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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. Two months ago, I testified on the accounting and management procedures established by the State Department to ensure that the funds are being spent in accordance with the law's intent. At that time, I stated that the Department did not have procedures and controls to ensure that program funds were being used for the purposes intended by law--in large measure because those charged with administering the program were unable to verify expenditures made in the region, and were unable to observe the end use of procured items to ensure that they were not diverted, bartered, or exchanged

035347 / 129822

for lethal items. As I said then, 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. I also noted that although the controls over expenditures outside the United States were deficient, we found nothing to indicate that NHAO had paid for lethal items.

Our conclusions remain unchanged today.

As I indicated in my March testimony, we are generally satisfied with NHAO's control over the disposition of funds to U.S. suppliers. This morning I would like to concentrate on the controls over funds spent on purchases in the region.

As of April 25, 1986, of a total of \$21.1 million expended about \$13.3 million (or 63 percent) had been spent for purchases in the region. (A breakout of expenditures is attached to this statement.) For these expenditures, NHAO obtained invoices or receipts for almost all purchases and, before it authorized payment, reviewed the invoices and receipts to ensure that the items were allowable under the program. However, from its offices in Rosslyn, Virginia, NHAO could not assess the validity of the regional receipts, was unable to check out many suppliers, had difficulty establishing reasonableness of prices, and could not verify actual delivery or receipt of items. The

State Department asserts that intelligence sources have provided information, which to some extent verifies the receipts and confirms deliveries. We attempted to obtain this information for our review, but were denied access to it.

After NHAO approves the receipts, it issues a payment voucher, and the Treasury then sends a check to U.S. bank accounts--all but one of which is in Miami. There are two types of accounts: (1) accounts owned by a supplier and (2) accounts owned by brokers authorized by regional suppliers to act as their agents to receive NHAO payments. The brokers are, in turn, expected to pay the suppliers in the region for the goods and services shown on the receipts provided NHAO.

As of April 25, 1986, NHAO paid \$7.5 million into six accounts owned by suppliers. (In one case, a large supplier also received a relatively small payment on behalf of another supplier.) NHAO also paid about \$5.4 million into six accounts owned by brokers acting as agents for 45 suppliers.

During the course of our review, we requested that NHAO obtain and provide us with bank statements or other documentation showing that payments were being made by the brokers to the suppliers. NHAO informed us several weeks ago by letter that it did not have any such records. NHAO told us that as far as it could determine no bank account was used

exclusively for the receipt of payments from NHAO. Rather, each account was used for the general needs and purposes of its owner. Furthermore, NHAO said payments from the accounts were not "mirror-images" of NHAO payments to the brokers. According to NHAO, block transfers are made to Central America where they are disaggregated, with payments to individual suppliers often made in cash. Thus, NHAO concluded that U.S. bank records would not allow us to track specific expenditures to individual suppliers. Instead, NHAO said that it is attempting to obtain statements from the suppliers that payments have been received. We found that 18 suppliers who were supposed to be paid through U.S. accounts had provided statements attesting to payment of about \$6.4 million. NHAO officials are continuing their efforts in this regard.

In February, we suggested that State require that separate accounts be maintained for NHAO expenditures through the brokers. This was never done. We continue to believe that NHAO should ensure that brokers maintain separate accounts for humanitarian assistance program funds.

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

SUMMARY OF GOODS AND SERVICES
(As of April 25, 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	\$ 8,208,105	\$8,208,105	\$ 0
Pharmaceuticals, medical supplies, and refrigerators (drug storage)	4,027,791	963,927	3,063,864
Uniforms, boots, ponchos, socks, hats, belts, & other clothing	3,335,963	1,149,399	2,186,564
Flashlights, hand tools, hammocks, trucks, and other equipment	2,331,537	602,326	1,729,211
Transportation, storage, security, warehousing, and some freight costs	2,281,309	1,788,778	492,531
Medical services, hospitalization and related expenses, and doctor fees	315,189	146,659	168,530
Human Rights Program (Fundacion de Nicaragua)	448,500	448,500	0
Administrative support for United Nicaraguan Opposition and NHAO	<u>180,007</u>	<u>26,000</u>	<u>154,007</u>
TOTAL	\$21,128,401 =====	\$13,333,694 =====	\$7,794,707 =====

NOTE:

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.