

GAO

Report to the Ranking Minority Member,
Committee on Foreign Relations, U.S.
Senate

October 2002

CHEMICAL WEAPONS

Organization for the Prohibition of Chemical Weapons Needs Comprehensive Plan to Correct Budgeting Weaknesses



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Highlights of [GAO-03-5](#), a report to the Ranking Minority Member, Committee on Foreign Relations, U.S. Senate

Why GAO Did This Study

The Organization for the Prohibition of Chemical Weapons is responsible for implementing the Chemical Weapons Convention, which bans the use of chemical weapons and requires their elimination. The United States and other member states have raised concerns that a number of management weaknesses may prevent the organization from fulfilling its mandate.

As requested, GAO assessed the accuracy of the organization's budgets and the impact of budget shortfalls on program activities. GAO also reviewed efforts to improve the organization's budget planning.

What GAO Recommends

To improve the current budgeting practices of the organization, the Secretary of State should (1) work with the organization to develop a comprehensive plan to improve budget projections and income collection, and (2) report annually to Congress on the organization's progress in correcting its budgeting weaknesses.

The State Department generally concurred with GAO's findings. However, State disagreed with our recommendation for annual reports to Congress on the OPCW's progress. We believe, however, that such a reporting requirement is necessary to improve congressional oversight of the OPCW.

www.gao.gov/cgi-bin/getrpt?GAO-03-5.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

CHEMICAL WEAPONS

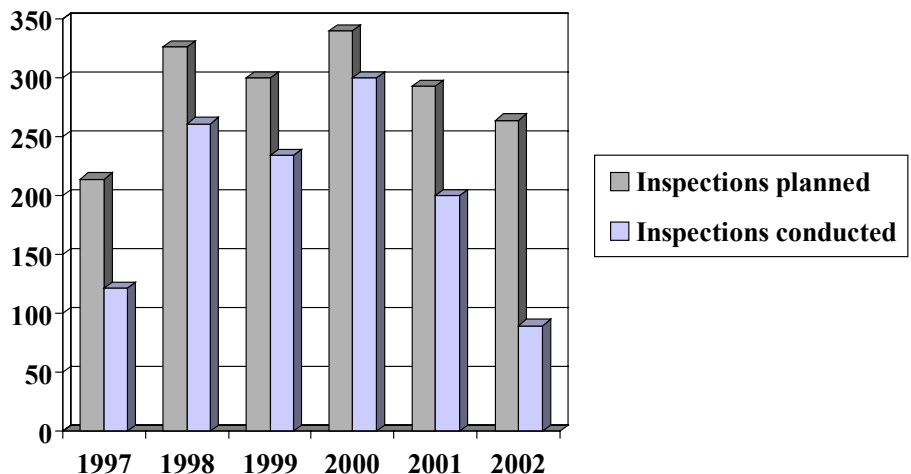
Organization for the Prohibition of Chemical Weapons Needs Comprehensive Plan to Correct Budgeting Weaknesses

What GAO Found

Since its establishment in 1997, the ability of the Organization for the Prohibition of Chemical Weapons (OPCW) to carry out key inspection functions has been hindered by inaccurate budget projections and, more recently, budget deficits. The organization has consistently overestimated its income and underestimated its expenses. Its budgets have recorded as income nearly \$1 million in unpaid assessments owed by 30 member states. The budgets have also overestimated reimbursement payments for inspections conducted in member states with chemical weapons-related facilities. As of June 2002, these states owed the organization more than \$2 million. Furthermore, the budgets for 2000 through 2002 underestimated personnel expenses.

The organization's inaccurate income and spending estimates contributed to a \$2.8 million deficit in 2000 and a potential deficit of \$5.2 million in 2002. Weak budgeting practices and budget deficits have affected the organization's ability to perform inspection activities as mandated by the Chemical Weapons Convention. The organization had to reduce the number of inspections it conducted in 2001 and plans to reduce the number it conducts in 2002.

OPCW Inspections, 1997–2002



Notes: Inspections for 1997 did not begin until June. Inspections in 2002 were conducted through June. Source: GAO analysis of OPCW data.

Although the organization and the State Department have taken some steps to address the budget problems, the organization has not developed a comprehensive plan to overcome its inherent budgeting weaknesses. Unless the organization improves its planning, budget shortfalls will continue to affect its ability to conduct inspections.

Contents

Letter		1
	Results in Brief	2
	Background	4
	Budgets Not Based on Accurate Income and Expense Projections	5
	Budget Shortfalls Resulted in Reduced Inspections and International Cooperation Activities	10
	OPCW and State Department Have Taken Steps to Improve Budget Practices, but Problems Remain	13
	Conclusions	15
	Recommendations for Executive Action	16
	Agency Comments and Our Evaluation	16

Appendixes

Appendix I: Scope and Methodology	19
Appendix II: Member States in Arrears of Contributions to the Organization for the Prohibition of Chemical Weapons (as of August 31, 2002)	21
Appendix III: Comments from the Department of State	23
GAO Comments	28
Appendix IV: GAO Contact and Staff Acknowledgments	31
GAO Contact	31
Acknowledgments	31

Table	Table 1: Inspection Reimbursements Collected, 1997–2002 (as of June 18, 2002)	7
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Figure	Figure 1: Planned and Conducted OPCW Inspections, 1997–2002	11
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United States General Accounting Office
Washington, D.C. 20548

October 24, 2002

The Honorable Jesse Helms
Ranking Minority Member
Committee on Foreign Relations
United States Senate

The Chemical Weapons Convention, which entered into force in April 1997, bans the development, production, acquisition, and use of chemical weapons by member states and requires the elimination of those states' existing chemical weapons stocks. To implement these provisions, the convention established the Organization for the Prohibition of Chemical Weapons (OPCW). The organization's primary functions are to verify the destruction of chemical weapons and their production facilities, conduct chemical industry inspections, and encourage international cooperation in the field of chemistry. A Technical Secretariat, headed by a Director-General, carries out the organization's daily operations. The organization's budget for calendar year 2002 is about \$54 million.¹ The United States contributes about 22 percent of the organization's assessed budget each year. Recently, the United States and other member states have raised concerns that the organization is not fulfilling its mandate because of a number of management weaknesses. Such concerns prompted the removal of the organization's Director-General in April 2002.

You initially requested that we conduct a comprehensive management review of the organization to determine how it has implemented the convention. We could not fulfill the original scope of your request, however because officials at the Organization for the Prohibition of Chemical Weapons and the State Department limited our access during our visit to The Hague in May 2002. On the basis of the information that we could obtain, and as agreed with your staff, we assessed (1) the accuracy of the Secretariat's budgets, (2) the impact of budget shortfalls on the organization's inspection and international cooperation activities, and (3) the Secretariat's and State Department's efforts to improve the organization's budget-planning practices. In conducting our work, we analyzed the organization's program and budget documents and audited financial statements. We also reviewed financial regulations, annual reports, and reports prepared by the organization's External Auditor, the

¹In order to compare budget figures over time, all dollar figures used in this report are expressed in 2001 dollars. For more details on our methodology see appendix I.

Advisory Body on Administrative and Financial Matters, and the Office of Internal Oversight. In addition, we obtained information from State Department officials and member states' representatives to the organization. (See app. I for details of our scope and methodology.)

Results in Brief

Since the creation of the Organization for the Prohibition of Chemical Weapons in 1997, the Secretariat's budgets have not been based on accurate projections of income and expenses. The organization's budgets (like those of other international organizations) are based on the presumption that all member states will pay their assessments in full, and the budgets have therefore recorded as income nearly \$1 million in unpaid assessments owed by 30 member states as of August 2002. In addition, the Secretariat has overestimated reimbursement income from inspections conducted in countries possessing chemical weapons and has not collected the inspection reimbursements in a timely manner. As of June 2002, member states with chemical weapons-related facilities owed the organization more than \$2 million from inspections completed over the past 2 years; the United States owed more than \$1.4 million. In addition, the budgets for 2000 through 2002 underestimated the organization's personnel expenses. These collective problems contributed to a budget deficit of more than \$2.8 million in 2000 and a potential budget deficit of more than \$5.2 million in 2002, despite the organization's plans to achieve a balanced budget during these years. Since 1998, the organization's external auditor and financial advisory body have recommended changes to the organization's budgeting process to address these problems. However, the organization has yet to fully implement their recommendations.

Weak budgeting practices and budget deficits have affected the organization's ability to perform its primary inspection and international cooperation activities. As a result of these problems, the Secretariat completed 200 of the 293 inspections planned for 2001. For 2002, the Secretariat plans to reduce the number of inspections to compensate for the projected deficit. The Secretariat also reduced funding for international cooperation and assistance activities and imposed a hiring freeze to offset its budget shortfalls. According to organization documents, the workload of the organization is expected to grow as the number of operational chemical weapons destruction facilities increases from 6 to 12 by 2006 and member states declare more industry facilities. According to the Deputy Director-General, the Secretariat may have to increase its budget by 50 percent to support the growth in inspection activities, thus increasing

budgetary pressures and the probability that it will request increased funding from member states.

Although the Secretariat and the State Department have taken some preliminary steps to address budget problems, the Secretariat has yet to develop a comprehensive plan that will remedy the organization's budgeting weaknesses. The Secretariat is creating a more accurate and timely invoicing process for inspection reimbursements. In developing its internal spending plans to implement the budget, the Secretariat has also begun to exclude the assessments of member states in arrears. Furthermore, the newly appointed Director-General has stated his commitment to address the organization's financial difficulties by ensuring that adequate funding is available in the 2003 budget. The State Department paid for a budget consultant to assist the organization and is considering paying some inspection reimbursement costs in advance. However, the organization has not developed a comprehensive plan to help improve its projections of income and expenses and has not implemented recommendations made by its external auditor and financial advisory body to develop more accurate and realistic budgets. In addition, the Deputy Director-General and representatives of other member states stated that it is crucial for the United States, as the top contributor to the organization, to continue to play a leadership role in helping the organization address its budget-planning weaknesses.

In this report, we are recommending that the Secretary of State work with the representatives of other member states and the newly appointed Director-General to develop a comprehensive plan to improve the organization's budgeting process. In addition, we recommend that the Secretary of State annually report to Congress on the extent to which the organization is correcting its budgeting weaknesses and implementing the budget-related recommendations made by the organization's oversight bodies.

The State Department, in commenting on our draft report, generally concurred with our findings that budgetary and financial problems have plagued the OPCW. With regard to our recommendation calling for a comprehensive plan to improve the organization's budgeting process, the State Department agreed that no comprehensive plan exists. However, the Department noted that the OPCW is taking some steps to address its budget problems. The Department stated that it intends to monitor the implementation of these steps and will pursue corrective action when necessary. The Department disagreed with our recommendation that the

Secretary of State be required to report annually to Congress on how the OPCW is correcting its budget weaknesses, asserting that such a requirement would impose an administrative burden. We believe that such a reporting requirement would help improve congressional oversight of the OPCW and would not impose an undue burden on the State Department, since it already provides various reports to Congress on international organizations.

Background

The Organization for the Prohibition of Chemical Weapons consists of three entities: the Conference of the States Parties, the Executive Council, and the Technical Secretariat. The Conference of the States Parties currently comprises 147 representatives, one from each member state, and oversees the implementation of the convention. The Executive Council, consisting of 41 representatives from regionally distributed member states, meets in sessions throughout the year to supervise the Secretariat's activities. The Secretariat, headed by the Director-General, manages the organization's daily operations, including implementing the inspection measures of the convention and preparing the organization's annual budgets and reports. About 60 percent of the Secretariat's authorized staff level of 507 employees engages in the inspection-related activities mandated under Articles IV, V, and VI of the convention. Specifically, to verify compliance with Article IV, the Secretariat inspects declared chemical weapons stocks and destruction facilities. To verify compliance with Article V, it inspects and monitors the destruction and conversion of chemical weapons production facilities. Under Article VI of the convention, the Secretariat inspects commercial production facilities. As of July 2002, the organization had conducted 1,210 inspections at the 5,066 declared chemical weapons sites and facilities that fall under the convention's purview.

The Secretariat supports member states in their efforts to implement the convention. It also encourages international cooperation and assistance among the member states as mandated by Articles X and XI of the convention. Under these provisions, the Secretariat is authorized to coordinate the provision of assistance to member states that are the victims of chemical attacks. The Secretariat also encourages economic and technological developments in the field of chemistry by encouraging trade and exchange of information among the member states.

The organization's budget for calendar year 2002 is about \$54 million. Funding for OPCW operations comes primarily from the 147 member

states' annual contributions, which are based on the United Nations scale of assessments. The other large source of funding is reimbursement payments for inspections conducted under Articles IV and V of the convention. As required by the convention, members states with chemical weapons related-facilities must reimburse the organization for its inspection costs related to the destruction of chemical weapons (Article IV) and the destruction of chemical weapons production facilities (Article V). The State Department reports annually to Congress on U.S. contributions to international organizations, including the OPCW.

In early 2002, the United States and other member states to the convention raised concerns that the organization was not fulfilling its mandate because of a number of management weaknesses. According to the United States, such weaknesses included mismanagement by the organization's then Director-General, as well as his advocacy of inappropriate roles for the organization—such as attempting to interfere with United Nations weapons inspections in Iraq. To address these management concerns, the Conference of the States Parties voted to remove the former Director-General in April 2002. In July 2002, the Conference appointed a new Director-General.

Budgets Not Based on Accurate Income and Expense Projections

In its budgets, the Secretariat has not accurately projected income and expenses. The Secretariat has overestimated its income for two reasons. First, the budgets include as income the assessed contributions of member states that are in arrears, some of which have not paid their contributions since before 1997. Second, the Secretariat has difficulty predicting and collecting income from inspections conducted at chemical weapons-related facilities. The budgets also include inaccurate expense projections. OPCW's inaccurate income and expense estimates contributed to a budget deficit in 2000, and a potential deficit for 2002, despite plans to achieve balanced budgets in those years.

Budgets Based on Inaccurate Income Projections

In developing its budget plans for the past 6 calendar years, the Secretariat has overestimated the amount of income it would receive from member states' assessed contributions and from reimbursable expenses paid by member states for inspections at chemical weapons-related facilities.

Income Projections Include Arrearages

When preparing its annual budgets, the Secretariat overestimates the income that it realistically expects to receive from member states' annual assessments. The Chemical Weapons Convention requires all member states to pay their annual assessments or lose their voting privileges.² The Secretariat's annual budgets, however, included as income the contributions due from 30 member states, even though these members had not paid their annual assessments for at least the 2 previous years. The cumulative total of arrearages over the past several years amounted to almost \$1 million as of August 2002. (See app. II for more details.) This includes \$781,883 from 16 member states that had not paid any of their assessed or other contributions since before the organization's inception in 1997.³ An OPCW official stated that budgeting for arrearages presents a politically sensitive problem for the organization because excluding member states' assessed contributions from the annual budgets would require approval from the Conference of the States Parties.

In response to these budgeting problems, the organization's Advisory Body on Administrative and Financial Matters⁴ and its External Auditor⁵ recommended that the Secretariat improve its budgeting practices by developing more accurate and realistic budgets. For example, in 1998, the

²Under Article VIII of the convention, "a member of the Organization which is in arrears in the payment of its financial contribution to the Organization shall have no vote in the Organization if the amount of its arrears equals or exceeds the amount of the contribution due from it for the preceding two full years." However, the Conference of the States Parties may allow a member to vote if it believes that the failure to pay is beyond the member state's control.

³The Preparatory Commission for the Organization for the Prohibition of Chemical Weapons preceded the creation of the OPCW in 1997 and carried out the initial implementation of the Chemical Weapons Convention. Under the Preparatory Commission, member states were assessed contributions to fund the commission's expenses.

⁴Article 15, Regulation 15.1, of the OPCW's draft financial regulations gives the Executive Council the authority to "establish a body to advise it on administrative and financial matters. This body shall consist of experts of recognized standing from States Parties." The duties of the Advisory Body of Administrative and Financial Matters include, among others, reporting on the OPCW's draft program and budget, the audited financial statements, and the organization's internal oversight reports.

⁵Article 13, Regulation 13.1, of the OPCW's financial regulations requires the appointment of an External Auditor for the organization who is also the Auditor-General (or an officer holding an equivalent title) of a member state. The Conference of the States Parties can appoint the auditor for 2 to 6 years. According to Regulation 13.3, the External Auditor's duties include, among others, annual audits of the OPCW's financial statements in accordance with the auditing standards promulgated by the International Organization of Supreme Audit Institutions.

Advisory Body and the External Auditor stated that the Secretariat's future budgets should be more realistic and accurate and based on the experience gained in the organization's first year of operation. In 2000, the External Auditor recommended that income projections, which are used to establish expenditure targets, should be more realistic and based on reasonable and sound assumptions using past trends in the budget. The Secretariat has yet to act on these recommendations.

Budgets Overestimate Inspection Reimbursements

As shown in table 1, every year since 1997, the budgets have overestimated the amount of money that the organization will invoice and receive each year for inspections conducted at chemical weapons-related facilities.

Table 1: Inspection Reimbursements Collected, 1997–2002 (as of June 18, 2002)

2001 dollars						
	1997—1998	1999	2000	2001	2002	Total
Estimated reimbursements	\$8,173,878	\$6,588,251	\$5,115,987	\$3,580,163	\$2,621,336	\$26,079,615
Invoiced reimbursements	5,898,727	3,342,545	3,313,850	2,566,964	425,913	\$15,547,999
Reimbursements collected (cumulative)	229,545	4,377,532	8,860,499	12,078,774	13,488,961	\$13,488,961

Note: Invoices are through February 2002.

Source: GAO analysis of OPCW data.

As indicated by OPCW documents, the Secretariat often receives its reimbursements from those member states possessing chemical weapons-related facilities late because these states usually do not pay the OPCW during the year that they receive the inspection invoices. Frequently, the organization does not receive payments until several years after issuing the invoices. According to State Department officials, the United States and Russia have not made payments, in many cases, until several years after receiving OPCW invoices, because both governments experienced difficulties in identifying a funding source and obtaining appropriations. These officials added that both governments are working to improve their reimbursement records during 2002. As of June 2002, those states possessing chemical weapons-related facilities, including the United States, owed OPCW more than \$2 million in reimbursable inspection expenses from the previous 2 years. The United States accounts for \$1.4 million of the \$2 million owed.

It is difficult, however, for the Secretariat to estimate the number of inspections that will be conducted and therefore the amount of inspection reimbursement payments that can be collected from those states possessing chemical weapons–related facilities. According to State Department and OPCW officials, the Secretariat relies on states’ destruction plans to calculate the number of inspections the organization may conduct during the year. Chemical weapons possessor states cannot always accurately predict when their destruction facilities will become operational and what problems may arise once they do. Any change to the schedule of a destruction facility’s operations can affect the timing of OPCW inspections and thus affect the organization’s reimbursement estimates. In commenting on our draft report, the State Department stated that possessor states’ destruction plans have collectively overstated destruction activity, and consequently monitoring activity, by 30 percent or more.

While it may be difficult for the Secretariat to estimate income from inspection reimbursements, the Secretariat does not issue the reimbursement invoices in a timely manner, according to State Department and OPCW officials. Recent OPCW analysis indicates, however, that the organization is working to improve the timeliness of its invoices. In addition, sometimes the invoices are inaccurate, causing those states possessing chemical weapons–related facilities to withhold payment until corrections are made.

The organization’s External Auditor recommended in 2001 that the Secretariat take concrete steps to pursue and recover outstanding invoices and develop realistic estimates of its income from Articles IV and V (reimbursable) inspections. In its April 2002 report, the organization’s Advisory Body also recommended that the Secretariat avoid optimistic income forecasts regarding Articles IV and V inspections, as well as expedite and improve its billing procedures.

Budgets Underestimate Personnel Costs

As the result of a staff reclassification and upgrade undertaken in 1999 and mandatory United Nations salary increases, the Secretariat’s personnel costs increased, affecting the 2000, 2001, and 2002 budgets. However, the budgets underestimated this increase. The Secretariat’s budget for 2002 underestimated staff cost increases by about 6 percent (\$1.8 million) and may contribute to a potential budget deficit for 2002. The audited financial statement for 1999 and the Advisory Body’s January 2001 report stated that

increases in personnel costs were inevitable as a result of the staff reclassification and upgrade.

The OPCW's salary system further complicates the budget projections for staff costs. OPCW uses the United Nations compensation system, which budgets salaries and staff wages in U.S. dollars. The OPCW, however, pays its staff in euros. According to State Department and OPCW officials, the organization has had difficulty in covering the currency risks associated with fluctuations in the dollar-to-euro exchange rate. The organization can experience significant personnel cost increases, depending upon the exchange rate; staff costs represent about 75 percent of OPCW's 2002 budget. Furthermore, OPCW and State Department officials stated that it is difficult to manage staff costs given the organization's current tenure policy, which does not clearly establish a start date for OPCW employees. During the creation of the organization, a 7 year tenure policy was established to reduce the number of career employees in the organization. Currently, staff members are hired on a 3 year contract that can be renewed yearly thereafter. However, the Conference of the States Parties has yet to agree on a date for the commencement of the tenure policy.

Organization Had Budget Deficit in 2000 and Anticipates Deficit for 2002

In 2000, the organization experienced a budget deficit of more than \$2.8 million when expenditures exceeded the income for the year. In 2001, the Advisory Body reported that the Secretariat was aware of the income shortfall of 2000 and should have managed the budget more carefully to avoid a deficit. It also recommended that, to avoid a recurrence of overspending, the Secretariat should maintain budgetary discipline by matching expenditures to anticipated income in developing the 2001 budget.

However, for 2002, the organization may again experience a budget deficit. According to an OPCW briefing document,⁶ the organization will experience a potential \$5.2 million deficit because of unrealistic income projections in the budget and underbudgeted personnel expenditures.⁷

⁶*Director of Administration Management Board Briefing on the OPCW 2002 Programme and Budget Shortfall* (The Hague, the Netherlands: Organization for the Prohibition of Chemical Weapons, 2001).

⁷About \$3.4 million of the potential deficit is attributable to unrealistic expectations of income from Articles IV and V reimbursements and unpaid assessed contributions. About \$1.8 million can be attributed to the mandatory staff reclassification and upgrades.

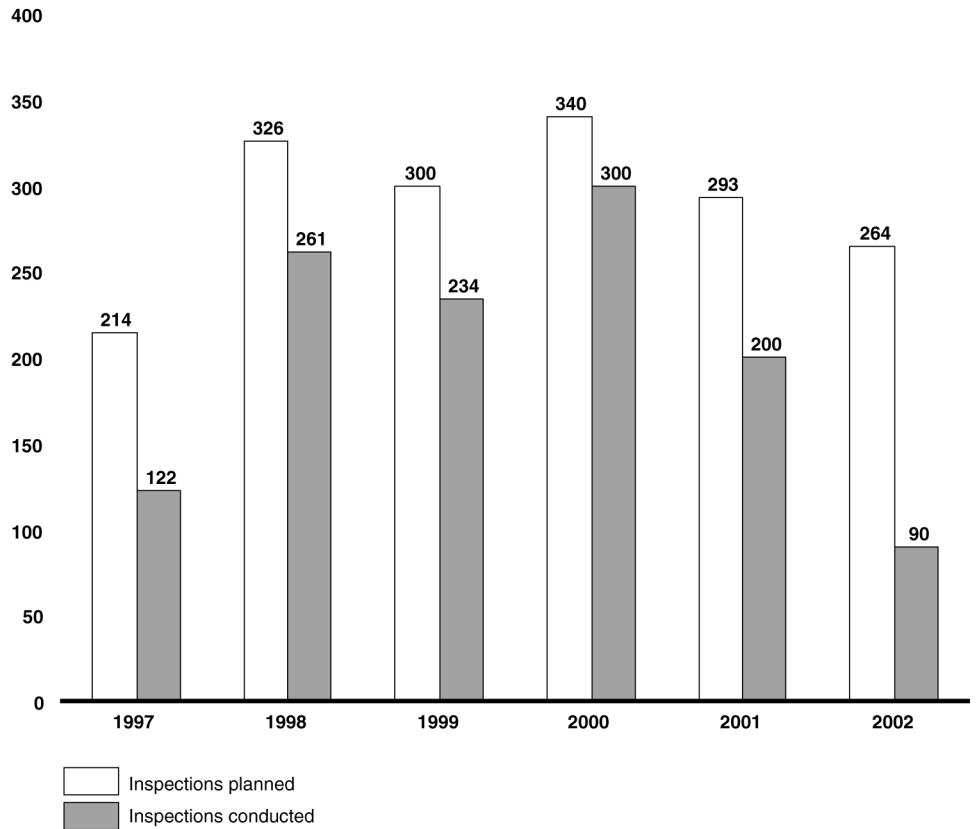
Budget Shortfalls Resulted in Reduced Inspections and International Cooperation Activities

Because of its budget problems, the Secretariat has reduced inspections and international cooperation and assistance efforts and has implemented a hiring freeze. Unless the organization can obtain additional funding, it will have to further reduce its inspections in 2002. The problem will intensify as the number of inspectable facilities increases during the next few years.

Primary Functions Reduced to Offset Budget Deficits

The Secretariat has curtailed its inspection activities in response to its budget problems. As a result the Secretariat conducted only 200 of the 293 inspections planned for 2001. The Secretariat plans to reduce the number of inspections for 2002 to compensate for the potential deficit of \$5.2 million. As of June 2002, OPCW inspectors had conducted only 90 of the 264 inspections planned for the year. Figure 1 depicts the number of inspections planned and conducted from 1997 through June 2002.

Figure 1: Planned and Conducted OPCW Inspections, 1997–2002



Notes: For 1997, inspections were conducted beginning in June. For 2002, the figure represents inspections conducted through June 24, 2002.

Source: GAO analysis of OPCW documents.

Since 1997, most OPCW inspection activities have taken place at chemical weapons–related facilities. The Secretariat receives reimbursements from member states for inspections conducted under Articles IV and V of the convention. However, the Secretariat is not reimbursed for inspections carried out at commercial chemical facilities under Article VI. According to OPCW documents, when funding is limited, the Secretariat reduces the number of inspections at commercial chemical facilities that it conducts during the year.

Because of its budget problems, OPCW conducted only 75, or 57 percent, of the 132 chemical industry inspections planned for 2001. As of June 2002,

the organization had conducted only 47, or 36 percent, of the 132 industry inspections planned for 2002. According to an OPCW document, if additional funding becomes available, a maximum of 11 chemical industry inspections per month can be conducted between the time additional monies are received and the end of 2002.

At the same time, the Secretariat cut funding for international cooperation and assistance efforts in 2001 by about one-third, from \$3 million to \$2 million, and has made further reductions in funding for 2002. The Secretariat also imposed a hiring freeze on OPCW personnel for 2000 through 2002. According to the OPCW's latest budget proposal, the Secretariat plans to leave 33 positions vacant for 2003. Of these 33 positions, 22 are related to inspection and verification activities.

Budget Problems Will Multiply

According to OPCW officials, unless it receives additional funding, the OPCW will not be able to completely fulfill its primary inspection functions this year. As of June 2002, six member states have provided about \$397,000 in voluntary contributions to help offset the OPCW budget deficit for 2002.⁸ According to a State Department official, the United States, France, Germany, and the United Kingdom are considering contributing additional funding to support the organization.

The Secretariat's inspection resources will be further affected by expected increases in the numbers of chemical weapons destruction facilities and commercial chemical facilities requiring OPCW inspections. Specifically, by 2006, the number of continuously operating chemical weapons destruction facilities is expected to increase from 6 to 12. An OPCW planning document also indicates that additional member states may declare more industry facilities.⁹ According to the Deputy Director-General, preliminary OPCW estimates indicate that the funding level needed to support inspection activities may increase by 50 percent.

⁸As of June 2002, Japan, the Netherlands, Norway, Oman, Sweden, and the United Kingdom had provided voluntary contributions to support various OPCW activities.

⁹OPCW Executive Council, *Medium-Term Plan 2004–2006* [draft] (The Hague, the Netherlands: Organization for the Prohibition of Chemical Weapons, 2002).

OPCW and State Department Have Taken Steps to Improve Budget Practices, but Problems Remain

The organization has taken some preliminary steps to address its budgeting problems, but it lacks a comprehensive strategy to overcome the inherent weaknesses in its budgeting process. Also, limited oversight resources have affected the organization's efforts to improve its budgeting process. The State Department has taken some steps to assist the OPCW, but budgeting problems remain.

Secretariat Taking Steps, but Has No Plan to Address Budget Problems

The Secretariat is taking some preliminary steps to improve its budgeting practices. The new Director-General has stated his commitment to ensure that the organization receives the financial resources needed to implement its mandate and that these resources are used exclusively for the objectives and missions outlined in the convention. According to a State Department official, when developing its internal spending plans to implement the budget, the Secretariat has begun to exclude the assessments of member states in arrears. The OPCW is also reducing its estimates of income derived from inspection activities, based on the chemical weapons possessor states' destruction plans, by 30 percent, to better reflect the historical level of activity. State Department officials also indicated that the Secretariat is working to improve the invoicing and payments process for Articles IV and V reimbursements by providing more accurate bills on a more timely basis. Invoices sent out during the last two months of the calendar year will be applied to the following year's income projections. State Department officials added that OPCW member states are considering changing the current financial regulations to provide the Secretariat flexibility in using the organization's Working Capital Fund to cover inspection-related expenses.¹⁰ In commenting on our draft report, the State Department also stated that the Secretariat has begun using actual staff costs to develop more accurate budget forecasts of salary costs.

Although the Secretariat's efforts to collect income from member states is a positive first step in addressing its budget difficulties, it has not directed sufficient attention to improving projections of future expenses. According

¹⁰The Working Capital Fund was designed to meet short-term liquidity problems during a given financial period and is funded by the member states in accordance with their scale of assessments. Current regulations require that monies borrowed from the Working Capital Fund be repaid by the end of the year.

to State and OPCW officials, the Secretariat does not budget for currency fluctuations in calculating its staff expenses. These officials also stated that current personnel regulations contain a vague employee tenure policy, making it difficult to predict employee turnover and reduce the number of employees. Accordingly, the Secretariat's recent efforts do not reflect a comprehensive approach to addressing its continuing budget problems.

OPCW's Office of Internal Oversight may play an important role in helping reform the Secretariat's budget process. In March 2002, the organization's Advisory Body questioned the role of the oversight office, stating that the office may not be focusing on key internal auditing, monitoring, evaluation, and investigation activities that could detect budgeting problems. In providing its advice and consent to the ratification of the Chemical Weapons Convention, the U.S. Senate required the President to certify that the OPCW had established an independent internal oversight office that would conduct audits, inspections, and investigations relating to the programs and operations of the OPCW.¹¹ In December 1997, the President certified that the office was in compliance with the Senate's requirement. However, the OPCW's 2000 annual report states that only one auditor within the oversight office was responsible for internal audit activities. The 2002 Advisory Body report states that the oversight office was devoting only one-third of its staff resources to conducting audits, while the remaining two-thirds was focused on other functions, such as the implementation of the organization's confidentiality regime and the establishment of a quality assurance system.¹² In that same report, the Advisory Body reemphasized that the principal and overriding functions of the oversight office should be internal audit, monitoring, evaluation, and investigation. Given the current financial and budgetary crisis, the Advisory Body recommended that the Secretariat redefine the office's role to ensure a clear and sustained focus on proper management of the budget.

¹¹Condition 3 of Senate Resolution 75 of the 105th Congress (April 1997) imposes such a certification requirement.

¹²The Chemical Weapons Convention contains provisions to protect the confidentiality of all information reported to the OPCW and to prevent its unauthorized release. The confidentiality regime includes procedures for granting access to confidential information, rigid registration, archiving and handling procedures for confidential documents, and the operation of a secure archive. It also involves physical and administrative protections to prevent the loss or unauthorized transfer or release of documents.

State Department Taking Initiatives, but More Assistance Is Needed

The State Department funded a budget consultant to assist the Secretariat in reviewing its budget processes. However, it is difficult to assess the consultant's impact in improving the budget processes of the organization. According to the State Department, although it reimbursed the Secretariat for the consultant's salary (including per diem) of \$170,000, the consultant was not required to provide the Department with a statement of work or a written analysis of the Secretariat's budgetary practices and efforts to improve its processes, because he was considered an employee of the Technical Secretariat.

According to State Department officials, the United States is also attempting to pay its Articles IV and V inspection reimbursements in a timelier manner and is considering paying in advance the chemical weapons-inspection costs that cover inspector salaries. To assist the organization in meeting its 2002 budget, the State Department is providing \$2 million in supplemental funding to restore, to the extent feasible, budgeted levels of inspection activity and to strengthen management and planning functions, among other purposes. Funds will be deposited in a trust fund and will remain available until expended by the OPCW on activities agreed to by the United States.

OPCW's Deputy Director-General and representatives from member states commented that the United States needs to continue in its leadership role by providing financial, managerial, and political support to the organization. According to these officials, the U.S. government's recent efforts focused primarily on the removal of the former Director-General. The officials added that the United States should now focus on addressing the organization's budgetary and financial problems.

Conclusions

The OPCW has consistently overestimated its income and underestimated its expenses, and thus has planned more inspections than it is financially able to conduct. Unless the Secretariat corrects its weak estimating practices, the Secretariat may continue to plan more inspections than it can undertake. The problem may grow worse in future years as the number of new chemical weapon's destruction facilities increases and additional states ratify the convention. The organization's newly appointed Director-General has an opportunity to correct these budgeting weaknesses and improve the organization's finances.

Recommendations for Executive Action

To improve the current budget problems of the Organization for the Prohibition of Chemical Weapons, we recommend that the Secretary of State work with the representatives of other member states and the new Director-General to develop a comprehensive plan to improve the organization's budgetary practices. The plan should outline specific strategies to (1) improve the projection and collection of income, (2) accurately project expenses, and (3) strengthen the role of the Office of Internal Oversight in helping the organization improve its budgeting process. Such a plan would be consistent with the budget recommendations of the Secretariat's oversight bodies.

To ensure that Congress is informed about the status of efforts to improve the OPCW's budgeting practices, we recommend that the Secretary of State annually report to Congress on the extent to which the OPCW is correcting its budgeting weaknesses and implementing the recommendations made by the organization's oversight bodies.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the State Department that are reprinted in appendix III. We also received technical comments from the State Department and have incorporated them where appropriate. The State Department generally concurred with our findings that budgetary and financial problems have plagued the OPCW, and that unless corrected, these problems could have even more dramatic effects in coming years. The Department, however, raised several issues with the report. First, the Department asserted that our analysis of OPCW budgetary and financial difficulties presented an incomplete picture of the OPCW's budgeting practices. Second, the State Department disputed our assertion that we had to limit the scope of our review because of the access restrictions we encountered during our May 2002 visit to the OPCW in The Hague. Third, it stated that our report did not fully reflect the changes that the OPCW has recently begun taking to address its budget weaknesses. Finally, the Department disagreed with our recommendation that the Secretary of State be required to report annually to Congress on how the OPCW is correcting its budget weaknesses, asserting that such a requirement would impose an administrative burden.

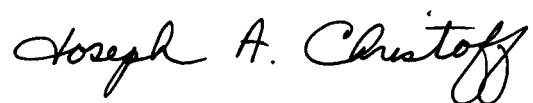
In response to the State Department's comments on our draft report, we added information on the reasons why the OPCW experienced budget problems. Regarding our access to OPCW records and staff, although the State Department provided us with some access to OPCW budget and

finance documents through the Department's offices in Washington, D.C., we were denied the opportunity to review related budget documentation and meet with numerous OPCW officials during our visit to The Hague in May 2002. Although we provided the State Department with an extensive list of OPCW officials with whom we wanted to meet prior to our visit, we were allowed to meet only with the Deputy Director-General and selected representatives from the budget office and the inspection equipment laboratory. We were not allowed to meet with representatives from key OPCW offices, including the Special Projects Division, the Office of Internal Oversight, the Office of the Legal Advisor, the Administration Division, the Verification Division, the Inspection Division, the International Cooperation and Assistance Division, and the Advisory Body on Administrative and Financial Matters. Furthermore, the State Department failed to notify us of any potential access difficulties with the OPCW prior to our trip to The Hague, and did not actively seek to provide us with access to these officials on our arrival. Consequently, we had to limit the scope of our review to budget-related issues. In response to the State Department's comments about recent budgetary initiatives, we have updated the report to reflect the most current initiatives being undertaken by the OPCW to address its budgeting problems. Regarding our recommendation for an annual reporting requirement, we do not believe that such a requirement would impose an administrative burden on the Department, since it already provides various reports to Congress on international organizations. This reporting requirement is necessary to improve congressional oversight of the OPCW.

We are providing copies of this report to other interested congressional committees and to the Secretary of State. We will make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8979 if you or your staff have any questions concerning this report. Another GAO contact and staff acknowledgments are listed in appendix IV.

Sincerely yours,

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

Joseph Christoff, Director
International Affairs and Trade

Scope and Methodology

We could not conduct a comprehensive management review of the organization as requested, because the Organization for the Prohibition of Chemical Weapons (OPCW) and State Department officials limited our access during our visit to The Hague in May 2002. As a result of our lack of access to OPCW officials and limited access to OPCW documents, we could not determine how the reduction in chemical weapons and industry inspections has affected the implementation of the Chemical Weapons Convention. In addition, we could not assess the organization's personnel management, administrative, and internal audit functions. Specifically, we were not permitted to meet with or obtain information from OPCW officials from the following offices: the Special Projects Division, the Office of Internal Oversight, the Office of the Legal Advisor, the Administration Division, the Verification Division, the Inspection Division, the International Cooperation and Assistance Division, and the Advisory Body on Administrative and Financial Matters. However, we met with OPCW's Deputy Director-General. We also received a budget briefing from the Director of the Administrative Division and the budget consultant being funded by the State Department. In addition, we visited the inspection laboratory and equipment store at Rijswijk, the Netherlands.

To determine the accuracy of the Secretariat's budgets, we compared OPCW's program and budget documents for 1997–2003 with the data in the audited financial statements for 1997–2001.¹³ To compare budget and program data, figures were converted from Netherlands guilders and euros to 2001 dollars, using appropriate exchange and inflation rates. We also reviewed other OPCW documents, including the organization's financial regulations and annual reports. We analyzed reports prepared by the organization's External Auditor, the Advisory Body on Administrative and Financial Matters, and the Office of Internal Oversight. In addition, we obtained information from officials in the State Department's Bureau of Arms Control and Office of International Organization Affairs, as well as from member states' representatives to OPCW.¹⁴

¹³Although we could not independently review the reliability of the data provided in the audited financial statements, the OPCW's External Auditor provided an unqualified opinion on the statements for each of these years.

¹⁴During our visit to The Hague in May 2002, we were able to meet with representatives from Australia, France, Germany, Japan, the Russian Federation, and the United Kingdom. We also obtained written responses to our questions from the South African representative.

To determine the impact of budget shortfalls on the organization's inspection and international cooperation activities, we analyzed the data contained in the organization's program and budget documents and in annual implementation reports for calendar years 1997–2001. To confirm our understanding of the data obtained, we met with an official from the State Department's Bureau of Arms Control. In addition, we reviewed other OPCW documents and statements provided by the State Department.

To assess OPCW and State Department efforts to improve the organization's budget-planning practices, we met with State Department officials in Washington, D.C., and The Hague. We also obtained information from OPCW member states' representatives. We reviewed and analyzed OPCW and State Department documents, including OPCW's draft *Medium-Term Plan for 2004–2006*; speeches given by the Director-General to the Executive Council and Conference of the States Parties; and reports of the Advisory Board on Administrative and Financial Matters, the External Auditor, and the Office of Internal Oversight.

We could not independently verify the accuracy of the budget and other financial data obtained from OPCW and the State Department. Although we met with, and obtained documents from, officials at the Departments of Commerce and Defense, the information they provided was not relevant to the reduced scope of our work.

We performed our work from January 2002 through October 2002 in accordance with generally accepted government auditing standards.

Member States in Arrears of Contributions to the Organization for the Prohibition of Chemical Weapons (as of August 31, 2002)

2001 dollars

Member states	Preparatory Commission contributions ^a	Working Capital Fund contributions ^b	Assessed contributions					Total owed
			1997	1998	1999	2000	2001	
Armenia	\$48,755	\$2,227	\$19,774	\$25,805	\$4,861	\$2,583	\$2,948	\$106,953
Benin	2,022	407	0	2,903	884	861	982	\$8,059
Bolivia	0	0	0	98	3,093	3,013	3,440	\$9,644
Burkina Faso	3,051	407	2,255	4,976	884	861	982	\$13,416
Burundi	6,049	407	0	1,244	439	428	492	\$9,058
El Salvador	6,049	407	3,608	4,976	5,302	5,166	5,898	\$31,405
Equatorial Guinea	6,049	407	3,608	4,976	439	428	492	\$16,398
Fiji	0	0	0	3,129	1,767	1,722	1,966	\$8,585
Gambia	0	51	0	2,357	439	428	492	\$3,767
Georgia	95,747	4,900	43,502	56,771	8,396	3,013	3,440	\$215,769
Ghana	1,680	407	2,255	4,976	3,093	3,013	3,440	\$18,864
Guinea	6,049	407	2,706	4,976	1,326	1,291	1,474	\$18,229
Guyana	4,357	407	1,353	4,976	439	428	492	\$12,452
Laos	2,766	407	3,608	4,976	439	428	492	\$13,116
Malawi	6,049	407	0	2,488	884	861	982	\$11,671
Maldives	0	0	3,392	4,976	439	428	492	\$9,727
Mali	6,049	407	3,608	4,976	884	861	982	\$17,766
Mauritania	6,049	407	0	4,147	439	428	492	\$11,961
Nicaragua	6,049	41	0	0	37	428	492	\$7,047
Niger	6,049	407	3,608	4,976	884	861	982	\$17,766
Papua New Guinea	0	0	0	2,376	3,093	3,013	3,440	\$11,922
Paraguay	0	0	3,159	4,976	6,186	6,027	6,880	\$27,228
Republic of Moldova	68,237	3,564	31,638	41,288	7,953	4,304	4,914	\$161,898
Senegal	3,022	407	0	2,073	2,651	2,583	2,948	\$13,684
Seychelles	6,049	407	3,608	4,976	884	861	982	\$17,766
Tajikistan	18,540	891	7,909	10,322	2,210	1,722	1,966	\$43,560
Togo	6,049	407	3,608	4,976	439	428	492	\$16,398
Trinidad and Tobago	0	1,336	8,898	15,483	7,512	6,887	7,864	\$47,979
Turkmenistan	22,377	1,336	11,864	15,483	3,535	2,583	2,948	\$60,127

**Appendix II
Member States in Arrears of Contributions
to the Organization for the Prohibition of
Chemical Weapons (as of August 31, 2002)**

(Continued From Previous Page)

2001 dollars

Member states	Preparatory Commission contributions ^a	Working Capital Fund contributions ^b	Assessed contributions					Total owed
			1997	1998	1999	2000	2001	
Tanzania	4,892	407	0	2,488	1,326	1,291	1,474	\$11,878
Total	\$341,986	\$21,259	\$163,958	\$253,143	\$71,155	\$57,229	\$65,362	\$974,093

Note: Numbers in columns may not sum to totals because of rounding.

^aThe Preparatory Commission for the Organization for the Prohibition of Chemical Weapons preceded the OPCW and carried out the initial implementation of the Chemical Weapons Convention. Under the Preparatory Commission, member states were assessed contributions to fund the commission's expenses.

^bThe Working Capital Fund was designed to meet short-term liquidity problems during a given financial period and is funded by the member states in accordance with their scale of assessments.

Source: GAO analysis of OPCW data.

Comments from the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



United States Department of State

Washington, D.C. 20520

OCT 16 2002

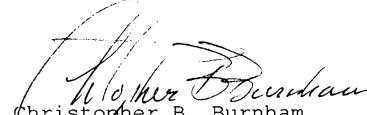
Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "CHEMICAL WEAPONS: Organization for the Prohibition of Chemical Weapons Needs Comprehensive Plan to Correct Budgeting Weaknesses," GAO-03-5, GAO Job Code 320100.

The Department's comments are enclosed for incorporation, along with this letter, as an appendix to the GAO final report.

If you have any questions regarding this response, please contact Christopher Park, Office of Chemical and Biological Weapons Conventions, Bureau of Arms Control on (202) 647-7903.

Sincerely,


Christopher B. Burnham
Assistant Secretary of
Resource Management and
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Mr. Christoff
State/OIG - Mr. Berman
State/AC - Mr. Mikulak

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

Department of State Department Comments on GAO Draft Report

CHEMICAL WEAPONS: Organization for the Prohibition of Chemical Weapons (OPCW) Needs Comprehensive Plan to Correct Budgeting Weaknesses.
(GAO 03-5, Job Code 320100)

The Department of State has reviewed the draft report of the General Accounting Office (GAO) "Organization for the Prohibition of Chemical Weapons Needs Comprehensive Plan to Correct Budgeting Weaknesses," GAO -03-5, concerning budgeting practices at the Organization for the Prohibition of Chemical Weapons (OPCW). In general terms, we are in full accord with GAO's observations: the OPCW has been plagued with budgetary and financial problems relating to the accuracy of estimates of both income and expenditure, as well as the timely receipt of income; these problems resulted in a cash deficit for the year 2000, and further deficits in 2001 and 2002 have only been averted through dramatic cutbacks in inspections and international cooperation activities; and unless corrected, these problems could have even more dramatic effects in coming years.

In its details, however, the Department takes issue with several aspects of GAO's report: first, we find the analysis of the OPCW's budgetary and financial difficulties oversimplifies in significant respects, and consequently presents an incomplete picture. Second, we strongly dispute GAO's claim that "access restrictions" on the part of both the Department and the OPCW Technical Secretariat forced GAO to severely limit its scope of work. Third, GAO's observation that there is no coherent plan to address these problems, while accurately portraying the situation for the first part of 2002, does not reflect the current situation. Finally, we disagree with GAO's recommendation for an open-ended reporting requirement. Each of these points is elaborated in greater depth below. Six pages of technical-level comments were provided to GAO at the working level previously.

Observations on GAO's Analysis

GAO has focused on two budgetary issues: "the Organization has consistently overestimated its income and underestimated its expenses." This is factually correct, but—even as elaborated in the body of the report—a significant oversimplification. A more detailed analysis would lead to the identification of at least 5 distinct issues:

- *Estimating workload:* Monitoring activities at chemical weapons destruction facilities account for the majority of OPCW's inspection workload. Historically, the Organization has been heavily dependent on plans submitted by CW possessor states to project this workload. On average, these plans have collectively overstated destruction activity, and consequently monitoring activity, by 30 percent or more. Under the financing formula employed by OPCW, this has significant implications for both income and expenditure. To the extent that these workload estimates are incorrect, both income and expenditure projections in the budget will be inaccurate—but, since the bulk of the expenditure is fixed (inspector salaries) the net effect of overestimating monitoring activity is a significant income deficit and only a minor decrease in expenditure.

See comment 1.

Appendix III
Comments from the Department of State

See comment 2.

- *Estimating expenditure:* OPCW's approved budgets underestimated staff costs in 2000, 2001, and 2002, as noted by GAO. We do not believe, however, that GAO has correctly identified the reasons for this.

See comment 3.

- *Estimating Income:* The workload issue noted above poses significant problems in forecasting income due to the Organization. In addition, the OPCW encounters the same difficulties found in other international organizations in that some countries pay their dues late or not at all. To the extent that payments are received within 24 months of the start of the budget period, this is not a budgetary issue, since OPCW financial regulations are crafted to permit application of this income to the budget for which it was intended. Later payments DO pose budgetary issues, and OPCW is faced with the same difficulty encountered in other organizations: to disregard as income payments due from some States Parties on the grounds that they will not pay is unacceptable, since it has the effect of deliberately overassessing other States Parties to make up for the difference. This problem was exacerbated in the OPCW by legislative and regulatory difficulties in the United States and Russia: neither country had authorization and funding to pay their Article IV/V inspection bills from 1999 through late CY 2001.

See comment 4.

- *Cash Flow:* While payments up to 24 months after the start of the budgetary period do not pose any budgetary issues, they can create significant cash shortages, resulting in curtailment of activity. OPCW has lacked adequate liquidity to deal with such cash shortages.

See comment 5.

- *Internal Control:* In 2000, the OPCW Technical Secretariat spent against budgeted income based on inflated estimates of CW destruction activity. That is, it spent money that not only had not been collected, but would never even be due to the Organization, incurring a substantial deficit. While the workload uncertainties noted above make this difficult to guard against, closer monitoring of this problematic area would have permitted the TS to curtail activities during the latter half of 2000, substantially reducing the deficit.

See comment 6.

The Department believes that this more detailed breakout of the sources of OPCW's financial and budgetary difficulties is essential to formulating a credible response, since the various problems have different solutions. We also believe that GAO's report should more clearly emphasize that spending cuts of the sort experienced in 2001 and 2002 disproportionately affect industry inspections, without much impact on CW inspections.

Access Restrictions

See comment 7.

GAO has stated that "We could not fulfill the original scope . . . because officials at the Organization for the Prohibition of Chemical Weapons and the State Department limited our access during our visit to The Hague in May 2003." The Department does not agree with this assessment. Department officials in Washington and the U.S. Delegation in The Hague made every reasonable effort to accommodate GAO's requests. "Access restrictions" by the State Department amounted to declining to facilitate a small number of meetings with the former Director-General, who had been voted out of office the preceding week at U.S. initiative, and with a few delegations that voted in his support. It

was our assessment that such interviews would be counterproductive to our ongoing efforts to manage the departure of former Director-General Bustani, the return to some semblance of normalcy, and the search for a new Director-General in a constructive, positive fashion. Numerous other meetings were arranged, however.

See comment 8.

“Access restrictions” on the part of the OPCW Technical Secretariat consisted of declining to permit GAO personnel to interview a lengthy list of staff, and instead insisting that authoritative answers to any questions be provided through the Acting Director-General and the Director of Administration. Indeed, when specifically requested to do so, GAO officials have been unable to identify specific questions GAO has posed to which answers were not provided.

Lack of a “Comprehensive Strategy”

See comment 9.

GAO is correct that there is no document that can be pointed to as elucidating a comprehensive strategy to address the OPCW’s budgeting problems. However, in recent months a series of interrelated actions have been taken. This mosaic, taken as a whole, responds in a comprehensive way to the problems the OPCW has experienced. We note, however, that most of these actions have taken place since GAO’s May visit to The Hague; based on developments at that time, GAO’s portrayal of an ad hoc, incomplete response is reasonable. Steps taken to date are as follows:

- *Estimating workload:* in the 2003 budget, adopted at the 7th Conference of the States Parties in October 2002, CW destruction plans were discounted by 30 percent in calculating the number of inspection days of work to be performed for income projection purposes, in line with historical experience. A “surge capacity” was maintained, however, so that the OPCW has sufficient inspectors to manage a higher level of monitoring activity if required.
- *Estimating expenditure:* With the help of a U.S.-funded budget expert, the Technical Secretariat has moved from using average unit costs in budgeting for staff to using actual payroll data, projected forward. This “actual costs” basis, combined with substantially improved contacts with the International Civil Service Commission (ICSC) in New York, and a “hands off” approach to staff cost estimates by the Governing Bodies, should lead to much more accurate budget forecasts for salary costs.
- *Estimating Income:* Based on historical experience, the 2003 budget discounts Article IV/V income by 1/6th as compared to the already discounted activity level, effectively moving income relating to work done in November and December of 2003 into the 2004 budget. This allows for a delay of up to 60 days in invoicing, followed by further delay of up to 12 months between invoicing and payment without any impact on budgetary estimates of income.
- *Cash Flow:* The U.S.-funded budget expert worked with State Department officials and TS budget and finance staff to develop a more streamlined and effective process for submitting, documenting, and clarifying inspection invoices over the internet, which has dramatically reduced turnaround times, ensuring that the OPCW gets its

money sooner. The 7th Conference of the States Parties also took a decision liberalizing the use of the Organization's Working Capital Fund to permit its use late in the calendar year. Historically, OPCW has been cash-poor in this period, but acutely limited in its capacity to tap the Working Capital Fund late in the year.

- *Internal Control*: The Technical Secretariat is moving to a system of quarterly allotments for program offices, assuring tighter control over spending than has hitherto been the case. The TS is also developing an internal "spending plan" to reflect, e.g., the consequences of nonpayment by countries already in arrears. Allotments will be based on this reduced spending level, and revised upward or downward during the course of the year in response to actual income collection.

The Department intends to monitor the implementation of the above measures closely and pursue further corrective action as and when warranted.

Reporting Requirements

In the Highlights page of the draft report, GAO recommends that the Secretary of State "report annually to Congress the organization's progress in correcting its budgeting weaknesses," which seems to link to the reference on page 3 to the "Department's annual report to Congress on U.S. participation in international organizations." This is presumably a reference to the annual report on U.S. participation in the United Nations. This report does not address the OPCW, and we do not believe it or any other existing congressionally mandated report provides a good vehicle for reporting on OPCW budgeting practices .

More fundamentally, we are concerned by the proposal for yet another open-ended annual reporting requirement, since such reporting inevitably saps staff time and resources that could be employed in the conduct of foreign affairs. We recognize the importance of keeping interested parties in Congress informed of progress in improving budgeting at the OPCW. We believe, however, that the best way to achieve this would be to provide briefings to Congressional staff at the convenience of any interested staff members.

See comment 10.

The following are GAO's comments on the Department of State's letter, dated October 16, 2002.

GAO Comments

1. We agree that monitoring activities at chemical weapons–destruction facilities account for most of OPCW's workload, and that to project this workload, the organization has depended on plans submitted by chemical weapons–possessor states. Our report states that since 1997, most OPCW inspection activities have taken place at chemical weapons facilities. Our report also states that the Secretariat relies on possessor states' destruction plans to calculate the number of inspections the organization may conduct during the year. Chemical weapons–possessor states cannot accurately predict when their destruction facilities will become operational and what problems may arise when they do. However, in response to the State Department's comments, we have included additional information in the report to clarify this point.
2. We identified the key reasons why OPCW underestimated staff costs for calendar years 2000–2002, and included this information in the report. For example, our report states that as the result of a staff reclassification and upgrade undertaken in 1999 and mandatory United Nations salary increases, the Secretariat's personnel costs increased, affecting the 2000, 2001, and 2002 budgets.
3. We agree that the OPCW encounters the same difficulties as other international organizations with regard to the late payment of annual dues, and that the United States and Russia have experienced difficulties in paying their Articles IV and V inspection bills. We included this additional information in the report.
4. We agree that the OPCW has lacked adequate liquidity to deal with its cash shortages, and this has resulted in a curtailment of inspection activity. We have made no change to the report, however, because this is its major theme. We reported that weak budgeting practices and budget deficits have affected the organization's ability to perform its primary inspection and international cooperation activities, as outlined in the Chemical Weapons Convention.
5. As explained in our report, the OPCW spent against budgeted income based on inflated estimates of inspection activity. This budget shortfall resulted in reduced inspections and international cooperation activities. We do not believe that a change in our report is needed.

6. Our report clearly states that since 1997, most OPCW inspection activities have taken place at chemical weapons facilities. Because of its budget problems, the OPCW conducted only 57 percent of the chemical industry inspections planned for 2001. As of June 2002, it had conducted only 36 percent of these inspections planned for 2002. We do not believe that a change in our report is needed.
7. We disagree that the State Department made every reasonable effort to accommodate our requests for information and access to OPCW staff. We were not allowed to hold meetings with representatives from several key OPCW offices. The State Department failed to notify us of any impending scheduling difficulties prior to our trip to The Hague in May 2002. On our arrival, the Department made no effort to facilitate meetings with the following offices: the Special Projects Division, the Office of Internal Oversight, the Office of the Legal Advisor, the Administration Division, the Verification Division, the Inspection Division, the International Cooperation and Assistance Division, and the Advisory Body on Administrative and Financial Matters.
8. This comment confirms that we were able to meet with only a few select OPCW staff. It is unclear how the State Department concluded that we were unable to identify specific questions to which answers were not provided. Prior to our departure for The Hague in May 2002, we provided State Department officials in Washington and at the U.S. Delegation to the OPCW with five pages of detailed questions that we planned to raise with OPCW officials. Many of these questions remain unanswered. We also provided the State Department with a detailed set of questions we planned to raise with representatives from other member states.
9. We have updated our report to provide the most recent information on OPCW initiatives currently under way. However, the State Department's mosaic of measures does not represent an overall strategy or plan for improving the organization's budgeting weaknesses. At best, it represents only the first steps in addressing systemic weaknesses in the OPCW's budgeting process.
10. We believe that our recommendation for an annual reporting requirement to Congress is appropriate. Such reporting will help establish a baseline for judging OPCW progress in achieving needed reforms. In addition, this requirement will not impose an undue

Appendix III
Comments from the Department of State

administrative burden on the Department, since it already provides various reports to Congress on international organizations, including the OPCW.

GAO Contact and Staff Acknowledgments

GAO Contact

Stephen Lord (202) 512-4379

Acknowledgments

In addition to the individual named above, Beth Hoffman León, Richard K. Geiger, and Reid Lelong Lowe made key contributions to this report. Bruce Kutnick, Christine Bonham, and Geoffrey Frank provided additional assistance.

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