

# FINANCIAL MANAGEMENT

If the internal controls just discussed seem lax, financial management systems have for many years been even worse. A 1986 assessment of UN financial decision-making outlined the unique, complex, and tortured nature of basic UN processes for financing its operations:

" In drawing up [budgets] ... , the Secretary-General must calculate the costs involved in carrying out the many activities that the U.N.'s intergovernmental bodies have approved. At the same time, he tries to ensure that the total budget does not exceed what member states, and particularly the main contributors, are prepared to pay. ... it is not easy to find a generally acceptable balance ...

[In addition] ... the regular budget controls only a fraction of the total [UN] expenditures. As much as 70 percent of the U.N.'s outlays are funded by other means ... the various peacekeeping forces ... most of the humanitarian and development activities ... and the main voluntary funds ...

Finally, ... the power to initiate and in effect authorize program activities is shared among [many] intergovernmental organs. ...

... Eventually all adopted proposals are consolidated in the biennial program budget where they tend to be lost in the mass of program detail in small print. ...

... Since all the many [approved] activities cannot be adequately carried out ... there is a good deal of uncertainty as to which of them will in fact be pursued and with what degree of due diligence. The latitude that this leaves to lower-level intergovernmental organs and to Secretariat officials may have certain advantages, but it increases the difficulty of setting central priorities and of allocating limited financial resources in a rational way. This great dispersion of programming power prevents the Assembly from taking full charge ... a situation that concerns (or should concern) all the U.N.'s members, whether big or small."

Frederick K. Lister, , Fairness and accountability in U.N. financial decision-making, United Nations Management and Decision-Making Project UNA-USA, by the United Nations Association of the United States of America, New York, 1986, pp. 13 16, 22-24.. [emphasis added.]

The question of just how much money the UN receives, let alone how and where it spends it, has been a mystery for a long time, as established in both the late 1970s and late 1980s:

"Press reports concerning the United Nations' 'regular budget' refer mainly to funds committed for administrative needs, and exclude the far greater operational costs of the U.N. System. The annual over-all budget of the U.N., has, of recent years, been informally estimated at six billion dollars. However, I find it impossible to establish a reliable yearly total for the U.N.'s attestable over-all expenditures, which appear to be vastly in excess of that sum. The organization informs me that no comprehensive figure can be provided. And piecemeal calculation cannot hope to include the costs of every affiliate, subsidiary, and ad-hoc undertaking of the U.N. system. ... It is my impression

that no one knows even the approximate cost, to world citizenry, of the United Nations enterprise.

in June of 1979, [an article by Ronald Kessler, in the *Washington Post*] dealing with the U.N.'s finances brought denunciation from both the United Nations and the U.S. State Department, [The latter] \_ conceded that the *Post's* figures were accurate, but claimed, according to the *Post*, that the intricate nature of the United Nation's system ... cumbersome administrative structure, ... jealously guarded in [many agencies,] ... precluded assessment by outsiders.'

Shirley Hazzard, on a 1979 attempt to track UN finances, and her own inability to do so 12 years later, in "Breaking Faith I", *The New Yorker*, September 25, 1989, pp. 63-99, [89].

[Note: Ms. Hazzard worked at the UN for ten years, resigning in 1962 to become a very successful full-time writer.]

In 1988, a JIU historical survey found many other basic UN financial decision-making information problems, which stretched back more than two decades:

"An essential programme budgeting function is to clearly identify programmes and projects with their costs, to allow intergovernmental bodies to effectively allocate scarce financial resources and then assess how they are used.

*CPC observed in 1967 that because programme formulation and budget preparation were separate processes, programme and financial data were not integrated.*

ACABQ stated in 1972 that the existing 'hybrid' budget prevented Member States from directly relating inputs to outputs and determining if they were 'getting their money's worth.' ...

A report in 1978 identified allotment control and certification procedures as the main budget implementation problems. ...

*A 1977 Board of Auditors special report called for a system of United Nations financial reporting down to the project element cost level, to make programme managers accountable for performance.* ... And the Secretariat acknowledged in 1978 that the lack of cost estimates and expenditure data ... were important 'gaps' in the integration of planning and budgetary processes. ...

*A 1987 Secretary-General's [reform report] cited the need to 'address the development of an overall framework for administrative and financial systems, which is greatly needed to ensure that accurate, timely information is available to decision-makers ...'*

Joint Inspection Unit, "Reporting on the performance and results of United Nations programmes: Monitoring, evaluation, and management review components", UN document A/43/124, 1988, paras. 86, 87 (d), 90 and 95. [emphasis added.]

The same JIU report found that, as of 1988, there were many serious continuing problems with transparency of UN resource use, both human and financial.

"The programme planning regulations and rules state that all United Nations activities, whether financed from regular budget or extra budgetary resources, shall be subject to 'periodic and thorough reviews' ... however, the programme performance reports systematically cover only a small portion of total United Nations activities. ...

Almost half the regular budget - ... 20 per cent of total [biennial] expenditures - is spent on administration ... conference and library services. ... [but] these activities are

included only partially and very superficially in the programme performance reports. They are also not providing any other regular performance or review reports to intergovernmental bodies ...

ACABQ and CPC have [urged clearer presentation and control] ... over the extrabudgetary resources and staff posts in most United Nations programmes. ... [which] ... have considerably outgrown total regular budget resources. ...

[24 per cent of] ... the total United Nations budget is applied to extrabudgetary humanitarian assistance administered by ... UNHCR ... [Yet] the 1986 programme performance report provided [few] 'significant performance indicators' for UNHCR's more than \$900 million of total expenditures.

Technical co-operation and other extrabudgetary activities ... comprise 20 per cent of total United Nations resources ...

[but] the performance report acknowledged that technical co-operation projects could not be considered "programmed outputs."

Joint Inspection Unit, "Reporting on the performance and results of United Nations programmes: Monitoring, evaluation, and management review components", UN document A/43/124, **1988**, paras. 30, 37-39, 42-43.

A 1990 JIU report focused specifically on UN extra budgetary resources, and weak accountability for their use. The Inspectors found that:

"The extrabudgetary resources made available to the [UN for 1990-1991] ... are estimated at more than \$US 2.5 billion, and present complex and unexplored policy issues which require urgent solutions.

[Proper information should] ... allow all Member States to judge whether the relevant activities are efficiently carried out and do not distort ... priorities ... [and] provide accountability to donor countries and organizations for the funds which they have made available.

... the Inspectors have [made recommendations to] provide a proper start towards transparency of the UN financial and programming documentation on extrabudgetary resources.

Member States ... have a long-standing concern about insufficient financial control over extra budgetary resources. External as well as internal auditors have observed [this] lack of financial and substantive control ...

... the Inspectors were concerned to note that a number of ... officials dealing with extra budgetary resources did not have sufficient knowledge of the existence and content of [Secretariat rules and instructions governing their use] ... The Secretary-General acknowledged that "the major problems ... include the lack of awareness of the existing rules on the part of all concerned ... governing the acceptance and utilization of voluntary funds." [This] ... has led to (a) considerable uncertainties as to [extrabudgetary resource management], [b] serious confusion about the appropriate procedures to be followed, and (c) resulted in vagueness in reporting on the use and management of [this \$2.5 billion!] of funds."

Joint Inspection Unit, "Extrabudgetary resources of the United Nations: Towards transparency of presentation, management, and reporting", UN document A/45/797, **1990**, Executive summary and paras. 5 and 96.

The General Assembly repeatedly urged action to obtain more stringent oversight and assurance of compliance with financial controls, stating, for instance, that it:

"13. Requests the Secretary-General ...

(c) To implement stringent inventory controls on non-expendable property and to report thereon ... [in 1991],

(d) To institute without delay more effective control on the payment of all allowances and benefits to staff members and to report on measures taken in this regard ... [in 1991];

14. Reaffirms the importance of strict compliance with financial regulations and rules on the subject of unliquidated obligations, and requests ... a thorough report ... [in 1991];"

"Financial reports ... statements, ... reports of the Board of Auditors," General Assembly resolution 45/235 of **21 December 1990**.

"13. Emphasizes the need to continue to ensure overall efficient and prudent management by the Secretary-General of all the resources entrusted to the UN by Member States for the implementation of all its mandates and, in particular, stresses the need to ensure full accountability and responsibility in the management and use of these resources;

14. Notes with concern the lack of cash reserves and the cash flow problems [of the Organization] ...;"

"Improving the financial situation of the United Nations," General Assembly resolution 47/215 of **23 December 1992**.

The UN Board of Auditors also reported very serious management problems. An article thereon cited:

"Mismanagement, waste, abuse and in some cases fraud. These are among the findings by the U.N. Board of Auditors in its examination of Secretariat operations ...

The [U.S. representative] stated that the Secretariat 'has not made significant progress' in addressing these problems.

...Referring to the current audit report [and affirming his status as a U.N. supporter, he] said it led to the conclusion that "existing mechanisms alone are unable to administer and safeguard funds entrusted to the organization.'

The Board's report identified serious deficiencies and abuses in program management, use of staff, payment of staff allowances and benefits and in procurement and property management, he said."

"Auditors' report blasts U.N. for waste, fraud", Diplomatic World Bulletin (New York), **October 19-26, 1992**, p. 1.

The March 1993 Thornburgh report emphasized that the chaotic status of financial and programme decision-making and budgetary controls, as described by Lister above for 1986, had continued to expand and worsen under the pressure of new, major peacekeeping missions:

"The current [UN] budgeting process [is] ... almost surreal. It is overly complicated ... A great detail of effort, for example, is extended to ensure that the Secretariat carries out ... [General Assembly] priorities."

[In fact,] these 'priorities' are constantly skewed and distorted by activities and expenditures by United Nations entities outside the Secretariat. ... some 70 percent of the Organization's ... social and economic development expenditures, for example, are made without ... the intricate [regular] budgetary processes ...

Ironically, the ... problems ... in the regular budgeting process are nearly reversed in the peacekeeping area which now well exceeds the regular budget. ... Peacekeeping funding is still much like a financial 'bungee jump', often undertaken strictly

in blind faith that timely appropriations will be forthcoming. The irony is that far more vast and costly operations are undertaken and appropriated for in the peacekeeping area on a more or less *ad hoc* basis, than those pursued in such meticulous detail in the regular budget process.

The answer, it seems to me, is ... far less scrutiny of the minutiae of the regular budget and for more attention to the ... process utilized in financing peacekeeping budgets."

Dick Thornburgh, Under-Secretary-General for Administration and Management, "Report to the Secretary-General of the United Nations" ["The Thornburgh report"], **1 March 1993**, pp. 15, 17-18.

Mr. Thornburgh also observed that disorderly UN funding processes required major changes to respond to Member State requirements.

"The United Nations is perpetually short of cash due to the late and uneven payments by Member States of their assessments. The term 'financial crisis' has become so overworked as to be a permanent description of the Organization's financial status. ...

... [because] most of the United Nations' problems in the areas of budget and finance derive from the precarious day-to-day financial situation ... we asked the Ford Foundation to undertake a study of UN finances ...

As noted in the Volcker-Ogata report, 'support for improved financing will be dependent upon a perception that funds are economically managed and effectively spent.' Major donors, and indeed all Member States, deserve the reassurance that their assessed and voluntary contributions are being wisely and prudently utilized by the Organization so that they, in turn can convey such reassurances to their taxpayers, the ultimate supporters of United Nations activity.

This reassurance can only come ... from the prompt and effective activation of a strong Inspector General's office ... a common set of accounting principles and standards ... amendments to the code of conduct for staff members ... full financial disclosure by senior management ... and a [better] administration of justice system ..."

Dick Thornburgh, Under-Secretary-General for Administration and Management, "Report to the Secretary-General of the United Nations" ["The Thornburgh report"], **1 March 1993**, pp. 13-14, 20, 31-32.

The "Volcker-Ogata report" mentioned by Mr. Thornburgh, on the UN financing crisis, emphasized that the financial struggles were not just a matter of drumming up short-term funds for UN operations. It concluded wisely that:

"The future credibility of the U.N. will depend in large measure on the effectiveness of its management, on the quality of its staff, and on improvements in its structure and administration."

Financing an effective United Nations: A report of the Independent Advisory Group on UN Financing, Ford Foundation, New York, **February 1993**, p. 3.

A 1993 JIU review noted other areas where financial management systems and oversight required improvement:

" ... DAM [the Department of Administration and Management] reviews, updates, and coordinates financial policies, procedures and control systems as necessary ... the

reports of the Board of Auditors have identified an increasing number of problems in ... financial procedures and controls [and] the accounting system, ... as well as the need to strengthen these controls.

The General Assembly has responded to these problems with great concern and has urged the Board of Auditors and the ACABQ to give increased attention to internal controls. ...

JIU recommended in 1988 that DAM and the Department of Conference Services, which together consume almost half the regular United Nations budget, should also be subject to regular reports which examine their efficiency, service quality, and productivity. The Secretary-General declined, arguing that current Secretariat reporting was adequate. The Inspectors, however, believe that this major area of Secretariat activity and this recommendation deserve re-examination."

""Accountability and oversight in the United Nations Secretariat", UN document A/48/420 of 12 October 1993 and Add. 1 of **22 November 1993**, paras. 95-97.

The JIU Inspectors also cited a telling example of lax Secretariat financial control attitudes:

" ... recent General Assembly resolutions have called for strict compliance with financial regulations and rules, and actions to ensure that expenditures do not exceed allotments and that disciplinary measures to enhance accountability and budgetary discipline are enforced.

Yet ... a February 1993 memorandum from the Controller to Department heads stated that the 1990-1991 biennium produced an 'unacceptable level of overspending.' He observed that 1992 was not much better, that recent audits had shown increasingly frequent cases of overspending, and that some offices clearly were not observing the allotment limitations. [He] called for 'active cooperation' to ensure better control over expenditures, because Member States will 'collectively be less and less tolerant with [such] practices.' The Inspectors note that overexpenditure of allotted funds is a very serious violation subject to severe sanctions in at least some member countries. They believe that the only acceptable level of overspending by United Nations Secretariat programme managers is zero, and that this principle should be very firmly enforced."

"Accountability and oversight in the United Nations Secretariat", UN document A/48/420 of 12 October 1993 and Add. 1 of **22 November 1993**, paras. 98-99.

[emphasis added]

[The memorandum referred to was "Allotments for 1993," Interoffice Memorandum from Controller to Heads of Departments and Offices, 5 February 1993.]

Two very expert UN observers, Childers and Urquhart, had noted in a 1994 overview on UN renewal that:

"The financing and management of the United Nations have been under evaluation and reform of one kind or another for most of its life. Member-governments have initiated eight, and Secretaries-General three of eleven major exercises at scarcely five-year intervals [1955, 1961, 1964, 1965, 1968, 1970, 1975, 1980, 1983, 1985-1987, 1992-].

Most of these exercises took place in the midst of financial crises ...

The effect of all this has been seriously to debase the coinage of UN management reform rather than to address the UN system's real problems in this area. The UN remains in deep financial crisis. It certainly also needs improved management."

Erskine Childers with Brian Urquhart, "Renewing the United Nations System",

Development Dialogue, 1994:1, Dag Hammarskjold Foundation, Uppsala, Sweden, 1994, p. 142.

The Secretariat was forced to admit in late 1994 that, indeed, basic Secretariat management skills and management information resources were indeed in a quite perilous condition. The report asserted that the information situation would be rescued by installation of the new IMIS system (see the next subsection), which in fact was not fully installed until years later.

"Information on available resources

Taking advantage of the facilities offered by the new [IMIS] as they become available, managers] will have at their disposal, on a routine basis, up-to-date information on the resources available to them and ... how the resources allocated to their programmes are being deployed. The necessary infrastructure will be put into place for them ... to access available information directly ...

This concerns in particular staffing and financial information as well as other management tools. ... management training courses ....will [explain] how this information is to be used for analysis and planning purposes.

This plan entails a rethinking of the role of the executive offices and divisions of administration ... which have been ... the privileged if not the only counterparts of central administration in the handling of most matters pertaining to administration of the programme budget and extra budgetary resources ...

IMIS, once in place, would provide [DAM] with reliable information with which to monitor the personnel and financial situation of the Organization effectively ..."

"Establishment of a transparent and effective system of accountability and responsibility: Report of the Secretary-General", UN document A/C.5/49/1 of 5 August 1994, paras. 42-46. [emphasis added]

This all sounds very nice, and conveys an impressive picture of alert, effective managers sagely using key information at their fingertips to accomplish their programme objectives. The reality was otherwise, however. Later in the report, the Secretariat admitted that UN managers had a long, long way to go to master even the basics of management:

"Programme managers and supervisors must be clear not only about their authority, but also how to use it ... [and therefore must be] provided with training ... related to management skills development. Programme managers and supervisors ...could derive benefit from practical training in ... the concepts of decision-making processes ... The major objective ... is to empower programme managers and supervisors to see the benefits of employing the full resources available to them, particularly through their staff.

... The Training Service has delivered a number of integrated courses with a specific focus on empowering managers ... and has planned others ...

[The Service will also conduct] a special orientation programme for under-secretaries-general and assistant secretaries-general on programme planning, financial management and the budget process, human resources management and other current management issues ... [and] develop an orientation guide or handbook for [them] ..."

"Establishment of a transparent and effective system of accountability and responsibility: Report of the Secretary-General", UN document A/C.5/49/1 of 5

August 1994, paras. 60-62.

A 1995 article profiled Joseph Connor, a very experienced financial manager who was serving as the UN Under-Secretary-General for Administration and Management, and trying to "impose fiscal sanity on an organization tottering on the brink of insolvency", thanks to the refusal of member countries, and especially the United States to pay their dues. A chart summarized the elements of the UN's:

"Midlife Crisis:

- *No liquidity* The organization suffers from a chronic shortage of cash. A \$250 million reserve fund was cleaned out long ago.
- *Inability to raise capital* The U.N. lacks standing in the financial markets. The World Bank says it cannot lend to the U.N.
- *Unpredictable cash flow* A majority of the 185 member states have stopped paying their dues on time.
- *No write-off of bad debt* The biggest member, the United States, owes more than \$1 billion and will not pay.
- *Declining revenue* Smaller peace-keeping assessments cannot cover unpaid expenses or reimbursements to countries that contribute troops.
- *Lack of financial management expertise* The U.N. does not have an executive training program. Hiring and promotions are sometimes guided by politics instead of management skills."

Christopher S. Wren, "The U.N.'s master juggler: An accountant copes with deadbeats and bad debt," New York Times, **December 8, 1995**.

[Note: IO Watch wishes to note its belief that Mr. Connor worked very diligently to keep the UN financially afloat until the United States subsequently settled its disagreements and paid up its assessments. The financial administration and programme management difficulties of the UN cited below, and in the subsection on programme planning systems, were not Mr. Connor's doing, or his to solve, but the results of the defective managerial culture entrenched throughout the UN Secretariat worldwide. As observed by a UN veteran elsewhere in this archive, "guilty [managers] can get away with .... irresponsible performance more readily in the bureaucratic system of the UN than in any foreign office, however small."]

As this financial balancing act continued, a 1995 JIU analysis of policy guidance reforms needed concluded that, in line with the last element mentioned above, and despite the preceding three decades of effort:

"The area in which the most work remains to be done is financial management. In two 1994 reports Member States and an intergovernmental working group stressed the need to improve and strengthen United Nations financial administration and disciplinary rules, procedures, and measures."

Joint Inspection Unit, "Management in the United Nations: Work in progress", UN document A/50/507, **1995**, para. 65 (d).

As far back as 1991, the General Assembly had called on the Secretary-General to 'propose a set of accounting standards' for

common application to the UN system of organizations, and the Thornburgh report had urged them again in 1993. In 1995, the organizations finally developed a UN system framework for accounting and financial reporting, reflecting generally accepted accounting principles (while allowing for variations), and intended to promote consistency between the organizations. A related paper of the Administrative Committee on Coordination stated that underlying the objective of these standards were the [essential and very basic] needs:

"... for governments and other contributors to the organizations to have the means to judge the manner in which resources made available by them are used, and for the management of each organization to demonstrate that they have fulfilled their responsibility for stewardship and accountability in respect of such resources.

Accounting and financial reporting in accordance with the standards should among other things assist those concerned:

- (i) To ensure consistent and transparent treatment and disclosure of financial transactions;
- (ii) To assess the financial position and its evolution over time;
- (iii) To ascertain the sources from which income has been derived and the ways in which it has been used; and
- (iv) to judge financial performance under approved budgets."

"United Nations system accounting standards: Revision I," Annex III of UN document ACC/1995/20, **1995**, pp. 31-33. [emphasis added.]

Despite these noble aims and intentions, the General Assembly provided a blunt reminder in 1997 of its serious concerns about UN financial performance and accountability problems:

"The General Assembly, ...

Expressing deep concern about the persistence of problems and defects observed by the Board of Auditors in the financial administration and management of the United Nations;

...

11. Notes with deep concern the incidents of fraud and presumed fraud reported by the Board of Auditors;

12. Requests the Secretary-General and the executive heads ... to take the disciplinary actions necessary in cases of proven fraud and to enhance the individual accountability of United Nations personnel, including through stronger managerial control; ...

15. Emphasizes the need for greater transparency and stricter controls for trust funds ...

17. Notes ... that further work needs to be done in the biennium 1996-1997 to bring the financial statements fully in line with the United Nations common accounting standards, and requests the Secretary-General and the executive heads ... to pursue their efforts to ensure full compliance with those standards."

"Financial reports and audited financial statements, and reports of the Board of Auditors," General Assembly resolution 51/225 of **16 May 1997**.

In 2002, as part of his "second wave" of reforms, Mr. Annan proposed some major process adjustments to the PPBE system. Under the theme of "Allocating resources to priorities", he called for further adjustments including, once again, promises

to improve the management of voluntary funds.

"The present United Nations programming and budgeting system is complex and labour-intensive. It involves three separate committees, voluminous documentation and hundreds of meetings. The budget document itself would be less detailed and more strategic, and would give the Secretary-General some flexibility to move resources according to needs. ...

Measures will be taken to streamline peacekeeping budgets, and to improve the management of the large number of trust funds through which Member States provide voluntary contributions to supplement the regular budget."

"Strengthening of the United Nations: An agenda for further change: Report of the Secretary-General," UN document A/57/387 of **9 September 2002**,

"Summary, section V," p. 3.

The US General Accounting Office report of February 2004 found that the Secretariat still has far to go in the decades-old attempt at clarifying, implementing, and reporting on its overall management reform goals, and in assessing performance and measuring programme impact and results.

The GAO reported that the Secretariat Office of Program Planning, Budget and Accounts had taken various steps to aid in preparing budget proposals in a results-based format. However, the two other essential elements -- an effectively functioning monitoring and evaluation system, and procedures for shifting resources to meet program objectives -- were inadequate in the case of the former and simply lacking for the latter. (See the more detailed assessment quotation of UN problems in initiating a performance-oriented budgeting framework in the subsection on the Programme Planning System (PPBE) which follows.

U.S. General Accounting Office, *United Nations: Reforms progressing, but comprehensive assessments needed to measure impact*, GAO 04-339, **February, 2004**, pp. 19-25.

The information on UN financial management systems presented above is somewhat patchy, episodic (and admittedly rather boring to laymen). This is because the way that the UN actually uses its resources, both human and financial, is in fact a very mysterious business. There are good intentions and encouraging words, and in the financial realm some progress is certainly being made to "get a handle on things" using modern information technology. But the Secretariat reporting to the General Assembly and the public on its overall use of resources and the effectiveness with which they are applied is still very sketchy.

The GAO assessment of February 2004 shows that the Secretariat is still struggling with these matters, just as it has been for many years. The basic principles and issues of

transparent and effective reporting on resource receipt, use, and results, are still as unsatisfactory today as they were in the quotations cited above of 1979 and 1988, two and one decade ago.

This archive will return to the very important issues of the transparency and accountability of UN financial management (and controls, and public reporting, and "due diligence" stewardship of the funds entrusted to it) in the concluding major section of this archive, Recent Developments :

-- in the subsection on The UN, Alone and UNaccountable , which explores the extreme difficulty of determining what the UN is spending, where, and to what effect, under the topics of resource ambiguities, reporting evasiveness, and is the UN another Enron?;

-- in the subsection on Other Major Problems , particularly in terms of the "Poor little UN" regularly presented to the public even as the UN spends \$6 to \$10 billion of public and voluntary funds each year, now set against the multi-billion dollar scope and scandals of the UN's "oil-for-food programme" in Iraq, which is also discussed in this subsection; and

-- in the concluding sub section of "Answers", under no less than four topics: on the need for a real anti-fraud campaign; and for a General Assembly audit subcommittee, Annual status reporting on resources to the General Assembly, and to related "due diligence" shortcomings of the "Geneva Group" of major donor countries.