical" budget reviews. The United States subsequently participated as one of the sponsors of GA Resolution 3199 (XXVIII) which inter alia specified the inclusion in the provisional agenda of the 29th General Assembly of an item entitled "Review of the Intergovernmental and Expert Machinery Dealing with the Formulation, Review and Approval of Programs and Budgets". The United States intends to utilize all other reasonable opportunities to improve the budget review process in United Nations fora.

Chapter 5 - Need to Strengthen Internal Review

The finding presented in this chapter concerns the "weaknesses" of the UN internal review process and the limited information on the management of UN affairs made available directly to Member States. We generally agree with the observation that more comprehensive reporting of management and administrative issues to members by the various existing UN review units would be useful. The legislation cited on page 27, to provide the UN System with an effective review and evaluation mechanism, has now been approved (Public Law 93-189). Steps are being taken by the Department to implement its provisions.

Chapter 6 - Improved U.S. Program and Budget Review Needed

In developing the finding that the program and budget review process of the Department of State with respect to UN budgets needed improvement, the Report identifies three responsible factors.

The first of these factors, lack of analytical information, the Report states on page 29 was responsible for the general type of reviews of UN budgets made by the Department. We agree with the Report that the adoption of program budgeting, beginning with the 1974-75 biennium, will make possible more critical and intensive reviews. The IO Bureau was able to conduct a detailed analysis of the first UN program budget and provide USUN with a 72 page Airgram containing analytical information and guidance. The related recommendation on page 31 that the Department seek to improve the quality of analytical information included in UN budgets is being complied with through U.S. support for the measures discussed previously under Chapter 4.

APPENDIX II

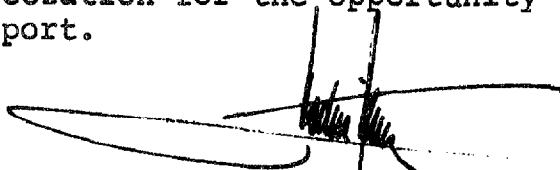
Secondly, the Report makes the point that USUN is understaffed and as a result such problem areas as program budgeting, review and financial analysis suffer the most. The Report recommends on page 32 that the IO Bureau review the adequacy of the USUN staff for improving the quality of U.S. participation in the UN financial management. An additional position was requested and recently authorized in USUN for achieving the objective of more thorough evaluation of UN programs and budgets.

The third factor inhibiting efforts in making searching, in-depth analyses of UN budgets is the absence of U.S. budgetary priorities. Since it has been a long-standing U.S. position that outmoded or marginal programs be eliminated from UN budgets, the new program budget system will facilitate identification of low-ranking objectives and their associated costs. As the UN program budget undergoes further refinement, the level of sophistication applied by State/USUN to UN budget and program reviews should increase.

We would request that the following correction be made in chapter 6. On page 28, the Report states that U.S. positions "are presented at the UN by USUN". This is not the case. They are presented by the U.S. Delegations to UN meetings. On page 30, the Report states that 30 percent of USUN staff is spent serving as expert advisors on ACABQ and the Committee on Contributions. U.S. representation on the latter body is provided by the Bureau (IO/SEC). Also, we do not serve as "expert advisors" but as experts (members of these committees).

We wish to thank you for your patience in waiting beyond the due date for our reply. We did want the opportunity, however, to incorporate some of the comments prepared by our Mission in New York.

We hope that these comments are responsive and again express our appreciation for the opportunity to comment on this draft report.



Martin F. Herz
Acting Assistant Secretary for
International Organization
Affairs

February 1, 1974

OFFICIALS PRIMARILY RESPONSIBLE
FOR MANAGING U.S. PARTICIPATION
IN U.N. FINANCIAL MANAGEMENT

	<u>Appointed or commissioned</u>
 SECRETARY OF STATE:	
Henry A. Kissinger	Sept. 1973
William P. Rogers	Jan. 1969
Dean Rusk	Jan. 1961
 ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL ORGANIZATION AFFAIRS:	
William B. Buffum	Feb. 1974
David H. Popper	June 1973
Samuel DePalma	Feb. 1969
Joseph J. Sisco	Sept. 1965
Harlan Cleveland	Feb. 1961
 U.S. REPRESENTATIVE TO THE UNITED NATIONS:	
John A. Scali	Jan. 1973
George W. Bush	Oct. 1970
Charles W. Yost	Feb. 1969
James R. Wiggins	Oct. 1968
George W. Ball	June 1968
Arthur J. Goldberg	July 1965

Copies of this report are available at a cost of \$1 from the U.S. General Accounting Office, Room 4522, 441 G Street, N.W., Washington, D.C. 20548. Orders should be accompanied by a check or money order. Please do not send cash.

When ordering a GAO report please use the B-Number, Date and Title, if available, to expedite filling your order.

Copies of GAO reports are provided without charge to Members of Congress, congressional committee staff members, Government officials, news media, college libraries, faculty members and students.

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE



THIRD CLASS

Mr. T. E. Sullivan
Transportation
Room 5033