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***Committee on Homeland Security and Governmental Affairs***

***Carl Levin, Chairman***
***Norm Coleman, Ranking Minority Member***

# UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

## STAFF REPORT

## PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

## UNITED STATES SENATE

**RELEASED IN CONJUNCTION WITH THE**
**PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**
**JANUARY 24, 2008 HEARING**

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# PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
# STAFF REPORT
# UNITED NATIONS DEVELOPMENT PROGRAM: A CASE STUDY OF NORTH KOREA

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# # #

# UNITED NATIONS DEVELOPMENT PROGRAM: *A CASE STUDY OF NORTH KOREA*

**January 24, 2008**

## I. INTRODUCTION

In March 2007, the United Nations Development Program ("UNDP") suspended its operations in the Democratic People's Republic of Korea ("DPRK"), commonly known as North Korea. This unprecedented step stemmed from the DPRK's refusal to agree to UNDP measures to increase the transparency and accountability of its programs there. This Report presents evidence obtained by the US Senate Permanent Subcommittee on Investigations (the "Subcommittee") regarding management and operational deficiencies in the UNDP program in North Korea. These deficiencies rendered UNDP vulnerable to manipulation by the North Korean government. Specifically, the Subcommittee investigation identified deficiencies involving inappropriate staffing, questionable use of foreign currency instead of local currency, and insufficient administrative and fiscal controls. The Subcommittee investigation also found that, by preventing access to its audits and not submitting to the jurisdiction of the UN Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections.

The Subcommittee's investigation also established that, in 2002, the DPRK government used its relationship with the United Nations to execute deceptive financial transactions by moving $2.72 million of its own funds from Pyongyang to DPRK diplomatic missions abroad through a bank account intended to be used solely for UNDP activities and by referencing UNDP in the wire transfer documents.[1] Finally, the Subcommittee obtained evidence that UNDP transferred approximately $50,000 of UN funds to an entity called Zang Lok Trading Co. that a US State Department official later identified as having "ties to a North Korean entity that has been designated [by the US government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons." UNDP officials told the Subcommittee that they had no knowledge of such a connection at the time the payments were made.

## II. EXECUTIVE SUMMARY

### A. SUBCOMMITTEE INVESTIGATION

Since 2004, the Subcommittee has conducted a bipartisan investigation into evidence of waste, fraud, and abuse in United Nations programs and operations. The first phase of this investigation examined the United Nations Oil-for-Food Program and resulted in four

[1] The term "Dollars" and the symbol "$" refer to United States currency.

Subcommittee hearings and five staff reports disclosing evidence of poor management, misconduct, and financial corruption associated with that program.

In 2007, the Subcommittee commenced an examination into allegations of mismanagement and misconduct in the operations of the United Nations Development Program in the DPRK. Over the course of its investigation, the Subcommittee interviewed dozens of individuals from agencies in the US government, including the US Mission to the United Nations; UNDP and other UN organizations; the Government Accountability Office; US financial institutions; and the DPRK's Permanent Mission to the United Nations. Moreover, the Subcommittee held confidential meetings with sources from within UNDP and the United Nations. The Subcommittee collected voluminous documentation and electronic data from these sources.

The Subcommittee recognizes the privileges and immunities of the United Nations and appreciates the extent of its voluntary cooperation with our inquiry, including significant and detailed formal and informal briefings provided by UN and UNDP personnel. The Subcommittee also appreciates that DPRK officials agreed to meet with Subcommittee staff and responded candidly to Subcommittee inquiries about these matters.

### B. REPORT FINDINGS

Based upon its investigation into the United Nations Development Program operations in North Korea, the Subcommittee staff makes the following findings.

#### 1. UNDP operated in North Korea with inappropriate staffing, questionable use of foreign currency instead of local currency, and insufficient administrative and fiscal controls.

Evidence obtained by the Subcommittee, including UNDP audits, witness interviews, and other relevant records, establishes management and operational deficiencies in the UNDP program in North Korea, including practices inconsistent with UN and UNDP standard operating procedures and best practices. Specifically, the Subcommittee found that: (1) UNDP's DPRK office was staffed in large part with North Korean nationals who were selected by the DPRK, contrary to UNDP policy; (2) UNDP paid the salaries of local staff directly to the North Korean government without any way of verifying that the salaries were properly disbursed and despite UNDP's suspicion that the DPRK was, in the words of one UNDP official, "skimming" money from the payments; (3) UNDP paid salaries and other expenses in convertible currencies, such as US Dollars or Euros, rather than in the local currency, contrary to UN best practices; (4) UNDP was required to conduct its financial transactions using a DPRK state bank that accepted paperwork only from DPRK personnel, sometimes routed UNDP funds through an unrelated bank account, and, until recently, refused to provide UNDP with copies of cancelled checks; and (5) UNDP was allowed to conduct on-site project visits only with prior notice and in the company of North Korean officials, contrary to UNDP best practices. The Subcommittee also learned that the UNDP office in Pyongyang operated without secure communications, and the regime routinely monitored UN activity, going so far as to enter and search private residences of UN personnel.

In addition, a Subcommittee review of a UNDP internal audit revealed that nearly half of UNDP projects in the DPRK were conducted under a National Execution Strategy that ostensibly required direct payments to the host government for the implementation of UNDP projects. The Subcommittee learned, however, that by agreement with North Korea, UNDP maintained control of most of the projects' financing and management. UNDP officials explained to the Subcommittee that, by directly controlling funds that were ostensibly slated to be managed nationally, UNDP accomplished two objectives: it respected sensitivities about national sovereignty and formal control over projects within a country's borders, and it executed the projects using UNDP management and controls. In the case of the UNDP program in North Korea, however, this strategy also led to confusion over the amount of direct payments actually made to North Korea. In sum, UNDP operations in North Korea were carried out under significant constraints that undermined its standard administrative, fiscal, and program controls.

**2. By preventing access to its audits and not submitting to the jurisdiction of the UN Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections.**

UNDP commissioned four audits of its North Korean operations, in 1999, 2001, 2004, and 2007. Problems were identified in all four. The first three audits were nonpublic and, in accordance with UNDP policy, unavailable for review even by nations serving on the UNDP Executive Board. After repeated requests, UNDP made an exception to this policy and, in 2007, showed the audit reports to the US Mission to the United Nations, whose personnel were allowed to read but not copy them. The Subcommittee obtained copies from other sources and found the audits to be of great assistance in examining UNDP operations in North Korea. UN member states that are denied access to UN audits are denied relevant and timely information about program operations and have few alternative means of ensuring that UN contributions are being spent properly. Had UNDP audits of its North Korean operations been contemporaneously available for review by members of the UNDP Executive Board, the Board members could have evaluated the practices and determined what actions to take, if any, to address concerns. UNDP's Administrator has recently submitted a proposal to the Executive Board to give Board members routine access to future UNDP audits by allowing the audit reports to be reviewed but not copied.

Beginning in 2005, Artjon Shkurtaj, then Operations Manager of the UNDP office in Pyongyang, raised concerns about management and operational deficiencies in UNDP operations. After raising these concerns, Mr. Shkurtaj's UNDP employment contract was not renewed. He then filed a complaint with the UN Ethics Office claiming that UNDP had retaliated against him. The UN Ethics Office, which was created by UN Secretary General Kofi Annan in January 2006, was intended to apply UN-wide ethics rules. In August 2007, however, the Ethics Office determined that, although Mr. Shkurtaj had established "a prima facie case of retaliation," it lacked jurisdiction to decide his claim and could protect only whistleblowers within the UN Secretariat. UNDP declined a request by the Ethics Office that it voluntarily submit the Shkurtaj matter for an Ethics Office review, later forming an ad hoc review team and referring the matter to that team. UNDP actions and the Ethics Office decision have undermined confidence among UN employees that UN whistleblowers who speak out about UN mismanagement will be protected from retribution. In November 2007, the UN Secretary-

General issued a bulletin requiring each UN agency to establish its own ethics office or submit to the jurisdiction of the Ethics Office within the Secretariat.

3. **In 2002, the DPRK government used its relationship with the United Nations to execute deceptive financial transactions by moving $2.72 million of its own funds from Pyongyang to DPRK diplomatic missions abroad through a bank account intended to be used solely for UNDP activities and by referencing UNDP in the wire transfer documents.**

The Subcommittee gathered evidence that, over a six-month period in 2002, the North Korean government used the cover of the UNDP's presence in the DPRK to move $2.72 million of its own funds out of North Korea. The evidence, which includes wire transfer and other documentation from US and foreign financial institutions, indicates that the North Korean government transferred the money from Pyongyang to its diplomatic missions abroad via a circuitous route involving a bank account reserved for UNDP funds at the DPRK state-owned Foreign Trade Bank ("FTB") and a Chinese company known as the International Finance and Trade Joint Company ("IFTJ"), which acted as a conduit for the North Korean funds. Each transaction moved funds from the FTB bank account to an IFTJ account at a bank in the Chinese administered territory of Macau, and from there to DPRK diplomatic missions in the United States and Europe. Each of the wire transfers referenced UNDP. UNDP has stated that these transactions were wholly unrelated to its development projects, and North Korean officials have confirmed that the funds originated with the DPRK Ministry of Foreign Affairs and were not related to the UNDP.

By routing its funds through a bank account reserved for UNDP development funds, the North Korean government made a concerted effort to conceal the movement of its funds out of North Korea and into western financial institutions. North Korean officials explained to the Subcommittee that these transfers occurred soon after US President George Bush's 2002 State of the Union address in which he described North Korea as part of an "axis of evil." North Korean officials told the Subcommittee that they expected sanctions against their country would be tightened and were concerned that their wire transfers would be barred or frozen. They told the Subcommittee that the Ministry of Foreign Affairs identified the UNDP-related account as a more secure channel to fund their embassies abroad.

4. **UNDP transferred UN funds to a company that, according to a letter from the US State Department to UNDP, has ties to an entity involved in DPRK weapons activity.**

UNDP regularly made payments to contractors on behalf of other UN agencies operating in North Korea. During the course of its investigation, the Subcommittee learned that payments on behalf of other UN agencies – totaling approximately $50,000 – were made to an entity named Zang Lok Trading Co. in Macau. According to a letter dated June 7, 2007, to UNDP from the US Permanent Mission to the United Nations, Zang Lok "has ties to a North Korean entity that has been designated [by the US government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons." UNDP maintains that it does not know, and has no way of knowing, whether Zang Lok is connected to North Korean weapons sales.

## III. REPORT RECOMMENDATIONS

Based upon its investigation into United Nations Development Program operations in North Korea, the Subcommittee staff makes the following recommendations.

1. **UNDP should provide UN member states with unfettered access to financial and management audit reports about UNDP activities, including providing timely copies of such reports and allowing UN member states to make audit information public.**

Many of the Subcommittee's findings are drawn from an extensive analysis of three nonpublic audits of UNDP's DPRK operations conducted in 1999, 2001, and 2004, as well as a publicly available audit conducted in 2007. UNDP's practice has been to provide its Executive Board members with little more than annual reports that contain broad-brush overviews of its activities and expenditures and few, if any, specific analyses of development programs within particular countries. UN member states, including UNDP donors and recipients, need periodic, written program assessments to ensure that UN development aid is being used properly. UNDP regularly advocates transparency and accountability to the nations it seeks to assist; it should practice the same principles within its own organization. UNDP should approve a pending proposal to grant routine access to UNDP Executive Board members to UNDP audit reports, and should broaden the proposal to allow access to past audit reports, photocopying of the reports, and release of audit information to the public, absent exceptional circumstances. In addition, both Congress and the US State Department should continue to press for routine access to all UN audit reports and the ability to release audit information to the public.

2. **UNDP should ensure that whistleblowers do not face retaliation for reporting irregular or improper conduct.**

The facts presented in this Report might not have come to light absent the actions of a UNDP official, Artjon Shkurtaj, who repeatedly raised concerns about UNDP practices in North Korea. Rather than supporting Mr. Shkurtaj, UNDP declined to renew his employment contract. When he filed a complaint alleging retaliation, UNDP declined to submit voluntarily to an Ethics Office review, later referring the matter to an ad hoc review team that is now considering it. While the UN Secretary-General recently announced a new effort to strengthen whistleblower protections across the United Nations, that effort is in the early stages and has been the subject of some criticism. UN personnel should be able to blow the whistle on waste, fraud, or abuse without fear of retribution. Both Congress and the US State Department should continue to press for the implementation of strong whistleblower protections at the UNDP and throughout the United Nations.

3. **UNDP should take steps to ensure that its name and resources are not used as cover for non-UN activities.**

North Korea's misuse of a bank account established for the sole purpose of receiving and disbursing UNDP development funds on UN projects is disturbing. UNDP asserts that it has accounted for all UNDP funds deposited into the account, that it had no knowledge of non-UNDP funds being deposited into the account, and that it had no way of knowing of any misuse

of the account since the account was under the sole control of North Korean officials. To prevent similar misconduct in the future, UNDP should require the host country to establish a bank account designated for exclusive use on UNDP development projects, prohibit the deposit of any other funds in the account, and mandate, as a condition precedent for the receipt of development aid, that the host country designate UNDP as a secondary account signatory and authorize the financial institution to grant UNDP access to all account documentation so that UNDP can monitor the account activity. Both Congress and the US State Department should press UNDP to take these steps.

**4. Prior to making payments to a vendor, UNDP should take steps to ensure that the vendor is not associated with illicit activity.**

It is troubling that UNDP paid UN funds to an entity that was later reported by the State Department to be connected to weapons proliferation activity. To be clear, UNDP appears to have made the payments unwittingly, the amounts of money were relatively small, and the payments were made on behalf of other UN agencies operating in North Korea at the time. Nevertheless, additional steps could and should be taken to prevent payments to entities associated with illicit activity. One step would be for the United Nations to take advantage of data that it has compiled on suspect entities as part of ongoing efforts to combat weapons and drug trafficking, terrorism, the sex trade, and money laundering, and improve the systems that UN agencies use to screen potential vendors. Improved data-sharing would strengthen the UN's ability to avoid making payments to wrongdoers. In light of the high potential for abuse that exists when UN agencies operate in unstable, corrupt, or repressive countries, both Congress and the US State Department should press the United Nations to strengthen systems that could be used by all UN Funds and Programs to determine whether potential vendors are associated with illicit activity.

## IV. BACKGROUND

### A. THE UNITED NATIONS DEVELOPMENT PROGRAM

The United Nations Development Program is the largest development agency in the United Nations system. Its mission is to channel and fund structural assistance to the developing world.[2] UNDP is dedicated to building democratic societies, reducing poverty, preventing crises, assisting in crisis recovery, protecting the environment, and curbing the AIDS epidemic around the world. Currently, UNDP is on the ground with 7,000 staff members in 166 countries.[3] About 75 percent of this staff is in the field and a majority of the field staff serves in their home countries.[4]

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[2] United Nations Development Program, About UNDP, http://www.undp.org/about/.

[3] UNDP and DPRK, Informal Briefing Note for Subcommittee Investigators, Background on UNDP, November 12, 2007 (on file with the Permanent Subcommittee on Investigations). The staff represents 152 countries according to the 2007 UNDP Annual Report. UNDP, Countries, UNDP Country Offices and Other Programs, http://www.undp.org/countries/. *Making Globalization Work for All*, United Nations Development Program Annual

UNDP does not fall under the jurisdiction of the UN Secretariat, but instead is one of the United Nations' Funds and Programs. Funding for UNDP is made up of voluntary contributions from participating countries. In its 2006 Annual Report, UNDP reports that more than 60 percent of its regular resources came from six countries - the Netherlands, Sweden, Norway, the United States, the United Kingdom, and Japan.[5]

The UNDP annual budget now totals about $5 billion. In addition, UNDP manages another $4 billion in development aid for other UN agencies and donor programs. In 2005, U.S. contributions to the UNDP totaled $247 million, which included $105 million towards the core budget, as well as $142 million for specific projects. The $105 million contribution represented 11.4 percent of UNDP's core budget.[6]

Since 1994, federal law has required the United States to decrease its contribution to UNDP by a percentage equivalent to the percentage of UNDP's total budget represented by its expenditures in North Korea.[7] To implement this statutory requirement, Congressional practice has been to reduce the total amount of funds appropriated to UNDP by the percentage of UNDP spending in North Korea.

Kemal Derviş is the UNDP Administrator and the third highest-ranking UN official after the Secretary-General and Deputy Secretary-General.[8] The Associate Administrator of UNDP is Adrianus Melkert.[9] UNDP is governed by an Executive Board comprised of 36 countries, whose membership rotates biannually.[10] The UNDP Executive Board adopts decisions by consensus instead of by a vote of the member states.[11] This system of consensus decision-making is meant

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Report 2007 at 3, http://www.undp.org/publications/annualreport2007/IAR07-ENG.pdf ("UNDP Annual Report 2007").

[4] Id.

[5] UNDP Annual Report 2007 at 43. These 2006 figures were as of May 2007.

[6] US Office of Management and Budget, *Report on US Contributions to the United Nations System*, July 31, 2006. Beyond direct contributions to the core budget of UNDP, the US also contributes to numerous funds and programs that are managed by UNDP and included in its aggregate budget numbers. This is due to the fact that UNDP plays a central role in coordinating and distributing UN funding within the framework of the "One UN" system.

[7] Foreign Assistance Act of 1961, 22 U.S.C. 2227, Sec. 307 (1961).

[8] UNDP Who We Are and What We Do, Biography: Kemal Derviş, UNDP Administrator, http://www.undp.org/about/bio1.shtml.

[9] UNDP, Who We Are and What We Do, Biography: Ad Melkert, UNDP Associate Administrator, http://www.undp.org/about/melkert.shtml.

[10] United Nations Development Program, Executive Board, http://www.undp.org/execbrd/. The members in 2007 were Algeria, Angola, Benin, Central African Republic, Malawi, Senegal, Somalia, Uganda, Bangladesh, Bhutan, China, DPRK, India, Kazakhstan, Pakistan, Antigua and Barbuda, Ecuador, Guatemala, Guyana, Jamaica, Belarus, Serbia, Russian Federation, Ukraine, Belgium, Canada, Demark, Germany, Greece, Italy, Japan, Norway, Portugal, Spain, United Kingdom, and United States.

[11] United Nations Development Program, Executive Board, Decisions of the Executive Board, http://www.undp.org/execbrd/decisions.shtml.

to promote involvement of all the Executive Board members, although aligning the interests of such diverse countries can be difficult.[12]

In response to Subcommittee inquiries, UNDP has estimated that, from 1995 to 2005, UNDP spent a total of about $33.5 million in North Korea. Of that figure, approximately $6 million was spent on UNDP office, staff, and operating expenses, including roughly $100,000 per year in payments to local staff and contractors, and $500,000 per year spent on rent, office supplies, transportation, employee compensation, and other expenses. An ongoing external audit is expected to refine these estimates. In addition, the UNDP office in North Korea made payments and provided administrative support on behalf of other UN Funds and Programs operating in North Korea including the United Nations Population Fund and United Nations Office for Project Services, among others. Total expenditures by all UN agencies in North Korea – excluding the World Food Program – during the same ten-year timeframe have been estimated at roughly $200 million.

### B. UNDP DEVELOPMENT STRATEGIES AND CHALLENGES

In UNDP, the development goals for a particular country are established by the Administrator and his staff, who identify and prioritize the needs of the host country. Development plans are then drafted and periodically revised. The final plans are executed in the host nations by UNDP's local offices.[13]

UNDP executes development projects through one of two modes: the Direct Execution Strategy ("DEX") or the National Execution Strategy ("NEX"). Under DEX, UNDP directly funds and manages the projects, maintains control over the expenditure of project funds, hires contractors, and exercises oversight over all project aspects.[14]

In contrast, the NEX strategy is intended to empower the host country to take the lead on the development projects, with UNDP acting in a funding and monitoring capacity. Under NEX, the host country establishes a mirror agency to work directly with UNDP. This agency establishes a bank account into which UNDP deposits funds for the sole purpose of implementing development projects. Under NEX, the host country manages the projects, and UNDP retains only a limited measure of control through regular project monitoring and careful review of project expenses and receipts.[15]

Both the DEX and NEX approaches have merits and drawbacks in terms of promoting human development in host nations. It is axiomatic that UNDP operates in countries that face development challenges. These challenges can include weak management, bureaucratic

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[12] United Nations Development Program, Newsroom, Kemal Derviş – Annual Session of the UNDP/UNFPA Executive Board, June 18, 2007, http://content.undp.org/go/newsroom/2007/june/statement-by-kemal-dervi-on-the-occasion-of-the-annual-session-of-the-undp-unfpa-executive-board.en.

[13] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[14] Id.

[15] Id.

inefficiency, underdeveloped economic and financial infrastructure, and endemic corruption. If the DEX strategy is used, UNDP retains control over most of the assets it expends in the host nation, and the possibility that projects will be mismanaged due to local problems is reduced. Nevertheless, DEX arguably reduces UNDP's ability to promote capacity development in the host country because local government agencies are denied the opportunity to learn valuable administrative and developmental skills. With NEX, capacity development opportunities are increased, but at the cost of increased risk of mismanagement by the host nation.[16]

In some countries, UNDP has developed what it terms a "hybrid" approach in which development projects are categorized as NEX projects, meaning the host country takes the lead on the projects, but under arrangements reached between the host country and local UNDP office, UNDP personnel retain major management and financing responsibilities. UNDP explained to the Subcommittee that this hybrid approach accomplishes two objectives: it respects sensitivities about national sovereignty and formal control over projects within a country's borders, and it allows UNDP to provide major assistance to a host country using UNDP management capabilities and controls. In North Korea, UNDP employed a mix of the DEX, NEX, and hybrid approaches.

### C. UNDP FIELD OFFICES

UNDP field offices are generally headed by a Resident Representative responsible for coordinating the UNDP's programs in the host country. Second in command is usually the Country Director. Two additional key senior positions in UNDP field offices are typically the Senior Program Advisor, who is responsible for managing and monitoring UNDP projects in the host country, and the Operations Manager, who is responsible for conducting the office's day-to-day administrative, financial and security tasks.[17] The Operation Manager's responsibilities typically include cash management, such as handling banking transactions, keeping a ledger, and paying expenses.[18] These senior positions are typically filled by permanent UNDP employees who are often from outside the host country.[19]

UNDP opened its office in North Korea in 1981. UNDP's focus in the DPRK was on improving food production and economic and environmental management through workshops and study tours.[20] UNDP maintained a single field office in the capital city of Pyongyang. UNDP employees or contract personnel held the most senior positions, while local North Korean nationals held the remaining administrative, clerical, development, and other positions. The DPRK government did not permit UNDP to hire local staff directly from the local labor supply

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[16] Id.

[17] UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR 51 (2004). This is referenced throughout the report as the "2004 audit."

[18] UNDP, Learning by User Role, Operations Manager – OnDemand Curriculum, http://ondemandweb.undp.org/OnDemandProduction/OnDemandWebPortal/UserRole-OperationsManager.shtml.

[19] Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

[20] United Nations Development Program, North Korea, UNDP and DPR Korea, http://www.undp.org/dprk/.

to fill available positions in its office.[21] Instead, UNDP was required to use DPRK government officials selected by the DPRK regime. [22]

The local officials who worked in the UNDP office in Pyongyang came primarily from the DPRK Ministry of Foreign Affairs or its subdivisions and retained their affiliation with the ministries that employed them. UNDP did not execute employment contracts with these individuals and did not conduct performance reviews of their work.[23] These local officials filled the following administrative and operations positions: National Officer, Finance Officer, Registry Assistant, RC Assistant, Administrative Assistant, IT/LAN manager, PSU Assistant, gardener, drivers, cleaner, and cook. In addition, they filled several project positions such as Environment Focal Point, AREP Focal Point, AREP Assistant, AREP gardener, drivers, cleaner, and cook.[24] Figure 1 is an organizational chart, taken from a 2004 audit report examining the North Korean office, that shows the available office positions and those filled by DPRK officials.

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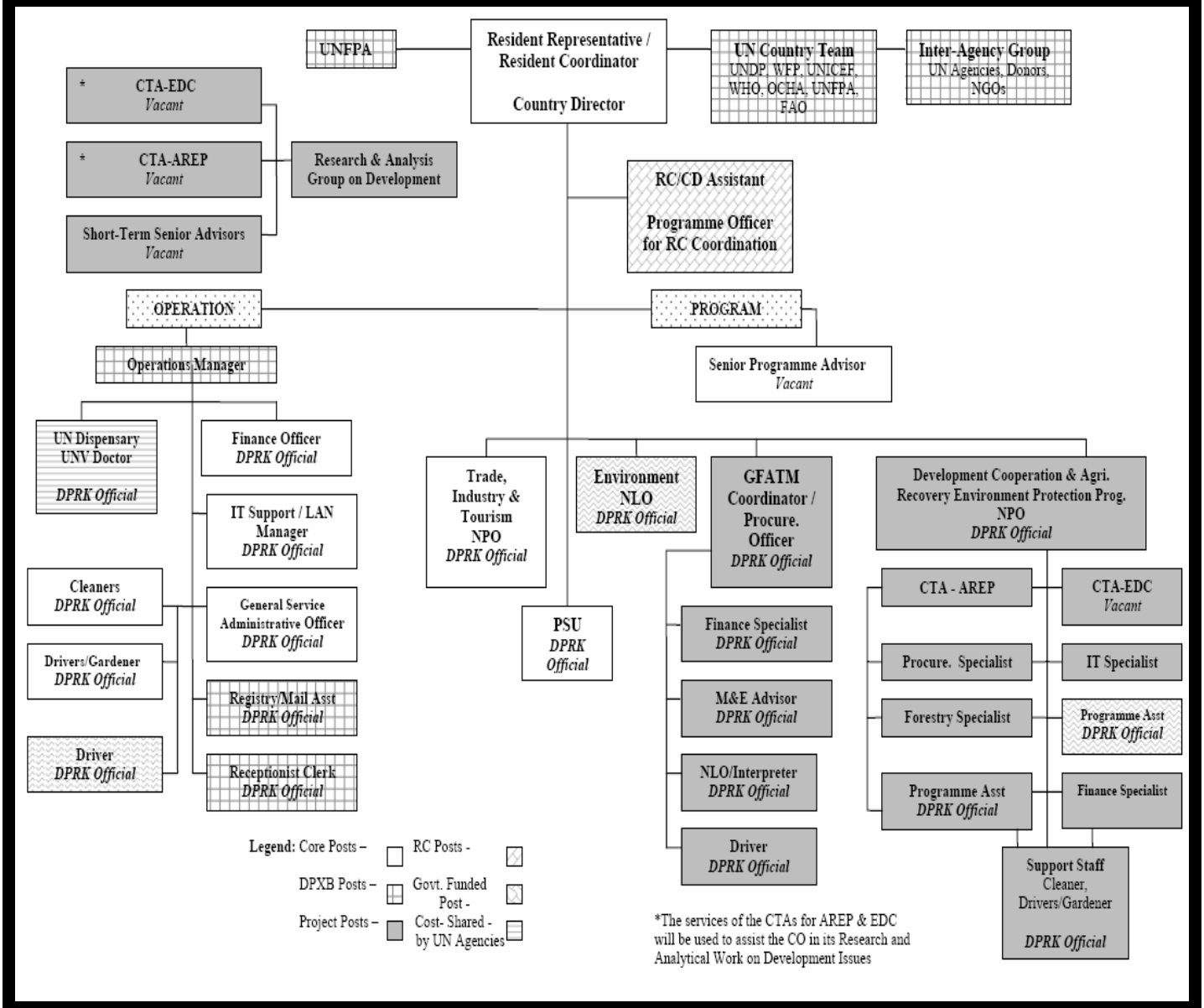
[21] 2004 audit at 51.

[22] Report of the Board of Auditors on the Special Audit requested by the ACABQ into activities of UNDP, UNFPA, UNOPS and UNICEF in the Democratic People's Republic of Korea (DPRK) ¶24, May 31, 2007. This is referenced throughout the report as the "2007 external audit."

[23] Id. at ¶22.

[24] UNDP DPR Korea List of International Staff: 1995-present.

**Figure 1. UNDP DPRK Organizational Chart[25]**




## D. UNDP RULES, AGREEMENTS, AND BEST PRACTICES

UNDP activities worldwide are governed by a complex patchwork of inter-related rules, agreements, and best practices. One key source of UNDP rules is a document called the

[25] This organizational chart is dated December 2003 and appears in an audit report issued in 2004. The Subcommittee redacted the names of individuals to protect their identity and inserted the term "DPRK Official" to indicate which positions were filled by local staff.

"Internal Control Framework for UNDP Offices" issued by the UN Office of the Comptroller, located within the UN Bureau of Management. These rules delineate practices to be followed by every UNDP office on such matters as hiring, staffing, accounting, cash management, contracting and procurement, and project management. In addition, UNDP offices are bound by the UNDP Personnel Manual and the UNDP Financial Manual, which regulate staffing and finances procedures, respectively.

Although these and related materials provide detailed guidance and restrictions for UNDP field offices, they do not cover all of the specific situations that arise in the countries where UNDP operates. To address specific concerns and individual variations in practice, UNDP typically executes a Standard Basic Assistance Agreement ("SBAA") with the host government in each country in which it operates.

In the case of North Korea, the UNDP and DPRK government entered into an SBAA in 1979. The North Korean SBAA speaks in broad terms about the obligations of the parties on issues related to local staffing, project monitoring, and UNDP personnel's living and working arrangements within the DPRK. The SBAA agreement does not, however, address some of the key matters at issue in this Report. For example, it does not address how local UNDP staff were to be selected or what currency should be used in UNDP operations, noting only that the DPRK government was obligated to provide UNDP a "lump sum mutually agreed between the Parties to cover" various expenditures.

In the absence of express SBAA provisions, over the years, UNDP reached a series of ad hoc arrangements with the DPRK government to address various issues. Some of these arrangements were described in internal UNDP memoranda; others were never committed to paper. For example, the two parties agreed informally that the UNDP would use DPRK government officials to serve as its local staff in the Pyongyang office, without entering into a formal written agreement on how the arrangement would work. The parties also agreed to certain currency and banking practices that changed over time, often as a result of requests made by the DPRK government. These practices were also not the subject of formal agreements.

Some of the UNDP arrangements were apparently unique to North Korea, responding to the country's isolated status, unusual governance and economic infrastructure, and use of one of the few currencies in the world that is not convertible to any foreign currency. By 2006, UNDP in North Korea operated under a mix of the standard rules set forth in UNDP internal control, personnel, and finance publications; the obligations set forth in the North Korean SBAA; and the ad hoc arrangements, often unwritten, that had evolved over the more than 25 years that UNDP operated in the country.

To test adherence to its rules and best practices, UNDP periodically conducts audits of its field operations. In North Korea, audits were performed in 1999, 2001, 2004, and 2007.[26] The

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[26] The audits were the UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (1999); UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (2001); and UNDP Office in Democratic People's Republic of Korea (DPRK), Limited Scope Audit, OAPR (2004). They are referenced throughout this Report as "1999 audit," "2001 audit," and "2004 audit." The Report of the Board of Auditors on the Special Audit requested by the ACABQ, May 31, 2007 ("2007 external audit").

reports from the first three audits were nonpublic documents and, in accordance with UNDP policy, were made available only to UNDP management personnel. Until 2007, these audit reports were not provided to or reviewed by UNDP Executive Board member states. The fourth audit, which was commissioned after allegations of mismanagement appeared in the press, was released to both the Executive Board and the public. All four audits identified management and operational practices in North Korea that did not adhere to UNDP rules and best practices.

### E. WITHDRAWAL FROM NORTH KOREA

In 2005, Artjon Shkurtaj, an Albanian national who had worked periodically as a contractor on various UNDP projects, was hired to serve as the Operations Manager of the UNDP office in North Korea. Beginning in March 2005, he described what he perceived to be management and operational deficiencies in the North Korean operations in a series of emails sent to his superiors over a period of months. He later reported his concerns to the UNDP Office of Audit and Performance Review, and to the Under-Secretary-General of the United Nations for Management. In May 2006, Mr. Shkurtaj spoke privately about his concerns with Ambassador Mark Wallace of the United States Permanent Mission to the United Nations.

Ambassador Wallace sought additional information about the North Korean operations from UNDP, exchanged a series of letters with UNDP senior administrators, and raised management and operational concerns with the UNDP Executive Board. In March 2007, in an unprecedented action, UNDP suspended its operations in North Korea and informed the DPRK government that it would be unable to continue operating in the country unless, among other steps, the DPRK Government agreed to accept all UNDP payments using the North Korean local currency, permitted UNDP to select the local staff who would work in its offices, and ensured on-site project inspections would take place without delays.[27] North Korea declined to agree to these changes in UNDP operations within the country, and negotiations over these and other matters broke down. In April 2007, UNDP withdrew its staff from North Korea and closed its office in Pyongyang.

## V. MANAGEMENT AND OPERATIONAL DEFICIENCIES OF THE UNDP PROGRAM IN NORTH KOREA

The Subcommittee investigation revealed deficiencies in staffing, fiscal controls, security, and program oversight that ultimately rendered UNDP operations in North Korea vulnerable to manipulation and misuse.

### A. UNDP STAFFING DEFICIENCIES IN NORTH KOREA

The Subcommittee identified three staffing deficiencies in UNDP's DPRK operations, relating to the hiring of local staff, the payment of their salaries and expenses with foreign currency, and associated security concerns.

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[27] See Report of the First Regular Session of 2007 of the UNDP Executive Board (April 2007 report describing the January 2007 session), paragraphs 33-42 available at http://www.undp.org/execbrd/pdf/dp07-15e.pdf.

### 1. Use of DPRK Officials

UNDP maintained a single office in North Korea, located in the nation's capital, Pyongyang. In keeping with UNDP's standard practice in other host countries, its office was staffed by a mix of international personnel selected by UNDP and local North Korean nationals.

UNDP's relationship with its local DPRK staff, however, did not comport with UNDP's standard practice. For instance, UNDP did not have the option of selecting local staff required to carry out its projects and conduct its day-to-day business in North Korea.[28] Instead, UNDP was required to use DPRK government personnel who were selected by the DPRK regime and assigned to UNDP for a period of time. These local officials came primarily from the DPRK Ministry of Foreign Affairs or its subdivisions and retained their affiliation with the ministries that employed them. Moreover, contrary to its established practices, UNDP did not execute employment contracts with these individuals and did not conduct performance reviews of their work.[29]

UNDP has advised the Subcommittee that its Executive Board was fully apprised of this situation, and that all multilateral organizations operating in North Korea were required by the DPRK to use North Korean officials for their local staff.[30] The 2001 annual report to the Executive Board, for example, explicitly notes this practice and describes it as representing a continuing challenge.[31] UNDP explained further that it had agreed to this practice in North Korea because the North Korean economy did not include private employment, there was no labor pool of persons available for private hire, and North Korean citizens were normally assigned to their work by the government.

UNDP made these same arguments to the auditors that conducted an extensive review of its operations in North Korea in 2007. The 2007 external audit, however, concluded that the UNDP staffing practices in North Korea were "contrary to relevant instructions and procedures."[32] The audit determined that UNDP rules require UNDP field offices to select the local staff and to conduct performance reviews of their work.[33] Moreover, after North Korea

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[28] 2004 audit at 51.

[29] Id. at 6.

[30] Subcommittee interview of UNDP officials. See also 2007 external audit at ¶17.

[31] 2007 external audit at ¶24 (citing 2001 audit).

[32] 2007 external audit at ¶17. Despite this unambiguous conclusion, the audit presented a mixed picture of the relevant UNDP rules on staff recruitment. It noted, for example, that the 1979 Standard Basic Assistance Agreement signed by UNDP and North Korea does not designate the procedure for local employment. It cited an unsigned "service agreement" between UNDP and the North Korean government dated February 10, 1981, for describing the formal practice and procedures for employing local staff. It also referenced the UNDP Personnel Manual. The audit report identified three specific deficiencies in the local staff recruitment practices used in North Korea: (i) the DPRK appointment of only one candidate for a job where UNDP would require a list, (ii) the lack of letters of appointment, and (iii) the lack of appropriate documentation for these employees. The audit report also acknowledges, however, that the UNDP Personnel Manual does not specifically address the situation faced by UNDP's Pyongyang office.

[33] Id.

declined to accept a change in practice to allow UNDP more control over the local staff hiring process, the UNDP Executive Board determined that UNDP had to withdraw from North Korea. This decisive action indicates that, when the staffing issue was brought to the attention of the Executive Board, it viewed DPRK control over UNDP local staff hiring decisions to be inconsistent with UNDP rules and best practices.

### 2. Use of Foreign Currency in Lieu of Local Currency

According to UNDP, "no DPRK local personnel were ever employed by UNDP or the UN system in DPRK."[34] UNDP nevertheless made salary payments for the services provided by the North Korean officials assigned to its Pyongyang office. UNDP sent these salary payments, not to the individuals doing the work, but directly to the DPRK government using "manual cheque payments."[35] Meal allowances were also provided by UNDP using a financial mechanism known as a "cash-check" made out to the individual entitled to the meal.[36]

The UNDP practice worldwide is to pay local salaries and expenses with local currency.[37] But in North Korea, UNDP (and all other UN agencies) paid local staff salaries and expenses with convertible currency, using the "convertible Won,"[38] United States Dollars, or Euros, depending upon the year.[39] UNDP officials advised the Subcommittee that payments were made with these convertible currencies, rather than the local currency, even after the UNDP office suspected that the DPRK regime was not forwarding all of the payments to the local staff, but – in the words of one UNDP official – was "skimming" from the payments and providing the local officials with significantly less that the listed amounts.[40]

The 2007 external audit of UNDP operations in North Korean determined that, "[i]n respect to foreign currency transactions, local payments made in foreign currencies were without requisite authority…."[41] In its response to the audit, UNDP disagreed, stating, "The authority to approve Financial Regulations is vested solely in the Executive Board of UNDP. The UNDP Financial Regulations and Rules do not contain a stipulation on the utilization of currencies."[42]

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[34] UNDP Management Response to the Special Audit of the United Nations Operations in the Democratic People's Republic of Korea, Comment 22, June 1, 2007.

[35] 2007 external audit at ¶36.

[36] According to UNDP, a "cash-check" is not written out to "cash," but rather is written to an individual or other entity. The check addressee could then endorse the check to a third party who could cash it at the North Korean-owned Foreign Trade Bank where the UNDP had its accounts.

[37] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[38] "Convertible Won" describes currency designated by the North Korean government to be exchanged for foreign currency; the local currency was not convertible.

[39] 2007 external audit at ¶36.

[40] Subcommittee interview of UNDP officials, October 30, 2007.

[41] 2007 external audit at ¶17.

[42] UNDP Management Response, June 1, 2007.

In addition, UNDP told the Subcommittee that paying in local currency could be costly. If all payments in North Korea were made in local currency, UNDP explained that it would be required to routinely exchange convertible currency for the local North Korean Won at inflated conversion rates set by the North Korean government. UNDP notes that, during the relevant time period, the exchange rate set by the North Korean government was roughly 150 Won to the Dollar, but that the more accurate exchange rate was 3,000-4,000 Won to the Dollar. According to UNDP, payments in convertible currency eliminated the opportunity for North Korea to improperly profit from inflated exchange rates and transaction fees. While this analysis provides important context, the Subcommittee also learned that UNDP had accrued a significant amount of local Won from payments made by the North Korean government (known as "Government Local Office Contributions," or "GLOC payments"), which UNDP could have used to make payments inside North Korea if North Korea had agreed to accept its own local currency from UN agencies.

As a result of the differing views on using local currency, UNDP told the Subcommittee that UNDP has since amended its regulations to permit the head of UNDP to make "the best use of currencies available to the organization," in effect leaving the matter to the discretion of the Administrator, to be delegated as needed.[43] When the matter was brought to the attention of the UNDP Executive Board in 2007, however, the Board concluded that all UNDP payments in North Korea, whether for local staff or other expenses, should be made using the local currency. North Korea declined to agree to this change in practice, and the UNDP Executive Board determined that UNDP had to withdraw from the country. As with the local staff recruitment issue, this decision indicates that the UNDP Executive Board viewed the former UNDP practice to be inconsistent with UNDP rules and best practices.

### 3. DPRK Monitoring of UNDP Communications and Personnel

A third staffing issue involves security and communications concerns presented by operating in North Korea. UNDP security officers believed that the "government monitor[ed] all correspondence and [was] reluctant to allow radios and satellite phones."[44] Moreover, the regime apparently entered private residences of the UN international staff to conduct searches when the residents were not present.[45] The lack of secure communications, coupled with the presence of DPRK officials throughout the UNDP office, made it virtually impossible for UNDP to make any plans or conduct private conversations without the possibility that the DPRK government was watching or listening.

Mr. Shkurtaj complained about this problem in a 2005 email to his superiors, composed and sent from China to avoid monitoring by North Korean officials:

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[43] Subcommittee interview of UNDP officials, January 16, 2008.

[44] E-mail from UNDP Security Coordination Officer, May 23 2006 (reviewed by Subcommittee staff in UNDP's Washington D.C. Office).

[45] Id.

> Basically, the access to safe and reliable communication is not only becoming a safety issue for UNDP DPR Korea, but also a major stress-related component. We cannot communicate in a transparent way what we think as well as cannot neither dare to write a reasonable email, since our internal network is managed from a 'national staff'.[46]

UNDP officials told the Subcommittee that they were aware of the monitoring and assumed that the security of all North Korean communications and correspondence was compromised. However, UNDP took no steps to remedy the matter because of the expense involved in ensuring secure communications.[47]

### B. UNDP FISCAL CONTROLS

A second set of deficiencies involves the adequacy of UNDP fiscal controls in its North Korean operations. Specifically, the Subcommittee identified deficiencies involving UNDP's ability to conduct and monitor its banking transactions in North Korea and its fiscal controls over disbursements of cash to North Korean nationals.

#### 1. UNDP Banking Transactions

To conduct business in North Korea, UNDP maintained three bank accounts at the Foreign Trade Bank ("FTB"), which is owned and controlled by the DPRK government. One account held non-convertible local currency, the North Korean Won. That account was intended to be used by UNDP to receive GLOC payments and from which UNDP made rental and utility payments for housing and other local costs. A second account held "convertible Won" and was intended to pay travel costs, salaries to local staff, and office costs. The "convertible Won" account was funded from a third account, which contained foreign currency.[48] The foreign currency account held US Dollars until late 2002 and Euros thereafter.[49] It was used by UNDP to pay international staff salaries, rental and consultant costs, and directly attributable project costs.[50] As noted above, however, UNDP's use of convertible currency and local currency within North Korea changed over time and did not appear to be pursuant to any written set of rules or procedures.

Although it maintained three accounts at the bank, UNDP was not given direct physical access to the Foreign Trade Bank where its accounts were located. Instead, UNDP was required to use drivers selected and employed by the DPRK regime to travel to the bank on its behalf.[51] These drivers then executed the financial transactions requested by UNDP.[52] The result was that

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[46] E-mail from Artjon Shkurtaj to UNDP headquarters, September 27, 2005.

[47] Subcommittee interview of UNDP officials, October 24, 2007.

[48] 2007 external audit at ¶55.

[49] Subcommittee interview of UNDP officials, October 31, 2007.

[50] 2007 external audit at ¶55.

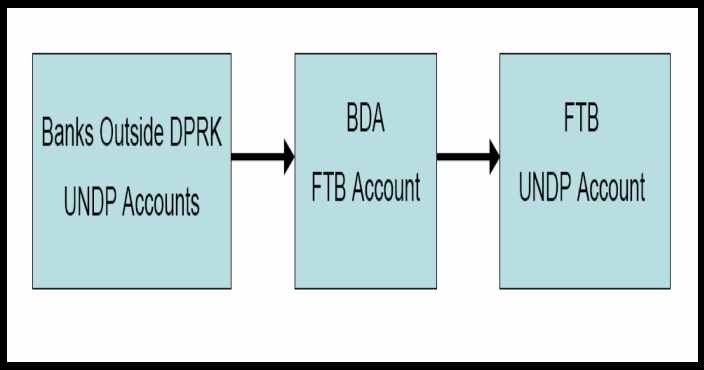
[51] Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

[52] Id.

UNDP personnel were not physically present when its bank transactions were executed and were unable to exercise close oversight over these financial transactions. Moreover, UNDP stated that the FTB refused for many years to provide UNDP with copies of its cancelled checks, although it provided other documentary evidence of its bank transactions. In the summer of 2007, FTB allowed UNDP officials to photocopy cancelled checks dating back several years.[53]

According to UNDP, depositing foreign currency into its account at the FTB in North Korea required use of a financial intermediary in China. Because FTB did not have correspondent bank accounts with western financial institutions, UNDP funds were routinely routed through Banco Delta Asia ("BDA"), a small, family-owned bank located in Macau, a special administrative territory of China. The transactions typically began with UNDP transferring funds from its accounts in western banks to BDA. BDA then transferred the funds to FTB for credit to UNDP's foreign currency account. These transfers are illustrated in Figure 2. When making direct payments inside North Korea, UNDP transferred convertible currency (convertible Won, US Dollars, or Euros, depending on the year) from its FTB account to other FTB accounts held by North Korean entities.[54]

**Figure 2. Diagram Reflecting UNDP Transfer of Funds to UNDP's FTB Account in Pyongyang**

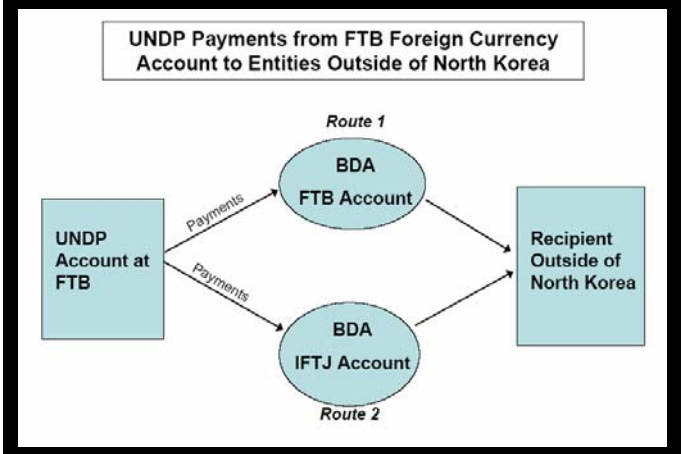



[53] Id.

[54] Id.; Subcommittee review of records generated by BDA.

UNDP's payments from its FTB foreign currency account to entities outside of North Korea followed a similar route. According to financial documents reviewed by the Subcommittee, outgoing UNDP payments, such as transfers to non-North Korean contractors or suppliers, followed one of two routes. Funds were either transferred: (a) out of UNDP's account at FTB through BDA to the ultimate recipient;[55] or (b) out of UNDP's account at FTB to a BDA account held in the name of a Macanese company, International Finance and Trade Joint Company ("IFTJ"), and then from the IFTJ account to the ultimate recipient.[56] These different payments methods are reflected in the diagram in Figure 3.

**Figure 3. Diagram Reflecting Methods of Payment from UNDP to Entities Outside North Korea**




UNDP advised the Subcommittee that, until the Subcommittee provided copies of the relevant wire transfer documents in 2007, UNDP had no knowledge that IFTJ had been a party to some of its financial transactions that moved funds from North Korea.[57] As explained below in Section VI. B.1, evidence gathered by the Subcommittee investigation indicates that IFTJ was closely intertwined with the North Korean government, and served as a conduit for funds transferred from the DPRK through the DPRK-owned Foreign Trade Bank.

UNDP's inability to use its own staff to execute its banking transactions, its inability to obtain copies of its cancelled checks, and the routing of its outgoing payments through an unrelated bank account were practices that not only were incompatible with normal banking practice, but also undermined UNDP's fiscal controls and ability to monitor its financial transactions. UNDP's willingness to operate under these constraints in North Korea appears inconsistent with UNDP rules and best practices.

### 2. Cash Disbursements to North Korean Nationals

The former Operations Manager of the UNDP office in Pyongyang alleged that the office routinely disbursed large amounts of cash to unidentified North Korean nationals, in

[55] Appliaation [sic] for Payment Order, Banco Delta Asia S.A.R.L., Beneficiary Sindok Trading Pte Ltd., Applicant IFTJ on September 9, 2002 in the amount of $229,997.00.

[56] Application for Payment Order, Banco Delta Asia S.A.R.L., Beneficiary: Delegation Generale de la R.P.D. de Coree de Paris, Applicant: IFTJ on April 10, 2002 in the amount of $300,000.00.

[57] Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

contravention of UNDP rules and best practices.[58] UNDP disputes this allegation, claiming that the only funds dispersed in cash in North Korea were for amounts of $50 or less.

The UNDP's position appears to be at odds with several records reviewed by the Subcommittee. For example, the minutes of a December 8, 2005, meeting of the Operations Management Team, which included all operations chiefs of the various UN entities present in North Korea, contains the following statement:

> CASH payments should be eliminated and UN Agencies should be allowed to effect payments to third parties (individuals and/or institutions) in Check or EFT (Bank Transfer)[.][59]

Moreover, a 2006 internal memorandum issued by the UNDP Resident Representative who headed the Pyongyang office expressed alarm over the increasing use of cash for payments to unauthorized individuals and reminded personnel that UNDP policy was to use electronic funds transfers or non-cash checks to make payments.[60]

UNDP officials told the Subcommittee that the references to cash in these documents are misleading because these documents had been issued in response to earlier, inaccurate allegations made by the Operations Manager about the use of cash in North Korea.[61] UNDP officials also told the Subcommittee that the words "cash" and "cash-checks," which appear extensively in internal UNDP emails and memoranda, reflect either a misunderstanding of the method of payments used in North Korea, or refer to the "cash-checks" endorsable to third parties.

Absent access to key financial records in Pyongyang, the Subcommittee was unable to verify the extent to which cash payments were made in North Korea, but the evidence reviewed by the Subcommittee supports further inquiry. A forensic audit of UNDP financial records is now underway and may resolve this issue.

In sum, the UNDP office operated under extensive banking constraints in North Korea that undermined its fiscal controls and ability to monitor its financial transactions. Nonetheless, UNDP told the Subcommittee that its review of its FTB records, which remain in Pyongyang and

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[58] See, for example, Melanie Kirkpatrick, *A Whistleblower's Tale*, The Wall Street Journal, July 8, 2007. The article contains the following quotation attributed to Mr. Shkurtaj: "Rule No. 1 in every UNDP country in the world is that you have to operate in local currency, not in hard currency … in order to support the local economy and not devalue or destroy the local currency. … Every morning from 8 to 10, we would issue checks [in Euros] …. Then the checks, instead of going directly to the people or institutions by mail … were given to the driver of our office [who would] exchange them into cash [at the Foreign Trade Bank] and come back to the office. … [At noontime,] North Koreans saying they represented U.N.-funded projects would come to receive cash at the UNDP offices. … I had to trust them [without obtaining signed receipts or checking identification]. But, hey, if headquarters tells me to give the money away, I'll give the money away."

[59] Notes from Subcommittee review of documents at the offices of UNDP Washington, D.C.

[60] Timo Pakkala, United Nations Development Programme, Interoffice Memorandum, August 16, 2006.

[61] Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

were unavailable to the Subcommittee, demonstrates that it received receipts for all of its transactions at the bank.[62] UNDP officials indicated further that, although the constraints were difficult, it was able to operate with sufficient fiscal controls to ensure funds were spent properly within North Korea.

### C. UNDP DEVELOPMENT PROJECTS IN NORTH KOREA

UNDP has publicly described two approaches to managing its development projects within a host country. Under the Direct Execution Strategy, or DEX, UNDP personnel maintain primary management and financial control over projects; under the National Execution Strategy, or NEX, management control is conveyed to the host country while UNDP personnel provide periodic funding and project oversight. In North Korea, in consultation with the government, UNDP adopted a hybrid of the DEX and NEX approaches to implement its development projects.

To facilitate the NEX projects, the DPRK Ministry of Foreign Affairs established a mirror agency called the National Coordinating Committee for UNDP ("NCC UNDP").[63] As the mirror agency of the UNDP, the NCC UNDP was the entity in the North Korean government designated to receive UNDP funds for use on UNDP development projects.[64] To receive UNDP funds, NCC UNDP established a bank account with the FTB. The North Korean government established similar mirror entities for all UN agencies operating in the DPRK.[65]

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[62] Id.

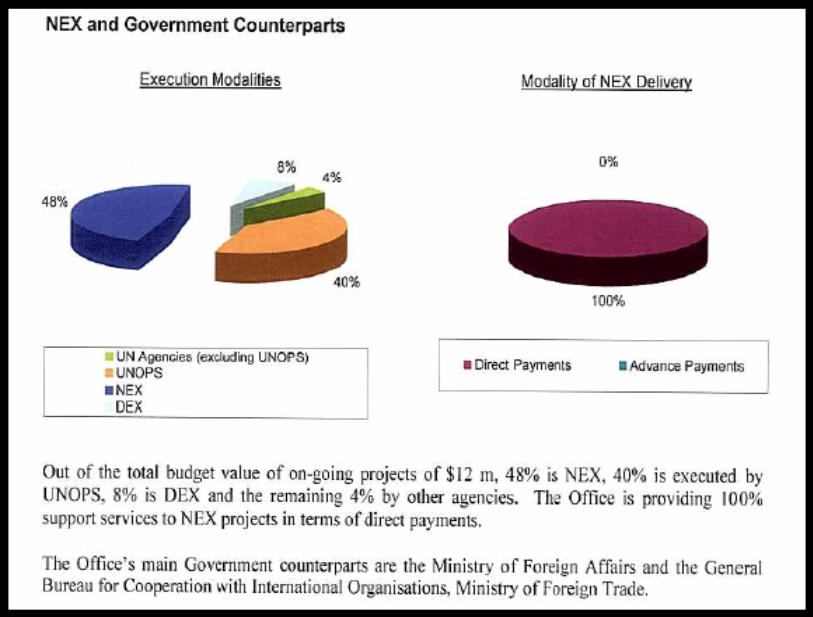
[63] Id.

[64] Id.

[65] Id.

In the 2004 audit of UNDP operations in North Korea, NEX projects were listed as representing 48 percent of the 2003 "budget value" for development projects, while DEX projects accounted for only 8 percent.[66] Figure 4 reprints the relevant portion of the 2004 audit addressing this issue.

**Figure 4. Excerpt from UNDP Internal Audit (2004) Showing Breakdown of NEX/DEX Modalities**




Because the 2004 audit depicted the NEX projects as constituting 48 percent of UNDP's total "budget value" for ongoing projects, a reviewer of the audit could mistakenly interpret the data as indicating that out of the total 2003 project budget of $12 million, roughly $6 million must have been transferred directly to the DPRK government.

However, by agreement with North Korea, UNDP had maintained control of nearly all of the NEX projects' financing and management. In fact, UNDP informed the Subcommittee that, over a eight-year period from 1999 until the program's suspension in 2007, its records showed that it had transferred no more than about $380,000 of UNDP project funds to the NCC UNDP bank account.[67]

UNDP advised the Subcommittee that it had retained control over the vast majority of funds assigned to the NEX projects because the DPRK regime had privately requested that UNDP execute the development projects. UNDP officials explained to the Subcommittee that, by directly controlling funds that were ostensibly slated to be managed nationally, UNDP accomplished two objectives: it respected sensitivities about national sovereignty and formal

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[66] 2004 audit at 9.

[67] United Nations Development Program (UNDP), Responses to Recent Allegations about UNDP Programs in North Korea (DPRK). UNDP told the Subcommittee that it based these calculations on a data search of its financial system, known as ATLAS. UNDP provided the Subcommittee with a briefing on its internal financial controls and a demonstration and real-time search of its ATLAS system for various expenditures related to its North Korean operations. However, the Subcommittee was not given unfettered access to the system, nor has the Subcommittee had the opportunity to review the original receipts and records maintained by UNDP in its Pyongyang office. The Subcommittee was thus unable to confirm the UNDP estimates of the total funds transferred to the DPRK regime over the last eight years.

control over projects within a country's borders, and it executed the projects using UNDP management and controls.

Because UNDP's arrangement with North Korea regarding its NEX projects was not fully explained in the 2004 audit, that audit led to confusion over the amount of direct payments actually made to North Korea. In a follow-up clarification on the subject,[68] UNDP pointed out that the audit states that UNDP "undertakes all procurement of goods and services on behalf of NEX projects."[69] UNDP also stated that the auditors understood that a hybrid strategy, using the auspices of NEX but with the formal control of a DEX strategy, was in effect in North Korea. UNDP told the Subcommittee that it employs a similar hybrid approach to NEX projects in other countries as well as North Korea.

When asked whether UNDP had apprised the Executive Board of this arrangement in North Korea, UNDP initially replied that it had not because the Executive Board had not sought such information.[70] Later, UNDP provided the Subcommittee documents indicating that the Executive Board had been advised of the existence and details of the hybrid strategy.[71]

### D. PROGRAM OVERSIGHT AND ACCOUNTABILITY

A final set of management and operational deficiencies examined by the Subcommittee involves UNDP program oversight and accountability in North Korea, including restricted project monitoring, inadequate and inaccessible program audits, and insufficient whistleblower protections.

#### 1. Project Monitoring

UNDP's worldwide practice is to require its field personnel to conduct site visits to development projects to ensure that the projects are progressing as expected. Providing adequate access to projects is an explicit condition to receiving development funds in most country agreements, including the 1979 Standard Basic Assistance Agreement with North Korea.[72] Despite the importance attached to site visits, the DPRK government did not permit UNDP to access a project site without prior approval, requested at least one week in advance of a visit. Moreover, project visits were conducted under the direct supervision of North Korean authorities.[73]

UNDP maintains that the restrictions on its project visits did not prevent it from conducting adequate oversight because: (1) many of the projects it funded were training

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[68] Information provided to the Subcommittee by UNDP, January 22, 2008.

[69] 2004 audit at 26.

[70] Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

[71] Information provided to the Subcommittee by UNDP, January 22, 2008.

[72] Article IV, Sections 2, 3 and Article X, Section 1, Standard Basic Assistance Agreement between UNDP and the DPRK, November 11, 1979.

[73] 2007 external audit ¶86-88.

programs, where the monitoring was effected by simply confirming attendance, and (2) the on-site monitoring performed in the company of North Korean officials was sufficient to ensure that funds were applied appropriately.[74] Under the SBAA, however, the North Korean government was obliged to permit UNDP "free movement within or to or from the country, to the extent necessary for the proper execution of UNDP assistance."[75] The requirements of prior notice and government supervision appear inconsistent with this obligation.

### 2. Adequacy of Internal Audits

UNDP conducted internal audits of its North Korean operations in 1999, 2001, and 2004. In addition to the potential confusion generated by the omission of a discussion of the hybrid NEX/DEX strategy discussed above, the audits were limited in scope and appear to contain incomplete information with respect to project execution and expenditure information. For example, the 2004 audit lists twelve categories that fall within the purview of the internal auditors, including operations, management, development services, and IT and communications efficiency.[76] However, of these twelve areas, only five were reviewed, and in one of these areas – management – UNDP's DPRK operations were deemed deficient due to the continuing use of short-term contractors to fill the Operations Manager post.[77] In addition, the 2007 external audit concluded that UNDP internal auditors made no field visits to North Korea over a four-year period from 2002 to 2006.[78] UNDP has now requested a second external audit of its North Korean operations to review the scope of the problems, including total funds impacted. That audit is underway.

### 3. Access to Internal Audits

In accordance with UNDP policy, the internal audits of UNDP's operations in North Korea were available to UNDP management personnel, but not to nations serving on the UNDP Executive Board, much less other UN member nations or the public. After allegations of improprieties first arose, Ambassador Mark Wallace, US Representative to the United Nations for Management and Reform, requested that UNDP provide the United States Mission to the United Nations ("USUN") with budgetary and audit information regarding its operations in North Korea.[79] According to USUN, UNDP personnel initially provided contradictory information, followed by a more comprehensive, formal response in December 2006.[80] UNDP's

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[74] UNDP management response to the Special Audit at 2.

[75] Article X, Section 1, Standard Basic Assistance Agreement between UNDP and the DPRK, November 11, 1979.

[76] 2004 audit at 12. The areas are: country level program; management; knowledge-sharing and implementation of practices; partnerships and resource mobilization; support to UN coordination; advocacy services; development services; HR administration; procurement, inventory and office premises; financial resources; general administration; and IT and communications.

[77] Id at 12, 14-19.

[78] 2007 external audit ¶96.

[79] Series of Subcommittee interviews with USUN representatives between May and June 2007.

[80] Letter from Ambassador Wallace to UNDP Administrator Kemal Derviş, December 22, 2006.

formal response included several pieces of information that it indicated had been taken from the internal UNDP audits.[81] USUN then sought access to those internal audits and other records.[82] UNDP initially refused to provide access to the audit reports. After repeated requests, however, UNDP ultimately permitted Ambassador Wallace to review the audit reports on site, but forbid him from retaining copies of them.[83]

UN member states that are denied access to UN audits are denied relevant and timely information about program operations and have few alternative means of ensuring that UN contributions are being spent properly. Had UNDP audits of its North Korean operations been contemporaneously available for review by members of the UNDP Executive Board, the Board members could have evaluated the practices and determined what actions to take, if any, to address concerns. The Executive Board's decision to suspend operations in North Korea following the disclosures made in the 2007 external audit, which included a detailed summary of UNDP's prior internal audits, underscores this point.

In response to US concerns, UNDP Administrator Kemal Derviş has proposed making internal audit reports available to members of the UNDP Executive Board. This proposal applies only to future audit reports and will allow member states to view redacted reports without making copies or taking materials outside of UNDP headquarters in New York.[84] The Executive Board is slated to consider the new audit proposal at its meeting on January 22, 2008.

### 4. UN Ethics Policy and Whistleblower Protections

Artjon Shkurtaj was the Operations Manager of the UNDP office in Pyongyang from March 2005 to September 2006.[85] Mr. Shkurtaj apparently began raising concerns about the DPRK program in March 2005. In particular, he identified problems with the manner in which payments were made, the use of foreign currency for certain payments, insufficient project monitoring, counterfeit U.S. currency, and the lack of secure communications in the UNDP office in Pyongyang. Mr. Shkurtaj raised these issues with his supervisors in a series of emails stretching over a period of several months. Mr. Shkurtaj also contacted the UNDP Office of Audit and Performance Review to request a special audit of UNDP DPRK.

Dissatisfied with UNDP's response to the management and operational issues he had raised, Mr. Shkurtaj eventually contacted Christopher Burnham, the Under-Secretary-General of the United Nations for Management, concerning the management lapses he had observed in the

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[81] Letter to Ambassador Wallace from Associate Administrator Melkert, January 5, 2007.

[82] Letter from Ambassador Wallace to UNDP Administrator Derviş, January 8, 2007.

[83] Letter from Ambassador Wallace to Ad Melkert, January 16, 2007.

[84] UNDP states that names and other "sensitive" information will be removed prior to making internal audits available for review by member states. Information provided to the Subcommittee by UNDP, January 22, 2008.

[85] Subcommittee Interview of UNDP officials, October 24, 2007. Prior to joining the UNDP staff in Pyongyang, Mr. Shkurtaj had worked in a variety of positions in the UN system through a series of intermittent short-term contracts from February 1996 to November 2004, totaling about 29 months of employment.

operations of the UNDP office in Pyongyang. In addition, in May 2006, he spoke privately with Ambassador Wallace of USUN about the same matters.

In March 2007, UNDP did not renew Mr. Shkurtaj's employment contract, even though it had regularly renewed his contract at three-month intervals throughout 2005 and 2006. Mr. Shkurtaj has advised the Subcommittee that UNDP terminated its relationship with him in retaliation for reporting management problems in North Korea. UNDP has told the Subcommittee that no such termination occurred and that Mr. Shkurtaj's contract simply expired.

Mr. Shkurtaj later filed a request for protection from retaliation with the newly-formed United Nations Ethics Office, the agency created by then-UN Secretary-General Kofi Annan in the wake of the Oil-for-Food scandal to handle whistleblower retaliation cases. Mr. Shkurtaj's complaint alleged that the UNDP had retaliated against him because of his reports to his superiors.

In August 2007, the UN Ethics Office issued a ruling in response to Mr. Shkurtaj's claim of retaliation. In a letter issued by the Director, Robert Benson, the Ethics Office concluded that "the information received by the Ethics Office would have supported a determination that a prima facie case of retaliation has been established." But the letter also stated that "from a purely legal perspective, the Ethics Office does not have the jurisdiction to address a request for protection from retaliation in relations to cases arising from the UNDP" because the office had determined that its jurisdiction was limited to the UN Office of the Secretariat and therefore did not cover UNDP or any of the UN's other Funds and Programs.[86] The letter stated further that the Ethics Office had urged UNDP to voluntarily submit to the jurisdiction of the Ethics Office "for the good of the U.N.," but that UNDP had declined. In the following month, September 2007, UNDP appointed a board of outside investigators, referred to as the Independent Investigative Review ("IIR"), to examine allegations of ethics and regulatory violations by UNDP in North Korea, including Mr. Shkurtaj's claim of retaliation. The IIR is expected to release its findings in early 2008.[87]

The Ethics Office conclusion that its jurisdiction was restricted to the UN Secretariat was a significant development. Former Under-Secretary-General of the United Nations for Management Christopher Burnham, who drafted the 2005 bulletin establishing the United Nations' whistleblower protection policy, believed that the bulletin was intended to apply to the entire UN system, not just the Secretariat.[88] The result of the Ethics Office ruling in August 2007 was that none of the ethics policies and whistleblower protections established by the UN Ethics Office applied to any UN Fund or Program outside of the Secretariat.

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[86] Letter from Robert Benson, Director, Ethics Office, to Kemal Derviş, Administrator, UNDP, August 17, 2007.

[87] United Nations Development Program, Newsroom, Independent Investigative Review of UNDP Operations in DPRK, UNDP website, September 25, 2007, http://content.undp.org/go/newsroom/2007/september/dprk-20070925.en;jsessionid=axbWzt8vXD9.

[88] Subcommittee interview of Christopher Burnham, September 22–23, 2007; Subcommittee interview of UNDP officials, October 31, 2007 and November 2, 2007.

To address this gap in coverage, in November 2007, UN Secretary-General Ban issued a new bulletin to be read in conjunction with the earlier bulletin that created the UN Ethics Office.[89] The November 2007 bulletin stated that, as of January 1, 2008, employees of UN Funds and Programs would be afforded the same protections as staff in the Secretariat and directed each UN agency to establish its own ethics office and whistleblower protections. The bulletin also provided that, if an agency failed to designate an appropriate ethics officer, then the UN Ethics Office would have jurisdiction over that agency. The bulletin also created a new UN Ethics Committee, to be chaired by the head of the Ethics Office of the UN Secretariat. This Committee will hear appeals from the individual ethics offices and is intended to create uniform ethics policies and whistleblower protections for the entire United Nations.[90] The bulletin's decision to create multiple ethics offices within the United Nations has a number of critics, and it remains to be seen how it will be executed.[91]

### E. ANALYSIS

UNDP operations in North Korea are a case study of an international agency's attempts to achieve development goals in a restrictive environment. UNDP rules and regulations require its personnel to function with management, transparency and accountability safeguards. These safeguards were compromised, however, by the DPRK government's insistence – and UNDP's acquiescence – on using DPRK officials as local staff, paying them with foreign currency, utilizing the government-owned bank while being denied access to the bank's premises, operating without secure communications, and conducting site visits with government monitors in tow.

UNDP officials told the Subcommittee that, despite these constraints, it was able to successfully implement development projects that benefited ordinary North Koreans. While this may be true, by operating under the compromised conditions set forth in this Report, UNDP rendered itself vulnerable to manipulation by the North Korean government. For example, UNDP continued to pay DPRK officials in foreign currency even after it suspected the regime of "skimming" money from the payments. It failed to respond to the complaints of its Operations Manager in productive ways. When a UNDP member state inquired about the management problems in North Korea, UNDP repeatedly impeded access to audit reports that examined those problems. UNDP refused to submit Mr. Shkurtaj's retaliation claim to the UN Ethics Office, thereby weakening its status and authority, causing the fracture of what was intended to be a UN-

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[89] Secretary-General's bulletin, United Nations Secretariat, UN Doc. ST/SGB/2007/11, November 30, 2007.

[90] Id.

[91] Press Release, Government Accountability Project, *New UN Ethics Guidelines Greatly Misleading*, December 4, 2007, at http://www.whistleblower.org/content/press_detail.cfm?press_id=1253. For example, the Government Accountability Project ("GAP"), a nonprofit public interest group that represents some UN employees who are requesting whistleblower protection, objects to the new policy because it entails the establishment of potentially costly new offices and the creation of an extra layer of bureaucracy. Moreover, GAP claims that the new system lacks protection for witnesses, confidentiality obligations for ethics officers, and interim relief for employees. Thus, GAP maintains, the bulletin "complicates and confuses the issue" due to the proliferation of "ad hoc internal ethics offices, operating at the pleasure of the heads of these agencies." GAP estimated that as many as fifteen new ethics offices will need to be established within the Funds and Programs at a minimal cost of around $300,000 per year.

wide ethics program, and undermining confidence that UNDP employees can report suspected mismanagement without fear of reprisal.

The Subcommittee is mindful that many of the matters discussed herein are under review by the Independent Investigative Review panel and another external audit team, which the Subcommittee has been advised will have unfettered access to UNDP's management and financial records. The IIR and second external audit should resolve pending questions about some of the management and operational issues identified in this Report.

## VI. THE DPRK USED ITS RELATIONSHIP WITH THE UNITED NATIONS TO EXECUTE DECEPTIVE FINANCIAL TRANSACTIONS

### A. SUMMARY OF NINE TRANSFERS TOTALING $2.72 MILLION

Evidence obtained by the Subcommittee reveals that, from April to September 2002, the North Korean government used the cover of the UNDP's presence in the DPRK to move $2.72 million of its own funds out of North Korea. The North Korean government told the Subcommittee that the transfers were made through a UNDP-affiliated account in order to avoid international scrutiny and possible sanctions that it believed were imminent.

Wire transfer records and other documents from U.S. and foreign financial institutions show that the North Korean government transferred the funds from Pyongyang to its diplomatic missions abroad, using as a conduit a Chinese company known as the International Finance and Trade Joint Company ("IFTJ"). Each transaction moved funds from the NCC UNDP bank account at the Foreign Trade Bank in Pyongyang to an IFTJ account at Macau-based Banco Delta Asia. From there, the funds were transferred to North Korean diplomatic missions in the United States and Europe. The wire transfers referenced the NCC UNDP account, which was to be used solely for UNDP-funded development projects inside North Korea. UNDP stated that these transactions were wholly unrelated to its development projects,[92] and DPRK officials have confirmed that the funds belonged to the Ministry of Foreign Affairs and were not related to the UNDP or any development projects.[93]

The transactions are analyzed in detail below. Before examining the transactions individually, however, two of the entities at the center of these transfers – IFTJ and Banco Delta Asia – are described in more detail.

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[92] Subcommittee interview with UNDP officials, October 31, 2007.

[93] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008.

## B. IFTJ AND BANCO DELTA ASIA

### 1. IFTJ and Its Relationship with North Korea

The International Finance and Trade Joint Company is a Macau-based firm[94] established by Chinese nationals Madam Lam Cheng and Mr. Chio Keng Chon in 1992 and registered to Ms. Lam Cheng as a sole-proprietorship trading firm.[95] It calls itself a "trading company," but an analysis of relevant records by US executive agency officials shows that IFTJ transactions do not indicate any traditional commercial trading activity.[96]

The evidence indicates an exceptionally close relationship between IFTJ and the Foreign Trade Bank, described by North Korean officials as the DPRK's primary international commercial bank.[97] For instance, Banco Delta Asia records state that "[t]he objective of setting up [IFTJ was] to make viable the co-operative agreement with the Foreign Trade Bank of North Korea for the purpose of facilitating trade."[98] IFTJ's office in Macau was staffed by six persons simultaneously employed by the Foreign Trade Bank.[99] Moreover, business cards from representatives of FTB and IFTJ reveal that the two entities share office space and the same telephone, fax and telex lines. Those business cards are reproduced below as Figure 5 and Figure 6.

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[94] Contribuicao Industrial, Declaracao de incio de actividade for International Finance and Trade Joint Co., April 30, 1992.

[95] Ernst & Young, Banco Delta Asia S.A.R.L. Report to the Administrative Committee 38, December 16, 2005.

[96] Subcommittee interview with U.S. executive agency officials.

[97] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008.

[98] Banco Delta Asia internal memorandum.

[99] Subcommittee interview with U.S. executive agency officials.

**Figure 5. Business Card of IFTJ Employee Dated July 24, 2001**

INTERNATIONAL FINANCE AND TRADE JOINT CO.

IFTC

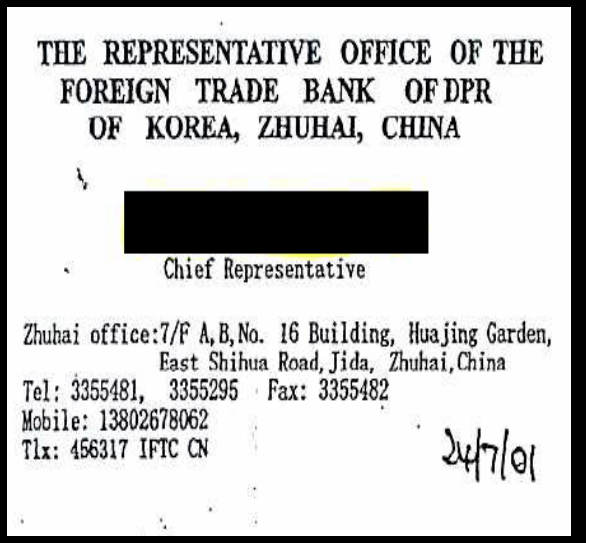
[redacted]

24/7/01

Head Office;
Av.do Ouv.Arriaga 35,
Edf. Tat Fong 1-B Macau
Tel:(853)363847
Fax:(853)376849
Tlx:88634 IFTC OM

Zhuhai Office:
7/F A,B,No. 16 Building,
Huajing Garden,East Shihua Road,
Jida,Zhuhai,China.
Tel:3355481,3355295 Fax:3355482
Tlx:456317 IFTC CN

**Figure 6. Business Card of Employee #2, Reflecting Employment with FTB Dated July 24, 2001**


THE REPRESENTATIVE OFFICE OF THE
FOREIGN TRADE BANK OF DPR
OF KOREA, ZHUHAI, CHINA

[redacted]

Chief Representative

Zhuhai office:7/F A,B,No. 16 Building, Huajing Garden,
East Shihua Road, Jida, Zhuhai, China
Tel: 3355481, 3355295 Fax: 3355482
Mobile: 13802678062
Tlx: 456317 IFTC CN

24/7/01

Over a span of four years, at least three employees switched back and forth between IFTJ and the Foreign Trade Bank in rapid succession. For example, letters, business cards and internal memoranda from both FTB and IFTJ list several employees who were exchanged between or shared by the two companies. The evidence includes the following:

- A memo dated July 30, 2001, in which IFTJ cancelled the authority of Mr. Sin Hyok and gave authority to Employee #1, a representative for FTB according to his business card dated just a few days earlier;[100]

- A business card of Employee #2 dated July 24, 2001 [Figure 6], which indicates that he was Chief Representative of FTB, and an IFTJ memo dated just a few days later (July 30, 2001), identifying that same individual (Employee #2) as a dealer for IFTJ;

- A July 31, 2003, letter from IFTJ identifying Employee #2 as an employee of IFTJ [Figure 7], and a document dated a few weeks later, September 12, 2003, in which that same person, Employee #2, is listed as Chief Representative of the FTB Zhuhai branch [Figure 8]; and

- A memo from BDA's parent entity, the Delta Asia Financial Group, dated July 30, 1997, in which Employee #3 is identified as a representative of IFTJ, and a BDA memo dated September 29, 1997, which identifies Employee #3 as a representative of the FTB Zhuhai branch.

[100] The names of these employees have been removed to protect their identities and the sources of this information.

**Figure 7. Letter Identifying Employee #2 as an Employee of International Trade & Finance Joint Co. (Dated July 31, 2003)**

FROM : FAX NO. : Jul. 31 2003 12:22PM P1

**INTERNATIONAL FINANCE AND TRADE JOINT CO.**

Av. da Praia Grande No.405, China Law Building 20-andar-B, Macau
Telex: 88634 IFTC OM
Tel: 373847,373848 Fax: 373849

To : Delta Asia Financial Group – Delta Asia Credit Limited

C.C. : Banco Delta Asia S.A.R.L., Macau – Mr. Edward Ngou

IFTC, Zhuhai - [redacted]

Date : 31st July 2003

Re : New arrangement

Dear Sirs,

Regarding to our arrangement of the Foreign Exchange and Gold/Silver dealing, please kindly to adjust with the following details and effective from 1st August 2003:

The authority of [redacted] has been cancelled and Mr. Kim Tong Chol will instead of him. The dealers are [redacted] and Mr. Kim Tong Chol now.

Thanks for your kind attention in this matter.

Yours truly,

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

Authorized Signatures

**Figure 8. Excerpt of Fax Identifying Employee #2 as a Senior Member of a Delegation from FTB (Dated September 2003)**

DELTA ASIA

EN

To: Mr. David Lam

Fr: Vivian Wong

[redacted]

Re: Name List of FTB Delegation to Macau

1. Mr. O Kwang Chol President
2. Ms. Pak Sun Ae General Director
3. Mr. Pae Je Gang Senior Manager
4. [redacted] [redacted]

The extent and nature of the relationship between IFTJ and the Foreign Trade Bank indicates that IFTJ may have functioned as a front company for the Foreign Trade Bank, which was in turn owned and controlled by the North Korean government.

### 2. Banco Delta Asia

Banco Delta Asia, a part of the Delta Asia Group, is a bank headquartered in Macau, an administrative territory of China. On September 15, 2005, pursuant to Section 311 of the USA PATRIOT Act, the United States Treasury Department designated BDA a "primary money

laundering concern" due to "an unacceptable risk of money laundering and other financial crimes."[101] As a result, Treasury's Financial Crimes Enforcement Network issued a rule prohibiting US financial institutions from directly or indirectly establishing, maintaining, administering or managing any correspondent account in the United States for or on behalf of Banco Delta Asia.

Once BDA was listed by the Treasury Department, the Macanese Monetary Authority commissioned Ernst & Young to conduct a lengthy review of the bank's procedures.[102] Ernst & Young found that the bank had poor document control with regard to IFTJ in particular, and a bank employee stated that the bank conducted little review of IFTJ transactions because of its longstanding relationship with the bank.[103] Ernst & Young concluded that FTB and IFTJ remitted millions of Dollars and Euros between their accounts at Banco Delta Asia.[104] Upon reviewing the remittances, Ernst & Young classified the transfers involving FTB and IFTJ at BDA as carrying "the highest risk of money laundering" of the transactions reviewed at the bank.[105]

Compounding this risk, BDA did not provide Ernst & Young with any commercial justification or information regarding these transactions. Moreover, Ernst & Young concluded that BDA lacked adequate record keeping, which prevented it from determining both the total value of the remittances and their direction and destination.[106] Figure 9 below contains the relevant excerpt from the Ernst & Young report.

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[101] United States Treasury Department, Press Room, *Treasury Designates Banco Delta Asia as Primary Money Laundering Concern Under USA PATRIOT Act*, JS-2729, September 15, 2005, http://www.ustreas.gov/press/releases/js2720.htm.

[102] Ernst & Young, Banco Delta Asia S.A.R.L. Report to the Administrative Committee at 77, December 16, 2005 (on file with the Subcommittee).

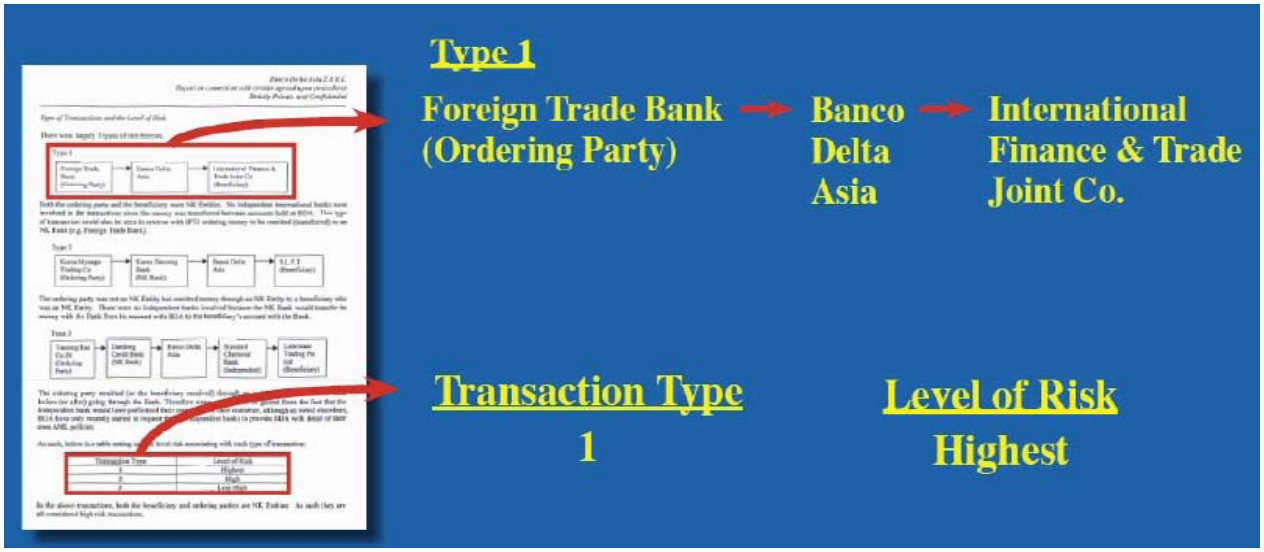
[103] Id. at 69-78

[104] Id. Remittances are non-credit transfers of money.

[105] Id. at 69-78.

[106] Id.

**Figure 9. Excerpt of Ernst & Young Report Categorizing FTB-BDA-IFTJ Transactions As Representing the Highest Risk of Money Laundering**




### C. WIRE TRANSFER DOCUMENTATION

The transactions at issue in this Report follow the same pattern as those uncovered by Ernst & Young. Evidence obtained by the Subcommittee establishes that $2.72 million was transferred in nine increments from NCC UNDP's account at the Foreign Trade Bank in Pyongyang to IFTJ's account at Banco Delta Asia. Once IFTJ received the funds at its BDA account, it transferred the funds to North Korean diplomatic missions in the United States and Europe. The wire transfer documents described the transfers as taking place by order of or on behalf of the "National Coordinating Committee for UNDP" and characterized the transfers as being for the acquisition of real estate in Canada or the United Kingdom.

On April 10, 2002, for example, BDA documents indicate that IFTJ requested that $300,000 be transferred from its account to Banque Commerciale Pour L'Europe Du Nord for the benefit of Delegation Generale de la RPD de Coree de Paris, the North Korean Embassy in France. The transfer documents also carry the message: "B/O National Coordinating Committee of the DPRK for UNDP cover building n [sic] houses." On May 3, 2002, IFTJ requested that an additional $300,000 be transferred to the France mission. On May 10, 2002, IFTJ requested that an additional $220,000 be transferred to the same account.

On July 17, 2002, IFTJ requested that $300,000 be transferred to the Bank of America National Trust and Savings Association in New York, for credit to Nordea Bank in Sweden, for the benefit of the North Korean Embassy in Sweden. The document contained the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP … PAYMENT FOR PURCHASE OF BUILDING (UK)." IFTJ's application for this wire transfer to BDA is reproduced below as Figure 10. On August 14, 2002, IFTJ transferred an additional $300,000 under the same circumstances.

**Figure 10. BDA Record of IFTJ Application for Wire Transfer of $300,000 to DPRK Embassy in Sweden for "Purchase of Building (UK)"**

= Redacted by the Permanent Subcommittee on Investigations

**APPLICATION FOR PAYMENT ORDER**

To: Banco Delta Asia S.A.R.L.
Macau

Date: 17th JUL 2002

I / We request you to send by ☐ Demand Draft ☒ Telegraphic Transfer ☐ Mail Transfer

| | |
|---|---|
| Beneficiary | EMBASSY OF DPR OF KOREA IN SWEDEN |
| Address: (if enquired) | |
| A/c No. of Beneficiary | [redacted] |
| Name of Receiving Bank | BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, NEW |
| Address of Receiving Bank | YORK FOR CREDIT TO NORDEA BANK SWEDEN AB(PUBL), STOCKHOLM, SWEDEN |
| Message (if any) | B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG: PAYMENT FOR PURCHASE OF BUILDING(UK) |
| Amount in words & figures | ( USD.300,000.00 ) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY. |
| Name of Applicant | INTERNATIONAL FINANCE AND TRADE JOINT CO. |
| ID / Passport No.: | |
| Tel No.: | 373848 |

| FOR OFFICE USE ONLY | |
|---|---|
| Draft / Ref. No.: | BDA/RR/077/436P/02 |
| Paying Agent: | |
| Rate | HK Equivalent |
| Cable / Postage | |
| Commission | [redacted] HK$200 |
| Total* | |

[redacted] 09:42:24 2002/07/17 T/C: 013A I.F.T.C.
[redacted] TRD 929 TRFDEP $30[illegible],000.00 USD
TRN [redacted] TRFWDR $30[illegible],000.00 USD

BDA/RE/OTT/4369/02

*Payment of the above remittance XXXXXX
☐ By cash
☐ By cheque (subject to final clearance)
☒ Please debit my / our account no. [redacted]
☐

I/We hereby agree that this transfer is made subject to the conditions printed on the reverse side herein.

Signature(s) of Applicant [redacted]

INTERNATIONAL FINANCE AND TRADE JOINT CO. 國際金融貿易合營公司 MACAU

For and on behalf of BANCO DELTA ASIA S.A.R.L. MACAO

Prepared [redacted] Checked [redacted] Approved [redacted]

OPE082 (01/94) BRANCH COPY

Message (if any) B/O NATIONAL COORDINATING COMMITTEE FOR UNDP, REF.TTB62-127 MSG: PAYMENT FOR PURCHASE OF BUILDING(UK)

Amount in words & figures ( USD.300,000.00 ) U.S. DOLLARS THREE HUNDRED THOUSAND ONLY.

Name of Applicant: INTERNATIONAL FINANCE AND TRADE JOINT CO.

ID / Passport No.:

On August 21, 2002, IFTJ requested that $300,000 be transferred to JP Morgan Chase Bank in New York, for the benefit of the Permanent Mission of the DPRK to the United Nations. The document carried the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP…PAYMENT FOR PURCHASE OF BUILDING (CANADA)." On August 30, 2002, IFTJ transferred an additional $300,000 under the same circumstances.

On September 3, 2002, IFTJ requested that BDA transfer $300,000 to HSBC Bank Plc. to the Embassy of DPRK in London with the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP…PAYMENT FOR PURCHASE OF BUILDING." On September 9, 2002, IFTJ requested that BDA transfer $400,000 to JP Morgan Chase Bank in New York for

the benefit of the Permanent Mission of the DPRK to the United Nations with the message: "B/O NATIONAL COORDINATING COMMITTEE FOR UNDP…PAYMENT FOR PURCHASE OF BUILDING (CANADA)."

A chart summarizing each of these transactions is contained in Figure 11.

**Figure 11. Chart Summarizing Transactions from IFTJ to DPRK Embassy Accounts for Purchases of Buildings Purportedly Related to UNDP Activity**

| DATE | ORIGINATOR OF FUNDS TRANSFER | NAMED RECIPIENT OF FUNDS TRANSFER | MESSAGE ATTACHED TO THE TRANSFER | AMOUNT |
|---|---|---|---|---|
| April 10, 2002 | IFTJ (BDA Account) | Delegation Generale de la RPD de Coree de Paris | B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62-077 | $300,000 |
| May 3, 2002 | IFTJ (BDA Account) | Delegation Generale de la RPD de Coree de Paris | B/O NCC of the DPRK for UNDP Cover Building N Houses, Ref. TTB62087 | $300,000 |
| May 10, 2002 | IFTJ (BDA Account) | Delegation Generale de la RPD de Coree de Paris | B/O NCC for UNDP Cover Building N Houses, Ref. TTB62-090 | $220,000 |
| July 17, 2002 | IFTJ (BDA Account) | Embassy of DPR of Korea in Sweden | B/O NCC for UNDP, Ref. TTB62-127 Msg: Payment for Purchase of Building (UK) | $300,000 |
| August 14, 2002 | IFTJ (BDA Account) | Embassy of DPR of Korea in Sweden | B/O NCC for UNDP, Ref. TTB62-139 Msg: Payment for Purchase of Building (UK) | $300,000 |
| August 21, 2002 | IFTJ (BDA Account) | Permanent Mission of the DPR of Korea to New York USA | B/O NCC for UNDP, Ref. TTB62-144 Msg: Payment for Purchase of building (Canada) | $300,000 |
| August 30, 2002 | IFTJ (BDA Account) | Permanent Mission of the DPR of Korea to New York, USA | B/O NCC for UNDP, Ref. TTB62-150 Msg: Payment for Purchase of building (Canada) | $300,000 |

| DATE | ORIGINATOR OF FUNDS TRANSFER | NAMED RECIPIENT OF FUNDS TRANSFER | MESSAGE ATTACHED TO THE TRANSFER | AMOUNT |
|---|---|---|---|---|
| September 3, 2002 | IFTJ (BDA Account) | Embassy of DPR of Korea in London | B/O NCC for UNDP Ref TTB62-152 Msg: Payment for Purchase of Building | $300,000 |
| September 9, 2002 | IFTJ (BDA Account) | Permanent Mission of the DPR of Korea to New York USA | B/O NCC for UNDP Ref TTB62-155 Msg: Payment for Purchase of Building (Canada) | $400,000 |
| **TOTAL** | | | | **$2,720,000** |

To verify the authenticity and accuracy of the Banco Delta Asia documents, the Subcommittee obtained the corresponding wire transfer documents for the transactions that involved banks located in the United States, Bank of America and JP Morgan Chase. These wire transfers confirmed that five of the transactions depicted in the BDA documents actually took place and resulted in the transfer of substantial sums to DPRK-controlled bank accounts in the United States and Europe. North Korean officials confirmed that the transactions had been conducted at the direction of their government.[107]

## D. ACTIONS TAKEN TO DISGUISE TRANSFERS

### 1. North Korea Confirmed Transfers Had No Connection to UN Activity

After confirming the existence and mode of the transactions through the evidence summarized above, the Subcommittee contacted the North Korean Permanent Mission to the United Nations in New York, representatives of which agreed to discuss the matter. The Subcommittee showed evidence of the transactions to the North Korean officials and requested additional information that could assist the Subcommittee in determining their purpose. After seeking instructions from their government in Pyongyang, the North Korean officials told the Subcommittee that the $2.72 million came from accounts held by the North Korean Ministry of Foreign Affairs, was unconnected with UNDP activity, and did not include UNDP funds. The officials said that the North Korean government executed the transactions in an effort to move as much money out of North Korea as possible prior to the imposition of sanctions that it believed

[107] Subcommittee interview with officials from the North Korean Permanent Mission to the United Nations, January 16, 2008.

were imminent following the 2002 State of the Union address in which President George W. Bush named North Korea as part of an "axis of evil."[108]

While the Subcommittee has no way of verifying the motives of the North Korean government, the information provided by its officials confirmed that the transfers had occurred, and that they were part of a concerted effort by the DPRK to move funds in a manner designed to attract minimal attention from financial regulators.

### 2. Reference to UNDP in Wire Transfers

Each of the nine transfers contained a reference to the NCC UNDP, even though the transfers had no relation to UNDP activity. When shown the bank documentation related to the transactions, UNDP stated emphatically that (1) it had no knowledge of these transfers, (2) UNDP monies were not involved in the transactions, and (3) the transfers, as described in the wire documents, were unrelated to any UNDP-funded or supported projects.[109] Moreover, UNDP told the Subcommittee that the $2.7 million transferred over six months in the nine transactions at issue is roughly seven times larger than the total amount that UNDP transferred to NCC UNDP over the eight-year period from 1999 through 2007. These large sums provide additional support for the statements by the UNDP and North Korea that the transactions were unrelated to UN activity and did not involve UNDP funds.

The North Korean officials told the Subcommittee that the country had used its relationship with the United Nations to disguise the nine transactions. The Subcommittee confirmed with U.S. regulators that references to UN agencies in wire transfer documentation can facilitate transfers that would otherwise draw additional scrutiny from regulators and anti-money laundering specialists in financial institutions.[110]

### 3. Involvement of IFTJ

The North Korean government maintained accounts at BDA in Macau, but chose not to route the nine transfers at issue through those accounts. Instead, North Korea routed the nine transfers through the IFTJ account at BDA as part of its effort to disguise the fact that the transfers originated in North Korea. IFTJ was effectively a front for the North Korean government, helping it move large sums to western banks at a time when North Korea was concerned that its transfers might be blocked or subject to other sanctions.

During this same period of time, North Korea made other wire transfers through its own accounts at BDA, without using the IFTJ account, when the amount of money was more in line with routine transactions. For example, during the week of September 9, 2002, the Ministry of Foreign Affairs transferred $20,000 directly from its account at the Foreign Trade Bank, via

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[108] Id.

[109] United Nations Development Program, Informal Briefing Note for Subcommittee Investigators, Detailed Responses to 23 July USUN Letter, November 12, 2007.

[110] Subcommittee interview with U.S. executive agency officials.

BDA, to the bank account of its Permanent Mission to the United Nations in New York. Later that same week, however, North Korea transferred $400,000 from its account at FTB to the IFTJ account at BDA (on behalf of NCC UNDP) and from there to its Permanent Mission in New York.

#### 4. Reference to Real Estate

In addition to routing the nine transfers through the IFTJ account and referencing the UNDP in the wire transfer documentation, the North Korean government added another layer of subterfuge to these transactions by including in the wire transfers misleading references to the purchase of real estate. These references are confusing in that the location of the embassies receiving the transfers did not correlate with the location of the real estate that was supposedly to be purchased. The two transfers to the Swedish embassy account, for instance, were purportedly for the purchase of buildings in the United Kingdom; it is unclear why the DPRK would need to transfer funds to Sweden for the purchase of U.K. real estate. Similarly, the three transfers for purchases of real estate in Canada were directed to the DPRK's Permanent Mission to the United Nations in New York City.

The Subcommittee also discovered that at least one $300,000 remittance to an account for the North Korean diplomatic mission in Sweden was almost immediately forwarded to the account of the DPRK's Permanent Mission to the United Nations in New York. This double transfer renders the stated purpose of the transfer to the Swedish embassy – "Payment for Purchase of Building (UK)" – implausible. It is possible that the reference to the purchase of "buildings" and "houses" was intended to provide additional cover to explain the transfer of hundreds of thousands of dollars at one time.

### E. ANALYSIS

UNDP told the Subcommittee that, until the Subcommittee showed it the wire transfer documentation, it had been unaware of the nine transfers in 2002. UNDP also told the Subcommittee that it does not dispute the authenticity of the records or the fact that the transactions occurred, although it was unable to verify any of the referenced real estate purchases in Canada, the United Kingdom, Sweden, or France.[111] At the same time, UNDP disclaimed any responsibility for the misuse of the NCC UNDP account because its agreement with the DPRK did not proscribe such activity, UNDP had no way of knowing the activity was taking place since it involved an account under the sole control of the North Korean government, UNDP had no authority to monitor that account activity, and the transfers involved North Korean and not UNDP funds.[112]

The use of a UN-affiliated bank account by a host government to engage in deceptive financial transactions and minimize international scrutiny of its funding transfers is both novel and disturbing. While UNDP funds were not involved in these particular transactions, they could be in a future incident. The Subcommittee does not conclude that the deceptive financial

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[111] Subcommittee interview of UNDP officials, October 31, 2007, and November 2, 2007.

[112] Subcommittee interview of UNDP officials, October 31, 2007.

transactions executed by the North Korean government would have been prevented had UNDP's management been more vigilant. However, the deficiencies indicate a culture of compromise in the face of North Korean constraints such that the North Koreans could reasonably conclude that transfers of funds under cover of UNDP affiliation would go unnoticed. To reduce its vulnerability to similar or more egregious conduct in the future, UNDP needs to take steps to protect itself from abuse.

## VII. TRANSFERS OF UN FUNDS TO A COMPANY THAT, ACCORDING TO THE US STATE DEPARTMENT, HAS TIES TO AN ENTITY INVOLVED IN DPRK WEAPONS ACTIVITY

### A. UNDP AND ZANG LOK

UNDP regularly made payments to contractors on behalf of other UN agencies operating in North Korea. During the course of its investigation, the Subcommittee learned that payments on behalf of two UN agencies – totaling approximately $50,000 – were made to an entity named Zang Lok Trading Co. in Macau. According to a letter dated June 7, 2007, to UNDP from the U.S. Mission to the United Nations, Zang Lok "has ties to a North Korean entity that has been designated [by the U.S. government] as the main North Korean financial agent for sales of conventional arms, ballistic missiles and goods related to the assembly and manufacture of such weapons."[113] The relevant portion of that letter is reproduced as Figure 12 below.

[113] Letter from U.S. Ambassador Mark Wallace to UNDP Associate Administrator Ad Melkert, June 7, 2007.

**Figure 12. Excerpt of USUN Letter to UNDP Describing Zang Lok**

UNITED STATES REPRESENTATIVE FOR
UNITED NATIONS MANAGEMENT AND REFORM

140 EAST 45 STREET
NEW YORK, N.Y. 10017

June 7, 2007

**By Hand Delivery**

Mr. Ad Melkert
Associate Administrator
United Nations Development Programme
One United Nations Plaza, Room 2118
New York, New York 10017

Dear Mr. Melkert:

Thank you for taking the time to meet with me today and for the meeting with Mr. Dervis yesterday. As promised we are providing specific information related to our concerns. Because of the detailed nature of our concerns, for your convenience I have outlined the points that we raised today in this letter.

As you know the United States is greatly concerned with the operations of UNDP in various country programs including in the DPRK.

The United States is concerned about UNDP transactions on its own behalf or on behalf of other UN organizations with two entities in particular. One is an entity known as Zang Lok Trading Co. (Zang Lok) and the other is International Finance and Trade Joint Co. (IFTJ). Both are based in Macau.

Zang Lok has ties to a North Korean entity that has been designated under United States laws (E.O. 13382) as the main North Korean financial agent for sales of conventional arms, ballistic missiles, and goods related to the assembly and manufacture of such weapons.

Figure 13 and Figure 14 below present redacted excerpts from two wire transfer documents authorizing transfers from UNDP to Zang Lok. The first excerpt depicts the transfer of $29,450.00 from "UNDP Pyongyang DPR of Korea" to "Zang Lok Trading Co. Ltd.," dated April 16, 2002. UNDP told the Subcommittee that this payment was made on the behalf of the World Intellectual Property Organization ("WIPO"). The second excerpt depicts the transfer of $4,024.15 from UNDP to Zang Lok, dated May 28, 2004. UNDP told the Subcommittee that this payment was made on behalf of the United Nations Educational, Scientific and Cultural Organization ("UNESCO").[114]

[114] Update on the most recent U.S. allegations, document provided by UNDP to the Subcommittee on July 10, 2007.

Figure 13. Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated April 16, 2002

20 /SENDER'S REFERENCE
602EMG022
23B/BANK OPERATION CODE
CRED
32A/VAL DTE/CURR/INTERBNK SETTLD AMT
020416USD29450,
2002-04-16
US Dollar
29450,00
50K/ORDERING CUSTOMER
UNDP PYONGYANG DPR OF KOREA
59 /BENEFICIARY CUSTOMER
/[redacted]
ZANG LOK TRADING CO LTD
70 /REMITTANCE INFORMATION
COMPUTER EQUIPMENT AND ACCESSORIES
(INVOICE ZU/001)
71A/DETAILS OF CHARGES
OUR

BDA/RE/ OTT /IR/1317/02
Charges: USD 200 –
Net Amount: USD 29450 –
Corr. Bank: NIL
Value Date: 16/4

Figure 14. Excerpt of BDA Record of Wire Transfer from UNDP to Zang Lok Dated May 28, 2004

[illegible]行有限公司
Banco Delta Asia S.A.R.L.

CREDIT ADVICE
DATE: 28-May-04

| 摘要 PARTICULARS | 金額 AMOUNT |
|---|---|
| BEING AMOUNT CREDITED TO YOUR ACCOUNT WITH DETAILS AS FOLLOWS: | |
| OUR REF. NO.: BDA/RE/IR/1844/04 | |
| FROM: UBS AG LAUSANNE | USD 4,024.15 |
| THEIR REF. NO.: [redacted] LESS OUR CHGS | 12.84 |
| BY ORDER OF: UNDP | |
| MESSAGE : KR000014 | |
| 合計 TOTAL: | USD 4,011.31 |

TO
ZANG LOK TRADING CO LTD
[redacted]

We Credited Your Account As Per Details Above.
For Banco Delta Asia S.A.R.L.
[redacted]
Authorized Signatures

O[redacted]1A(02/03)

RCVD * RE/A/0512/-2/04. CONCERNING OUR SWIFT MT103 DATED
RCVD * 11-MAY-04 WITH TRN REF 3411131ZD3798471 FOR USD
RCVD * 4 024.15 VALUE 11-MAY-04
RCVD *
RCVD * /BY ORDER OF/ UNDP /IN FAVOUR OF/
RCVD * ZANG LOK TRADING CO., LTD [redacted] AVENUE
RCVD * [redacted] R/C-C MACAU MD A/C: [redacted]
RCVD * PLEASE READ CORRECT BENEFICIARY AS FOLLOWS:
RCVD * ZANG LOK TRADING CO LTD
RCVD * [redacted] AVENUE [redacted] R/C C MACAU A/C:
RCVD * [redacted]

UNDP records indicate that, from 1999 to 2007, it paid a total of approximately $52,000 to Zang Lok, on behalf of WIPO and UNESCO.[115] UNDP says its role in these transactions was simply to execute payments to Zang Lok, the specific vendor requested by WIPO and UNESCO. UNDP did not have any transactions with Zang Lok on its own account.[116]

It does not appear that the UNDP, or the UN agencies on whose behalf UNDP was acting, knew of – or had any way of knowing – whether Zang Lok was connected to an entity involved with DPRK weapons activity at the time the payments were made. Even now, absent Ambassador Wallace's June 7, 2007, letter to UNDP, it is unclear whether UNDP has any way to determine the nature of Zang Lok. The matter is discussed in a Classified Annex to this Report.[117]

### B. UNDP'S VETTING PROCEDURES

UNDP's procurement and payment procedures are subject to UN rules and best practices, including resolutions of the United Nations Security Council. With respect to North Korea, United Nations Security Council Resolutions 1695 and 1718 passed soon after an apparent test of a nuclear device by the North Korean government in October 2006. UNSCR 1718 created the "1718 Committee," which maintains a list of "persons or entities designated by the Committee or by the Security Council as being engaged in or providing support for, including through other illicit means, DPRK's nuclear-related, other weapons of mass destruction-related and ballistic missile-related programmes, or by persons or entities acting on their behalf or at their direction…" Under UNSCR 1718, all UNDP purchases are to be vetted against this list, which is sent to all UNDP contract officers regularly for vetting local purchases. In addition, UNDP conducts random checks of local purchases through its central financial system. UNDP has advised the Subcommittee that it maintains additional vendor lists for disqualified or suspended vendors (on grounds of poor performance, fraud, corruption, or other misconduct) developed specifically for its own procurements and based on experience with vendors or information derived from other UN agencies and national programs.

### C. INFORMATION SHARING ON VENDOR LISTS

UNDP has not advised the Subcommittee as to whether it seeks input from other UN Funds and Programs, or the Secretariat, when it creates its internal list for screening vendors. Relevant to this issue is the recent work conducted by the UN Procurement Task Force.

In October 2007, the Procurement Task Force issued the following recommendation:

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[115] UNDP demonstrated its internal financial system ATLAS to Subcommittee staff at UNDP headquarters in New York. The Zang Lok payments were shown to Subcommittee staff during the demonstration.

[116] Update on the most recent U.S. allegations, document provided by UNDP to the Subcommittee on July 10, 2007.

[117] See OSS#2008-0049; OSS#2008-0050; OSS#2007-2104; OSS#2007-2146 (on file with the Security Office of the US Senate).

**B. Removal and suspension of vendors and dissemination of information**

> 71. The Task Force found and OIOS considers that there is a conspicuous need for improved information-sharing between different parts of the United Nations and a more robust response to vendors when their malfeasance is identified. When an adverse finding is made in relation to a company, it is essential that such a finding be disseminated to all concerned parties. For example, the Task Force has conducted an investigation where a company was found to be acting corruptly in one peacekeeping mission. Thereafter, this company was found to be conducting its affairs in the same illegal manner in another mission. The first mission did not inform the second mission of the company's prior conduct. In another example, the Task Force made a strong adverse finding against a company. Notwithstanding this, two months after the Task Force report, the company was awarded a new multimillion-dollar contract. This situation occurred, seemingly, because of a lack of communication between departments within the Organization. A further example is that until early 2007, the Organization contracted a company which paid funds into a secret offshore bank account of a staff member who had been arrested on charges of money-laundering and fraud in August 2005.
>
> 72. Furthermore, there is a need for a vendor removal and suspension system which entitles the Organization, after due process, to publish its decision and in particular to inform other institutions such as the World Bank and the European Commission when adverse findings against a company are made. Equally, the Organization needs to act promptly in response to such received information. This would be beneficial in the fight against procurement fraud and corruption within the United Nations system and analogous institutions. Recently, the Inter-American Development Bank published on its website a list of barred companies. The Task Force suggests that this model should be closely studied as a possible way forward for the Organization.[118]

While UNDP's vetting procedures appear sound, UNDP would apparently benefit from increasing its information-sharing with other UN agencies. For example, UNDP was reportedly found to have hired a vendor that had been blacklisted by the Secretariat for attempted bribery of a UN official.[119] The episode demonstrates the need for continued improvement of vendor vetting procedures. In light of the potential for damage to UNDP from making payments to entities involved in illicit conduct, this Report recommends that additional steps be taken to ensure that payments are not made to vendors associated with illicit activity.

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[118] United Nations General Assembly, Report of the Office of Internal Oversight Services on the activities of the Procurement Task Force for the 18-month period ended 30 June 2007, UN Doc. A/62/272, October 5, 2007.

[119] George Russell, *U.N. Ignores Its Own Procurement Ban*, Foxnews.com, January 14, 2008, http://www.foxnews.com/story/0,2933,322470,00.html.

## VIII. CONCLUSION

By all accounts, operating development projects in North Korea presented management and administrative challenges of the most extreme nature. By definition, UNDP operates in challenging environments, and has crafted, for the most part, sound rules and procedures to ensure that UNDP development funds benefit the people of the host nation.

The matters addressed in this Report speak to a number of seemingly disparate issues – inappropriate staffing decisions, questionable use of foreign currency instead of local currency, inadequate fiscal controls, restricted program monitoring, financial deception, payments to a suspect entity, inaccessible audits, and insufficient whistleblower protections. Taken as a whole, however, the evidence indicates that the North Korean government took advantage of the altruism that drives UNDP programs.

This Report offers a number of recommendations to strengthen UNDP management, transparency, and accountability controls. The objective of these recommendations is to enable UNDP to continue its work under even the most difficult circumstances, while protecting UNDP programs and funds from manipulation and misuse.

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