

SUMMARY OF THE STATEMENT BY THE ASSISTANT ADMINISTRATOR AND
DIRECTOR, BUREAU FOR FINANCE AND ADMINISTRATION, AT THE INFORMAL
SESSION OF THE EXECUTIVE BOARD ON THE REPORT OF THE ADMINISTRATOR
ON THE RESERVE FOR FIELD ACCOMMODATION (DP/1996/28/Add.3)

30 July 1996, 3:00-6:00 p.m.

1. The Assistant Administrator and Director, Bureau for Finance and Administration, recalled that the Reserve for Field Accommodation, and in particular, the management issues involved in that complex undertaking, had been the subject of discussion and review over the last few years by the Executive Board. The area had also been addressed extensively by the United Nations Board of Auditors and UNDP internal auditors.

2. The Assistant Administrator emphasized that construction work was not a main activity of UNDP. It had been undertaken out of necessity, in difficult duty stations where UNDP had no alternative solution for obtaining suitable housing and office premises in order to carry out its work. Under these circumstances, a decision was made in 1988 to construct facilities in countries where they were needed. Initially, the Reserve had been intended to address housing requirements. Later, it had been decided that construction of UNDP office premises, and subsequently, common premises with Joint Consultative Group on Policy (JCGP) agencies, should be included under the Reserve. However, UNDP had underestimated the difficulties involved in managing such an undertaking in localities where the necessary infrastructure did not exist.

3. The Assistant Administrator recalled that, in September 1995, during his presentation to the Executive Board on the review of the financial situation for 1994, he had reported that UNDP had initiated a thorough review of Reserve for Field Accommodation activities and the management actions associated with this difficult undertaking. He had referred specifically to the following actions taken under his direction:

(a) The appointment of a new Deputy Director in the Division of Administrative and Information Services (DAIS);

(b) The review of the accounts of the Reserve for Field Accommodation by an international accounting firm;

(c) A valuation exercise, with the assistance of an outside firm, for the disposal of housing units;

(d) Tighter controls in expenditure and rental income related to some 450 housing units managed by UNDP;

(e) Revision of the accounting treatment of the Reserve for Field Accommodation to properly reflect the assets under the Reserve as fixed.

4. During the above-mentioned review of Reserve for Field Accommodation activities, and in consultation with the Board of Auditors, UNDP had recognized some serious management weaknesses and a breakdown of internal controls. In particular, a breakdown had occurred in the certifying and approving function, the system by which UNDP regulates financial transactions by means of dual and complementary controls, or checks and balances. As a result, UNDP had had inadequate information for the effective management of the Reserve. The problem had been compounded by the inadequate accounting treatment of the Reserve, which had been accounted for on a net rather than gross basis, making it difficult to capture actual expenditure and income.

5. Specific problems identified had been the following:

(a) No system of allotments or obligations for expenditures;

(b) A faulty certifying and approving function;

(c) Payments made in excess of contracts approved by the Chief Procurement Officer upon recommendation of the Contracts Committee, without obtaining proper approvals;

(d) Payments authorized without due regard to the financial regulations and rules;

(e) A possible overpayment to the supervising architect, which is currently being investigated.

6. The Assistant Administrator further indicated that the three-year plan submitted to the Board at its first regular session, 1995 (DP/1995/10/Add.1), was inadequate, in that it assumed that the expenditure of the Reserve over the level authorized by the Board would be reduced through the disposal of properties and reimbursement by JCGP partners. However, it had become evident that most of the housing needed to be retained, as housing requirements continued to exist. Also, some ongoing construction needed to be completed before the JCGP partners could reimburse UNDP. As a result, the level of the Reserve increased rather than decreased. Currently, on a net basis, the level of the Reserve had increased from \$42 million in 1994 to \$46 million in 1995.

7. The Assistant Administrator also emphasized that the complex operating environment and the difficulties of carrying out construction in remote places should not be underestimated. He explained that the materials had to be imported and frequent delays in construction existed, resulting in higher construction costs.

8. The Assistant Administrator assured the Board that the situation of the Reserve had now stabilized, and that UNDP was in a better position to present to

the Executive Board a more credible plan than that contained in document DP/1995/10/Add.1.

9. With regard to the actions taken under his purview, the Assistant Administrator emphasized that he and everyone in UNDP were taking the situation very seriously. The review of the Board of Auditors had been based on the work that UNDP had carried out, as reflected in the report of the Board of Auditors. The Assistant Administrator believed that, given the nature of the issues involved and the timing of the Executive Board session, it would be useful for the members of the Board to have the report of the Board of Auditors for reference. In this connection, he indicated that he had already approached the Board of Auditors with the request that an advance copy of the report be released to the Executive Board on an informal basis. Also, the Board of Auditors would be requested to be present at the third regular session of the Executive Board to answer any questions. Finally, the Assistant Administrator explained that he had requested that the UNDP internal auditors carry out an investigation.

10. The Assistant Administrator then turned to the issue of assets verification. He indicated that, in view of the breakdown in financial controls, in order to verify whether UNDP had incurred appropriate charges for the end product, UNDP had engaged an independent architectural firm to assess the value of the properties. Certification had already been received for two construction sites, representing approximately 40 per cent of construction costs. The remaining construction sites would be assessed during August 1996.

11. With regard to the accounting treatment, the Assistant Administrator indicated that UNDP had revised the accounting presentation to disclose gross expenditure and income figures, for reasons of improved internal management and transparency. While this approach resulted in a "jump" in the activity level of the Reserve when compared with previous net figures, after discussion with the international accounting firm, it was concluded that using gross expenditure and income figures complied better with internationally accepted accounting standards. UNDP also believed that accounting in net terms had in part caused the problem.

12. The Assistant Administrator also clarified that, while the facility is termed a Reserve, it was more like a capital fund. Hence the proposal in paragraph 27 of the report on the Reserve for Field Accommodation (DP/1995/28/Add.3) to be submitted to the Board at its third regular session, 1996, recognized that UNDP now has "fixed assets" in the balance sheet. The amount "due to UNDP" in the financial statements of the Reserve referred to the overexpenditure beyond the approved level. UNDP was also proposing to maintain only housing assets under the Reserve and to treat common premises separately.

13. In referring to the accountability aspects of the situation, he indicated that the matter was taken seriously, and that more work was under way, including an ongoing investigation. For this purpose, all concerned staff and the supervising architect were being interviewed. Meanwhile, the Administrator had established a special senior-level committee to address the managerial

accountability issues, review the results of the investigation, and make recommendations on any required managerial action, including any disciplinary and legal actions.

14. The Assistant Administrator, while regretting the length of his oral report and the nature of the topic, expressed his belief that being forthcoming on the subject was essential. He explained that the matter could not have been brought to the attention of the Executive Board at an earlier time, because UNDP simply did not know the extent or gravity of the situation. The work of the Board of Auditors had concluded recently, and the work of the internal auditors was ongoing.

15. The Assistant Administrator concluded by agreeing to provide, in written form, the present summary of his oral presentation.
