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



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STATEMENT OF
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BEFORE THE
COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS
HOUSE OF REPRESENTATIVES
ON
HUMANITARIAN ASSISTANCE TO THE NICARAGUAN
DEMOCRATIC RESISTANCE

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here to discuss the management of the \$27 million in humanitarian assistance authorized for the Nicaraguan democratic resistance. My statement will concentrate on our review of the accounting and management procedures and controls to ensure that the funds are being spent in accordance with the law's intent.

Before I discuss the results of our review, I would like to point out some limitations on our presentation today. We have been informed by the Department of State that certain information about this program is classified. For example, State has told us the following matters are classified: specific quantities of items purchased, attitudes or roles of countries in the region with respect to this program, and attempts to arrange for delivery of goods purchased in the United States.

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None of these limitations, however, hinders our ability to address your major question; i.e., does the Department of State have adequate procedures and controls to ensure that the funds are being used for the purposes intended by law, and are not being diverted to other uses.

Our overall answer is that the Department does not have procedures and controls which would allow it to provide these assurances--in large measure because those charged with administering the program are unable to verify expenditures made in the region, and are unable to observe the end use of procured items to ensure that they were not diverted, bartered, or exchanged. Initially, the State Department's Nicaraguan Humanitarian Assistance Office (NHAO)--which is charged with the program's administration--had intended to set up operations in the region, but diplomatic sensitivities of certain countries in the region prevented NHAO from doing so. Thus, NHAO is not able to exercise the financial and programmatic control beyond the U.S. borders that it wanted to.

We reviewed all expenditures as of February 24, 1986 (a detailed breakdown is attached to the statement). As of that date, NHAO had actually paid out over \$12.2 million. About \$5.2 million (or 42 percent) was spent in the United States, and \$7.1 million (or 58 percent) was spent in the region. NHAO's control over its funds varied significantly depending on whether the purchases were made in the United States or in the region.

For purchases from U.S. suppliers, NHAO exercises considerable control over disposition of funds. NHAO has

established procedures for administering procurements and making payments, which allows it to control and oversee the types of goods and services being purchased and the prices paid. NHAO relies principally on the United Nicaraguan Opposition (UNO)--an umbrella organization representing the various resistance forces--to determine the types and quantities of goods and services to be purchased.

UNO submits to NHAO a pro forma invoice prepared by a proposed U.S. supplier identifying the goods or services to be purchased and the amount to be paid. NHAO reviews the invoice to determine if the item or service is consistent with program objectives and that the stated price appears to be reasonable. In many cases, NHAO obtains Dunn and Bradstreet reports on the proposed supplier to ensure that the company is legitimate. Furthermore, NHAO often checks with other suppliers of similar items and with DOD procurement officials to verify the reasonableness of prices quoted. If the review is satisfactory, NHAO provides the supplier a letter of commitment for the funds to be paid upon receipt of the goods by UNO. When the supplier sends NHAO a confirmation of delivery of the goods, NHAO issues a payment voucher, and the Treasury sends a check directly to the supplier. NHAO also has inspected some of the supplies stored in U.S. warehouses awaiting shipment to the region to ensure that approved items have been delivered.

It is a much different story for the \$7.1 million in purchases made outside the United States. NHAO has received invoices and receipts to support almost all purchases, and

before authorizing payment, NHAO reviews the invoices and receipts to ensure that the items are allowable under the program. However, from its offices in Rosslyn, Virginia, NHAO cannot assess the validity of the regional receipts, is unable to check out many suppliers, has difficulty establishing reasonableness of prices, and cannot verify actual delivery or receipt of items. Another major difference between controls over U.S.-sourced procurements and those made in the region is that payment is not made directly to the supplier. Instead, payment is usually made to a Miami bank account of one of several brokers authorized by the regional suppliers to act as their agents. There is no audit trail showing payments from the brokers' accounts to suppliers, and only partial documentation of shipments from the suppliers to the resistance forces.

Despite the deficient controls over expenditures outside the United States, an increasing proportion of the assistance funds is being spent in the region. NHAO officials attribute this situation to the difficulties encountered in delivering U.S.-purchased items to the resistance forces. Initially NHAO had assumed that, except for food, most supplies would be purchased from U.S.-suppliers--not only because NHAO's control would be greater, but also because the quality of U.S. goods was higher and U.S. costs were lower. However, due to the diplomatic sensitivities of the countries involved, deliveries of goods purchased in the United States could not take place. Thus, U.S.-sourced items were stored in U.S. warehouses, principally in New Orleans. This has delayed the delivery of supplies (mostly pharmaceuticals, boots, and field gear) to the

resistance forces, and has caused more money to be spent in the region than might otherwise have been the case. If delivery problems continue, most funds are likely to be spent in the region. The Department has recently undertaken intensified efforts to reverse problems in delivering U.S.-sourced goods to the resistance.

Turning now to what has been purchased for the \$12.2 million spent to date. (A breakout is attached to the statement.) The legislation stipulates that funds be used to provide food, clothing, medicines, and other humanitarian assistance. The legislative definition specifically rules out weapons, ammunition, or other items which could cause injury or death. The principal criterion used by NHAO in determining what can be provided is that it be non-lethal.

The \$12.2 million has been spent on the following broad categories:

--\$4.7 million (or 39 percent) on food and sundries, which were procured in the region. Food receipts included other items such as clothing, matches, cigarettes, and toilet articles. About \$350,000 of the \$4.7 million purchased local currency, which was to be used for food.

--\$2.8 million (or 23 percent) was spent for pharmaceuticals and medical supplies. Most of these were purchased in the United States.

--The last major item--clothing--accounts for \$2.7 million (or 22 percent) of the expenditures. About \$1.8 million was spent in the United States and the remainder was spent in the region. Included in the clothing purchases were combat boots, uniforms, ponchos, socks, and web gear.

About another million dollars was spent for miscellaneous supplies and equipment, such as blankets, tools and trucks--a little more than half of which was spent in the United States and the rest in the region. Over \$500,000 was expended on transportation, storage, and warehousing of these items, mostly in the United States. Lastly, about \$260,000 was spent on various medical expenses, including hospitalization of resistance fighters; \$125,000 was spent on a UNO-administered human rights program; and about \$75,000 was spent for UNO administrative expenses. An additional \$89,000 is for NHAO administrative expenses.

I want to emphasize that the foregoing breakdown of expenditures is based on our examination of receipts provided to NHAO. While we are confident that the receipts for U.S.-sourced items are valid, we have no basis to evaluate regional receipts. We inspected U.S.-sourced items in warehouses in New Orleans and are satisfied that receipts reflect purchased items; we were not able to do the same for purchases made in the region. We found nothing, however, to indicate that NHAO paid for lethal items.

This concludes my prepared remarks. I would be happy to answer any questions you might have.

SUMMARY OF GOODS AND SERVICES
(As of February 24, 1986)

<u>GOODS AND SERVICES (Examples)</u>	<u>TOTAL</u>	<u>PURCHASES MADE...</u>	
		<u>NOT IN U.S.</u>	<u>IN THE U.S.</u>
Food, sundries, consumables, foreign currency, and some delivery costs	\$ 4,694,496	\$4,694,496	\$ 0
Pharmaceuticals, medical supplies, and refrigerators (drug storage)	2,764,551	281,602	2,482,949
Uniforms, boots, ponchos, socks, hats, belts, & other clothing	2,672,464	919,530	1,752,934
Flashlights, hand tools, hammocks, trucks, and other equipment	989,113	420,716	568,397
Transportation, storage, security, warehousing, and some freight costs	555,793	391,372	164,421
Medical services, hospitalization and related expenses, and doctor fees	262,240	222,884	39,356
Human Rights Program (Fundacion de Nicaragua)	125,000	125,000	0
Administrative support for United Nicaraguan Opposition	75,448	0	75,448
TOTAL OF GOODS AND SERVICES	12,139,105	7,055,600	5,083,505
Nicaraguan Humanitarian Assistance Office administrative expenses	89,167	0	89,167
TOTAL	\$12,228,272 =====	\$7,055,600 =====	\$5,172,672 =====

NOTES:

1. Transport for food and other commodities was sometimes listed separately. At other times, it was included in the price of the commodity. Similarly, receipts for food at times included sundries and clothing which were not listed separately under other commodity categories.
2. Receipts for food purchased outside the United States usually included sundries and clothing, such as cigarettes, batteries, matches, candles, antimosquito incense, toilet paper, deoderant, glue, insect killer, toothpaste, panties, bras, plates, detergent, shoe polish, sandals, socks, mops, soap, plastic buckets, flashlight bulbs, blankets, shirts, frying pans, engine oil, and oil filters.

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