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## GENERAL ASSEMBLY



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Advisory Committee on Administrative  
and Budgetary Questions

UN/SA COLLECTION

MEMORANDUM OF THE BOARD OF AUDITORS TO THE  
ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS  
ON THE 1955 ACCOUNTS OF THE UNITED NATIONS

1. In paragraph 16 of the Board of Auditors' Report to the General Assembly on the United Nations Accounts for 1955 it is noted that a memorandum is being submitted to the Advisory Committee on Administrative and Budgetary Questions with respect to matters relating to the routine of administration. This is the memorandum. In addition to observations with respect to UN transactions, it includes comments arising out of UNICEF and TA examinations.

2. Associated as an appendix is a summary of data collected by the Board with respect to commercial activities at Headquarters and at the Palais des Nations. The Board is uncertain whether it was the intent of the Advisory Committee and also of the Fifth Committee that observations on these activities should be addressed to the Advisory Committee or made part of the audit report to the General Assembly. The paper is being treated as it is because: (a) of its length, (b) commercial activities may be subjects of reports of the Secretary-General to the General Assembly and (c) the Advisory Committee is currently in session in Europe and therefore could not be consulted by the Board during the audit.

3. Dependency Allowances for Certain Personnel. Resolution 894 (IX) of 17 December 1954 authorized, as a temporary measure, additional dependency credits in 1955 to "staff members stationed at Headquarters and at Washington, D.C.". In view of the fact that resolution 976 (X) extends the period to 31 December 1956, it is noted that the word "stationed" has

been construed as meaning the official duty station. Consequently, staff members who have been detailed to missions have been treated as continuing to be eligible to the benefits of the resolution.

4. Differential at The Hague. With effect from 1 May 1955 the International Court of Justice authorized new salary scales for General Service staff members. The effect was to confirm as fixed, rates previously regarded as subject to a differential. The number involved is not large. However, despite previous correspondence with Headquarters, the concurrence of the Secretary-General was not obtained prior to effect being given. Because of references to the subject in previous audit memoranda to the Advisory Committee, the Board inquired whether it was to be regarded that the Secretary-General no longer entertains the view that any rates developed by the Court are subject to review by him. The answer was that the view of Headquarters remains unaltered.

5. Re-engagement of retired staff members. No audit exception is taken to the re-engaging, by use of special service agreements, of two former staff members who had retired on account of age. On retirement, one took a lump sum pension settlement of \$16,700, his salary rate being \$14,080. The other was not a contributor to pension, as a matter of fact he was 75 years old when retired in 1952. His rate of pay was \$11,290. Both are language specialists and during 1955 were re-employed under special service agreements at \$37 per work day to cope with an urgent need for experts in a particular language. The point the Board now notes is: Had either been the recipient of a pension, payments of annuity would not have

been suspended during the period of re-engagement because a "special service" contract was used.

6. Working Capital Fund. The authorized amount for the Fund in 1955 was \$21,500,000. As at 31 December 1955 recorded advances to General Fund from Working Capital Fund totalled \$10,335,000 for budgetary expenditures. At the previous year-end the like total was \$6,116,000. Because of the substantial increase, the following comparison is made:

	<u>31 December</u>	
<u>General Fund</u>	<u>1954</u>	<u>1955</u>
Cash at bank and on hand	\$4,248,513	\$5,216,812
Contributions receivable	6,064,593	6,148,768
Unliquidated obligations	3,626,693	3,631,863

In the circumstances it is not self-evident that current cash requirements of General Fund necessitated such extensive advances from Working Capital Fund.

7. Financial regulation 5.5 stipulates that contributions to Working Capital Fund be paid in United States dollars. A like direction is given with respect to contributions for the budget, but resolution 876 (IX) permitted the Secretary-General to accept a portion of budget contributions in other currencies. No exception from the financial regulation having been made with respect to Working Capital Fund, it is noted that of the \$2,952,971 of Working Capital Fund's 'cash at banks' on 31 December 1955 (Statement III) \$1,032,385 consisted of fourteen other currencies.

8. Advances to Fellows. In the course of examinations it was observed that eight recipients had collectively been overpaid \$550. The amount involved is not large, but information provided to the Board is to the effect that no government has, under existing practice, a liability to make good. The Board was informed that governmental co-operation is extended when efforts are made to collect from the individuals involved. In view of the extent to which fellowships are granted, the Board notes the situation.

9. International Press House Fund. This League of Nations Account has had a chequered history. It took its origin in a luncheon proposal that nations make contributions to a club house for press correspondents at Geneva. Various countries contributed but enough was never raised to achieve the objective. In due course, the United Nations was asked to take custody of the resources which were held in gold. During 1955 the gold was converted and the \$25,343 balance at credit of the Fund divided equally between the New York and Geneva United Nations Correspondents Associations. This was done by means of an agreement to which the United Nations is a party. Paragraph 4 lists the objects to which each association may apply the share held by it and then provides that

the Secretary-General will be consulted by either of the associations for guidance in case of doubt on whether a proposed expenditure falls within these purposes.

The section requires the associations to maintain proper accounts recording financial transactions and stipulates that they

shall transmit to the Secretary-General, upon his request, complete information relating to such transactions.

These might be regarded as indicating that the Organization was assuming a new role, therefore the Board inquired whether the agreement was intended to indicate that the United Nations was to be regarded as representative of the interests of the donor countries. The administrative view is that the Organization neither now is nor ever was under obligation to anyone.

10. Regulations Respecting Trust and Special Accounts. There is no financial regulation to which one may turn to establish beyond doubt the official capacity of the Secretary-General in a case such as noted above. The same observation is applicable with respect to the action of the Secretary-General in omitting United Nations Children's Fund investments from the 1955 Statement of United Nations Assets and Liabilities (see para. 15 of Audit Report). The Board suggests that appropriate action be taken at some convenient time to clarify the financial regulations.

11. Library Endowment Fund. Schedule H to the Statement of Assets and Liabilities lists the investments held for this Fund. Securities other than U.S., are recorded at the dollar book value applicable at time of purchase or transfer to the United Nations. Included in the list are:

Government of Sweden bonds, 1969	\$47,185
" " " " , 1982	27,556
" " " " , 1988	28,588
" " " " , 1994	28,836

The conversion rate used was approximately 3.5 kroners to the dollar. Subsequently an official international rate for the kroner was established at 5.18. Consequently, the investment as of today is worth approximately \$41,000 less in terms of U.S. dollars than the \$133,165 listed in the

statement. In view of the fact that it will be many years before the issues mature, it is not suggested that the normal practice of 'cost or market as at 31 December whichever is the lower' be adopted, but it would seem desirable that, for statement purposes, the official rate for the kroner be employed. Although it may well be that at maturity, other securities of Sweden will be purchased, the Board also suggests that consideration be given to establishing, as a charge to income, a reserve which over the years will recoup the account the amount "lost" by reason of the devaluation of the kroner.

12. TAA Unliquidated Obligations. In reporting on the allocation to the United Nations as a participating organization the Board has noted that almost \$1,200,000 was recorded as unliquidated obligations in connection with fellowship awards. Assuming similar obligations of other participating organizations are comparable, a substantial amount may be involved. It was provided that obligations for fellowships could be recorded only after

arrangements have been completed with a host country (or countries) and the individual's programme of study approved.

However, TAB has deleted this condition. Audit curiosity was aroused when it was observed that \$783,934 of such obligations had been recorded on the last day of the financial year but review satisfied the Board that all were regularly recorded. It was noted however that none were actively in effect and that some among them would not become operative until September 1956. The problem of administrative officers was described in a note to the Board. It reads:

This change was necessitated by the new legislation leading to "country programming" (ECOSOC resolution 542 (XVIII)), whereby the funds were allocated in accordance with annual programmes submitted by Governments. Governments in preparing these programmes would naturally not include fellowships awarded in the previous year, and accordingly there would not be funds available for the new obligation, called for under the old definition, if for one reason or another the host facilities were changed after the turn of the year, or had not been completed by the end of the year. The new definition was designed to meet this practical difficulty.

The Board appreciates that there may be a problem of administration vis-à-vis governments, but entertains doubt whether the change preserves the over-all financial control intended to be exercised by TAB. Which is the more important is not a matter of audit determination, therefore, the Board simply draws attention to the subject.

13. Recording of Voluntary Contributions. Financial statements of special accounts (TA, UNICEF, UNRF, UNRWA, etc.) depending on voluntary contributions are presented in U.S. dollars although, in fact, various contributions are made in other currencies and subject to a stipulation that the money is not to be converted into dollars. In addition, there are contributions made in kind and sometimes such a donation has to be sold because the recipient body cannot use the commodity. While the situation is in no way alarming, the published statements may not be regarded as truly reflecting the dollar position of the accounts. For example, a technical assistance pledge of 1,500,000 pesos was made and, the official exchange rate being 5 to the dollar, the pledge was listed in the accounts at \$300,000. Subsequently the same country gave another pledge,

8.

this time for 1,800,000 pesos. The official rate was then 18 to the dollar, so the pledge is listed at \$100,000. Neither sum had actually been contributed to date. The problems that can arise in connection with contributions in kind may be illustrated by using one involving rice. In 1953 a contribution of 10,000 tons of rice was pledged with deliveries to be made in 1954, 1955 and 1956. For contribution record purposes a value of \$1,500,000 was given (\$500,000 for each year). The Board's examiner has reported:

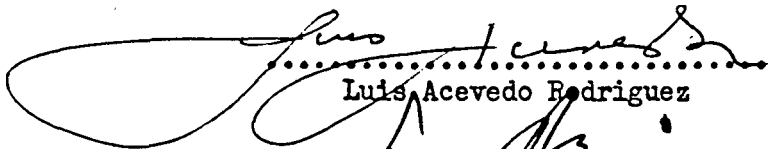
Up to the end of 1954, forty-five hundred tons valued at \$633,750 had been received. For 1955 it was decided to record the "receivable" in the round sum of \$500,000 - representing broadly the anticipated proceeds from one-third (3,300 tons) of the total contribution. Shipments made during the year ran considerably below the estimated quantities; about 1,600 tons valued at \$222,616. Consequently, the outstanding "receivable" totalled \$277,384 as of 31 December 1955, for the remaining 1,700 tons. A 1956 "receivable" in the amount of \$200,000 has been set up in the books. This covers the 1956 portion of the rice, approximately 2,200 tons. In proportion, the valuation is considerably lower than the two previous years for the reason that there has been a slump in the price of rice. The low valuation is intended to take care of the over-valuation in 1955. Thus the Schedule will show:


Contribution in kind (rice) valued at	\$222,616	
Contribution in kind (rice) (receivable)	<u>277,384</u>	\$500,000

as the position as at 31 December 1955 and \$200,000 will be set up as the pledge for 1956.

The foregoing do not exhaust the quirks that arise, but suffice to explain why the Board is of opinion that the Secretary-General might be invited to take the whole question under review.

  
..... Canada  
Watson Sellar

  
..... Colombia  
Luis Acevedo Rodriguez

  
..... Norway  
Lars Breie

8 May 1956.



APPENDIX

Re Commercial Activities of the United Nations

1. In June 1955, the Advisory Committee on Administrative and Budgetary Questions suggested that, in the course of its examinations, the Board of Auditors consider and report on the New York commercial activities of the United Nations. Later, during the 10th Session there was discussion in the Fifth Committee with respect to the Catering Service at Geneva. Document A/3049 includes:

. . . The Committee suggests in this connection that the various commercial activities at the Palais des Nations might be the subject of enquiry on the part of the Board of Auditors, in conjunction with the examination of the 1955 accounts.

2. The Board has construed the foregoing as calling for a report founded on a review of the financial aspects of operations. In reporting, the Board deliberately refrains from observations relating to policy but, being national auditors general, the review was inevitably influenced by national experience because in audits of commercial services operated as state enterprises it has often been observed that:

- (a) the quality of managerial direction is of prime importance;
- (b) it is desirable that there should be one person who is wholly answerable for the operating policy of a commercial service, e.g., he should not be a person who is in position to shift responsibility onto either a superior or a committee, etc.;
- (c) to the maximum degree practicable, a commercial activity should absorb the total cost of the service for which it derives its funds and, in turn, its resources should not be used to finance some other services, either administrative or commercial;
- (d) the basis of employment should correspond to the character of operations, and

- (e) if self-supporting, the activity should be required to accumulate reserves to provide its capital replacements, etc.

### New York Commercial Activities

3.     Visitors Service. This service was organized in 1952 by A.A.U.N. (a voluntary organization) for the benefit of the United Nations. \$36,200 was advanced from Working Capital Fund to finance the cost of uniforms, etc., as well as initial expenses. The advance was repaid in 1953 out of income. Since then, operating profits have been for the benefit of the United Nations.

4.     On 1 June 1955 the Service became an activity of the Department of Public Information, with costs a charge to General Fund and receipts credited to Miscellaneous Income. Combining 1955 operations of A.A.U.N. and the Department, income for the year was \$558,800 and direct expense \$402,600. In addition, there were indirect costs, such as pay to Security staff, elevator operators, etc., specially assigned and also the cost of char services, building and equipment maintenance, etc. An estimate provided to the Board is that these approximated \$150,000. If this estimate be accepted as reasonable, the real net profit of the Visitors Service in 1955 was less than \$10,000.

5.     The most active period is from April to November, with around 780,000 persons patronizing the service in 1955 as a whole. The Department of Public Information having assumed responsibility for operations in June, statistics for the June-December period are now given to portray the

categories of traffic:

<u>Classification</u>	<u>No.</u>	<u>% of Total</u>
Ordinary at \$1 rate	236,655	52.7%
Students at 50¢	143,537	32
Organized groups at 75¢	43,525	9.5
Free (servicemen, clergy, etc.)	<u>25,281</u>	<u>5.8</u>
	448,998	100.

6. A discount of 20% is allowed to travel agencies. This is deducted from receipts and is the only direct expense not charged to the budget. The total was about \$5,000 during the period of UN administration in 1955. In the opinion of administrative officers it is good business to allow this discount. They regard 3,000 as the desirable maximum traffic on any one day because, whenever the number exceeds that, the service to visitors tends to fall below standard and the buildings appear congested. The travel agencies earn the discount by co-operating with the Visitors Service in organizing tours on selected days. In other words, the value derived from the discount is that it helps to spread the traffic and thereby avoids congestion.

7. Between 50 and 60 guides are employed full-time and around 10 part-time. Extras are also engaged whenever necessary. Salary payments may approximate \$225,000 in 1956. Special Staff rules stipulate that contracts of employment are to be for periods not exceeding two years - the policy is not to retain a person as a guide longer than that. Pay starts at \$260 a month and may be increased to \$280 after six months of satisfactory service. Guides also qualify for certain allowances. A 15% assessment rate is applicable for purposes of the Staff Assessment Plan, but since the change-over the individual qualifies for reimbursement of national income tax. The Board

was informed that rates in effect are regarded as either comparable with or a little below going-rates for like services in the New York area but the leave provisions are more generous. A full-time UN guide, holding a contract of more than six months, qualifies for annual leave at the rate of six weeks per annum and also for sick leave at the rate of 1 1/2 days for each month of service. They are also entitled to leave with pay on eight official holidays.

8. Women have been found to be more satisfactory than men as guides. Currently, summer and winter uniforms are provided, the cost approximating \$55 per uniform. The Board was informed that consideration is being given to

- (a) designing a distinctive uniform for UN, and
- (b) having a uniform suitable for both summer and winter wear.

The style now under consideration may cost from \$10 to \$20 more than those now in use - depending on the quality of materials, the size of the order, etc. At present about 250 uniforms are either on issue or in stock.

9. In addition to the professional guides, the Visitors Service may draw on special Internes who, by contract, have agreed to perform guide service during part of the year. Their emoluments, approximately \$50 weekly, are not a charge to the Visitors Service during the period they are on guide duty. They are not provided with uniforms or paid an allowance in lieu thereof.

10. The majority of visitors are either English-speaking or have a command of English, therefore, many of the guides are recruited locally. However, the Board was informed that guide service in 28 languages is available. The practice is to assign not more than 20 to a guide for a tour. With an annual volume of around 750,000 visitors, about a dozen persons are required as supervisors, dispatchers, cashiers, etc. for the Service. In addition there are around 20 persons performing ancillary or associated functions.

11. Because the activity is financed out of the United Nations budget, the Board notes that:

- (a) the volume of visitors to Headquarters makes a service of this nature imperative but, contrary to the belief of many, it is not a big money maker, in fact, a deficit position is a risk. For this reason it is desirable that costs be not buried in various sections of the budget, also that the estimate of \$150,000 of indirect costs be reviewed periodically;
- (b) the volume of traffic is declining and the peak may have been passed. However, it is not yet practicable to select a figure for the probable annual volume in the next few years;
- (c) the work-load is uneven and, at least to a degree, uncontrollable, therefore the 'hard-core' of staff expense bears a relatively high ratio to income. Moreover, leave rights necessitate a staff establishment above normal for like services in the New York area;
- (d) if the Sunday traffic continues to diminish, consideration might usefully be given to closing down on that day; and
- (e) the size of the guide establishment is influenced by the seven-day operational week and the procedural problems associated with UN recruiting in the New York area for short-term needs.

12.      Gift Centre. This shop is operated for the United Nations by the UN Cooperative, an incorporated body. No discounts are granted to its members and patronage by the Secretariat, generally, is believed to be limited. In short, the customers seem to be those who come to tour Headquarters and want souvenirs of the visit. During the Board's interviews some emphasis was placed on the utility of the shop as a means to promote sales of goods produced in distant lands, products of cottage industries for example. Statistics indicate that direct purchases from abroad totalled \$89,000 in 1955, almost \$40,000 more than in the previous year. Not all of this may be regarded as "exclusive" as like items are sometimes also on sale in New York stores. Around 60% of the merchandise purchased in 1955 was procured through the ordinary trade channels in the New York area. For present purposes, the Board will treat the activities of the Centre as a commercial venture, one that is distinguishable from like shops in the New York area in that it does not advertise but caters to those who come to Headquarters for reasons other than shopping for bargains. So regarded, the long-term success of the Gift Centre is dependent on the number of visitors who tour Headquarters.

13.      The agreement with the Cooperative provides that the financial year end 31 January. The time period covered by the agreement has expired, but by mutual agreement it has been extended to 31 July 1956.

14.      Sales amounted to \$455,840 in the year last ended. The cost of merchandise being \$225,139, there remained \$230,701 for operating costs which totalled \$105,676. This left an operating profit of \$125,025. The

Cooperative is paid a commission, based on sales, and in the year the amount was \$12,200. The \$112,800 balance was the gain to the United Nations as a result of operations, part being in money and part in inventory at the year-end.

15. Indirect costs are estimated at \$5,000 annually - to set up the business the United Nations spent around \$14,000 for equipment, etc. The agreement does not obligate the Cooperative to provide Working Capital but, currently, around \$8,000 of its share of profits is thus employed. The bulk of the working capital is provided by the United Nations, \$112,500 currently being deemed the amount. As at 31 January 1956 cash resources of the Gift Centre were over \$71,000 and it had merchandise inventories of about the same amount. Current liabilities were less than \$2,000, other than the obligations to the United Nations and the Cooperative. As all sales are cash, the view may be entertained that the Centre is perhaps in an abnormally strong cash position.

16. The Gift Centre is staffed by a salaried manager and 10 assistants. Contracts are between the individuals and the Cooperative, with basic salary rates fixed by the Policy Committee (three named by the Secretary-General and a like number by the Cooperative). 10% latitude, either way, is permissive in hiring staff. Those involved not being United Nations employees, leave allowances, etc., are regulated by commercial practices. Salary and like costs amounted to \$67,200 in 1955-56. These were paid out of proceeds of sales. Also a charge to sales was \$28,600 "Applied Overhead" paid to the Cooperative for the services of its salaried officers who performed part-time services for the Gift Centre. The Policy Committee does not

participate in fixing the salary rates of those involved, but it has jurisdiction with respect to the percentage of time to be regarded as devoted to Gift Centre activities. In June 1955 the Committee fixed the ratio as 88.7% with retroactive effect to 1 February 1955 - the previous rate was 91.2%. This \$28,600 payment is over and above the management fee paid to the Cooperative.

17. The Board was informed that 'mark-ups' are in harmony with commercial practice and provide protection against the possible criticism that, for like things, the United Nations undersells those dependent on shops' earnings. Practice is to watch closely slow-moving items and the Board was assured that there was little or no 'dead-stock' in the year-end inventory. Customers are not asked to pay local sales tax, but federal taxes on jewelry, etc., are collected and remitted to the United States Treasury.

18. The Policy Committee receives a sales' report monthly and expenditure statements on a quarterly basis. Operating costs in the last year remained practically constant, bearing in mind the retroactive adjustment of the Cooperative's "Applied Overhead". In summary form the experience was:

<u>Period</u>	<u>Sales</u>	<u>Operating Expenses</u>
February - April	\$102,000	\$ 27,100
May - July	113,000	27,500
August - October	124,000	25,500
November - January	<u>117,000</u>	<u>25,600</u>
	456,000	105,700
	<u>456,000</u>	<u>105,700</u>



19. Operating accounts are kept by the Cooperative and are subject to audit by the United Nations Internal Audit Service. Moneys received are deposited in a bank account with cheques drawn by officers of the Cooperative. Sales staff are bonded for \$10,000 and officers of the Cooperative for \$25,000.

20. The sales' space is inadequate but it is planned to move the Centre into larger quarters. A much better display of goods is anticipated and greater efficiency in shop operations secured. In other words, it is hoped that, despite a possible decrease in the number of visitors to Headquarters, the volume of business in the Gift Centre will be maintained and increased. The estimated cost of preparing the new quarters was stated as being \$80,000 and it will be a charge to the Permanent Headquarters Construction Account.

21. The Gift Centre is relatively free of major problems in management. No special effort need be made to attract customers; there is no problem in financing operations; and space is provided. For these reasons the Board regards the problem, if there be one, as the answer to the question: Is it necessary to have a full-time salaried manager plus 38.7% of the time of the executive officer of the Cooperative, with the Cooperative paid a fee as representative agent? In such a set-up, one may also wonder whether a Policy Committee is imperative. Answers being related to policy - a field outside the scope of this review - no discussion took place with officers of the Cooperative.

22. The Bookshop. Like the Gift Centre, the Bookshop's customers are,

in the main, visitors to Headquarters. The Bookshop is however distinguishable in a significant aspect - it is an important outlet for the sale of publications of the United Nations and specialized agencies. It is creating an interest and is developing a market that would not otherwise exist for these publications. An agreement exists between the United Nations, represented by the Department of Public Information, and the Columbia University Press under which the latter operates the shop as agent. It takes no fee for its services and assumes no responsibility in the event of any deficit from operations resulting. The agreement is terminable by either party after due notice.

23. The Columbia University Press recruits and pays staff employed. Currently there is a manager and 10 others on the Shop's payroll. Starting rate, other than the manager, is \$50 a week. Not being United Nations' staff, leave entitlements are founded on commercial rather than UN practices.

24. The total sales of the Bookshop approximated \$225,000 in 1955, the cost of items sold being \$75,000. Staff costs totalled \$27,750 and other expenses were, in round figures \$4,250. Thus the net operating profit of the year was in the neighbourhood of \$110,000. (Round figures have been used because audited statements were not available for examination). The Board was informed that the indirect costs to United Nations were estimated as being under \$5,000. As a result of certain changes in the layout of the area being planned, the Board inquired if much of the cost would be associated with the Bookshop. The reply was that the amount would be quite small.

25. It will have been observed in the previous paragraph that the cost of publications, etc., sold was \$75,000, a low amount for a bookshop which had a \$225,000 turnover in the year. The explanation is that United Nations and specialized agencies publications are not purchased outright. In the case of UN publications there is no charge to the Bookshop, but proceeds from all sales are recorded as receipts of the shop. Publications of specialized agencies are received on consignment basis, e.g., the Bookshop pays only for those it sells. For these two reasons there is never a substantial amount tied up in inventory. Some books are purchased from publishers (at trade discount rates) and sold at list prices. The stock involved is never large. A substantial business is done in postcards, letter-booklets, guides, etc., specially produced for the Bookshop with cost charged to the Working Capital Fund as advances for self-liquidating items. On these, the mark-up is generally about twice production cost.

26. Expenditure accounts are maintained by the Columbia University Press but the Department participates in the revenue accounting. Revenues are segregated in a special bank account. Monthly statements of deposits and expenditures are provided to the Department of Public Information. The Board was informed that the auditors of Columbia University Press do not examine the accounts of the Bookshop. Because of the limited need for working capital, balances at credit in the special bank account are cleared at frequent intervals to the United Nations.

27. Because Columbia University Press serves without fee and looks to the Department of Public Information for policy decisions, it would appear that this activity is more of a departmental service than, say, the Gift

Centre. For that reason the Board notes that the Office of the Controller has stayed in the background.

28.      Catering Services. The existing agreement with the Lido Shores Corporation (a subsidiary of Knott Hotel Corporation) expires on 31 July 1956. The payment to the Corporation is an annual management fee of \$18,000. A provision of the agreement is that the Corporation provide, interest free, \$25,000 of Working Capital - no other agreement has a comparable provision. The volume of business, especially since the restaurant and cafeteria were enlarged, requires more capital and this is provided by United Nations. Currently, it approximates \$50,000. Catering Service accounting is a responsibility of the Corporation with books and records maintained on premises of United Nations by the Corporation. Periodically, the Internal Audit Service examines the accounts and makes reports. The Corporation provides the Office of General Services regularly with monthly operating statements. Based on the present trend of business, the 1956 volume should be between \$1,500,000 and \$2,000,000.

29.      The manager and staff are recruited by the Corporation and are paid out of the receipts of operations. The United Nations is consulted as to numbers, but rates of pay, leave, etc., are regulated by a two-year labour agreement negotiated in 1955 with a union. Before taking effect this agreement had, of course, to be approved by the United Nations.

30.      The Corporation procures all supplies and federal taxes are paid whenever the law so requires at time of purchase. When jewelry, leather goods, etc., are sold at newsstand counters the federal tax, if any, is collected from the customer and remitted to the U.S. Treasury.

31. All cashiers are employees of the Corporation and are bonded by it. The corporation also accepts the risk of any food poisoning claim - as a matter of fact, there has been only one claim and in that instance the contaminated food had been donated by parents for a gathering of young people. Other third party liabilities are regarded as covered by the various insurance policies taken out by the contractor or the United Nations.

32. In the financial year 1955 there was an operating profit of approximately \$153,000. Capital expenditures of \$22,000 and the management fee of \$18,000 were paid out of it leaving \$113,000 for the United Nations. It is not known what the total of indirect costs might be. It is estimated that such costs as water, light, heat, power and general maintenance total \$33,000. After subtracting that from the \$113,000, the balance was applied to reduce the debt to Working Capital Fund - the original advance, negotiated in 1951, was for \$300,000. It was then agreed that repayment be spread over a number of years, but the Catering Service has been able to pay more than was anticipated. Only \$90,000 remained to be repaid as at 31 December 1955.

33. 1955 may not be regarded as a normal year because the restaurant and cafeteria were being enlarged, in fact, restaurant facilities were make-shift for several months. The profits of that year were really derived from beverage sales and counter operations. Reconstruction increased the seating capacity of the restaurant from around 500 to about 700 and the cafeteria from about 400 to 600. Construction work was completed in August, therefore, a fair between-year comparison may be made of sales in September,

October and November. In both years the General Assembly was in session.

The statistics are:

	<u>Restaurant and Special Functions Sales.</u>		<u>Cafeteria Sales</u>	
	<u>1954</u>	<u>1955</u>	<u>1954</u>	<u>1955</u>
September	\$ 29,338	\$ 36,585	\$ 48,893	\$ 53,883
October	42,006	65,988	58,313	64,857
November	<u>45,023</u>	<u>62,186</u>	<u>62,229</u>	<u>66,017</u>
	116,367	164,759	169,435	184,757
	<u><u>          </u></u>	<u><u>          </u></u>	<u><u>          </u></u>	<u><u>          </u></u>

34. A reasonable presumption seems to be that the increase in business came from patronage by visitors, because 1955 bar sales (in "restricted areas") actually declined in the same period:

	<u>1954</u>	<u>1955</u>	<u>Decrease</u>
September - November	\$53,952	\$49,561	\$4,391

Therefore, some inquiries were made with respect to prices charged. The Board was informed that, while the aim is to keep in competitive position, it is not regarded that meals should be served to a guest at a loss - it was admitted that the margin is a narrow one for some items listed in the cafeteria. Prices in the restaurant, the Board was told, are comparable to those in commercial restaurants of comparable standard, but the 20% discount arrangement available to delegates and officials is a material concession to them - \$16,150 was the total in 1955.

35. In various tabulations made available costs of sales are classified

under "cafeteria", "restaurant", and "special functions". As one kitchen services all, the Board inquired as to the reliability of these costing calculations. The reply was that an expert having long experience in catering operations had prepared the formula, but it was appreciated that a unique situation existed at the United Nations because (a) some costs, normally treated as operational, were charged to the budget, (b) other expenditures generally regarded as recoverable were not so classified in the accounts, and (c) some overhead cost factors were not readily computable. For such reasons the Board refrains from comment on costs classified under "cafeteria", "restaurant", and "special functions".

36. During the enlargement of premises new equipment, furnishings, carpets, etc., were necessarily purchased. This caused the Board to make some inquiries as to the policy followed in distributing such costs - some had been charged directly to operating income, while others had been charged to appropriations. The interest of the Board was in the possibility that the outlays might not, in future, be taken into calculation when fixing prices. Put another way, unless the true cost of operating is known, the Secretary-General is not in secure position when downward adjustments of prices are sought either by staff members or delegations. The Board is doubtful if present United Nations accounting practices and the costings of the Corporation provide that protection.

37. The Board takes it for granted that the United Nations is not in the catering business to make money; the restaurant and cafeteria exist as a

convenience. It is also assumed that no Member State wants its contribution to the budget applied to absorb catering deficits. In such circumstances, complete application of commercial costing and accounting and realistic reserves accumulated out of sales for replacements, etc., have attractions.

38. It was observed that federal taxes are paid on beverages. It is a question of some nicety how far the United Nations should go in exerting rights of exemption, because abuses and public criticism could result. The Board merely notes that it was informed that the subject is kept under review.

39. Philatelic Stamp Sales. After allowing for transactions with the United States Post Office, net cash receipts have approximated:

1953	\$332,900
1954	383,600
1955	522,600

Annually, a certain number of new stamps are offered. In 1955 an extra stamp and a souvenir sheet were issued because of the 10th anniversary of the United Nations. To a material degree, these explain the increase in 1955 receipts but the demand is steadily growing. The market was underestimated when the first print order for the souvenir sheet was limited to 200,000. The supply was quickly exhausted and a further 50,000 sheets ordered. These were sold. The Board was told that the trend of dealers' prices since indicate that the quantity offered for sale fell short of the market's capacity to absorb.

40. The bulk of orders for stamps are filled from New York, but London did business to a total of about \$16,000 and the Geneva Office realized around \$11,300.



Some countries, India is an example, are taking an active interest in plans to promote local distribution of UN stamps. The Board also learned that the more general use of information centres, etc., is under consideration. A suggestion was that an alternative might be to cultivate professional dealers in soft currency countries by offering to accept local currency for orders within a defined minimum and maximum but that, being a question of policy, the Board did not pursue.

41. Garage Services. To a limited degree, delegations use the garages, but staff members are the general users. Revenue in 1955 amounted to about \$101,500. In the previous year the comparable amount was \$90,000. It is estimated that the direct cost of operating the Service was \$102,000. Accepting this figure and bearing in mind that the Cooperative is paying about \$2,000 a year (\$1 per foot) for space used for its commercial operation, the garage was self-supporting in 1955.

#### Geneva Services

42. Newsstand. This is operated by a Swiss firm, Naville & Cie. The United Nations receives a commission for the concession, the amount being regulated by the volume of business:

	<u>Sw. fr.</u>
4% on a turnover up to	160,000
6% on the turnover up to	250,000
8% thereafter	

The payment in 1955 was \$3,119. The counters, etc. being located in corridor space, no service costs were incurred by the United Nations.

43. Visitors Service. As in New York, more than one fee is in effect, but the general charge is 75 centimes. This being much lower than the New York \$1 rate, some inquiries were made. Replies were to the effect that (a) European tourists are not accustomed to pay the equivalent of a dollar to tour public edifices, museums, etc., (b) ILO charges less than the Palais des Nations; and (c) the guides are paid modest salaries. More than one officer expressed the view that the fee might be increased without giving rise to criticism, but all qualified by adding that the standard of guide service would necessarily have to be raised. 1955 revenues approximated \$15,900. The cost of the Service is not segregated in the accounts but the Board was informed that there was an over-all profit on operations as it is not regarded that any substantial indirect costs were incurred.

44. Catering Services. Since 1948 this service has been operated without any payment to the United Nations, save for electricity, water, etc. On the other hand, the Organization absorbs the cost of maintenance, equipment required, etc. The Board did not make any effort to segregate these costs as the holder of the concession has voluntarily terminated the agreement. (It is believed that he is retiring on account of age). The Board was told that it is probable that his annual volume of business was between 750,000 and 800,000 Swiss francs and that his net profit was relatively modest, a figure of 25,000 francs (after taxes) was suggested. The Board did not pursue the subject further because, as already stated, he is giving up the business. Bids have been invited by public advertisement and the Board understands that 45 offers to operate the Catering Service were received. After a

substantial number were winnowed out for one reason or another, a contract is now in process of negotiation.

45. Philatelic Stamp Sales. \$970 was received from the Swiss Post Office in 1955 as the United Nations' share of 1954 sales of over-printed Swiss postage stamps. No costs were involved so far as the United Nations was concerned. The Board was informed that, late in 1955, the Swiss authorities made a new issue, but no accounting was made in the year. The Geneva Office made sales of United Nations Headquarters' issues to the extent of \$11,700 in 1955. No staff members were specially detailed for the work.

46. Bookshop. The Department of Public Information has established and operates a small bookshop or stand in the Palais. It is stocked with United Nations and specialized agencies publications. The Board was informed that, while the Department hopes it will develop into a worthwhile venture, to date its volume of sales has not been of significance.

47. The Villas. Ownership of villas is primarily to protect the surroundings to the Palais des Nations, consequently, the Board only notes that (a) all were occupied in 1955 and (b) income approximated \$20,000.

48. An advance was made in a previous year from Working Capital Fund to finance renovations and improvements to "Le Bocage". Approximately \$39,500 was outstanding as at 31 December 1955. GATT is in occupancy and is paying the stipulated rent, but no lease had been signed up to the time of audit.