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United States General Accounting Office
Washington, DC 20548

March 28, 2003

The Honorable Henry J. Hyde
Chairman
Committee on International Relations
House of Representatives

Subject: *Status of Reforms and Budgets of the United Nations Educational, Scientific, and Cultural Organization*

Dear Mr. Chairman:

In 1945, the United States helped establish the United Nations Educational, Scientific, and Cultural Organization (UNESCO) as a means to promote international peace. During the 1970s, UNESCO was criticized for becoming too politicized. In 1984, the United States left the organization, contending that it was poorly managed and had failed to restrain budget growth. At that time, the United States urged UNESCO to reform its management practices and adopt zero real growth budgets. In 2002, the United States announced that UNESCO had made progress in adopting reforms and that the United States would rejoin UNESCO to help advance the organization's mission. The United States plans to rejoin UNESCO on October 1, 2003.

To facilitate your committee's oversight of U.S. reentry into UNESCO, you asked us to review the organization's reform efforts and budget trends, as well as issues associated with the U.S. reentry. On February 26, 2003, we briefed your staff on our findings. Enclosure I documents the information we provided to your staff. UNESCO and the Department of State provided comments on a draft of our briefing, which we incorporated as appropriate.

Background

UNESCO employs more than 2,200 staff¹ at its headquarters in Paris, 48 field offices, 2 liaison offices, and 10 affiliated institutes and centers. The 188 nations that are members of UNESCO comprise the General Conference, which is UNESCO's governing body. The General Conference generally meets every 2 years to approve UNESCO's program and budget. A 58-member executive board is responsible for the

¹This number does not include those staff working under limited duration contracts, special service agreements or contracts, and other additional staff.

execution of conference decisions. The Director General implements policy and manages the organization's day-to-day operations.

UNESCO has five major programming areas: Education, Natural Sciences, Social and Human Sciences, Culture, and Communication and Information. These programs include efforts to provide basic education through the Education for All Initiative, preserve 730 cultural and natural heritage sites worldwide, and promote policy decisions for sustainable use of freshwater resources.

Summary

While UNESCO has launched several efforts to reform its management practices, these reforms are in their early phases and will succeed only with the sustained efforts of UNESCO's Director General and member states. In the late 1990s, UNESCO's auditors and top officials identified numerous management problems, including violations of personnel and hiring rules, and widespread weaknesses in financial rules and procedures. Other problems included an insufficient focus on program results, an over-extended network of field offices, and fragmented internal oversight functions. In response, UNESCO began efforts to enforce and strengthen its personnel rules, create new automated financial and program management systems, close unnecessary field offices, and establish an integrated internal oversight and evaluation office. While the Director General has made reform a high priority, these efforts are not yet complete. According to UNESCO, the organization plans to implement a new personnel appraisal system, train staff on new financial systems, develop measures for evaluating program results, provide field staff with access to the new systems, and close additional field offices.

Over the past 6 years, UNESCO's biennial regular budget has remained at its current level of \$544 million.² When adjusted for inflation, UNESCO's 2000-2001 regular budget is almost equivalent to its 1984-1985 budget. However, UNESCO's total resources grew significantly during this period due to an eight-fold increase in UNESCO's extra-budgetary funds³. Extra-budgetary funds constituted about one half of the resources UNESCO had available for its 2000-2001 programs. While the infusion of extra-budgetary funds has allowed UNESCO to fund more projects, representatives of some member states that we interviewed stated that extra-budgetary resources may not support the priorities set by the General Conference.

The United States faces several unresolved issues before it rejoins UNESCO in October 2003. First, the United States must decide which UNESCO budget proposal it will support for the 2004-2005 biennium. The Director General is considering two proposals that will breach the zero nominal growth budget of \$544 million and

²The past two biennial budgets, 2000-2001 and 2002-2003, have been approved at zero nominal growth.

³Extra-budgetary funds are voluntary contributions that other United Nations agencies, international organizations, educational institutions, and member states provide to UNESCO. One member state—Brazil—has provided much of UNESCO's extra-budgetary resources in recent years for programs conducted in that country.

increase UNESCO's budget to as high as \$610 million. The executive branch's fiscal year 2004 budget request for UNESCO assumes that the UNESCO budget will remain at \$544 million. At this level, the U.S. contribution of \$60 million will essentially decrease the assessments of other member states by an equivalent amount. Second, since the United States has announced that it will stand for election to UNESCO's executive board, it will need to campaign for support from other member states. Membership on the Executive Board would allow the United States to contribute to the reform efforts. Third, the United States will have to determine if it wants to target its assessment for the last quarter of 2003 to support U.S. priorities. UNESCO officials stated that they would support the establishment of a special account for the initial U.S. payment of \$15 million, subject to the approval of the Executive Board and the General Conference. Without a special account, the \$15 million could be refunded to other member states. Fourth, until an ambassador to UNESCO is appointed, the United States must decide how best to convey U.S. interests and priorities. The current observer to UNESCO does not have the authority of an ambassador to help shape and convey U.S. priorities.

Scope and Methodology

To review UNESCO's reform efforts, we assessed reports prepared by UNESCO and United Nations audit groups. We also traveled to UNESCO headquarters in Paris, France, in January 2003, where we met with UNESCO's Director General and the directors of UNESCO's internal audit, strategic planning, and human resource offices. We also met with the assistant director generals for UNESCO's five major programming areas of Education, Natural Sciences, Social and Human Sciences, Culture, and Communication and Information. To examine UNESCO budget trends, we met with the directors of budget and comptroller offices. We also reviewed budget data from these officials. We converted UNESCO budget data into constant dollars by using a weighted average gross domestic product deflator. We constructed the deflator using U.S. and French inflation rates (representing the currencies in which dues were assessed). To identify issues associated with U.S. reentry, we reviewed UNESCO documents pertaining to the return of former member states and met with U.S. and UNESCO officials. We also met with representatives from nine member states. During the course of our review, we met with U.S. State Department and National Security Council officials in Washington, D.C.

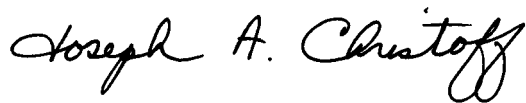
We performed our work from December 2002 through March 2003 in accordance with generally accepted government auditing standards.

We obtained comments on a draft of this letter and its enclosure from the Acting Director, International Organization Systems Administration, and the Director of UNESCO Affairs; Bureau of International Organization Affairs, Department of State; and UNESCO's Director of Strategic Planning, Director of the Bureau of the Budget, the Comptroller, and the Director of Internal Oversight. In general, they concurred with our findings and provided technical comments that we incorporated where appropriate. In addition, Department of State officials stated that the United States has begun to actively campaign for Executive Board membership.

We are sending copies of this report to the Honorable Colin Powell, Secretary of State, and to interested congressional committees. Copies will be made available to others upon request. In addition, this report will be available at no charge on our Web site at <http://www.gao.gov>.

If you or your staff have any further questions regarding this assessment, please contact me at (202) 512-8979. Phyllis Anderson, Beth Anne Hoffman León, Hynek Kalkus, Pierre Toureille, and Lynn Cothorn also made key contributions to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Joseph A. Christoff". The signature is written in a cursive style with a large, stylized initial 'J'.

Joseph Christoff
Director, International Affairs and Trade

Enclosure



United Nations Educational, Scientific, and Cultural Organization (UNESCO): Reforms and Budgets

**Briefing to the Staff of the
House International
Relations Committee**

February 26, 2003

Status and Objectives

- Status of work
 - Describe UNESCO reform efforts
 - Personnel management
 - Financial management
 - Program management
 - Field structure
 - Internal Oversight
 - Provide overview of UNESCO budget
 - Identify issues to be addressed by the United States
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Results in Brief



United Nations Educational, Scientific and Cultural Organization.

- Lasting reform at UNESCO will require sustained effort
- UNESCO's regular budget has remained constant over the past 6 years, but a significant increase in extra-budgetary funds has resulted in overall budget growth
- U.S. decisions needed regarding UNESCO budget, UNESCO executive board, establishment of special account, and U.S. priorities



UNESCO Personnel Management

In 1998-1999, UNESCO and its External Auditor identified the following human resource concerns:

- Failure to follow personnel rules and regulations led to excessive number of director-level managers
- Personnel policies, rules, and regulations did not reflect shift to results-based management

UNESCO Personnel Management Reforms

In response, UNESCO:

- Reduced director-level management staff by almost half since 1999 and resumed competitive promotions to follow established personnel practices
- Developed human resource policies in 2001 to address impact of results-based management on personnel

Continuing challenges:

- Implement new competency-based rating system
 - Develop an automated human resource system that would link to the financial and results-based management systems
 - Address more than 80 open auditor recommendations
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UNESCO Financial Management

UNESCO and its External Auditor have identified the following financial control weaknesses:

- Failure to follow financial rules and procedures
- Fragmented financial management responsibilities among budget office, comptroller, program sectors, and field offices
- Outdated financial management system



UNESCO Financial Management Reforms

To address these problems, UNESCO has:

- Initiated field training on rules and procedures
- Established committee in July 2002 to coordinate financial activities among budget office, comptroller, program sectors, and field offices
- Launched Finance and Budget System (FABS) in January 2002 to improve and harmonize all financial procedures

Continuing challenges:

- Update financial rules and train additional staff
 - Complete FABS implementation (link to all field offices, train all users)
 - Address more than 150 open auditor recommendations to improve financial controls
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UNESCO Program Management

In late 1990s, UNESCO management expressed concerns that:

- UNESCO programming identified activities (meetings, studies, publications) to be carried out rather than results to be achieved
- UNESCO resources were distributed among program activities that had not been sufficiently prioritized

UNESCO Program Management Reforms

In response, UNESCO:

- Adopted results-based policy and developed automated management tool (System of Information, Strategies, Tasks, and Evaluation of Results—SISTER)
- Identified priority objectives to receive additional resources

Continuing challenges:

- Train staff in applying all aspects of managing by results
 - Better articulate expected results and performance indicators
 - Incorporate all extra budgetary activities into SISTER
 - Define priority areas that are not sufficiently specific
-

UNESCO Field Structure

In 2000, UNESCO management and United Nations Joint Inspection Unit expressed concerns regarding UNESCO's field locations:

- UNESCO's 70 field locations—including 38 established since 1990—were too many for resources available
- Many small, overlapping, or ineffective field offices
- Field offices linked to program sectors rather than to a central organization, leading to management problems

UNESCO Field Structure Reforms

In response, UNESCO:

- Closed 22 field offices and made plans to eliminate 7 more
- Established plan to revamp field structure—cluster, regional, national—and plans to review field structure (now scheduled for 2004)
- Created a central office to manage all field offices for sectors

Continuing challenges:

- Provide appropriate mix of expertise to offices
- Ensure field offices have access to FABS and SISTER

UNESCO Internal Oversight Reforms

In 2000, United Nations Joint Inspection Unit reported that UNESCO's internal oversight functions suffered from:

- Ineffective coordination
- Inadequate staffing levels
- Lack of management attention



UNESCO Internal Oversight Reforms

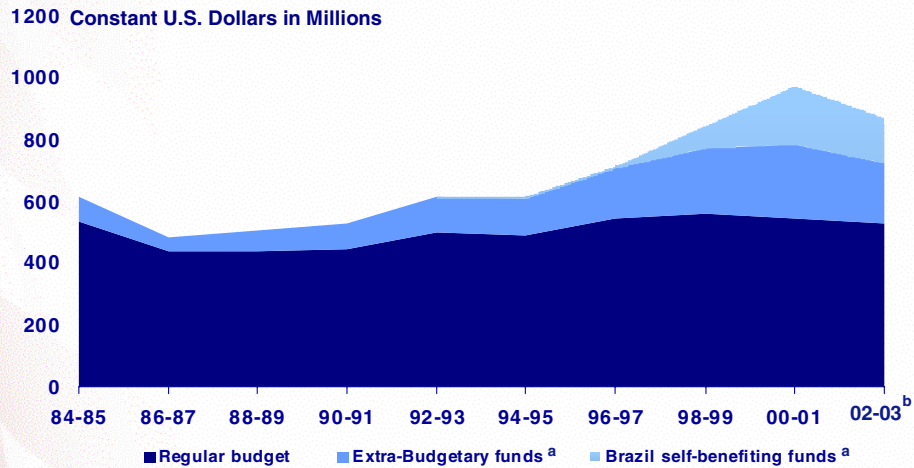
In 2001, UNESCO established the Internal Oversight Service (IOS) to conduct internal audits, evaluations, and investigations.

- Increased positions from 12 to 18
- Audited 25 field locations
- Has issued more than 1200 recommendations to date

Continuing challenges:

- Fill six vacant IOS positions with qualified personnel
 - Improve quality of program evaluations
 - Ensure closure of more than 900 open recommendations, including 300 open for more than one year
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UNESCO's Regular Budget, Extra-Budgetary, and Brazil Funding in Constant 2000-2001 Dollars

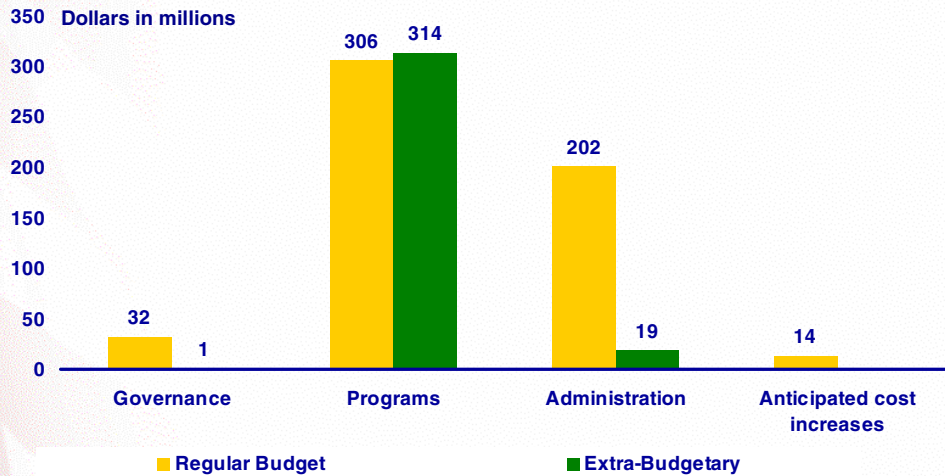


^aExtra-budgetary and Brazil self-benefiting funds represent actual donations provided during the biennium, and not budgeted figures.

^bEstimate based upon doubling the Brazil and extra-budgetary funds received in 2002.

Source: GAO analysis of UNESCO data.

2002-2003 Biennium Budget Distribution of UNESCO Funding

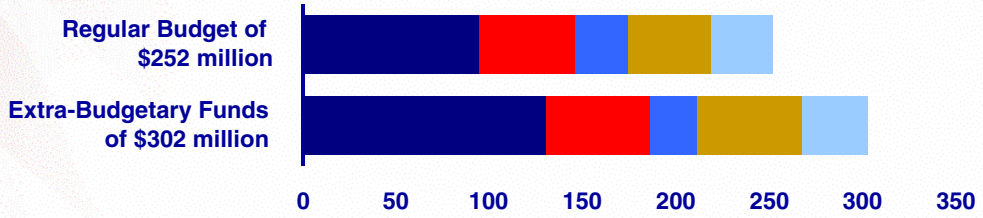


Regular budget items and anticipated cost increases total about \$555 million; however, UNESCO plans to reduce by about \$11 million of planned spending in these areas so that spending remains within the approved regular budget level of \$544 million. Totals may not add due to rounding.

Source: GAO analysis of UNESCO data.



Extra-Budgetary Funding and Regular Budget Funding for 2002-2003 Biennium by Program Sectors



	Extra-Budgetary of \$302 million	Regular Budget of \$252 million
Communication and Information	35	33
Culture	56	44
Social and Human Sciences	25	29
Natural Sciences	56	52
Education	130	94

Amounts are not included for the Participation Program, Institute for Statistics, and program related services which totaled about \$12 million for extra-budgetary funding and \$54 million for the regular budget.

Source: GAO analysis of UNESCO data.



Budget Options Affect U.S. Share and Reduction in Other Member States' Assessments

Budget Option	Annual U.S. Assessment ^a	Reduction in Others' Assessments
\$544 million/\$272 million annually •zero nominal growth	\$60 million	\$60 million
\$576 million/\$288 million annually •between zero nominal growth and real growth	\$63 million	\$47 million
\$610 million/\$305 million annually •real growth	\$67 million	\$34 million

^aU.S. assessment based on exchange rates used by UNESCO.



U.S. Decisions Needed

- Position on size of next UNESCO budget
 - Executive Board membership
 - Membership terms for France, Greece, Italy, The Netherlands, and Spain expire in 2003
 - Countries standing for election: United States, France, Greece, Italy, Monaco, Luxembourg, Portugal, Canada, and Switzerland
 - Potential special account for U.S priorities
 - Subject to approval by UNESCO membership
 - Would use \$15 million U.S. assessment for October 1-December 31, 2003
 - U.S. priorities – voice at UNESCO
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