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Permanent Subcommittee on Investigations

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Mr. Chairman, distinguished members, thank you for this opportunity to discuss our efforts to promote transparency and accountability within the United Nations. The United States, as one of the founders of this institution, designed the UN to maintain international peace and security, promote economic and social advancement, and reaffirm faith in fundamental human rights. Though we all know its limitations, it serves our interests in many ways. I have personally seen in Afghanistan and Iraq the significant contribution the United Nations can make when it has the right mandate and the right leadership in the field. The United States has a great interest in ensuring that the United Nations succeeds as an institution.

When I testified before the Senate Foreign Relations Committee on March 15th last year, as the President's nominee to serve as the United States Permanent Representative to the United Nations, I said that one of my principal goals in New York would be to promote effective, efficient, transparent, accountable, and ethical management of the United Nations. Since my arrival at the U.S. Mission last spring, my staff and I have been striving to fulfill this objective, focusing on a number of key UN management reforms in order to make the UN more effective and to ensure that the U.S. taxpayers receive value for the money we pay in assessed and voluntary contributions.

In my opening remarks today, I would like to cite four recent achievements related to reform that apply to the UN in general: establishment of the Independent Audit Advisory Committee (IAAC); extension of the UN ethics code to apply overall to the UN system, including the UN Funds and Programs; continuation of the work of the United Nations Procurement Task Force; and the establishment of a new framework for mandate review.

In addition, the U.S. Mission to the United Nations (USUN) is also seeking to improve the effectiveness of the UN Funds, Programs and Specialized Agencies, through needed reforms. In that regard, I would like to say a few words about the United Nations Transparency and Accountability Initiative (UNTAI) pursued by USUN. Then, I will turn to questions concerning the UN Development Program's activities in North Korea and the actions that USUN has taken in response.

In September 2005, President Bush and other world leaders, meeting at the World Summit in New York, agreed on the need for extensive UN Secretariat and management reforms, including the establishment of an independent advisory committee that would advise the General Assembly on ways to improve internal controls and enhance the independence of the UN's oversight

structures. The first achievement I would like to cite is the establishment of the Independent Audit Advisory Committee, or IAAC. It was created by the General Assembly in December 2005 and the Committee's terms of reference were finalized in late August 2007. In November of last year, the General Assembly elected five individuals to serve as the first members of the IAAC, including Mr. David M. Walker of the United States, who is both the Comptroller General of the U.S. and current head of the U.S. Government Accountability Office. Mr. Walker and the four other IAAC members, all of whom have extensive experience in audit and oversight, are scheduled to meet in New York in the next several weeks to begin their work.

In December of last year, we achieved another significant step toward improving management of the United Nations through Secretary-General Ban's new directive extending the same ethics-related protections afforded to Secretariat staff to employees of United Nations Funds and Programs. Since my arrival in New York, we have been pressing for the development of a system-wide code of ethics for all UN personnel – a goal identified at the September 2005 World Summit as a high priority. Challenges yet remain to agency implementation of the directive that I will discuss, but the December bulletin issued by Secretary-General Ban is a solid step forward toward implementing the highest standards of ethics, integrity, accountability, and transparency at the UN.

A third UN management reform that we are continuing to pursue is ensuring that the UN Procurement Task Force is adequately staffed and funded to carry out its critical task of identifying possible fraud and corruption involving UN contracts. To date, this Task Force has identified 10 significant instances of fraud and corruption involving tainted contracts worth \$610 million. Just several weeks ago, the United States led the way in securing agreement from other UN Member States to provide an additional \$4.9 million in funding to enable the 18-member Procurement Task Force to pursue possible irregularities in UN purchasing.

The fourth management reform I would like to cite today is the establishment of a new framework to reduce the number of UN mandates. There are some 9700-plus mandates that the UN has created since its inception. Many are no longer relevant but, nevertheless, they are still on the books. In the final months of 2007, Member States recommitted themselves to the task of strengthening and updating the program of work of the UN by reviewing all of the Organization's mandates that are more than five years old. Through this mandate review process, we are hopeful that we can improve the allocation of resources so that the UN can better respond to contemporary requirements. We are currently engaged in consultations on this issue with the President of the General Assembly and other Member States, and expect a report on progress in the coming week.

We have also made strides in other areas of UN management reform, such as reaching agreement this past December on much-needed improvements in the UN's internal justice system, replacing the UN's current information and communications technology system with a new enterprise resource planning system, and strengthening the work of the UN Office of Internal Oversight Services.

Despite these achievements, we still have a long way to go to achieve the UN reform that we want in terms of accountability and transparency. For example, significant work remains to be

done in order to achieve substantive progress in the area of mandate review. In order to track the status of these and other management reforms, USUN has created and maintains a management reform scorecard, which allows us to identify, prioritize, and track key reform priorities.

UN Transparency and Accountability Initiative

We also have a considerable stake in advancing needed reforms with respect to the UN Funds and Programs. The United States provides some \$3 billion a year to the UN Funds and Programs and Specialized Agencies. These programs do important and valuable work throughout the world. Therefore we want to ensure that the resources devoted to them are delivered efficiently and effectively, and with oversight and accountability, to the world's neediest people and that they are used for their intended purposes.

To pursue these objectives in practical ways, USUN has launched an initiative – UNTAI, the UN Transparency and Accountability Initiative – with the objective of ensuring that the resources devoted to the Funds and Programs are delivered efficiently and effectively to the world's neediest people. The UNTAI reforms are designed to establish internal standards at least as high as those applied to the Secretariat.

USUN has identified eight areas for action with respect to improving standards in the Funds and Programs:

- 1) Making available to Member States all internal audits and other reports, such as investigations and evaluations;
- 2) Providing public access to all relevant documentation related to operations and activities including budget information and procurement activities;
- 3) Establishing “whistleblower protection” policies;
- 4) Instituting financial disclosure policies;
- 5) Establishing effective ethics offices;
- 6) Providing for the independence of respective internal oversight bodies;
- 7) Adopting International Public Center Accounting Standards; and
- 8) Establishing an appropriate level for administrative overhead costs for the funds and programs.

My colleague, Ambassador Mark Wallace, working with the Department of State's Bureau of International Organization Affairs (IO), introduced UNTAI to the UN Funds and Programs and Specialized Agencies in New York. In addition, Ambassador Wallace unveiled the UNTAI

initiative to Member States during the 62nd session of the General Assembly. The response to our UNTAI initiative was positive. Since May of 2007, USUN has made progress in some of eight UNTAI reforms outlined above, including the extension of jurisdiction of the UN Ethics Office over the Funds and Programs (including whistleblower protection), as well as a new policy providing for the availability of prospective internal audit reports to Member States.

USUN and IO have worked to address the refusal of the UN Funds and Programs to make the reports of their internal oversight bodies available to the Member States who sit on their governing bodies. We have consistently maintained that it is impossible for a governing body, on which donor states sit, to execute its fiduciary responsibilities without the kind of detailed budgetary and operational information contained in internal audit reports. Notably, when USUN was given (on-site only) access to some of UNDP's internal audits on an exceptional basis, we discovered numerous instances of programmatic and operational irregularities. Accordingly, we have strongly advocated for a change to the management policy of the Funds and Programs with respect to the release of internal audit reports.

In June 2007, the Government Accountability Office (GAO) released a report which examined oversight and accountability in three of the UN Funds and Programs (UNDP, UNICEF, and the World Food Program) and three of the UN Specialized Agencies (the Food and Agriculture Organization, International Labor Organization, and the World Health Organization). In its report, the GAO recommended that the Secretary of State direct the U.S. Mission to the UN to work with Member States to improve oversight in UN organizations by making audit reports available to governing bodies and establishing independent audit committees that are accountable to those governing bodies. Notably, both of these recommendations coincide with our UNTAI reforms.

As a result of our efforts, in October 2007, the collective management of the UN Funds and Programs announced the development of a new policy which provides for a common approach for the disclosure of internal audit reports to Member States. While we are encouraged by this first step, we will remain diligent in pushing for the implementation of the entire package of reforms and will continue to press for the availability of past audits as they are an important comparative tool.

Issues Concerning UNDP Operations in North Korea

I would now like to turn to the issues concerning North Korea. The mission of the UNDP in North Korea, established in 1979, was to “support and supplement the national efforts of the DPRK at solving the most important problems of their economic development and to promote social progress and better standards of life.” This effort reflected the international community's concern for the immense suffering of the people of North Korea. The program was shut down in March 2007, based on a judgment that the DPRK had refused to accept the application of UN rules and regulations that apply across UNDP and that were agreed to by the UNDP Executive Board in January 2007.

In June 2006, the United States raised the issue of the irregularities of UNDP's operations in North Korea with UNDP officials. Specifically, our concerns related to whether the UNDP acted

in North Korea in violation of UN policies and rules by (1) making payments in hard foreign currency; (2) utilizing staff seconded from the North Korean government in core functions; and (3) failing to make adequate project site visits. The purpose of this important “triad” of financial controls was to ensure that development money directed to North Korea would serve its intended beneficiaries – the North Korean people.

On May 31, 2007, a Board of Auditors preliminary inquiry, initiated by the Secretary-General and the UNDP Executive Board, validated USUN concerns in these three areas:

- **Hard currency payments:** “In respect of foreign currency transactions, local payments made in foreign currencies were without requisite authority in the case of UNDP, UNFPA (UN Population Fund) and UNOPS (UN Office for Project Services).”
- **Hiring DPRK personnel in core functions:** “In respect of local hiring, personnel were hired by UNDP, UNFPA, and UNICEF through a government agency of DPRK, contrary to relevant instructions and procedures.”
- **Project site visits:** “In respect of free access to local projects, the Board [of Auditors] obtained evidence that project visits had taken place, but were done under the supervision of DPRK authorities, except for one reported project in UNICEF.”

In addition, UNDP’s Management Response to the preliminary audit admitted that at best one in five of all UNDP projects were visited on a yearly basis. However, because of limitations in authority, access, and expertise of the Board of Auditors, it was not able to render findings or conclusions on a number of other important issues, including whether UNDP aid money reached its intended beneficiaries or was diverted to other purposes.

In this same period, the U.S. Government received further information that indicated the possible misuse of funds in the DPRK programs. This information was contained in or derived from internal UNDP records, banking statements, detailed transaction information provided by current and former UNDP staff, and former UNDP staff eye-witness accounts.

USUN shared our concerns about this new information and inquired about these matters with UNDP officials. We also proceeded to engage with the UNDP at the technical level to resolve our concerns, providing representative samples of the information we had received in a good faith effort to elicit a full internal examination of its records by UNDP.

Nevertheless, we could not come to closure on the facts of what had happened. Therefore, USUN sought an independent investigation of UNDP operations in the DPRK. At the end of September, UNDP established the External Independent Investigative Review Panel, led by Mr. Miklos Nemeth -- the former Prime Minister of Hungary, to review UNDP operations in the DPRK. We have met with Mr. Nemeth and his staff on several occasions and emphasized our strong commitment to providing all possible assistance in order to facilitate the work of the Review Panel. Our understanding is that Mr. Nemeth will complete his investigation in March 2008. We look forward to his report.

These are critical issues that affect not only the situation in North Korea but also the trust and confidence of Americans and other donors to the UNDP, as well as those in the less developed world who share an interest in an effective and efficient UNDP and the vitally important goal that aid – humanitarian or development aid – is delivered to its intended recipients, the world's neediest people. I understand, Mr. Chairman, that this Committee is going to do a report and we look forward receiving and reviewing your findings.

Thank you.