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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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STATEMENT OF  
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U.S. GENERAL ACCOUNTING OFFICE  
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 GAO's continuing review of the \$27 million in humanitarian assistance authorized for the Nicaraguan democratic resistance.

Our previous testimonies before this subcommittee focused on our concerns about the controls exercised over this program by the State Department's Nicaraguan Humanitarian Assistance Office (NHAO). Overall, we have concluded that the State Department does not have sufficient procedures and controls to ensure that program funds are being used for purposes intended by law.

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NHAO does not have the ability to observe delivery and use of procured items to ensure that the items are not being diverted, bartered, or otherwise exchanged. Moreover, for items bought in the region, NHAO does not have the ability to validate invoice and receipt documents. We are generally satisfied with controls over payments to U.S. suppliers. However, NHAO does not have procedures to assure that all funds made available based on invoices and receipts from suppliers in the region are actually used to pay these suppliers.

Today I would like to concentrate on our most recent efforts to track expenditures for purchases made in the region--i.e. the results of our examination of bank records subpoenaed several weeks ago at the request of this subcommittee. But first I will briefly describe how State has been paying for the non-U.S. purchases.

NHAO obtains invoices and receipts as documentation of purchases made in the region. These documents are obtained by NHAO through the United Nicaraguan Opposition (UNO) in Miami. Before it authorizes payment, NHAO reviews them to ensure that the items are allowable under the program. However, because NHAO does not have a presence in the region, it is not able to verify the validity of the documents--that is that they are legitimate records of transactions, and that items indicated are being delivered to the resistance forces.

After NHAO approves the invoices and receipts, it issues a payment voucher, and the U.S. Treasury then transfers the funds. Because of the sensitivities of governments in the region to this program, State adopted a policy of not making payments directly to suppliers in the region. Instead the Treasury sends the funds to designated U.S. bank accounts mostly in Miami.

There are two types of accounts: (1) accounts owned by suppliers and (2) accounts owned by brokers authorized by suppliers in the region to act as their agents to receive payments. The brokers are, in turn, expected to pay these suppliers for the goods and services shown on the invoices and receipts provided NHAO. According to NHAO, some suppliers selected brokers to receive their payments because the suppliers did not maintain their own U.S. bank accounts.

As of May 10, 1986, Treasury paid a total of \$14.1 million to these accounts, including \$7.8 million paid into six accounts owned by suppliers, and \$5.7 million into six accounts owned by brokers acting as agents for about 50 suppliers. In addition, two accounts owned by United Nicaraguan Opposition (UNO) organizations received payments of \$583,000 for administrative, medical and other expenses; some of which were incurred in the region.

NHAO does not have specific information on the disbursement of funds deposited in these accounts. It's position is that the

Treasury payments were made into the accounts for goods and services as shown in the invoices and receipts it obtained, and that it has no authority to trace the funds further.

On May 8, 1986, at this subcommittee's request, the House Committee on Foreign Affairs approved issuance of subpoenas on 14 U.S. bank accounts which had received funds under the humanitarian assistance program--the six accounts owned by suppliers, the six accounts owned by brokers, and the two accounts owned by UNO organizations.

At the subcommittee's request, we are examining the account records. As of June 9, 1986, we had reviewed the records of 8 accounts covering \$12.2 million of the \$14.1 million, which Treasury had deposited as of May 10 in those accounts. Our examinations have raised a number of questions.

For example, under a broker arrangement, one would expect to find disbursements from the account to the region in amounts roughly equal to Treasury deposits--either payments to specific suppliers or block payments to the region for further distribution there. However, we did not find this pattern with regard to most of the funds in the four accounts we analyzed. As of May 10, 1986, the Treasury paid about \$4.4 million into these four broker accounts. However, we can trace only \$785,674 as being paid into Central America by these brokers and only \$185,434 of this amount being paid to identified suppliers. Instead, most funds in these broker accounts were disbursed in

the United States or offshore banks. A significant portion of one broker account was not paid out and remained in the account.

At this point, I would like to describe in some detail the activity in several of the accounts we examined and to raise some concerns that we have based on our review.

#### Broker A

Treasury paid one broker account about \$654,000 based on invoices and receipts received from three suppliers in the region. Prior to these payments, the account had a \$4,400 balance; no other funds have been deposited in this account since Treasury started making payments. Thus, virtually all the funds in this account are traceable to U.S. Treasury payments.

The bulk of these funds have not been sent to the specific suppliers, or into the region. As of the subpoena date, over \$422,000 remained in the account, drawing interest. Partial payments were made to two of the three suppliers; the third supplier received no payments. In total, only \$185,000 of the \$654,000 deposited by Treasury was transferred to suppliers in the region. This account raises key questions: Why are humanitarian funds remaining in brokers' accounts? Why are partial or no payments being made to identified suppliers in the region?

Broker B

Another broker account has received about \$3.3 million from the Treasury since October 1985. At the time of the first Treasury deposit, the account had a balance of \$68,700 and from October through May 1986 received deposits from other sources, totaling \$659,581. Thus Treasury deposits comprise over 80 percent of the account's funds.

The Treasury payments to this account were based on invoices and receipts from 22 different companies or individuals. We could match none of the disbursements from this account to these companies or individuals. The records indicate that only about \$150,000 was paid from this account to accounts in Central America. The other disbursements from the account, totaling \$3.8 million, consist of payments to companies and individuals in the United States (\$3.4 million) and to offshore accounts in the Cayman Islands and the Bahamas (\$380,000).

Essentially, funds in this account are flowing from bank account to bank account, in the United States and offshore, and to individuals and companies which do not appear to be suppliers in the region. Since broker accounts were supposedly set up to assist in getting payments to these suppliers, this account raises questions about why so few payments are being sent into the region.

### Broker C

On November 4, 1985, a third broker account received a Treasury payment of \$243,750 based on invoices and receipts from a commercial supplier for uniforms. At the time of this deposit the account had a prior balance of about \$49,000. On November 6, 1985, the broker issued checks to the armed forces of a country in the region in the amount of \$113,750 and \$130,000 totaling \$243,750-- the exact amount of the payment by Treasury. The account records show only two payments to the supplier represented by the broker totaling about \$52,000. These payments were in July, 1985-- before the assistance program began. We question the basis for these payments to the armed forces.

### Supplier A

Turning now to a supplier account--that is, a company in the region which maintains an account in the United States and, thus, receives payments directly from the U.S. Treasury. This supplier has received payments from Treasury of about \$6.6 million from November 1985 through May 10, 1986. These payments were based on company invoices and receipts furnished to NHAO. The only other deposit to the account during this period was for \$32,000. Thus, virtually all payments made from this account were funds provided the company by the Treasury.

Treasury made its first payment to the company of \$896,122 on November 16, 1985, and on November 18, 1985 a payment of

\$742,939 was made from this account to the armed forces of the country of the supplier. Again on January 8, 1986, a Treasury deposit of \$411,974 was followed by a payment on January 10, 1986 of \$450,000 to the Commander-in-Chief of that country's armed forces. Without Treasury's payments, there would not have been sufficient funds in the account at the times of these transactions to cover the amounts of the payments.

The invoices and receipts on which the Treasury payments to the account were based show they were for food and other consumables. A question is thus raised as to the basis for these payments to the armed forces.

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In summary, the examination of the bank records has for the most part only raised more questions. Moreover, there is enough evidence to be concerned that humanitarian assistance may not be reaching the intended beneficiaries. Without adequate controls--and by that I mean mechanisms to validate invoices and receipts, trace payments to suppliers, and verify deliveries and use--that concern will remain.



ATTACHMENT

ATTACHMENT

BREAKOUT BY BROKER  
SHOWING AMOUNTS PAID IN THE REGION

(as of May 10, 1986)

<u>BROKERS a</u>	<u>TOTAL TREASURY DEPOSITS</u>	<u>TOTAL PAYMENTS IN THE REGION</u>
A	\$ 654,416	\$ 185,434 b
B	3,331,478	150,190
C	243,750	243,750
D	206,150	206,300
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TOTAL	\$ 4,435,794	\$ 785,674

- a) Includes only those broker accounts analyzed by GAO.
- b) The \$185,434 is also identifiable as being paid directly to suppliers who submitted invoices.

